

2012.

 **Telekom Srbija**

**CONSOLIDATED
BUSINESS REPORT
FOR 2012**





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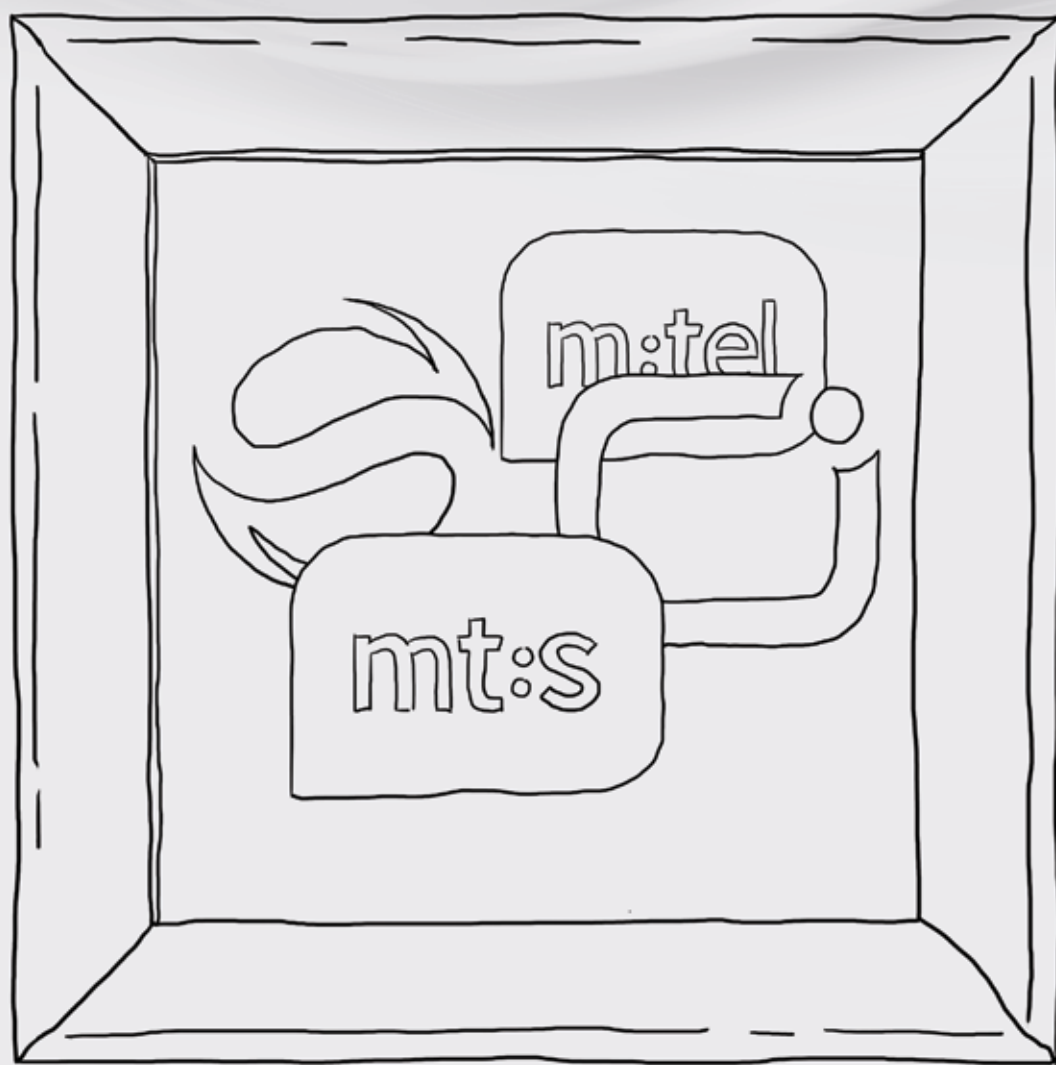
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SUMMARY REPORT

SUMMARY REPORT

TELECOMMUNICATIONS COMPANY TELEKOM SRBIJA A.D. AND SUBSIDIARIES

*Telecommunications Company
Telekom Srbija a.d., Belgrade*

Telecommunications Company Telekom Srbija a.d. (hereafter: Telekom Srbija or Parent Company or Company), in keeping with the Law on Electronic Communications (the Official Gazette of the Republic of Serbia No. 44 of 30 June 2010 – hereafter: Law on Electronic Communications) and the licences issued by the relevant regulatory body (hereafter: RATEL), performs the activity related to electronic communications, which comprises the construction or installation, maintenance, operation and lease of the public communications networks and the accompanying assets and provision of the publicly available electronic services.

Upon its incorporation in 1997, under the then applicable law, Telekom Srbija acquired the right to perform the telecommunications activity.

The Company held the position of as an exclusive fixed telephony operator until 9 June 2005, when, in compliance with the Telecommunications Law (the Official Gazette of the Republic of Serbia No. 44 of 24 April 2003 with Amendments No. 36 of 27 April 2006 (hereafter: Telecommunications Law), such position ceased to exist in legal terms. In accordance with the then applicable Law on Telecommunications, on 13 April 2007, the Company was granted the Licence by RATEL, by a substitution procedure, for construction, possession and operation of the public fixed telecommunications network and provision of services of the public fixed telecommunications network.

During 1998, the Company introduced the GSM mobile telephony network and commenced the provision of mobile telephony services. On 28 July 2006, pursuant to the Telecommunications Law and the Rules on the number of and the period for which the licence for the public mobile telecommunications networks and services is issued and the minimum requirements and lowest one-off licence fee

(the Official Gazette of the Republic of Serbia No. 29. of 7 April 2006), RATEL granted to the Company, by a procedure of substitution of the applicable GSM/GSM1800 licence, the Licence for the public mobile telecommunications network and services of the public mobile telecommunications network, in keeping with the GSM/GSM1800 and UMTS/IMT-2000 standard.

On 16 June 2009, the Parent Company obtained the Licence for the public fixed wireless telecommunications network (FWA) in the frequency band of 411.875-418.125/421.875-428.125 MHz and voice services, packet switched data and simultaneous voice and data transmission (CDMA Licence). The Licence was issued for the period of 10 years, and the commercial operation was to commence within six months from the Licence effective date.

Beside the above mentioned Licences, Telekom Srbija was registered in the registry of operators kept by RATEL for the service related to the broadband network access and distribution of the media content.

On 31 December 2012, Telekom Srbija's share in the capital of the subsidiaries is as follows:

	Share percentage
Telekom Srpske a.d., Banja Luka	65 %
mtel DOO, Podgorica	51 %
Telus a.d., Beograd	100 %
FiberNet DOO, Podgorica	100 %
TS:NET BV, Amsterdam	100 %
HD-WIN d.o.o., Beograd	51 %

SUBSIDIARIES

TELEKOMUNIKACIJE REPUBLIKE SRPSKE A.D., BANJA LUKA

Telekomunikacije Republike Srpske a.d. Banja Luka, (hereafter: Telekom Srpske) with the registered seat at Banja Luka is engaged in the provision of telecommunications services in the fields of the fixed and mobile telephony in the national and international traffic, Internet and multimedia services as its core activity. Telekom Srpske is also registered for the provision of other telecommunications services, including other fixed telephone services, data transmission, lease of lines, private links, services in the entire network area, add-on services in the field of the mobile telephony and add-on services. Telekom Srpske also renders the services related to the lease, design, construction, reconstruction, installation, management and security of the telecommunications infrastructure. In the course of 2000, Telekom Srpske introduced the GSM mobile telephony network.

On 12 October 2004, the Regulatory Agency for Communications of Bosnia and Herzegovina (RAK) issued to Telekom Srpske a licence for the provision of the GSM services in the territory of Bosnia and Herzegovina for the period of 15 years from the issuance date. In addition, on 26 March 2009, Telekom Srpske was granted the licence for the provision of mobile services via universal mobile telecommunications systems (UMTS licence), for the period of 15 years. The licence for the provision of fixed telephony services was issued on 1 June 2002 for the period of 15 years, while the licence for the provision of Internet services was issued on 1 July 2002, extended on 1 July 2012, for the period of 10 years. The licence for the provision of multimedia services was issued on 16 March 2010 for the period of one year to be extended every year.

TELECOMMUNICATION COMPANY "mtel" DOO, PODGORICA

In a consortium with Ogalar B.V., Amsterdam, the Parent Company was granted, in 2007, a special licence for the construction, possession and operation of the mobile public telecommunications

network and provision of mobile public telecommunications services and licence for the provision of public telecommunications services via fixed wireless access (WIMAX) in Montenegro. For the purpose of creating the conditions for the provision of services subject to the licence granted, on 4 April 2007, a new legal entity was incorporated under the name: "Društvo za telekomunikacije "mtel" DOO, Podgorica" (hereafter: mtel).

Having obtained the licence for the operation of the mobile telephony network, a state-of-the-art mobile network was constructed in the shortest period of time ever – only 77 days.

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

BUSINESS COMPANY FOR THE MAINTENANCE AND SECURITY OF FACILITIES, PROPERTY AND OTHER SERVICES "Telus" A.D., BEOGRAD

Within its registered activity, the Business Company for the Maintenance and Security of Facilities, Property and Other Services "Telus" a.d. (hereafter: Telus), is engaged in the provision of the following services:

- security of facilities and property (FTO-physical and technical security, PPZ- fire protection and money escort services),
- maintenance of hygiene in business premises and buildings and
- services related to auxiliary jobs (performed by non-qualified workers).

Since 2008, Telus has possessed a certificate for the SRPS ISO 9001 Standard – Quality Management System, and since 2012, a certificate for the OHSAS 18001 Standard– Occupational Health and Safety Advisory Services. The 2013 plan envisages introduction of a new quality standard: ISO 14001 – Environmental Management Systems.

TELECOMMUNICATIONS COMPANY "FiberNet" DOO, PODGORICA

The core activity of Telecommunications Company "FiberNet" DOO (hereafter: FiberNet) is the construction, possession, operation and maintenance of the transport and telecommunications network and provision of telecommunications services.

FiberNet is the owner of 72 optical fibres in the optical cable laid down along the railway section on the Vrbnica-Bar route. The use of the optical cable enabled construction of the communications network in the SDH and DWDM technology.

The purpose of the constructed communications network is to provide transport capacities for the providers of communications services in the territory of Montenegro and connection with foreign telecommunications networks.

TS:NET, B.V., AMSTERDAM

The core activity of Business Company TS:NET, B.V., with the seat in Amsterdam, the Netherlands (hereafter: TS:NET, B.V.) is the lease of telecommunications equipment and performance of the related activities for the purpose of creating the conditions for the construction and operation of the international transport network of the Parent Company.

TELECOMMUNICATIONS COMPANY "HD-WIN" D.O.O., BEOGRAD

Telecommunications Company "HD-WIN" d.o.o. (hereafter: HD-WIN) deals with cable telecommunications via TV Channel Arena Sport and holds the right to broadcasting the sports channels in the territory of Serbia, Bosnia and Herzegovina, Montenegro and Croatia.

The Arena Sport Channels are currently distributed by over 70 distributors in the territory of Serbia, Bosnia and Herzegovina, Croatia and Montenegro and in the territory of Macedonia where the content of the UEFA Champions League and European League is broadcast via the IPTV system of the Macedonian Telecom through the services of Arena Sport channel.

The Arena Sport channels are represented on the platforms of all major telecommunications operators (T-Com Montenegro, T-Com Macedonia, T-Com Croatia, BH Telecom, m:tel RS, HT Eronet, Telekom Srbija).

KEY BUSINESS INDICATORS

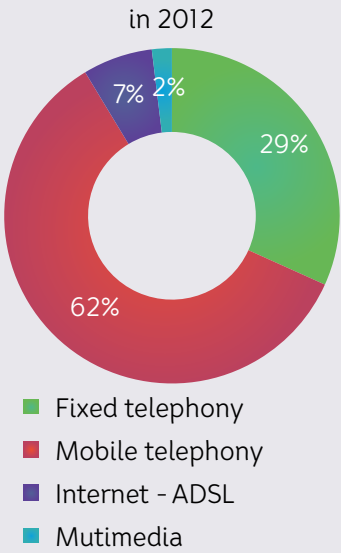
The core activity of the Parent Company and most of its subsidiaries is the provision of services in the field of telecommunications so that the key segments of operation are fixed telephony, mobile telephony, Internet and multimedia.

The number of the fixed telephony customers on 31 December 2012 was 3,229,037, the mobile telephony customers – 6,902,294, the Internet segment – 749,903 customers, and Multimedia – 215,789 customers.

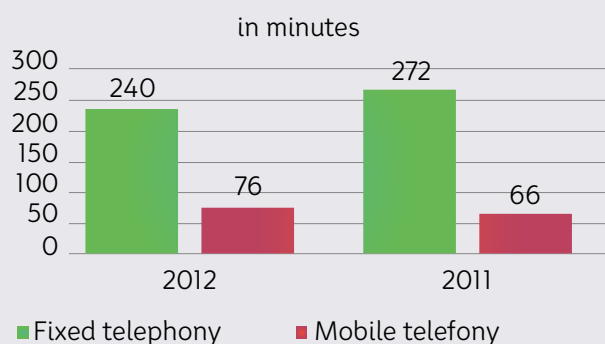
The volume of fixed telephony traffic at the end of 2012 amounted to 9,333 million minutes with a dominant share of residential customers, who generated a total of 8,110 million minutes while business customers generated 1,220 million minutes and WIMAX users – 3 million minutes of traffic.

In the mobile telephony with 6,446 million minutes of generated traffic in 2012, the postpaid customers generated a larger volume of traffic – 3,616 million minutes – than the prepaid customers, who generated 2,830 million minutes.

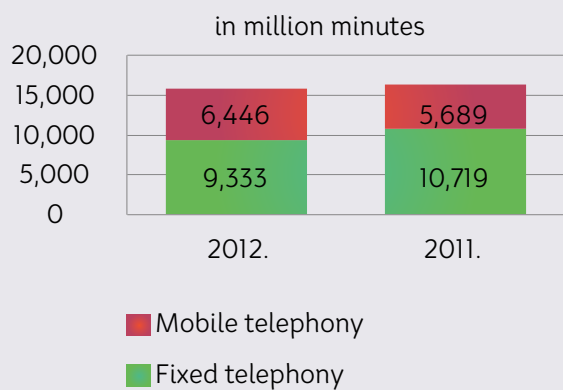
The average monthly revenue per user in fixed telephony is RSD 961 and in mobile telephony is RSD 507.



Customers structure of the Parent Company and its subsidiaries per business segment



The average time per user on a monthly basis for fixed and mobile telephony (ATPU)



The traffic of fixed and mobile telephony for the Parent Company and its subsidiaries

	2012	2011
Fixed telephony	961	984
Telekom Srbija	895	934
Telekom Srpske	1,651	1,452
mtel	1,042	952
Mobile telephony	507	473
Telekom Srbija	421	400
Telekom Srpske	824	762
mtel	526	489

The average revenue per user of the fixed and mobile telephony (ARPU), in RSD

INTRODUCTORY NOTE BY THE DIRECTOR GENERAL

Dear Sirs,

The past year was one of many challenges which were primarily manifest in macro-economic instability and stronger competition in all business segments. Despite the unstable business environment, we managed to achieve satisfactory results.

On the market of the Republic of Serbia, we succeeded in maintaining business revenues on last year's level, whereas we saw growth on a consolidated level. In the course of 2012, operating expenses grew faster than operating revenues primarily because a substantial part of our costs is linked to a foreign currency (primarily EUR). This situation led to a decrease in operating results. Net profit significantly dropped as compared to the previous year, mostly as a result of foreign exchange losses and/or the aforementioned dinar depreciation.

During 2012, we purchased 20% of the shares from the minority shareholder and provided for an unhindered distribution of free shares to citizens and both current and former employees. This transaction was funded from external sources, which led to higher indebtedness.

A drop in the number of customers and the amount of traffic in fixed telephony is a global trend, which is also true of our operations. Due to a significant pressure from competitor companies, the number of mobile customers in the prepaid segment fell, whereas we managed to increase the number of customers in the post-paid segment with attractive packages. The number of our broadband customers is steadily on the increase, whereas the highest customer growth rate is seen in the sphere of multimedia.

Our integrated package of fixed, mobile, Internet and multimedia services, Box, has become a recognizable brand on the Serbian market, which distinguishes us from competitor companies.

We streamlined the mobile network and provided to our customers better quality services and faster data transmission rates.

The number of our Company's employees is stable and despite the inflation rate in 2012, we invested significant efforts in preventing more substantial cuts in salaries of our workers in real terms.

In the course of 2012, we paid some 11 billion dinars in dividends to our shareholders based on the results achieved in 2011.

The low purchasing power of the population, high unemployment rate and emergence of new and strengthening of current competitor companies in all operating spheres describe the business climate in 2013 as well, which adds pressure to the preservation of business results.

A drop in the revenues from traditional services is imminent and a more dynamic growth in the multimedia and broadband spheres is expected. The share of the two segments accounts for some 10% of the operating revenues on a consolidated level and significant efforts being invested are expected to increase the share of these segments in the operating results.

Given that a more significant increase in operating revenues can hardly be expected in the period to come, it is necessary to put additional pressure on operating expenses in order to maintain the Company's successful business operation in 2013.

The business year 2013 will also be marked by a substantial pressure on the Company's liquidity due to the servicing of current liabilities, primarily a syndicated loan which ensured funds for the purchase of 20% of the shares from the minority shareholder, OTE, on one hand, and extensive investments planned by the Company, on the other.

Extensive investments are planned in all business segments in order to provide higher quality services to our customers and maintain the current competitive advantage.

Despite all the challenges that we are confronted with, I believe we will continue successfully to operate on all markets in which we are present, that we will continue successfully to manage all available resources, both human and material, and that our good strategic decisions will help us to retain the regional leader position both in the sphere of business and corporate social responsibility, which is something we are recognized for in the Republic of Serbia and other markets on which we operate.

I am using this opportunity to thank our shareholders, all business partners and all employees, and particularly our customers who placed their confidence in us and who will continue to be in the focus of our activities and efforts in the future as well.

I invite you to maintain our business cooperation in which the success will be mutual.

Best regards,

Predrag Ćulibrk

Director General
of Telekom Srbija

2012.

We acquired the ownership of 20% of basic capital shares which were held by O.T.E.

2010.

Serbian government acquired the ownership of 80% of Telekom Srbija a.d. shares

2009.

We generated record profits from the launch of multimedia services (IPTV)

2008.

We conducted reorganization in accordance with the service convergence concept

2007.

We saw regional expansion towards B-H and Montenegro

2006.

We introduced 3G technology and the provision of ADSL Internet services

2003.

PTT became the owner of 80% of the stake after the purchase of shares from Telekom Italia

1998.

We commenced the provision of mobile telephony services.

1997.

Telekom Srbija a.d. was founded as a company and as of June that same year, it was owned by three shareholders: PE PTT Traffic Srbija, OTE Greece and Telecom Italia

DEVELOPMENT AND BUSINESS ENVIRONMENT

BACKGROUND

Telekom Srbija

May 1997

- The Public Enterprise of PTT Traffic "Srbija" (hereafter: PE PTT) founded Telekom Srbija as single-member joint-stock company.

June 1997

- Within the privatization of a part of the capital, 49% of shares were sold to STET INTERNATIONAL NETHERLANDS N.V., the affiliation of the Italian Telecommunications Company Telecom Italia in the Netherlands (29% of shares) and to Greek Telecommunications Company HELLENIC TELECOMMUNICATIONS ORGANIZATION S.A. (OTE) (20% of shares).

February 2003

- An agreement was concluded whereunder PE PTT bought back the entire package of shares of Telekom Srbija in the ownership of Telecom Italia and thus acquired a total of 80% shares in Telekom Srbija, while the outstanding 20% of shares remained in the ownership of OTE.

September 2010

- Based on the Conclusion of the Serbian Government 05 number 023-6816 of 21 September 2010 and Decision of the Managing Board of PE PTT of 20 September 2010 on the free transfer of shares in Telekom Srbija to the Republic of Serbia, the PE PTT and the Serbian Government concluded the Agreement on the Free Transfer of Telekom Srbija's Shares - Gift on 24 September 2010. By virtue of this agreement, the Republic of Serbia became the majority owner of Telekom Srbija and acquired the ownership right to 80% of the shares in Telekom Srbija, while 20% of the shares remained in the ownership of OTE.

December 2011

- On 16 December 2011, the General Meeting of Telekom Srbija passed the Decision on the Acquisition of Own Shares, No.399837/5. The conclusion of the Share Sale Agreement between Telekom Srbija and Hellenic Telecommunications Organization S.A. was approved by the

General Meeting in its decision No. 413850/3 of 29 December 2011. On 30 December 2011, the Agreement on the sale and purchase of all OTE's shares in the Company was signed.

January 2012

- On 25 January 2012, Telekom Srbija paid in full the funds for the stake of the minority shareholder OTE in the capital of Telekom Srbija. From that date on, Telekom Srbija has been the owner of 20% of the shares of Telekom Srbija and own shares.

May 2012

- Under the Decision of the Serbian Government on the free transfer of shares to the citizens - right holders and employees and former employees of Telecommunications Company Telekom Srbija a.d. of 27 April 2012, and in accordance with the Law on the right to free shares and a monetary compensation exercised by citizens in the privatization procedure (the Official Gazette of RS, No. 123/07 and 30/10), the procedure for and the manner of the transfer of free shares of Telekom Srbija to the citizens as the holders of such right and employees and former employees of Telekom Srbija, including the employees and former employees of PE PTT and their legal predecessors were defined, and based on such procedure the distribution of free shares was carried out. After the distribution of free shares, the structure of Telekom Srbija's equity changed so that the stake of the Republic of Serbia was 58.11%, the stake of Telekom Srbija was 20%, the Serbian citizens acquired 14.95% and the employees and former employees acquired 6.94% of shares in Telekom Srbija.

Telekom Srpske

January 1997

- in keeping with the provisions of the Law on Postal Services in the Republic of Srpska, the Postal Services, Telegraph and Telecommunications Company was divided in two new companies
- JODP Telekom Srpske and JODP Srpske Pošte.

December 2002

- JODP Telekom Srpske, which had formerly operated as a fully state-owned company underwent the ownership transformation and became a joint stock company with a different name: Telekomunikacije Republike Srpske, a.d. Banja Luka.

In the same year

- based on the Law on Privatization in the Republic of Srpska and Decision of the Government of the Republic of Srpska 20% of the state-owned capital in the Company was privatized by a voucher scheme, of which 10.5% referred to Privatization and Investment Funds and 9.5% referred to natural persons. The remaining 80%, of which the state-owned capital accounted for 65%, the Pension and Disability Insurance Fund - 10% and Restitution Fund - 5%, were privatized under the Special Privatization Plan of the Government of the Republic of Srpska, in compliance with the Law on the privatization of the state-owned capital held in enterprises.

June 2007

- a status change was registered- the ownership transformation by sale of the entire state-owned capital to Telekom Srbija, with the following ownership structure:

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

- As at 31 December 2012, Telekom Srpske has a full ownership over one subsidiary company - TT Inženjering, d.o.o. Banja Luka.

- Company M:tel Multimedia Communications d.o.o. for telecommunications services Zagreb, which was fully owned by Telekom Srpske, ceased to operate on 27 September 2012, when it was deleted from the registry of trade companies, in keeping with the provisions of the Law on Trade Companies of the Republic of Croatia and Law on the Court Registry.

Telekom Srpske is the owner of a 49% stake in mtel.

mtel

April 2007

- a special licence was granted for the construction, possession and operation of the mobile public telecommunications network and provision of mobile public telecommunications services, as well as the licence for the provision of public telecommunications services via fixed wireless access (WIMAX) in Montenegro.

April 2007

- for the purpose of creating the conditions for the provision of services subject to the above mentioned licence, a new legal entity was founded under the name - mtel.

December 2009

- the Managing Board of the Parent Company approved the increase in the share capital of the Parent Company in mtel in the amount of EUR 20.4 million.

February 2010

- the Agreement on the sale of the minority stake in mtel was concluded between OGALAR B.V. and Telekom Srpske

March 2010

- Parent Company and Telekom Srpske paid in the amount of EUR 20.4 and EUR 19.6 million, re-

spectively, for business company M:tel d.o.o. The ownership structure of mtel after the increase in capital is as follows:

Telekom Srbija	51%
Telekom Srpske	49%

Telus

March 2005

- Under the Decision of the Parent Company on spinning off the activities related to hygiene, regular maintenance of business premises and physical security, Telus was incorporated as a single-member closed joint stock company, which began to operate on 1 May 2005.

May 2005

- After the incorporation of Telus, an Agreement was concluded on the business and technical co-operation with the Parent Company for the period of 5 years.

June 2010

- Upon the expiry of the five-year arrangement, since 1 June 2010, Telus has concluded with the Parent Company the contracts on the provision of services from the registered activity on an annual level.

FiberNet

July 2008

- the Parent Company entered into a Joint Venture Agreement with Montenegro Railways (Željeznica Crne Gore) for the purpose of laying down, operating and maintaining the optical and power supply cable along the Bar-Vrbnica railway.

December 2008

- For the purpose of implementing the said Agreement, the Managing Board of the Parent Company rendered the Decision on the incorporation of FiberNet.

TS:NET B.V.

February 2010

- TS:NET B.V. was registered as a closed joint-stock company with a limited liability for the obligations assumed up to the value of the share capital and with certain restrictions on the transfer of shares as determined in the Articles of Association.

HD-WIN

March 2009

- HD-WIN was founded by a natural person as a one-member company with a limited liability.

September 2010

- HD-WIN acquired ownership of HD-WIN Arenasport in Croatia.

July 2011

- the Managing Board of the Parent Company passed the Decision on accession to HD-WIN.

August 2011

- the Parent Company carried out additional capitalization of HD-WIN in the amount of EUR 7,7 million and thus acquired ownership over 51% of the capital of the said company and controlling rights, so that, after the capital increase, we have the following ownership structure:

Telekom Srbija	51%
Goran Đaković	40%
Sport Add LTD	9%

MARKET

Macroeconomic data

REPUBLIC OF SERBIA

The effects of the world financial crisis that were first observed in the Republic of Serbia in the last quarter of 2008 caused the liquidity problems, currency fluctuation and further decrease in the value of dinar as compared to the foreign currencies and decline in the economic activity in general and the spending capacity of the citizens and economy also during 2012.

The overall economic activity in 2012 measured by gross domestic product (GDP) in permanent prices resulted in a real decrease of 1.7%. The GDP, as expressed in an absolute amount, was EUR 28,692 million.

The industrial production in 2012 resulted in an inter-annual decrease by 2.9%. Viewed per sector, in December 2012, as compared to the same month in 2011, the following trends were observed: Processing Industry – a 1.8% growth, Supply of electric power, gas, steam and air conditioning – a 1.6% decrease, and Mining Industry – a 4.7 decrease%.

The export of goods, expressed in Euros, increased by 4.7% in 2012, while the import of goods increased by 3.7% relative to 2011. The deficit expressed in Euros amounts to 5,945.6 million, which accounts for a 2.4% increase as compared to the same period in the previous year. The export/import coverage index is 59.7%, which is higher than the percentage for the same period in the previous year (59.3%).

In the first two quarters of 2012, the inflation was within the targeted limits of inflation, but, in the third quarter the inflation significantly increased which, at the end of 2012, resulted in the inter-annual inflation growth of 12.2%.

The targeted inflation for the end of 2012 and 2013 was projected in the range from 2.5% to 5.5%. According to the notification by the National Bank of Serbia, the major deviation from the projected targeted inflation is the result of the growth in

food prices, depreciation of the Dinar and increase in the VAT rate and excise taxes. The inter-annual inflation is expected to decline as of the second quarter of 2013 and go back to the targeted limits by the end of the year.

The total number of employees in Serbia in 2012 is 1.1% lower than in the previous year. In 2012, the unemployment rate reached 22.4%, while in 2011 it was 23.7%.

The average salary without taxes and contributions paid in 2012 in the Republic of Serbia, as compared to 2011 was higher by 9.0% in nominal terms, and 1.1% in real terms. The average gross salary in 2012 amounted to 57,430 dinars, while the average net salary of the employees in the Republic of Serbia in 2012 amounted to 41,377 dinars.

At the beginning of 2012, the reference interest rate was 9.75%. By the end of 2012, the reference interest rate was raised by 1.75%, and reached 11.25% at the end of the year. In early 2013, the reference interest rate increased and reached 11.75% in March 2013.

The fiscal deficit in 2012 was around 6.4% of the GDP.

In August 2012, Serbia's credit rating was downgraded to BB-.

BOSNIA AND HERZEGOVINA

The short-term nine-month indicators and incomplete data for the fourth quarter indicate that the economy of Bosnia and Herzegovina in 2012 had a negative real growth of approximately 0.5%.

According to the official data issued by the Agency for Statistics of Bosnia and Herzegovina for 2012, a 5.2% decrease was recorded in the physical volume of industrial production in Bosnia and Herzegovina, as compared to the previous year.

Such negative trends of the key economic indicators were observed during the entire year of 2012. Yet, according to the estimates of the International Monetary Fund, the real gross domestic product in Bosnia and Herzegovina was expected to remain at the 2011 level, with the projected real growth for 2013

of 1%. The basic assumption for such growth is partially boosting the economic growth in the EU with the projected growth rate of 1.2%. Beside the decline in the export value, domestic consumption is mildly growing, but investments are still declining.

The industrial production index shows that the volume of industrial production at the level of Bosnia and Herzegovina recorded a 5% decrease as compared to 2011. The rate of substitution for the cumulative production of intermediary goods, relative to the same period in 2011, amounts to -3.9%, for capital goods -15.7%, for durable consumer goods -22.6%, for non-durable consumer goods 1.4% and for energy -6.6%.

The total inflation in 2012 was 2.1%. The inflation rate at the annual level in Bosnia and Herzegovina in December 2012 amounted to 1.8%.

The average net salary in Bosnia and Herzegovina is 2% higher than in the previous year, while the number of registered employees at the end of 2012 was on the same level as in the previous year.

The foreign trade balance did not materially change as compared to 2011, i.e. the export/import coverage ratio during 2012 was 51.5%, (52.9%, in the previous year), while the commodity trade deficit was 7.4 billion KM. At the annual level, the export declined by 3.7%, and the import declined by 1.8%.

The foreign debt of Bosnia and Herzegovina, according to the estimations made by the analysts of the Foreign Trade Chamber, amounts to some 12 billion KM, which is 3 billion more than in 2011. The KM real exchange rate mildly appreciated during 2012 mostly due to nominal appreciation, while the difference in inflation had a smaller impact on real appreciation.

MONTENEGRO

The effects of the global economic and financial crisis significantly affected the general economic environment in Montenegro in the course of 2012. The declining economic activity inevitably resulted in lower performances as regards development of the national economy.

The gross domestic product of Montenegro in 2012 was 3,216 million Euros. In the first quarter of 2012, relative to the same period in 2011, GDP fell by 2.3%, while in the second quarter GDP went up by 0.3 % in real terms. The gross domestic product went down by 0.2% in the third quarter of 2012 and by 0.3% in the fourth quarter. The causes of such decrease are the adverse weather conditions in the first quarter of 2012, the negative impact of the crisis in the region, general repair of the Pljevlja Thermal Power Plant and some internal structural deficiencies.

The decline in the economic activity was more notable in the first quarter, when it was -2.4% at the annual level. A decrease was recorded in agriculture (-5%), electric energy production (-35%), transport (-3.5%) and taxes on products (-7%). In the second quarter, there was a mild recovery and the real growth of economy by 0.3%, owing to the growth in agriculture and processing industry. Such mild recovery of the Montenegrin economy in the second quarter, according to the data recorded in July and August, also continued in the third quarter. Owing to the growth in tourism and agriculture, the negative rate is expected to turn positive and reach the earlier projection envisaging a 0.5% growth for 2012.

Inflation rose in 2012. In August, it accounted for 4% on the annual level, which was the consequence of growth in the prices of energy-generating products and food and the administrative measures. In the January-August period, the producer prices were 0.6% higher as compared to the same period in the previous year. The import prices increased by 1.7%, while the export prices were 6.9% lower in the same period of the previous year, due to the fall in the prices of aluminium by 10%.

The labour market in 2012 had some positive trends with the growth in employment rate and decrease in unemployment rate. In August 2012, the number of the employed persons was 173,024, which represent a seasonal peak, while the number of the unemployed was 28,549. The unemployment rate was 12.3%, with a declining trend from February on. In the January-August period of this year, relative to the same period of the previous year, the number of the employed persons increased by 1.5%. The average gross salary in 2012 amounted to EUR 741, while the average net salary was EUR 497.

Regulations

Telekom Srbija

The Company performs the activity of electronic communications, in accordance with the Law on Electronic Communications and the relevant by-laws. The adoption of the Law on Electronic Communications is under way and shall be adjusted to the EU regulatory framework.

The following regulatory activities had the major implications on the Company's operation in 2012:

1. Based on the authorizations granted by the Law on Electronic Communications, RATEL rendered a decision at the end of 2011 (more precisely on 29 November 2011) declaring the Company as an operator with significant market power (SMP) on the following markets subject to ex-ante regulation :

- I retail market for the access to the public telephone network on a fixed location,
- II wholesale market for call origination in the public telephone network on a fixed location:
- III wholesale market for call termination in the public telephone network:
- IV wholesale market for (physical) access to the network elements and the accompanying equipment (including shared and full unbundled local loop access):
- V wholesale market for broadband access:
- VI wholesale market for leased lines:
- VII wholesale market for call termination in the mobile network:
- VIII retail market for a publicly available telephone service on a fixed location,

In keeping with the above, the Company was declared as an SMP operator on 8 out of 9 markets subject to ex-ante regulation, i.e. on all such markets except for the retail market for the distribution of the media content and it thereby assumed at least 4 out of a maximum of 8 possible obligations on each of these markets.

One of the significant obligations assumed thereunder is an obligation of publishing the relevant data in the form of a standard offer within 60 days

from the date of receipt of such request by RATEL.

According to RATEL's request, the Company has prepared the following standard offers:

- The standard offer for the services of interconnection with the public fixed communications network of Telekom Srbija a.d. - effective since 1 June 2012,
- The standard offer for the service of call termination in the mobile network of Telekom Srbija a.d. (interconnection) - published on 19 February 2012 and effective within 30 days from the date of publications on the web Internet page of Telekom Srbija,
- The standard offer for the service of unbundled local loop access in Telekom Srbija a.d. - effective since 1 June 2012,
- The standard offer for the services of access to the network elements and accompanying equipment of Telekom Srbija a.d. - effective since 1 June 2012,
- The standard offer for the lease of lines in wholesale of Telekom Srbija a.d. - published on 19 February 2012 and effective within 30 days from the date of publication on the internet web page of Telekom Srbija,
- The standard offer for the services of broadband access in wholesale of Telekom Srbija a.d. - published on 19 February 2012 and effective within 30 days from the date of publication on the internet web page of Telekom Srbija,

Pursuant to the decisions passed by RATEL declaring Telekom Srbija as an SMP operator, the Company had to assume the obligation on all said markets to apply the cost-based accounting, in line with the Rules on the application of the cost-based principle, separate accounts and reporting by the SMP operators in the field of electronic communications (the Official Gazette of RS No. 52 of 15 July 2011).

2. In November 2012, RATEL postponed, until further notice, the commencement of application of the Rules on number portability in public telephone networks on a fixed location (the Official Gazette of RS No. 52/2011), which were to become effective on 1 December 2012.

On 4 June 2011, the Company Law came into force (the Official Gazette of RS No. 36 of 27 May 2011), and became effective as of 1 February 2012.

Under the Law on the amendments to the Company Law (the Official Gazette of RS No. 99 of 27 December 2011), the deadline was postponed from 1 February 2012 to 30 June 2012, when the existing joint stock companies are bound to harmonize their incorporation by-laws, articles of association and governance bodies with the provisions of the Company Law, which Telekom Srbija did.

In relation therewith, the General Meeting of Telekom Srbija, at its 43rd regular session held on 20 April 2012, rendered the Decision on the organization of Telecommunications Company Telekom Srbija a.d. for the purpose of harmonizing thereof with the Company Law (memorandum of Incorporation) and Articles of Association of Telekom Srbija a.d. In keeping with the Articles of Association, the structure of Telekom Srbija's governance bodies consists of: the General Meeting, the Supervisory Board and the Executive Board.

Telekom Srpske

The regulation of the telecommunications market in Bosnia and Herzegovina falls within the competence of the Regulatory Agency for Communications and is based on the Communications Law (the Official Gazette of Bosnia and Herzegovina No. 31/03, 75/06 and 32/10) and Telecommunications Policy. The existing regulatory framework in Bosnia and Herzegovina is based on the EU regulatory framework.

During 2012, the Council of Ministers of Bosnia and Herzegovina launched the activities on the preparation of a new Telecommunications Policy in Bosnia and Herzegovina which is to define the courses of development of the telecommunications market in the period from 2013 to 2017, and is to be adopted in the first quarter of 2013.

The telecommunications market of Bosnia and Herzegovina was deregulated in early 2006 and in late 2012, we had three SMP operators on this market

dealing with the services of fixed and mobile telephony and leased lines: Telekom Srpske, BH Telecom, d.d. Sarajevo and HT, d.o.o. Mostar. Likewise, there are 13 operators with the Licence for the provision of fixed public telephone services, 68 network operators, 78 Internet Service Providers.

Telekom Srpske operates in keeping with the applicable licences granted thereto by RAK BH:

- Licence for the public fixed telephony operator effective since 1 June 2002,
- Licence for the provision of Internet services effective from 1 July 2002, renewed on 1 July 2012, since the validity period is 10 years.
- Licence for the provision of GSM services effective since 12 October 2004,
- Licence for the provision of mobile services via universal mobile telecommunications systems (UMTS) effective since 26 March 2009, and
- Licence for the distribution of audio and visual media services and radio services effective since 16 March 2010. The licence is renewable at the annual level.

Since December 2010, the provision of UMTS services has been possible through the GSM frequency range, while the Annex to the GSM Licence which entered into force on 1 June 2012 made it possible for the Company to use an additional frequency range E- GSM (17 channels).

The most important regulatory activities during 2012 were:

- A series of measures referring to the amendments to the Reference Interconnection Offer for fixed network, including the reduction in the prices of standard interconnection services. In call transiting and termination in fixed network in the national traffic, the reduction in prices ranges from 15% to 20%, while the decrease in the price of termination from the fixed to mobile network is 15%. The new prices entered into force on 1 March 2013.
- In April 2012, the Reference Interconnection Offer for the direct interconnection of the holders of the licence for the provision of fixed, public telephone services (RIPdim) came into force,

defining the conditions on which said operators in Bosnia and Herzegovina may establish direct interconnection with the mobile network of the SMP operator.

- In May 2012, Rule 61/2012 came into force regulating the types and the method of filing complaints regarding the public telecommunications services, which are managed by the Regulatory Agency for Communications.
- In June 2012, Rule 62/2012 came into force regulating telephone number portability with the aim of enabling the use of the number portability service by all the users of telephone services in the mobile network.
- In August 2012, an amendment was made to the Reference Offer for the wholesale of leased lines by decreasing the monthly subscription fees for the leased lines.
- In order to adjust the prices of voice services in fixed telephony, in December 2012, RAK BH passed Rule 67/2012 on the model of rebalance of the prices of voice telephone services in Bosnia and Herzegovina, which defined the price limits for the voice services in the fixed telephony for the following three years.
- RAK BH rendered the instructions on the methodology for examining the quality of the public telecommunications services in fixed networks, which was published in the Official Gazette of Bosnia and Herzegovina No. 25/11 of 4 April 2011. In line with the instructions, Agency should be provided with the six-month reports on the results of measurement of the quality of public telecommunications services in the fixed network of the Company, starting from 1 January 2012.
- The Regulatory Agency for Communications passed the amendments to the relevant rules to decrease the annual fees for the following types of licences, starting from 1 January 2012: the licence for the provision of GSM services by 9%, a block of 100,000 numbers in the mobile network by 4%, the licence for the operator of the public fixed telephony by 11%.

mtel

The regulations governing electronic communications in Montenegro fall within the competence

of the Agency for Electronic Communications and Postal Activity (EKIP), founded in 2001. EKIP performs the following activities:

- provides expertise for the preparation of regulatory documents, adopts procedures and norms for the application of laws and other by-laws;
- issues and revokes licence and frequencies;
- regulates prices;
- combats monopoly, i.e. anti-competition activities on the market of telecommunications;
- exercises supervision over the work of operators in the field of electronic communications;
- coordinates the activities related to the use of radio-frequencies;
- carries out permanent monitoring of the radio-frequency spectrum;
- encourages rational use of the electronic communications infrastructure;
- manages the electronic data base in the field of electronic communications and keeps registers;
- ensures compliance with the obligations prescribed for the operators of electronic communications networks and/or electronic communications services, in case of emergencies;
- performs other activities in keeping with the legal regulation.

Maintaining its progress on the way to the accession to the EU, Montenegro has an obligation of implementing the regulatory framework of the EU in the field of electronic communications. The underlying regulatory framework on the telecommunications market of Montenegro is the Law on Electronic Communications passed in 2008. The drafting of the new Law containing the adjustments to the amendments made to the EU Regulatory Framework in 2009 is under way, which was already subject to the expert debate with the participation of operators.

In July 2012, the revised budget introduced the payment of a fee which was defined by the Law on the fees payable for the access to certain services of general interest and use of tobacco products and electric and acoustic devices. Under this Law, all telecommunications companies shall charge a fee on the active prepaid and postpaid SIM cards of the users. The companies shall pay such fixed

monthly amounts, free of tax, to the state budget until 1 January 2014. The introduction of this fee resulted in the decrease in the number of mobile customers and the revenues they generate.

The regulations are not based on technologies, so that there are no special legal provisions for the fixed network. Some analyses were made for the relevant markets related to fixed networks:

- termination in the fixed network (SMPO: Telekom Srbija and mtel)
- service of lease of infrastructure in the fixed network (including LLU) (SMPO: Telekom Srbija)

The Rules on Number Portability (the Official Gazette of Montenegro no.89/09, 15/10) established the conditions and method for implementing the number portability service in the fixed and mobile networks. On 21 March 2013, the Council of the Agency passed the Rules amending the Rules on Number Portability which will enter into force on the eighth day from the date of publication in the Official Gazette of Montenegro. The number portability service has been in operation since the beginning of 2012. Some 5000 numbers have been ported so far.

mtel is declared as an SMP operator on the markets:

- termination in the mobile network (together with Telekom and Telenor). Since the beginning of 2011, the following measures have been in place: publication of RIP, cost-based accounting HC and LIRIC;
- termination in the fixed network (together with Telekom Srbija). Since the beginning of 2011, the following measures have been in place: publication of RIP, the prices related to the price charged by Telekom Srbija, which is calculated by applying the cost-based accounting);
- wholesale of origination services from the mobile network (joint dominance of all operators of the mobile network). Since the beginning of 2012, the following measures have been in place: publication of RIP, cost-based accounting HC and LIRIC and particularly, the offers for VMNO and, national roaming.

Under way is the implementation of the cost-based

accounting, pursuant to the obligations envisaged in the relevant decisions on declaring the SMP operators. All the activities are carried out in line with the adopted Rules on TR methodology. After a one-year application of the historical model, the operators will be obliged to apply the LIRIC model as of September 2013.

Interconnection and operator access are carried out in keeping with the statutory obligations, the EU directives and practice, and in compliance with the Rules on Interconnection. The SMP operators have an obligation to publicize the RIP, but the majority of other operators also do this. In case no interconnection agreement is reached, the Agency is authorized to determine, at its own discretion, the outstanding terms of interconnection, if so requested by party.

Telus

Telus harmonized its operation with the Company Law (the Official Gazette of RS, No.36/2011, 99/2011) and, in compliance with the provisions of the said law, the Founder passed the Decision on the Reorganization of the Company and the Company Articles of Association.

There are no special legal regulations that govern the hygiene maintenance services. As regards the services related to physical and technical security and fire protection, this field is regulated exclusively by the Law on Weapons and Ammunition (the Official Gazette of RS No. 9/92, 44/98 and 39/2003) and a few other by-laws, while the rights and obligations pertaining to labour are regulated under the Labour Law (the Official Gazette of RS No 24/05, 61/05 and 54/09).

FiberNet

FiberNet is registered as a Telecommunications Company and operates within the Law on Electronic Communications passed in 2008, which was drafted on the model of the EU2003 framework. In 2012, there were no amendments to the law that could have affected the operation of FiberNet.

TS:NET B.V.

TS:NET B.V. operates according to the law of the Netherlands. In late 2012, the amendments to the law entered into force to enable a more flexible form of operation of the companies in the Netherlands (Flex BV Act), and preparations commenced for the purpose of adjusting the operation of TS:NET B.V. to the said amendments.

HD-WIN

Beside the laws and the legal regulations referring to the general operation of the company (Company Law, VAT Law, Corporate Income Tax Law, etc.), the operation of Arenasport TV is particularly subject to the Broadcasting Law and the Public Information Law. In view of the nature of operation (broadcasting of TV program) and the advertising by clients via the Arenasport TV channels, this segment of operation is governed by the Advertising Law, as well.

In 2012, there were no amendments to the above Laws, but the preparation of a new Public Information and Media Law is currently under way. Beside the laws and the legal regulations concerning the general operation of the company (VAT Law - the Official Gazette of RS No. 84/2004, 86/2004, 61/2005, 61/2007 and 93/2012), Corporate Income Tax Law (the Official Gazette of RS No. 80/2002, 43/2003, 84/2004, 18/2010, 101/2011, 119/2012), the operation of Arena Sport TV is particularly subject to the Broadcasting Law (the Official Gazette of RS No. 42/2002, 97/2004, 76/2005, 79/2005 - other law, 62/2006, 85/2006 and 86/2006 - correction) and the Public Information Law (the Official Gazette of RS No. 43/2003, 61/2005, 71/2009 and 89/2010 - decision of the Constitutional Court and 41/2011 - decision of the Constitutional Court). In view of the nature of this activity (broadcasting of TV program) and the advertising by clients via the channels of Arena sport TV, this segment of operation is also governed by the Advertising Law (the Official Gazette of RS No. 79/2005).

Telecommunications market

Telekom Srbija

The telecommunications market in the Republic of Serbia has been structured and gradually deregulated per business segment since 2006. Although the general slow-down of operating activities is notable in most industries, telecommunications are still yielding significant results and considerably contribute to social progress, which particularly refers to the information technologies industry. The total share of telecommunications in the GDP of the Republic of Serbia in 2012 was almost 6%.

The development of the IT industry is subject to the relevant legal and regulatory activities, including the adoption of the Strategy for the development of information society in Serbia, introduction of e-government in many state institutions and deregulation of the regulatory framework.

The fixed telephony market seems to have entered the phase of stagnation primarily due to the increasing share of mobile telephony. Yet, the importance of this market is still high which is evidenced by the fact that there are companies that are about to start operations in this segment.

Beside Telekom Srbija, the following telecommunications companies have been operating on the fixed telephony market since 2009: Orion Telekom d.o.o., formerly Media Works, Telenor d.o.o., which obtained the licence for the public fixed telecommunications network and services in 2010 and, since 2012, SBB and IKOM Telefon, the cable and internet operators that have been using the Internet as a voice transmission technology.

The operation of Telekom Srbija in the segment of fixed telephony remains dominant both in the financial and the technical sense.

As for the mobile telephony market, there are still three operators: Telekom Srbija, Telenor d.o.o. and Vip Mobile d.o.o. All the three operators possess the licence for the public mobile telecommunications network and services of the public mobile telecommunications network in compliance with the GSM/GSM1800 and UMTS/IMT-2000 Standard, issued

by Ratel. Such licences were issued for the territory of the Republic of Serbia for the period of 10 years, whereafter the licence validity is extended for the period of next 10 years without the request of the licence holder, provided all licence terms are fulfilled.

Several segments of mobile telephony are in a stable phase, recording a mild increase in the number of customers, primarily the users of postpaid services. The ADSL retail segment is expected to be a significant generator of growth in the forthcoming period. The projected number of customers is over 10 million, of which more than 5 million are the users of Telekom Srbija's services.

Nowadays, the use of Internet is an indispensable segment of the modern society and efficient support to the development of information society. Internet technologies are one of the extremely important drivers of economic growth and progress of each country because the increase in the number of lines for Broadband Internet Access has a direct impact on the increase in GDP.

The Internet market in the Republic of Serbia in 2012 continued the growing trend recorded in the previous years. The most represented method of Internet access is still the ADSL access. Internet access can also be made via a cable modem, directly, via the Ethernet, by means of an optical cable, by a wireless technology in the frequency ranges from 2.4 GHz to 5.8 GHz that are available for use, to a lower extent by using the ranges 3.4-3.6 GHz and via the UMTS (3G) network of the mobile operators.

The market for the distribution of media content in the Republic of Serbia in 2012 did not change a lot by its structure and broadcasting technologies as compared to the previous year. The operators offered their services via the following public telecommunications networks:

- cable distributions networks (coaxial, hybrid and optical) - KDS, that include both the analogue and digital KDS;
- public fixed telephone networks- IPTV;
- satellite distribution networks (Direct to Home) - DTH.

The largest operator dealing with the distribution of media content in the Republic of Serbia in 2012 is still SBB, covering over 50% of the market.

Telekom Srpske

The telecommunications market in Bosnia and Herzegovina can be characterized as a highly regulated and liberalized market. From the aspect of development and implementation of regulatory measures, in terms of deregulation and liberalization, Bosnia and Herzegovina is ahead of most countries in the region.

The telecommunications market in Bosnia and Herzegovina is inevitably under the influence of the general circumstances in the country; however, it is can be characterized by propulsion, dynamics and intensity of market relations, so, it is important to say that the share of this market in the GDP of Bosnia and Herzegovina is around 6%.

Generally speaking, the fixed telephony market entered a phase of stagnation, which is a general trend in telecommunications markets, independently of their geographic position, caused mostly by a substitutive relation between mobile and fixed telephony. At the same time, the market of broadband services is still in expansion, gradually entering the mature phase.

It is of particular importance to note than the entrance of the incumbent operators in the market of distribution of media content made the market relations in this segment more complex, because this market was previously operated predominantly by the cable operators. The market shares are no re-established in favour of telcos.

The mobile telephony market in Bosnia and Herzegovina entered the mature phase, especially in the segment of voice and SMS services. Yet, certain mobile services, particularly those related to mobile broadband, are still in the phase of commissioning and they are expected to become a significant driver of growth and development of some service providers in the forthcoming period.

On 31 December 2012, a total of 16 operators are present on the fixed telephony market, of which

three operators with significant market power: Telekom Srpske with its brand M:tel, BH Telekom and HT Mostar. The largest market share from the aspect of the number of customers at the level of BH is attributed to BH Telekom and accounts for 53%. M:tel participates with 35%, HT Mostar has a 10% share, while the alternative operators hold a 2% share. The rate of fixed telephony penetration in BH, viewed per 100 citizens, in 2012, was 24%.

It is estimated that the number of fixed telephony users in Bosnia and Herzegovina in 2012 is around 920,000, while the level of digitalization is 99.7%. The full network digitalization is expected to be completed during 2013.

The holders of the licence for the provision of GSM services in BH are: BH Telekom, d.d. Sarajevo, M:tel and HT, d.o.o. Mostar (Eronet). The projected market share of m:tel at the end of 2012 was 44.6%, whereby the growing trend continued in this market segment. The mobile telephony penetration rate in 2012, according to the data of the Regulatory Agency, is projected at 82.6%.

Estimates say that the number of mobile customers in BH in 2012 is 3,175,000, which is a bit higher than in 2011. From the customer structure aspect, i.e. ratio of prepaid and postpaid customers, it is notable that the share of postpaid customers is still at a relatively low level of 15%.

The 3G services at the level of Bosnia and Herzegovina in 2012 were part of the offer by all the three operators, but the demand for this type of services is still on a relatively low level, with the penetration rate of the users of mobile broadband access of 4%, although this service segment is rapidly growing in the developed countries.

In late 2012, a total of 78 internet service providers operated throughout Bosnia and Herzegovina, which was three operators less than in the previous year. The internet service penetration rate on the BH market is characterized by a continuous growth, with fixed broadband access as the main generator of such growth, and the average projected growth rate in the period from 2007 to 2012 was 42% at an annual level.

It is estimated that the number of users of fixed broadband access in BH in 2012 was around 490,000. This means that the penetration rate of broadband access relative to the number of citizens in BH was 13%, which at the level of the neighbouring countries and we are gradually approximating the existing level of penetration in the EU countries. The penetration rate of fixed broadband access, as compared to the estimated number of households in BH in 2012, was 44.3%.

The market share of the Company at the level of BH in the field of fixed broadband access is projected at 22.3%, i.e. 59.5% in Republika Srpska, as the relevant part of the BH market for M:tel, from the aspect of the provision of such service.

The Internet access can be established in nearly all cities in BH, but there is a difference in the number of internet services providers therein.

The market of TV program distribution is in a mature phase and it is estimated that almost every household in Bosnia and Herzegovina possesses a TV connection, where the analogue terrestrial broadcasting is a primary source of reception of a TV signal, especially in rural areas.

According to the surveys conducted by the Regulatory Agency, the largest number of customers in urban areas receives the TV signal via cable distribution 43.3%, while terrestrial systems are used in rural areas 42.9%. Satellite antennas and IPTV participate with 12% and 9.4%, respectively, and it should be noted that the number of users of the IPTV service is constantly growing, which is the result of the entrance of all three operators to this market.

The competitive relations in this segment are rather intensive owing to the fact that 50 operators possess a licence for the distribution of TV program and the above mentioned entrance of telcos to the market of the audio and visual media services and radio media services.

A significant aspect of the operator's offer are bundle services, which actually represent a new market with an increasing share in the operators' revenues in the upcoming period and will also be subject to a fierce competition.

The importance of bundle services is manifested in the facts that it is a growing segment that simultaneously represents a new source of revenue growth and efficient instrument for customer retention and protection of the existing market position of m:tel in the segment of fixed telephony and broadband access, and building the Company's image as an operator that provides all types of services.

mtel

The largest fixed telephony operator on the Montenegrin market is T-com (Montenegrin Telekom). In 2007, the licences for the provision of public telecommunications services via fixed wireless access (WIMAX) were awarded to the following companies: m:tel, Broadband Montenegro, T-Mobile (Montenegrin Telekom) and Telenor. In late 2009, the licence for fixed wireless access was granted to Verat d.o.o, to which Telekom assigned all of its WIMAX frequencies.

The population coverage by WIMAX network is 40%, while the territorial coverage accounts for 10%.

Three mobile operators are present on the telecommunications market of the Republic of Montenegro: m:tel, T-Mobile (Crnogorski Telekom) and Telenor Montenegro, which were issued with the UMTS licences in May 2007. Telenor Montenegro obtained the Licence for the provision of electronic communications services in compliance with GSM/DCS1800 and IMT-2000/UMTS standard (the licence for the 4th mobile operator), in a procedure of public tender invited by EKIP in November 2011. The operators have been offering the number portability service since the beginning of December 2011. The population coverage by the GSM and UMTS networks is 98% and 60%, respectively, while the territorial coverage by the GSM and UMTS networks is 83.9% and 47.9%, respectively.

In Montenegro, there are 10 cable operators, of which the largest are Total TV, Crnogorski Telekom (T-Com) and Broadband Montenegro.

According to the data provided by EKIP, the market share in 2012, as per the number of customers is as follows:

	Fixed telephony	Mobile telephony
Montenegrin Telekom	98,1%	34,3%
Telenor	-	40,0%
m:tel	1,9%	25,7%
Total	100,0%	100,0%

FiberNet

Telecommunications Company FiberNet operates on the market where the same or similar service is rendered by the following enterprises /companies:

- Crnogorski Telekom AD,
- Montenegrin Electrical Transmission System AD,
- Railway Infrastructure of Montenegro,
- PE Utility Services Podgorica.


The incumbent operator on the market of Montenegro is Crnogorski Telekom AD.

HD-WIN

The channels of Arena Sport are currently distributed via more than 70 distributors in the territories of Serbia, Bosnia and Herzegovina Croatia and Montenegro, and on the territory of Macedonia, where the IPTV system of the Macedonian Telekom broadcasts the content of UEFA Champion League and European League through the ArenaSport channel.

On all the markets, the ArenaSport channels are broadcast via the platforms of all major telecommunications operators (T-Com Montenegro, T-Com Macedonia, T-Com Croatia, BH Telecom, m:tel RS, HT Eronet, Telekom Srbija).

A total of 38 operators operated in Serbia, predominantly OpenIPTV and PTT KDS. We use the Polaris Medie DTH platform. The market coverage is around 40%.

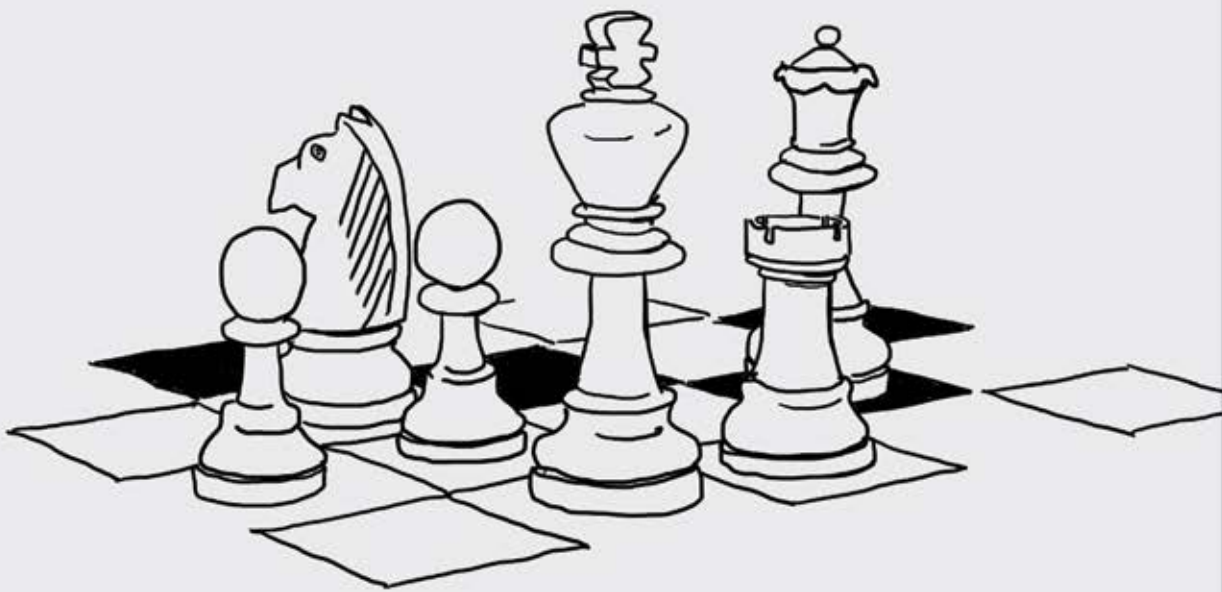


In Montenegro, 5 operators are operating on the market and Extra TV (T-com) and BBM have a dominant share. The package sale is developed and the DTH platform is TotalTV. The market coverage is around 75%.

In Bosnia and Herzegovina, there are 26 operators and MojaTV (BH Telecom) has a dominant share. They use the TotalTV DTH platform, i.e. there are no Arenasport channels. The market coverage is 80%.

The Croatian market is characterized by an exclusive presence and developed package sale, by using the TotalTV DTH platform. The market coverage is 60%.

In Macedonia, Arena Sport has exclusive presence only during the time of broadcasting the matches of the Champions League and European League on the IPTV platform of MaxTV Macedonian Telekom. On broadcasting the first round of the Champions League and European League, almost all the operators in this territory showed interest and addressed us with a request for distribution of the Arenasport channels in the territory of Macedonia. The main competitor on the markets where Arenasport has been operating is IKO media with its Sport Klub channels.



CORPORATE MANAGEMENT

CORPORATE MANAGEMENT

Corporate management represents a system for the management and control of business companies. Owing to such management approach, Telekom Srbija can apply better mechanisms of organization and control and efficient distribution of competences. This approach also makes it possible for Telekom Srbija to gain the trust of investors. The separation of the ownership right and the management of Telekom Srbija, responsibility towards the shareholders, response to their interests, transparency and requirements of mandatory information are the current principles that bring better results.

The practice of good corporate management also contributes to a sustainable economic growth, because it increases the business result of the company, ensures the company's growth and boosts profitability. As a business company covering one of the main infrastructural functions of the company, Telekom Srbija hereby gives an incentive to numerous business partners and the society as a whole.

CORPORATE BODIES AND CORPORATE MANAGEMENT SYSTEM

Telekom Srbija

In order to organize the management of the Company in the best possible way and respond to the business challenges, Telekom Srbija, as a responsible company, is organized as a two-tier system of management. The bodies of Telekom Srbija are:

- General Meeting
- Supervisory Board
- Executive Board.

The company represents a single business system structured by the functional, territorial and market-based principle, which attains its operating goals through the business units managed by executive directors.

GENERAL MEETING

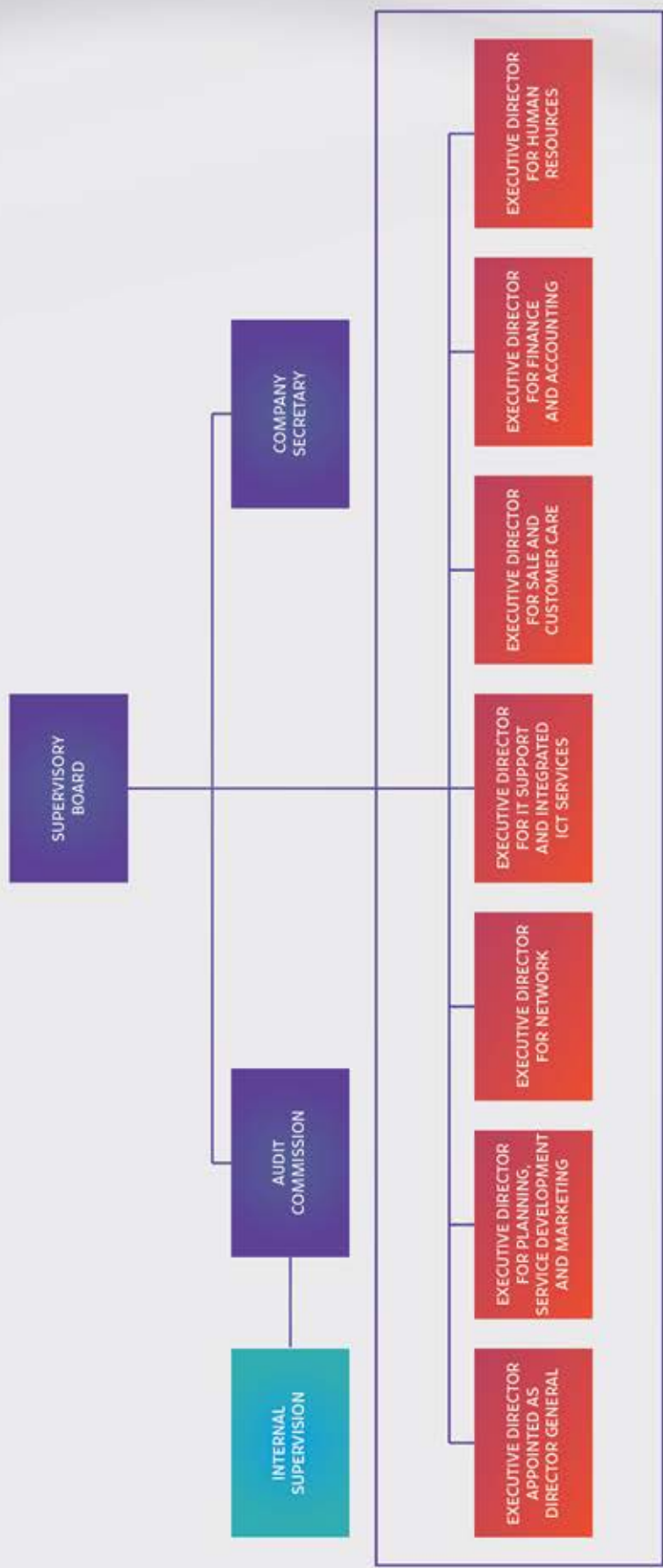
The General Meeting is a body where the shareholders exercise their ownership rights. The General Meeting is composed of all the shareholders of the Company. It has the broadest status – and ownership-related authorizations and is the highest body of the Company. In 2012, two sessions of the General Meeting were held: 43th regular General Meeting held on 20 April 2012 and 44th extraordinary General Meeting held on 13 December 2012.

SHAREHOLDERS' RIGHTS

The Company guarantees the exercise of the ownership and non-ownership rights of the shareholders as stipulated by the Law, the Memorandum of Incorporation, the Articles of Association and other by-laws of the Company.

The Company is guided by the principle of equal and fair treatment of shareholders and takes the measures to that end, including in particular:

- Providing that the shares of the same class bear the same rights,
- Timely and regular provision of relevant information about the Company (including the information available on the website of the Company),
- Participation and voting at the General Meeting session,
- Provision of timely, true and full information about the issues of particular importance for the Company's operation, related to significant corporate changes, particularly the amendments to the Articles of Association, decrease or increase in capital, major changes in the ownership structure, status-related changes and changes in the legal form and disposition of high-value assets,
- Provision of equal treatment of all shareholders (including the minority and foreign shareholders), especially the efficient protection of the rights of minority shareholders against abuse by the majority shareholders.



Organizational structure of Telekom Srbija

The Company prohibits and shall continue to combat any unauthorized trade in shares based on confidential (insider) information and possible cases of abuse in mutual trade operations.

SUPERVISORY BOARD

The Supervisory Board is a corporate governance body. The number of Supervisory Board members is prescribed by the Company's Articles of Association, in accordance with the principle that the prescribed number should provide for continuous operation and a composition which ensures the skills and expertise required for the Supervisory Board's activities. The Supervisory Board includes 7 (seven) members, whereof at least one is an independent member in terms of the applicable Law on Business Companies.

The Supervisory Board and its members are under the obligation to act conscientiously and loyally towards the Company and its shareholders and to perform the tasks falling within the scope of their responsibly with due diligence and in the reasonable belief that their actions are in the Company's best interest.

Supervisory Board members:

- base their decision on impartial and competent judgement and all available information and opinions of experts in particular fields,
- comply with the rules related to the conclusion of transactions in which there is a personal interest and a competition ban in any legal transaction involving the Company or which is decided by the Bodies,
- during and after the expiry of their term of office, treat the data and material of the Company as confidential information no matter whether the information is confidential, in accordance with the Company's policy and by-laws governing confidential information.

Supervisory Board members are elected by the General Meeting by a simple majority of the attending or represented members with the voting right and the shareholders that vote by circulation in accordance with the Law and the Articles of Association.

Supervisory Board member candidates are put up by the Supervisory Board, the Appointment Commission, if any, or the Company's shareholders with the right to propose an agenda for a General Meeting session.

COMMISSION FOR THE AUDIT OF THE SUPERVISORY BOARD

For the purpose of boosting business efficiency and in accordance with the Telekom Srbija Articles of Association, on 13 December 2012, the Supervisory Board passed a Decision on the set-up of a Commission for the Audit of the Telekom Srbija Supervisory Board. The Audit Commission is answerable to the Company's Supervisory Board and is under the obligation to submit reports on transactions and activities it takes in accordance with the competences laid down by the applicable regulations, at least twice a year and any time the Supervisory Board requests such reports to be submitted. The Audit Commission includes 3 (three) members, whereof one is the Commission chairman.

The Audit Commission oversees but does not manage the financial reporting process. Its supervisory role primarily implies making sure that the procedures and controls undertaken by the management and the external auditor are such to provide for identification and remedy of errors and irregularities and to make it possible for them to prepare and publish financial statements in a just and adequate manner. Likewise, the Audit Commission oversees the conduct of activities in the sphere of the internal supervision of the Company.

The Supervisory Board endeavoured to appoint to the Commission persons of adequate professional and personal characteristics and experts in relevant fields.

In order to ensure the quality and efficiency of operations and/or capacities of the Supervisory Board to perform its duties in a manner consistent with the shareholders' expectations, at least once a year, the Supervisory Board analyses its work and the work of all commissions and reviews measures and activities to improve it.

The scope of evaluation is particularly the quality of the operative activities of the Supervisory Board, contribution and competence of its members, adequacy of the Supervisory Board's structure and quality of the Supervisory Board's engagement as regards all important issues falling within scope of its responsibility.

EXECUTIVE BOARD

Executive Board members, including the Director General, are elected by the Supervisory Board. The Telekom Srbija Executive Board includes 7 (seven) members. Executive Board members are executive directors.

Executive Board members of the Company (hereinafter: Executive Directors) may not be members of the Supervisory Board or the Company's procurists.

In conducting the operations of the Company, the Executive Board acts independently deciding and acting outside sessions. In case of no agreement between the Executive Directors on a particular issue and in other cases and activities laid down by the Rules of Procedure of the Executive Board, the Director General may call an Executive Board session in the manner set out by the Law, Articles of Association and Rules of Procedure of the Executive Board.

COMPANY SECRETARY

Telekom Srbija has a Company secretary who is appointed by the Supervisory Board. The competences of the Company secretary are stipulated by the Company's Articles of Association and relevant decisions of the Supervisory Board.

STATEMENT ON THE APPLICATION OF THE CODE OF CORPORATE MANAGEMENT

Telekom Srbija a.d (hereafter: Company) is applying the Corporate Management Code adopted at the 1st session of the Supervisory Board of the Company on 26 June 2012 and published on the Company's website www.telekom.rs.

The Company strives to develop a corporate management practice based on modern and generally accepted principles of corporate management, experiences and best practices in this sphere, honouring the requirements laid down by applicable regulations, with the respect for the global market conditions and trends on the domestic telecommunications market and defined developmental goals of the Company.

The Company Supervisory Board is competent for the application and interpretation of the Corporate Management Code (hereinafter: Code), regular monitoring of the implementation of the Code and compliance of the corporate organization and activities of the Company with the Code.

The application of the principle of adequately acknowledging the interests of all existing and potential shareholders, investors, creditors, service users, employees, and members of the Company's bodies, is ensured through the work and decision-making procedures of the corporate governance bodies as defined by the by-laws, through communication and the coordination of activities between all corporate bodies, managers at the business seat of the Company and units of its territorial organization, employees, shareholders and the public.

In implementing the corporate management system, there were no derogations from the rules envisaged by the Corporate Management Code.

Shareholders' rights

All shares of the Company are ordinary shares and each share grants a right to one vote in General Meeting sessions.

The right to personally participate in General Meeting sessions and debates on all issues on the agenda, including the right to forward motions, ask questions pertaining to the items of the Agenda of a General Meeting session and receive a response is exercised by the shareholders with at least 0.1% of the shares of the total number of shares of the Company and/or their proxies who represent at least 0.1% of the total number of the Company's shares.

The introduction of the aforesaid census for personal attendance of a General Meeting session resulted from the fact that there is a very strong corps of the shareholders of the Company (more than 4.8 million). In such conditions, statutory insistence on a census is imperative because its absence might affect efficiency and rationality in the process of organizing and holding a General Meeting session.

Naturally, the aforementioned census does not restrict the rights of the shareholders that individually hold less than 0.1% of the total number of shares of the Company to participate in the work of a General Meeting session through a joint proxy or to vote in absentia.

The Company is guided by the principle of an even-handed and equitable treatment of the shareholders and in that respect it takes measures which, *inter alia*, ensure:

- timely and regular receipt of all relevant updates about the Company in accordance with the obligations laid down by applicable regulations (including information available on the Company's website),
- participation and voting in General Meeting sessions,
- timely, accurate and full provision of information of special importance for the operation of the Company, pertaining to important corporate changes (particularly amendments to the

Articles of Association, capital reductions or increases, significant changes in the ownership structure, status changes and changes in the legal form and disposal of high value assets),

- deciding on the election and dismissal of Supervisory Board members,
- determining remunerations for the persons elected to the Supervisory and Executive Boards of the Company,
- ensuring an even-handed treatment of all shareholders (including minority shareholders).

The Company endeavours to encourage the shareholders to participate in the work of the General Meeting and in that regard:

- it schedules General Meeting sessions in time to provide for the shareholders to familiarize themselves with the Agenda of the General Meeting and prepare for participation in a session,
- envisages a mechanism of the shareholders' in absentia vote so that personal vote and in absentia vote have an equal effect.

All relevant information and material for a General Meeting session, including power of attorney forms and in absentia vote forms are available on the Company's website www.telekom.rs, within the legally prescribed deadlines before the holding of the General Meeting session.

In view of the fact that there are a large number of shareholders, the Company frequently uses its website to communicate with the shareholders.

Supervisory Board

The Supervisory Board performs the tasks from its scope of responsibility in accordance with the applicable regulations, the Articles of Association of the Company and the Rules of Procedure of the Supervisory Board, in a bid to act in the Company's best interest.

The Rules of Procedure adopted by the Company Supervisory Board regulate as follows: organization, the method of work, including the deadlines and manner of submitting the material for a session to the Supervisory Board members, the method of drafting and content of the minutes, the voting procedure (quorums for the holding of sessions and

decision-making) and other issues of importance for an efficient operation of the Supervisory Board.

The Supervisory Board includes 7 (seven) members elected by the Company General Meeting, whereof one is independent from the Company in terms of applicable regulations (an independent member of the Supervisory Board), and the chairman is elected by the Supervisory Board from among its members, by a majority vote of the total number of Supervisory Board members, at the proposal of the Supervisory Board members nominated by the controlling shareholder of the Company. When putting up candidates for the chairman of the Supervisory Board, the Supervisory Board members nominated by the controlling shareholder are guided by the principle of candidates' excellence on the professional and personal planes and in terms of the trust placed in them by the shareholders and other Supervisory Board members.

The Supervisory Board set up a Commission for the Audit of the Supervisory Board of the Company (Decision no. 380052/6 of 13 December 2012), which takes activities and actions in accordance with the competences laid down by legal regulations and the aforementioned decision on its set-up. The said decision, inter alia, specifies as follows: a quorum and the manner of holding a session of the Audit Commission, its composition and mandate and Commission members' right to remuneration. The Commission is answerable to the Supervisory Board and informs it about the tasks and activities it takes, at least twice a year, and any time the Supervisory Board requests that such reports be submitted.

Executive Board

The Executive Board includes 7 (seven) members – executive directors appointed by the Supervisory Board. One of the executive directors authorized to represent the Company is appointed as director general by the Supervisory Board. When electing executive directors, the Supervisory Board takes into consideration their professional, organizational and personal qualities and when electing a director general, it is guided by the candidate's organizational abilities which are particularly reflected in an efficient organization of the Company's business

operations and activities of the Executive Board and the coordination of the work of executive directors. The organization, method of operation and decision-making of the Executive Board are specified by the Rules of Procedure adopted by the Executive Board in line with its legal and statutory competences.

Remuneration and rewards for members of the corporate governance bodies

The General Meeting passed a Decision determining the rewards for the chairman and members of the Supervisory Board (no. 117294/12 of 20 April 2012) and a Decision on the rules (policy) of determining the remuneration for the executive directors (including the employment contracts of the director general and other executive directors) (no. 117294/13 of 20 April 2012). The Supervisory Board passed a Decision on the set-up of the Commission for the Audit of the Supervisory Board of Telekom Srbija a.d. whereby, among other things, it defined the remuneration for the chairman and members of the Commission (no. 380052/6 of 13 December 2012).

Internal supervision affairs

Set up within the Company is an organizational unit in charge of internal supervision affairs (under the name of: Internal Audit), which controls the compliance of the Company's operation with the law and other regulations and by-laws of the Company. Internal supervision pursues the activities in the domain of internal supervision which include: inspection of the compliance of the Company's business operations with the law, other regulations and by-laws of the Company; supervision over the implementation of accounting policies and financial reporting; control of the implementation of the risk management policies; monitoring of the compliance of the Company's organization and activities with the code of corporate management; evaluation of the policies and processes in the Company and forwarding proposals for their improvement. The manager of the Internal Division regularly informs the Audit Commission of the audit of business operations. In its by-laws, the Supervisory Board regulated the method of conducting and organizing the activities of the internal audit of business operations,

including the terms to be fulfilled by the persons performing the tasks of internal audit of business operations, as regards professional knowledge or expertise, experience and respect for ethical norms which make them suitable for the performance of said tasks in the Company.

In its decision (no. 246291/5 of 29 August 2013) the Supervisory Board adopted the Internal Audit Charter which is necessary for ensuring independent and objective functioning of the organizational unit in charge of internal audit affairs, which regulates the purpose, authorizations, duties and responsibilities of all participants in the performance of work, the method of performing work and other issues related to the Company's internal audit. Besides, the Supervisory Board also adopted the Code of Ethics which established the principles to be observed by the persons pursuing the audit activities.

Communication with the public, disclosure of information and transparency

The Company ensures the transparency of its operations with compliance of all envisaged obligations in terms of reporting and publication of accurate and complete information and the respect for the principle of providing regular and timely information on the Company's website. The shareholders and the public, primarily by way of the Company's website, report on the financial results of the Company and all important events regarding the Company for which the obligation of such reporting is laid down by the applicable regulations and by-laws of the Company.

Other activities in the application of the Code

The Company is investing maximum efforts in the permanent promotion of the corporate system which will guarantee the actions of all corporate bodies, their members, employees and the Company as a whole, in accordance with the rules of the Code, particularly in the domains which regulate:

- personal interest and the obligation of avoiding the conflict of interest
- cooperation between the corporate governance bodies

- curbing and prevention of bribery and corruption
- engagement of external consultants
- business ethics

This statement represents an integral part of the Consolidated Annual Statements on the Company's operation for 2012.

Telekom Srpske

The operations of Telekom Srpske, as a joint stock company, are defined by the provisions of the Law on Business Companies of Republika Srpska. In compliance with these provisions and the Articles of Association, the corporate governance bodies of Telekom Srpska include:

- General Meeting,
- Managing Board,
- Director General,
- Executive Board,
- Audit Board,
- Internal Auditor.

The Managing Board includes 7 (seven) members whereof two were elected in December 2012 pursuant to a decision of the General Meeting.

The Executive Board comprises the director general and executive directors as follows:

- Executive director in charge of finance
- Executive director in charge of technical affairs
- Executive director in charge of corporate affairs
- Executive director in charge of marketing and sales

As the support functions, the Company also includes:

- Strategy Function,
- Internal Audit.

The Audit Board is made up of 3 (three) members and is in charge of inspecting reports of Telekom Srpska.

mtel

In accordance with the Articles of Association of mtel, the mtel corporate governance bodies are as follows:

The Board of Directors, which comprises the chairman of the Board and four more members, and the Executive Director.

The Executive Director appoints executive directors in charge of particular fields of operation of mtel.

Telus

The management of the company is organized as one-tier. The corporate governance bodies of Telus include the General Meeting and the director.

The organizational structure of the Company is as follows:

- Head Office
- Territorial Centres.

The Company Head Office is divided into four organizational units:

- Office of the Director:
 - Assistant director for cleaning and regular maintenance
 - Assistant director for physical and technical security
- Section for Legal and General Affairs
- Commercial Section
- Finance Section.

The territorial centres managed by head in Belgrade, Niš, Kraljevo and Novi Sad.

FiberNet

The corporate governance bodies of FiberNet are the Founder and the Executive Director.

TS:NET B.V.

The corporate governance bodies of TS:NET B.V. are the General Meeting and the Board of Executive Directors.

TS:NET B.V. is managed with the authorizations and competences of the Board of Executive Directors by Sovereign Trust B.V. of Amsterdam pursuant to a special Management Agreement, whereas the tasks falling within the competence of the General Meeting are performed by the director general of the Parent Company in the capacity of the founder.

HD-WIN

The corporate governance bodies of HD-WIN are as follows: the General Meeting and the director so that the management of HD-WIN is organized in the form of one-tier management.

Within the operation of the General Meeting, all members of HD-WIN exercise their ownership rights.

The organizational structure of HD-WIN includes the following units:

- Office of the Director General
- Technical Department with the Studio Technology Section, Satellite Direction Section and IT and Development Section
- Production Department
- Programme Department with the Revision Section
- Marketing and Sales Department
- Economic and Legal Affairs Department.



BUSINESS OPERATIONS

BUSINESS OPERATIONS

STRATEGY

Telekom Srbija

BUSINESS FRAMEWORK

Telekom Srbija enjoys a unique position as an integrated operator on the Serbian market of communications and multimedia. Telekom Srbija strives towards the preservation of the leading position on these markets through the innovative development of services, improvement of customer satisfaction and partner environment and increasing business revenues.

STRATEGIC OBJECTIVES

The strategic objectives of Telekom Srbija are clearly reflected in the statements of vision and mission of the Company, by emphasizing business ambitions, growth and development on the convergent market of electronic communications, media and ICT services of the new digital environment.

Vision	<i>We are striving towards enriching and making more beautiful people's lives providing for them global links and extraordinary communications as the regional leader in the information society of the future</i>
Mission	<i>New services we are introducing, technologies we are implementing, every change of ours and continual adjustments are intended for our customers, their needs for communication and entertainment, with our employees as the driving force, to the satisfaction of our shareholders.</i>

The accomplishment of business objectives in a strong competitor environment is supported by the continued engagement of the management and employees in the promotion and strengthening of organizational efficiency in accordance with changes in the environment.

BUSINESS STRATEGY

Telekom Srbija aspires towards promoting the efficiency and effectiveness of its operations through an integrated and convergent model of organization and operation. A change in and the growth of customer needs are supported by the additional innovative development of networks and services.

Telekom Srbija is continuously strengthening its competitor capacity, analysing the trends and development of the technological base, economic environment and customer affinity. Further development of commercial service packages and the promotion of the service portfolio will pave the way for and secure the prospects of the market leaders. Telekom Srbija will lend support to overall economic recovery, backing other segments of the business environment, thus expanding its business activity and recognisability.

- On the fixed telephony and data market, Telekom Srbija will upgrade the quality of its services, offer services which meet customer needs and provide to its customers a respectable and recognizable ratio between the price and quality of its services.
- On the mobile telephony market, Telekom Srbija will, with its innovative offer and in the capacity of an integrated operator, provide to its customers a new customer experience, the quality of services and products and a recognizable ratio between the prices and quality of its services.
- On the market of broadband services of the fixed and mobile networks, Telekom Srbija will endeavour to maintain further growth of its customers and revenues, focusing on an increase in the quality of its services, coverage and availability through combined fixed and mobile offers.
- On the Pay TV market, Telekom Srbija will endeavour to increase its market share with an adequate offer of video content, with the highest level of service quality. The commercial aspect will stress the value of offered content as opposed to the offer of its competitors.
- On the on-line entertainment and advertising market, Telekom Srbija will maintain the concept of a unique portal for communication and entertainment in Serbia and the region at large

in order to boost its use and revenues from advertising and electronic trade.

- On the ICT market, Telekom Srbija will invest maximum efforts with the aim of generating additional revenues from an expanded service portfolio.
- Telekom Srbija will continue to improve an integrated and customer-oriented organizational model of operation in order to meet customer needs to a greater extent and boost efficiency and efficacy.
- On the commercial level, Telekom Srbija will invest additional efforts and resources in ensuring that its customers more clearly recognize the value and functionalities of an integrated market and sales. Customer support will be more adequately adjusted to the needs in all market segments.
- Telekom Srbija aims to promote its market position through continued improvement of its network and services as an integrated operator, with special emphasis on service innovations in accordance with customer needs and at acceptable prices.
- Telekom Srbija will, in line with customer needs, improve its on-line sales channel, whereby the digital economy will be adequately and functionally supported.
- Telekom Srbija will continue to gradually integrate its operations, systems and the network towards full convergence in order to be able to offer a fully converged product portfolio.

For the purpose of achieving the necessary level of financial vitality, in accordance with the shareholders' expectations, Telekom Srbija will focus on the promotion of internal processes and metrics.

IMPLEMENTATION OF THE STRATEGY

The accomplishment of strategic objectives and the implementation of the strategic business plan are supported by the introduction of organizational competences with the aim of improving decision-making, efficiency and metrics in the Company. Telekom Srbija bases the implementation of the strategy on the continuity of development and application of strategic initiatives, acknowledging the market momentum and the need for constant

change from within, analysing changing customer needs, the activities of competitor companies and the expectations of the shareholders and a broader social community.

Telekom Srpske

Telekom Srpske's basic commitment in the context of its future activities on them market of B-H telecommunications is the strengthening of its market position based on the identification and exploitation of the new revenue resources and growth from new markets and against new services, preserving its market position in the generic service segment.

Telekom Srpske will implement its development strategies based on the provision of new services on the existing markets, new services on new markets and the strategy of horizontal diversification, which implies the development of a new business model in activities resting on the telecommunications industry.

Telekom Srpske will introduce in its portfolio a new set of services, that is, it will develop a business model based on the content and services of a complementary character, intended for the region of B-H and RS in which the Company has no developed infrastructure, and in the countries in the region and the diaspora.

Integrated services represent one of the key instruments in reducing the churn rate in the fixed network service segment and a new source of revenues given the relatively high ARPU, and at the same time, they are a tool for increasing the degree of customer loyalty and satisfaction. Telekom Srpske will thus continue to upgrade this type of service, primarily through the improvement of functionalities and content, with the introduction of a multi-screen concept which will help the Company to be distinguished from its competition on the Pay TV market in Bosnia-Herzegovina.

Telekom Srpske assessed that mobile market and/or the financial service and card operations market had reached the maturity stage and decided to include in the portfolio of its service the m-payment

service, applying the business model which grants the Company a leading role in the so-called ecosystem of the service.

In the coming period, Telekom Srpske will launch a new investment cycle in the development of the broadband infrastructure in the fixed and mobile networks as the basis for further development of the existing services and the entire set of services based on broadband access with the aim of increasing the availability, capacities and quality of this type of service.

Generic services are part of the later stages of the life cycle so that, in this respect and from the point of view of the position in the portfolio, it is necessary to retain the status of the same as the generator of cash and a source of financial means for further growth and development of the Company.

In the fixed network context, the focus will be on a further increase in the number of users of integrated services and/or implementation of adequate Cross and Upselling programmes aimed at customer migration to bundle services, the promotion of sales and the development of the Loyalty Programme and an adequate application of the tariff policy in the context of the defined regulatory framework.

In the mobile segment, the aforesaid elements imply the development of the Loyalty Programme, distribution channels based on the self-care principle, implementation of Upsell campaigns from prepaid to post-paid, intensive Telemarketing campaigns aimed at customer retention, churn prevention campaigns and a more proactive attitude in the context of competitor companies' effect on Telekom Srpska's customers.

The Company will continue to develop the service portfolio for the business customer category, promote the offer intended for the SME segment and the public sector and strengthen its overall presence and market participation in the business segment.

mtel

In the marketing domain and on the basis of the improved network quality, we are promoting mtel as a new, innovative leader in the sphere of mobile applications and the Internet with targeted campaigns in order to increase the use of GPRS.

We are strategically strengthening the post-paid customer base by way of migrations from the pre-paid base and customer porting from other telecommunications companies on the market.

We are increasing the use of social networks and Internet communications, which is in line with the global and local marketing trends and mtel's mid-term strategy.

mtel will endeavour to strengthen the brand of the company which is linked to the society and committed to the principles of corporate social responsibility through various sponsorships and activities in the sphere of corporate social responsibility.

The key services whose introduction is scheduled for the period to come:

- The introduction of new services in the multimedia sphere, which is to reinforce the mtel brand (Mobile and Web TV),
- The development of the service based on Facebook, further development of data traffic collection, the possibility of Parental control over data traffic, Family data packages, further development of the service within the Mondo portal,
- The introduction of the possibility of data packages for inbound roamers,
- The introduction and development of smart phone applications,
- The introduction of a new sales channel Web Shop.

The marketing and sales strategy for fixed telephony implies the following:

- The introduction of new ways of provision of fixed and Internet services via GSM/UMTS (Home Box),
- The expansion of cooperation with cable operators

- with the possibility of using Q-play services
- The retention of WIMAX users, focusing WIMAX services on business customers

mtel is a company with a great development potential on the Montenegrin telecommunications market. In accordance with a development plan, the projected market share in 2006 will be some 30%.

An increase in revenues from roaming traffic in Montenegro is expected in the near future. The roaming price policy of mtel is already compliant with EU regulations. A larger number of roamers will boost revenues from interconnection.

The post-paid customer base is on the constant increase. mtel pursues a development strategy focusing on the mobile Internet and the post-paid customer base. This strategy is based on the increased use of data traffic via smart phones, the development of in-house applications in which mtel is a market leader, more business customers and more massive revenues in the post-paid segment.

Number Portability is an excellent opportunity for a third mobile operator on the market. This service was introduced last year and first analyses show migrations from Telenor towards the other two operators. Number Portability is of a special significance for the acquisition of new customers with greater ARPU.

WIMAX services represent a good opportunity for boosting revenues from fixed telephony. In 2002, mtel changed its strategy focusing on cooperation with cable operators, with voice traffic and the Internet in its offer. The Number Portability service in the sphere of fixed telephony and the Internet makes an additional contribution to the development of the WIMAX service.

Telus

The strategy of the Telus a.d. business company implies retention of the existing customers and further gradual market expansion primarily targeting medium-sized and large business entities.

FiberNet

The strategic goals of Telecommunications Company FiberNet are as follows:

- Establishment of stronger connections with mtel via the optical infrastructure of FiberNet,
- Connection via optical fibres with Albania and Republika Srpska,
- Lease of optical fibres.

Connecting with Albania opens a new market for Internet sale and Telekom Albania, as the dominant operator in Albania, demonstrated an interest therein.

By connecting with Telekom of Republika Srpska, FiberNet would generate additional revenues from mtel which would replace the sites of the Radio Broadcasting Centre with FiberNet's optics.

The plan of connection with Albania and Republika Srpska is reflected in the exchange of optical fibres with Crnogorski Elektroprenos.

Likewise, FiberNet plans to lease optical fibres to cable operators for the transmission of the TV signal and the lease of optical fibres to foreign Internet providers such as Cogent Communications.

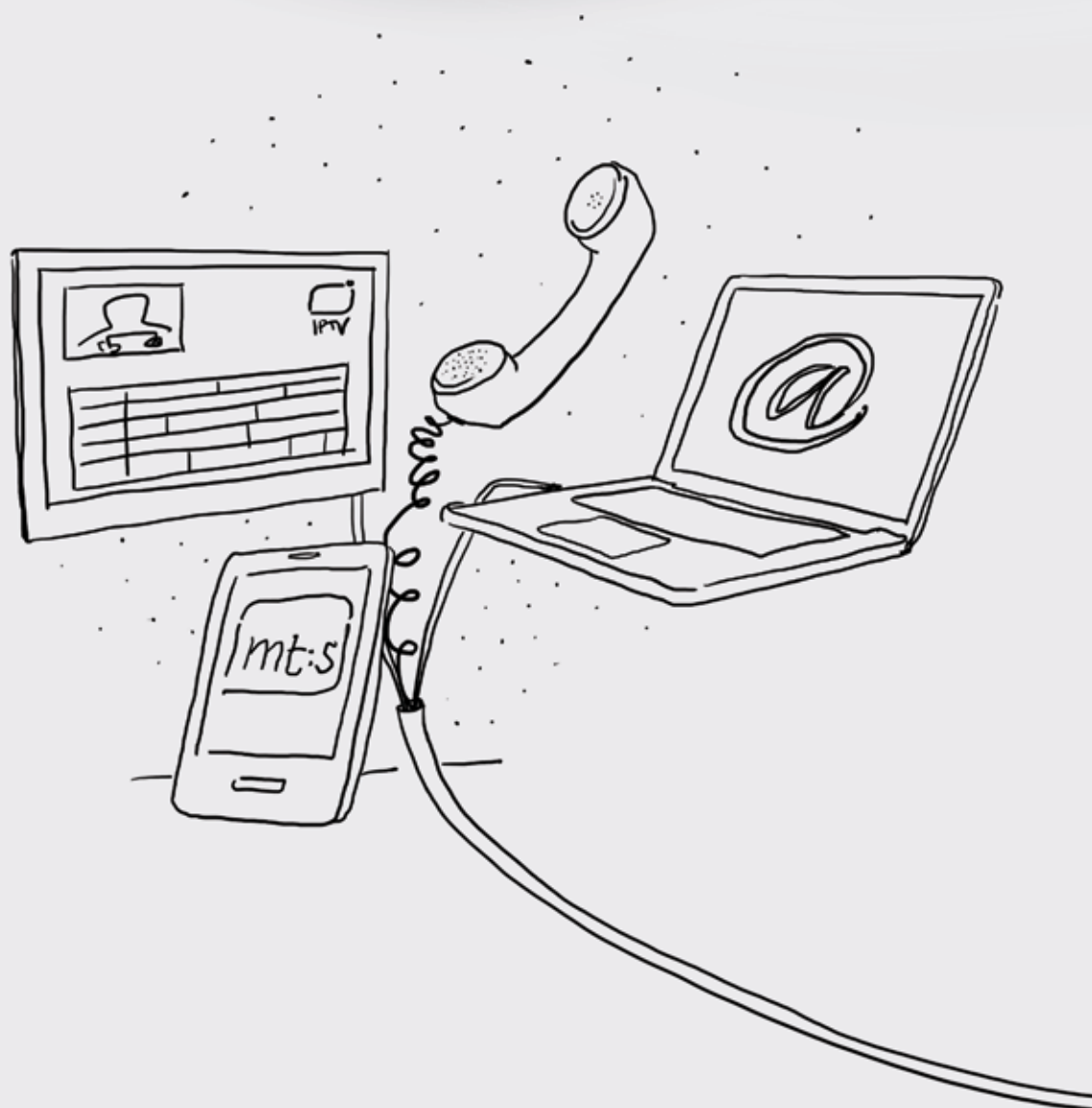
TS:NET

The business strategy of TS:NET B.V. is defined by the business policy stipulated by the Decision of the Telekom Srbija a.d. Managing Board on the incorporation of TS:NET B.V.

HD-WIN

Arenasport TV has already achieved enviable results on the markets in which it operates and set the broadcasting standards which will be additionally improved in the period to come. On all four of its channels, Arenasport broadcasts in high resolution premium sports content with special emphasis on national and regional sports. With its capacities, both production and technical, it set high standards in the form of live coverage and additional content (studios, announcement of rounds, news and the like)

In the coming period, the primary objective is the retention and possible expansion of the premium content broadcast on Arenasport channels, the expansion of the customer/distributor base and a possible breakthrough on new markets.



SERVICES

SERVICES

Telekom Srbija

The core activity of the Company is the provision of services in the sphere of telecommunications. Ever since its incorporation, the Company has provided fixed and data services. As the Company strengthened and telecommunications services developed, the advancement of fixed telephony coincided with that of mobile, Internet and multimedia services and a broad range of add-on services.

In order to promote the sale of services to business customers in May 2012, the Company introduced the class of services – CoS SLA-managed L3VPN. With the introduction of services the customers are allowed, in line with their priorities, to group the applications which generate traffic into classes of traffic with predefined parameters. Telekom Srbija offers three classes for the service: Voice, Business and Best Effort.

The offer to the business segment of customers was expanded in August 2012 with the introduction of the level of service quality – SLA for the Leased Digital Line service in internal traffic. For the relevant service, defined are standard SLA parameters which Telekom Srbija guarantees, if there are technical conditions on the customer's site (Provisioning, Response Time, Restore Time and Availability).

VPN for video surveillance represents a service which has been provided to business customers since September 2012. The service is intended for the customers that are at the same time the customers of the Video Surveillance service. It provides for the connection of sites where cameras are located, to sites where storages are located, and the connection of sites and storage to a surveillance centre for the needs of transmission of video material recorded on storage servers, video streams transmitted in real time to the surveillance centre and traffic which serve for remote control and management of cameras.

At the end of 2012, the Nomadic Bizfon connection service was commercialized. It defines two types of Nomadic connection (start and plus) which represent members of Bizfon (IP Centrex group), and which are realized independently from customer sites. A customer makes calls via the client software which he ensures and installs on a device with Internet access himself, under the terms defined in a decision.

The International freephone service, which was introduced at the end of 2012, allows that the business customers of Telekom Srbija's fixed telephony services are called by end users abroad who make such calls free of charge, where the costs of such international calls are covered by the called party in Serbia and/or subscriber to the International freephone service.

In order to accommodate the needs of mobile customers, with the aim of retaining the existing and winning new customers, in 2012 new services for all customer categories were introduced (prepaid, postpaid and biznet).

For residential customers the following new services were introduced: Bus Plus Info System, Mega Net Tariff, Mobile TV and Blackberry for Prepaid Customers.

The Bus Plus Info System service was launched in February 2012. A user receives information about the arrival of a bus to a bus station. The service is intended for commuters in Belgrade.

In June 2012, the Mega Net Tariff was introduced. The new tariff was specially created for the Samsung Galaxy S3 handset. The monthly subscription fee includes 4,000 min in national traffic, 40,000 min in the mt:s network after national minutes have been used up, 40,000 SMS and 40 Gb data. The accounting interval is 60s. The accounting unit for data transfer is 1kB.

The new service Mobile TV was also introduced in June and it provides for watching TV programmes via a mobile handset. This service is provided only to Mega Net Tariff users without extra charge. GPRS traffic generated using this service is not charged.

In December 2012, the Blackberry service was also provided to prepaid customers. A prepaid customer with a Blackberry device has an opportunity to access the Internet unrestricted for a period of 30 days. The fee is charged after activation from a prepaid account. If, after the expiry of the subscription fee, a user has enough credits on a prepaid account, the service will be automatically renewed for a period of 30 days.

In the sphere of multimedia services, in October 2012 commercialized was the KlikSport service (pay per view). The service is intended for residential customers of fixed and mobile Internet access who are allowed to view, via the relevant application or portal, matches of the UEFA Champions' League and the Europa League.

For business customers that deal with the transportation of passengers, in September 2012, a new service – WiFi Bus was introduced. The service makes it possible for passengers to use free of charge the wireless Internet on their laptops, tablet devices and smart phones via the m:tel network.

The new services in the sphere of electronic payment, which was introduced in January 2012 – SMS payment of electricity bills, implies the payment of electricity bills via the mobile payment system of Telekom Srbija. A request for payment is sent in an SMS and the electricity bill is charged from the DinaKard card, which is linked to the customer's mobile bank account. The service is intended for the customers who pay their electricity bills in territory of Belgrade.

Telekom Srpske

For the purpose of promoting and strengthening its position as the mobile telephony market leader and in the context of further growth of the user base in the post-paid segment, new tariff models MY MIX were commercialized in 2012. At issue is a personalized offer which makes it possible for post-paid customers of the m:tel mobile network to create a tariff package of their own choice and in accordance with their own needs.

A customer chooses the amount of minutes and messages that suit him best and he also chooses a bonus for the mobile Internet as an option.

In the business customer segment, in 2012, commercialized were tariff models NO LIMIT designed to provide to the customers unhindered communication, unlimited calls and texting in B-H in accordance with the flat fair-use principle and unrestricted use of the mobile Internet. Likewise, the service portfolio includes the hybrid KOMBI-NUJ Biz Tariff models (a combination of pre-paid and post-paid) which, at the relevant monthly subscription fee, the customers are allowed to have prepaid customers within their business group. The advantage of this tariff model lies in the amount of the monthly bill which is always the same and subscription to the selected package. If the customer needs to spend more than available to him, the bill may be topped up using the standard m:tel FRIEND top-up.

During 2012, the PCRF solution was implemented (flat fair-use mobile Internet) for all mobile customers for the purpose of increasing revenues, the scope and frequency of use of mobile Internet services. Mobile Internet services are primarily based on the 3G mobile network and are intended for the customers who wish to stay connected to the Internet at any time. The customers are allowed to surf at full bit rate and when they use up the envisaged quantity of megabytes from their package, they can continue to use the Internet until the end of the month at no charge and at a reduced bit rate.

The postpaid segment is characterized by the continual offer of various start packages and tariff options customized to every customer segment based on its behaviour.

In the second half of 2012, better sales results were achieved owing to the introduction of an indirect sales channel and an attractive hardware offer (LCD TV) to all new IPTV customers.

In 2012, commercialized were open START packages of integrated services at lower monthly subscription fees with the aim of acquiring a com-

petitor advantage on the market of the Republic of Serbia, intended for customers with a lower purchasing power. The offer is designed to provide minor benefits for all services in accordance with a lower subscription fee – fixed telephony, ADSL and IPTV.

In 2012, the Open Offer for business customers, based on trio and duo packages, was also commercialized. Within the trio package, the customers are offered the integrated IPTV, ADSL/flat and fixed telephony services. Within the duo package offered are ADSL and IPTV services. The customers are offered the IPTV service independently for various business activities.

mtel

mtel offers to its customers mobile telephony services as well as fixed and Internet via WIMAN technology services.

In accordance with the Company's orientation towards the Internet, in February 2012, introduced were special flat packages for post-paid customers – NET UP packages, which allow the customers to use the unlimited Internet even after they have used up the megabytes included in their package. NET UP packages 1, 2, 3 and 4 make it possible for the customers to stay online any time and any place via their mobile handsets, at the monthly subscription fee of 5, 9, 16 or 26 EUR. Included in all packages is a certain amount of data at a maximum rate (NET UP 1 – 750 MB, NET UP 2 – 1.5 GB, NET UP 3 – 3 GB and NET UP 4 – 5 GB).

In April 2012, the "mtel star" loyalty project was launched for post-paid customers. All post-paid customers automatically became members of the "mtel star" project, which, as a reward for their loyalty, offers them stars (points). All customers who use some of the mtel post-paid packages for 12 or more months received initial stars. The customers may exchange their stars for handsets from the rich offer of M:tel, at a discount of as much as 99%.

in May 2012, mtel ensured to all its post-paid customers more simple charging of outgoing calls, SMS messages and the mobile Internet in roaming, divided per new roaming zone. From now on, mtel offers its customers a unique, unchanged price of traffic towards all destinations, regardless of the network they choose.

At the end of May 2012, the "My choice 105 - *105#" service for post-paid customers was expanded. Apart from the basic items in the menu (Account, Add, Call me) using this menu, the customers may exchange their monthly stars for minutes, SMS messages and the mobile Internet or top up their credit for the selected prepaid number in the amount of 5, 10 or 20 EUR (item 4 – "mtel star" added).

In July 2012, the post-paid offer was enriched in the segment of the Choose package by adding the Choose 36 package. The Choose packages provide to the customer full freedom to create individually an original combination of services – when signing a contract, he chooses the amount of call, SMS and the Internet which he will use in the framework of his subscription fee (12, 18 and now 36 EUR).

After the web portal which offered the users an improved functionality and clearer navigation had been redesigned, in November, mtel offered to its customers the best choice of applications on the Mondo wap portal at wap.mtel.me, in the new mtel App centre. The mtel App centre includes the latest applications and links towards applications for Android phones which mtel recommends to its customers. Likewise, mtel demonstrated its corporate social responsibility by organizing a competition for the creation of applications.

At the end of December 2012, the post-paid offer was expanded to include BlackBerry smart phones with the following add-on services: my BlackBerry® and BlackBerry® Business. What is most important for the customer is the fact that this phone ensures full data protection at any time of transfer. The tariff add-ons My BlackBerry and BlackBerry Business bring the flat In-

ternet with a certain amount of gigabytes at a bitrate of up to 21.6 Mbps and the start price of 8 EUR a month.

In order to improve its offer to biznet service users, in May 2012, mtel introduced a new group of post-paid tariff packages M:tel office, which is characterized by various benefits within the subscription fee and a favourable price of a call, SMS and the Internet. The subscription fee for the new group of tariff packages ranges from 5 to 40 euros.

Telus

Apart from Telekom Srbija a.d. as its parent company and PE PTT Traffic Srbija, as the major buyer on the market, Telus a.d. significantly developed on the hygiene maintenance service market particularly in the period until 2010.

The security services are predominantly rendered to the parent company and PE PTT Traffic Srbija.

The chief buyers are large legal entities (economic and socially-owned entities and state institutions) which mostly opt for contracting the provision of physical and technical security and hygiene maintenance services by way of public announcement.

It can be concluded from an analysis of the tender documentation available that there is an upward trend of the number of buyers from different spheres, mostly from the group of large public companies (traffic and communications, power supply and public utilities), banking and insurance and government bodies – ministries.

Potential users of physical and technical security and hygiene maintenance services include entities with no own sections i.e. subsidiaries for the provision of these services.

FiberNet

The national digital line provides for digital connectivity and connection of two user points in the territory of Montenegro and this is a service that FiberNet provides in the territory of Montenegro. The said service does not depend on the protocol and ensures transparent transfer of the required capacity signal between user end points. It is used for the provision of telephone services or other data transfer services between user locations which need a high quality of service. FiberNet provides national digital lines of the following capacities: 2Mbps, FEth (4Mbps, 6Mbps....100Mbps) and STM-1, depending on the end user point sites.

The International Private Leased Circuit is a service intended for users in Montenegro that need a high quality link for the transfer of data between two locations, one of which is situated abroad. The quality of line is reflected in the least possible delay and negligible jitter delay and is achieved by transparently transmitting a sequence of bits sent by one party to the other party without processing. The advantage of this service lies in the fact that user traffic, by nature of transmission, is isolated from the rest of the traffic in the network, whereby the user is ensured maximum privacy in the exchange of traffic.

FiberNet provides international digital lines of the following capacities: 2Mbps, FEth (4Mbps, 6Mbps....100Mbps) and STM-1, depending on user end points. The International Digital Line service may be ordered from FiberNet by a user in Montenegro or a foreign operator, the contracting principle being OSS-One Stop Shopping.

The optic fibre lease services provide to the users the connection of sites in Montenegro or the connection of sites in Montenegro with a foreign site (FiberNet provides relevant fibres abroad in cooperation with a foreign partner). This service is suitable both for operators and providers and business customers for the purpose of creating own networks or for the purpose of ensuring backup solutions for large corporate customers.

The transport capacity lease service represents a service of lease of capacities of higher bitrate realized via the SDH/DWDM network of FiberNet and its partners abroad. The transport capacities to be leased may be national and international. If FiberNet provides international capacities, FiberNet ensures the relevant capacities in co-operation with its foreign partners. The relevant service is intended for operators (wholesale) of users for connecting end points of their network or their network and the network of some other operator. This is a protocol-independent service completely managed from point to point (between PoPs of FiberNet in the territory of Montenegro or to the border or from a PoP of FiberNet to the border). It ensures transparent transmission of the required capacity signal between the end points of the user's operator. The quality of the network and services provided by FiberNet makes it possible for the operators to build their own communications networks, connect PoPs in Montenegro and abroad and create conditions for the provision of a broad range of communications services to their end users.

HD-WIN

Arenasport currently operates via the following of its channels:

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

The broadcasting of the first three channels of Arenasport was launched on 15 August 2009 and Arenasport 4 was commissioned on 15 February

2010. These channels are distributed in the territories of Serbia, Montenegro and B-H.

In Croatia, the broadcasting of the Arenasport programme was launched in September 2010 initially with two channels and two more channels as requested, and as of this season, 4 standard channels with the support of Croatel which is in charge of technical preparation and signal transmission.

In September 2012, the separate channel Arenasport 1 was commissioned and localized for the territory of B-H. All channels are also available in SD and HD format (1920x1080i).

The entire production process, from the receipt of signal, via its processing and/or post-production, to its delivery to end-users is designed and implemented in high definition (HD).

The basic elements of the play-out are based on the automation systems of the renowned manufacturers of broadcasting equipment such as Snell, Harmonic, Omneon, Miranda, Rorke and the like, and the entire system is connected through the Cisco server and switches.

Since the first round of the Champions League season 2012/13 (18 September 2012) the For-A virtual studio, which at the same time is the most modern studio in the country, has also been operating.

The Arenasport 1 channel is distributed by all operators within the basic offer and other channels are part of the pay package either as an independent Arenasport package or as part of some other pay package. Promotionally, some operators are allowed to provide the channels to their customers within the basic package.

The channels are distributed to the operator either via the Polaris (BulSat) DTH platform (receipt by Polaris receivers or Tandbergs in SD format only) or via fibre optics. Signal transmission via Polaris is of a substantially lower quality, but given that currently most of the cable operators have analogue distribution systems, its quality

is satisfactory for the time being. Arenasport channels are transmitted to Sofia where the signal is put up to the satellite by optics by Telekom Srbija and SatTrakt (redundancy).

- In Serbia, connected via optics are Telekom Srbija, Radijus Vektor, Sat. In Croatia -Trakt, Orion Telekom, Targo Telekom and as of recently, PTT (via Sattrakta). Others are connected via the Polaris platform.
- In B-H, the optical network is much more developed and a large number of operators receive the signal in that manner. The signal is carried from our premises by Sat-Trakt to Zagreb where it is taken over by Logosoft and conducted to end-users. Due to a great many head-ends at the distributors' even the Polaris distribution is much used (some 100 receivers).
- In Montenegro, mainly via Polaris, except Crnogorski Telekom which receives the signal from Telekom Srbija's head-end.
- In Croatia, by way of optics, the signal is directly distributed to Hrvatski Telekom.
- To Makedonski Telekom, the signal is carried along the optical connection via Telekom Srbija's link.

Since the beginning of broadcasting, the Arenasport TV programme has been based on exclusive premium content from the world of sports. The content itself is mainly provided on the basis of three-year contracts as a result of negotiations and direct bargaining with title holders. The only exception is UEFA which has strict rules and procedures, owing to which telco operators from this region managed to win bids for the 2012-2015 seasons.

The programme is also enriched to include studio shows covering the Champions League and the Europa League and events linked to the Jelen Super League. Also planned is the launch of broadcasts covering the ABA basketball league. In view of the great functionality of the virtual set, in the

course of the season, the launch of several more shows and news bulletins is also planned.

An overview of the most important content per sport:

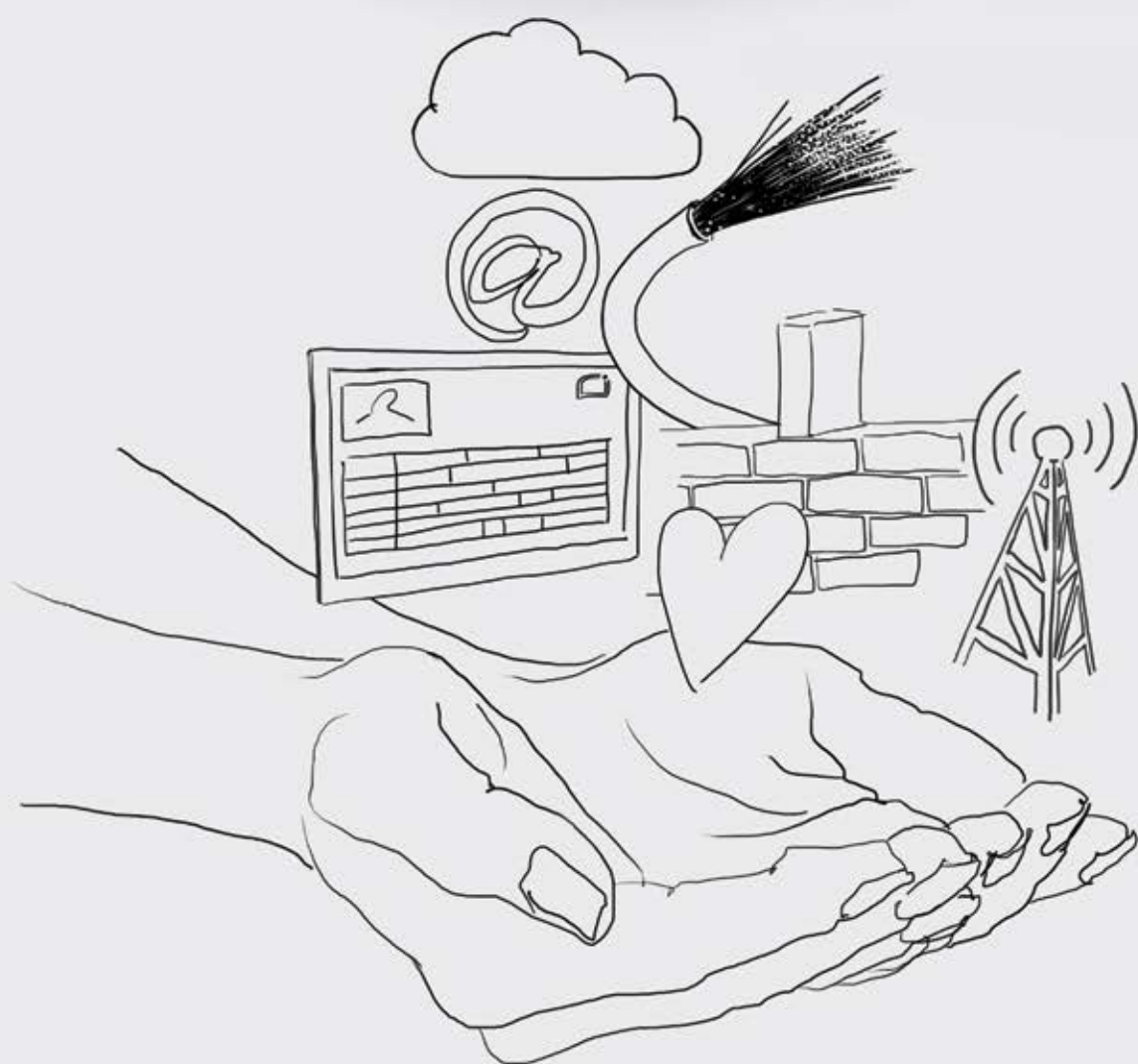
- Soccer - UEFA Champions League, UEFA Europa League, Italian Serie A, English Capital One Cup, Jelen Super League, Serbian Soccer Cup, French Football League 1 and 2, Spanish Copa Del Rey Cup, German DFB Cup, French Cup, French League Cup, French Trophée des Champions, Brazilian Championships, Croatian Soccer League, Bosnian Premier League, Qualifications for the 2014 World Cup, Friendly matches of national teams, Brazil World Tour, South-American qualifications for the World cup, Copa Sudamericana, MLS, Arsenal TV, Borussia Dortmund TV;
- Basketball - Adriatic Regional ABA League, Basketball League of Serbia, Serbian Super League, Qualifications for Men's and Women's Senior Teams, Spanish ENDESA League, NCAA Basketball;
- Handball - EHF (including the Champions League) for men and women and German Bundesliga;
- Volleyball - CEV (including the Champions League for men and women);
- Tennis - ATP 250, Croatia Open, Bet-At-Home Cup Kitzbuhel, PBZ Zagreb Indoors, VTR Open, Copa Claro, Delray Beach
- Athletics - Diamond League;
- Hockey - World championships (including Top Division) and NHL;
- Moto sport - GT1 Championship, NASCAR, DTM, Formula 3, Ferrari Challenge, Volkswagen Scirocco;
- Martial arts - Kick box (WKA/WAKO/ISKA) and Box (WBA/WBO/WBC/ IBO/IBF);

- Poker – WSOP and The Big Game;
- American sports – NFL and NCAA College Football.

Arenasport is engaged in the production of various sporting events in the territories where it is present (JSL, ABA, BPL, EHF, CEV, KLS, LŠ and LE) and the quality of its coverage is proven meeting the high standards set by certain competitions such as EHF and CEV.

As of this season, there are much more external productions (coverage of matches) which are implemented mainly with the help of temporary employees (cameramen, EVS operators and the like) and under the management and supervision by the Arena employees.

In the territories of Montenegro, B-H and Croatia, this segment is mainly outsourced but even here supervision and management are provided by our employees.



Investments

INVESTMENTS

The total investments in 2012 on the level of the Parent Company and its subsidiaries amount to 15.3 billion dinars. A comparative overview of capital investments made by individual companies in 2012 and 2011 is featured in the table below:

in million RSD	2012	2011
Telekom Srbija	12,339	10,805
Telekom Srpske	2,487	2,992
mtel	392	265
Telus	2	1
FiberNet	8	41
HD-WIN	57	9
Total	15,285	14,113

The attached table features total investment per company

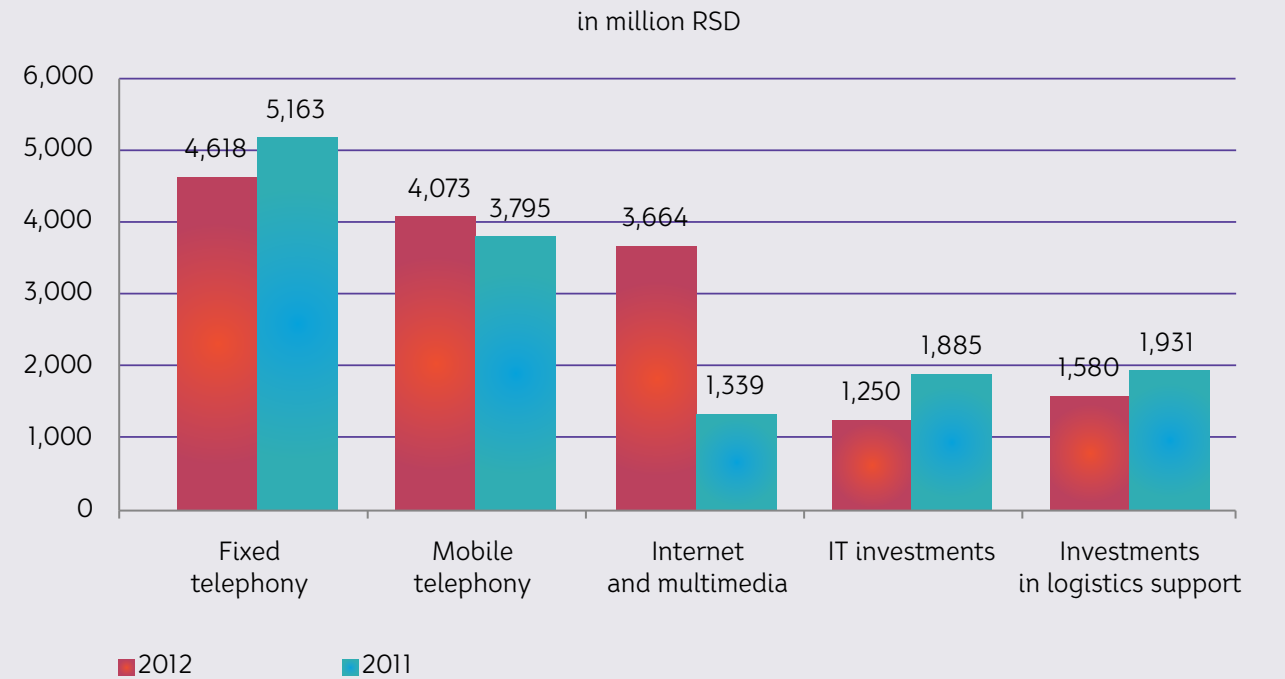
* Investments of Parent Company and its subsidiaries with mutual business transactions excluded
 * Investments of HD-WIN relate to the period august - december 2011.

Analysed by company, the most massive investments in 2012 were made by the Parent Company (12.3 billion dinars) and the lowest by the Telus subsidiary (2 million dinars).

In terms of investments per sphere in 2012, investments in fixed telephony amount to 4.6 billion dinars and account for 30% of the total investments of the Parent Company and its subsidiaries, mainly due to the investments of the Parent Company.

The investments of the Parent Company and its subsidiaries in mobile telephony account for 27% of the total investments and amount to 4.1 billion dinars, where the Parent Company made the greatest investments in this sphere. The Parent Company and its subsidiary Telekom Srpske invested in the modernization of the mobile network.

Total investments in the Internet and multimedia amount to 3.7 billion dinars and are mostly made by the Parent Company (86%) and its subsidiary Telekom Srpske (13%).



Structure of capital investments

The remainder of the investments pertain to investments in the computer centre and logistics support.

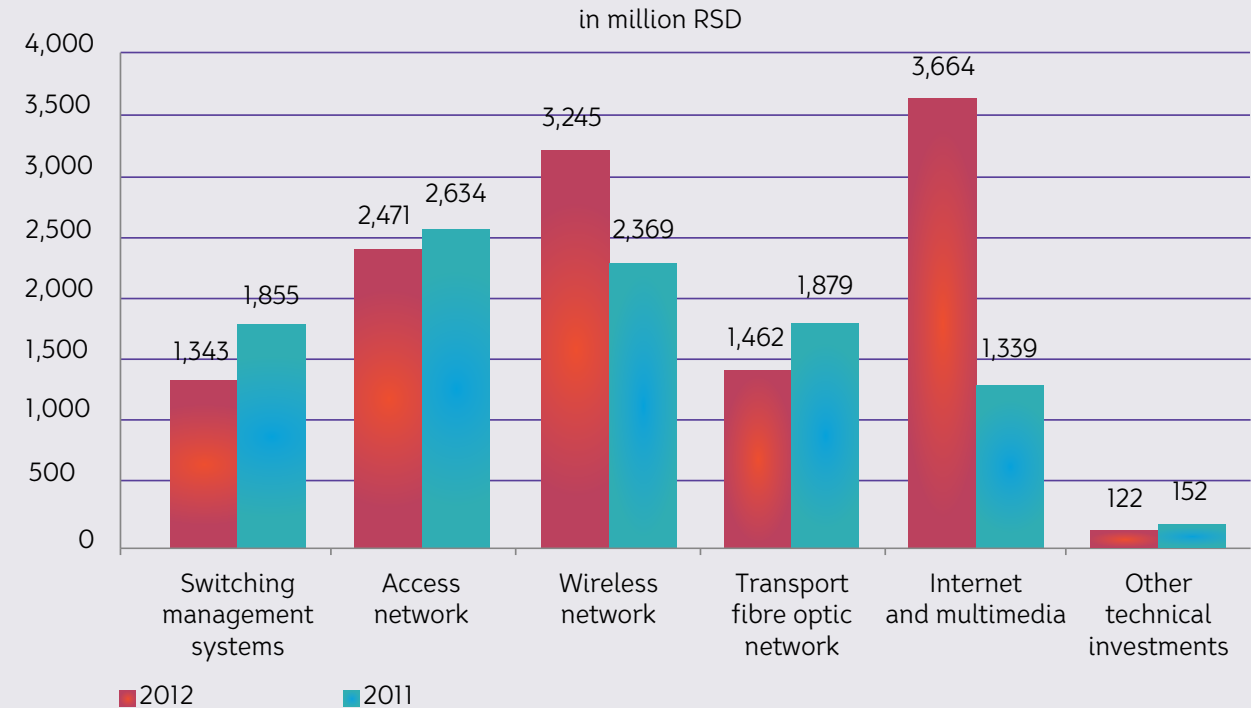
Of the total investments made by the Parent Company and its subsidiaries in 2012, 81% was set aside for the technical advancement of the Company and 19% for the infrastructure.

in million RSD	2012	Growth rate	2011
Technical investments	12,307	20.3 %	10,228
Infrastructural investments	2,978	-23.3 %	3,885
Total	15,285	8.3 %	14,113

An overview of the total investments per type of investment

in million RSD	2012	Growth rate	2011
Fixed telephony	4,618	-10.6%	5,163
Mobile telephony	4,073	7.3%	3,795
Internet and multimedia	3,664	173.7%	1,339
IT investments	1,350	-28.4%	1,885
Investments in logistics support	1,580	-18.2%	1,931
Total	15,285	8.3%	14,113

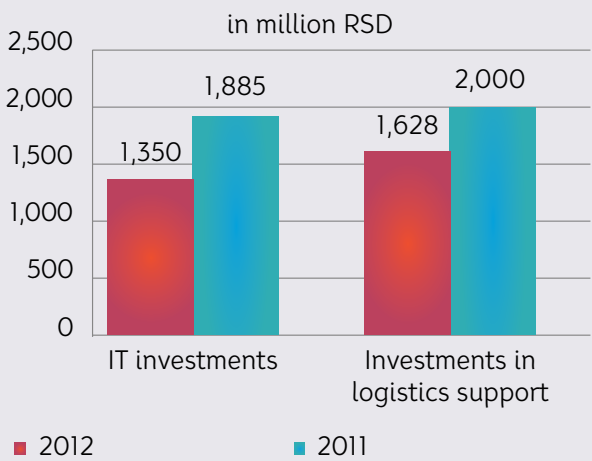
Total investments on the level of the Parent Company and its subsidiaries



Technical investments

Within technical investments on the level of the Parent Company and its subsidiaries, the greatest investments were made into the Internet and multimedia, the wireless network and access network, followed by investments in the transport optical network and the switching management system.

On the level of the Parent Company and its subsidiaries, capital investments made totalled 3 billion dinars in 2012.



Infrastructural investments

Of the total infrastructural investments on the level of the Parent Company and its subsidiaries, 45% pertain to the investments in information technologies and 55% to the investments in logistics support.

Of the investments into information technologies amounting to 1.4 billion dinars, 70% are those made by the Parent Company, 17% are investments of the Telekom Srpska subsidiary, whereas the investments of the mtel subsidiary amount to 13%.

In terms of investments into logistics support, the Parent Company mostly invested in real estate and land and the construction of RBS poles. The Telekom Srpske subsidiary mostly invested in its car fleet, real estate and land and the construction of RBS poles, whereas the HD WIN and Telus subsidiaries invested in equipment.

Telekom Srbija

The telecommunications market in Serbia is free and open in which a large number of companies, both foreign and domestic, operate in an attempt, within RATEL's regulations, to improve their offer and service quality in order to strengthen their market position. The trend shows that it is only by way of adequate capital investments that it is possible to advance on such a market and to a certain extent, anticipate the trend of such a dynamic sector such as telecommunications industry.

Total capital investments in 2012 amount to 12.3 billion dinars. Investments were aimed at upgrading the technical capabilities of the network and introducing fresh capacities which provide for the provision of telecommunications services in geographical regions where it was impossible in the past.

The Company set aside 82% of the funds for the technical development of the network, whereas 18% of the total funds were invested in IT and logistics support. With intensive investments in technical development, the Company wishes to create a flexible and reliable network which will lay the groundwork for the regular operation of service platforms and to achieve a high level of customer satisfaction.

Investments

in million RSD	2012	Growth rate	2011
Technical investments	10,134	30.9 %	7,744
Infrastructural investments	2,204	-28.2 %	3,072
Total	12,339	14.1 %	10,816

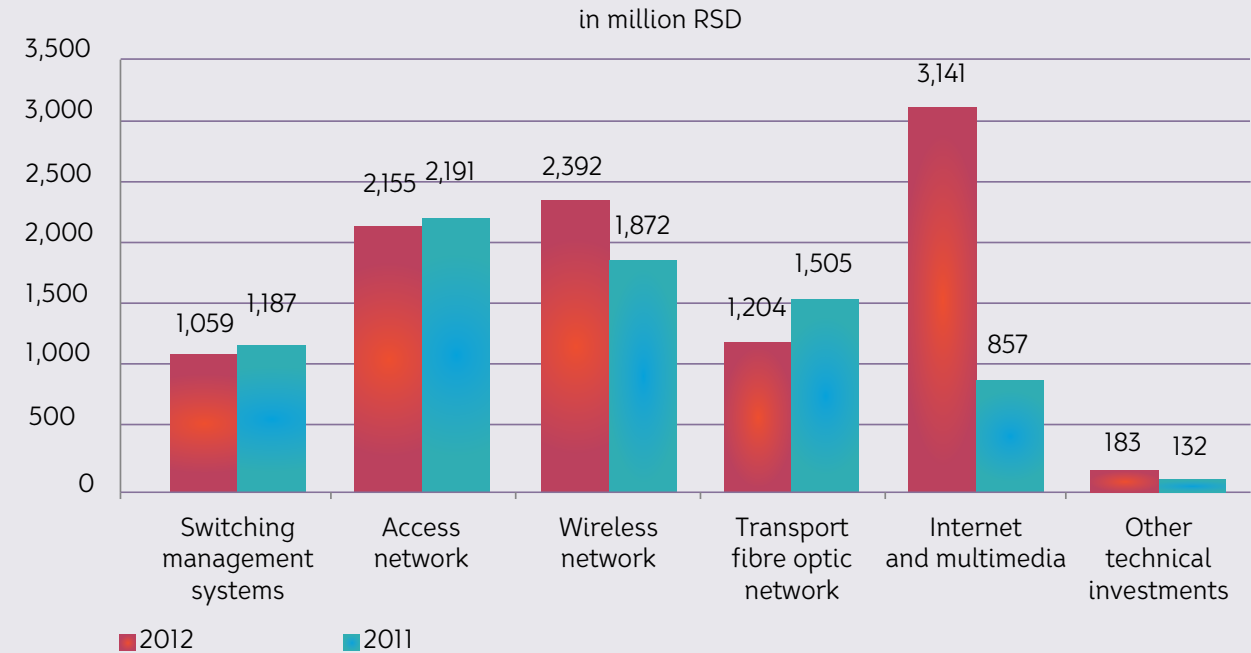
Telekom Srbija's investments

In 2012, the development of technical investments was aimed at the following activities:

In fixed telephony, investments are primarily aimed at expanding and modernizing access network capacities as it will become the basis for the provision of new broadband services, and increasing the digitalization degree and separation of two-party line separation in the access network. The digitalization degree of active subscriber capacities in 2012 is 99.1% (2011: 98.5%).

In mobile telephony, investments are directed towards the development of capacities and network quality in order to maintain the high level of services. In the relevant period, installed were 1,773 base stations, whereof 1,396 for modernization and 377 for expansion with the aim of modernizing and expanding the network. With the modernization of radio base stations into radio base stations HSPA+, which was made in 2012, all base stations now have the possibility of IP/Ethernet connections, and less delays in the system and on the user and signalling plane. Thus, the capacity of providing broadband services is increased, as is territorial and population coverage in Serbia. The current territorial coverage by the GSM signal is 81.5%, population coverage 87.5%, whereas UMTS signal territorial coverage is 66.4%, and population coverage 77.0%.

In the Internet sphere, investments are directed towards the development of the IP/MPLS network and increasing the capacities of the broadband Internet network. In 2012, the total number of ADSL ports increased by 14%, which led to an increase of free capacity by 32%.

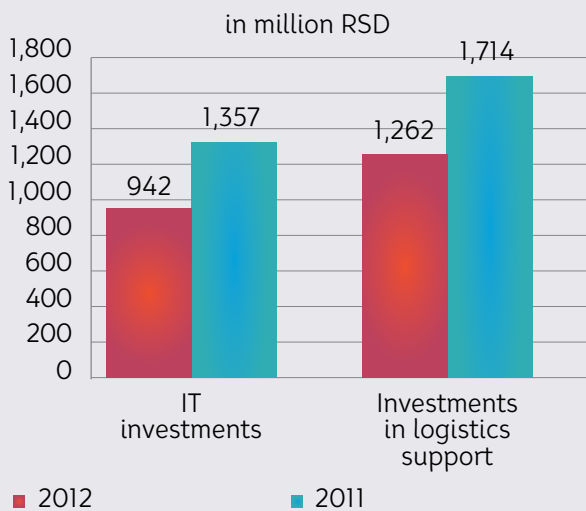


Technical investments

In the sphere of multimedia services, invested are directed towards the expansion of the Headend and Middleware platforms and the promotion of the primary distribution services.

As for investments in the technical capacities of the telecommunications network, most of the investments in 2012 by the Company were made into the Internet and multimedia (31%), wireless network (24%), access network (21%), transport optical network (12%) and switching management systems (10%).

In 2012, infrastructural investments were realized in the amount of 2.2 billion dinars. Investments in the infrastructure mainly pertain to investments in logistics support (57%), and investments in IT (43%).



Foregoing structure of capital investments in the infrastructure in 2012 and 2011

The most important projects in this period include: the expansion of the storage system, the delivery of equipment for the commercial email system, the delivery of equipment for the billing system, the delivery of equipment for the network inventory system and the provision of licences for the expansion of SLM.

As for investments in logistics support, conducted were the adjustments of the horizontal and vertical internal distribution of the ducts and reconstruction of part of the central heating installations at the TKC

Belgrade, the refurbishment of the Data Centre, the adjustment of the NN distribution at the TKC, adjustments and installations of radio base stations, the purchase of containers for MSAN, procurement of several mobile and stationary DEAs for multiple facilities. Likewise, in this period, a large number of facilities were refurbished and fitted out due to a change in the purpose and fresh needs arising from the Company's operations.

Telekom Srpske

Total investments of the Telekom Srpske subsidiary in 2012 amount to RSD 2.5 billion (KM 43.1 million).

in million RSD	2012	Growth rate	2011
Technical investments	1,984	-14.9 %	2,332
Infrastructural investments	522	-20.8 %	660
Total	2,506	-16.3 %	2,992

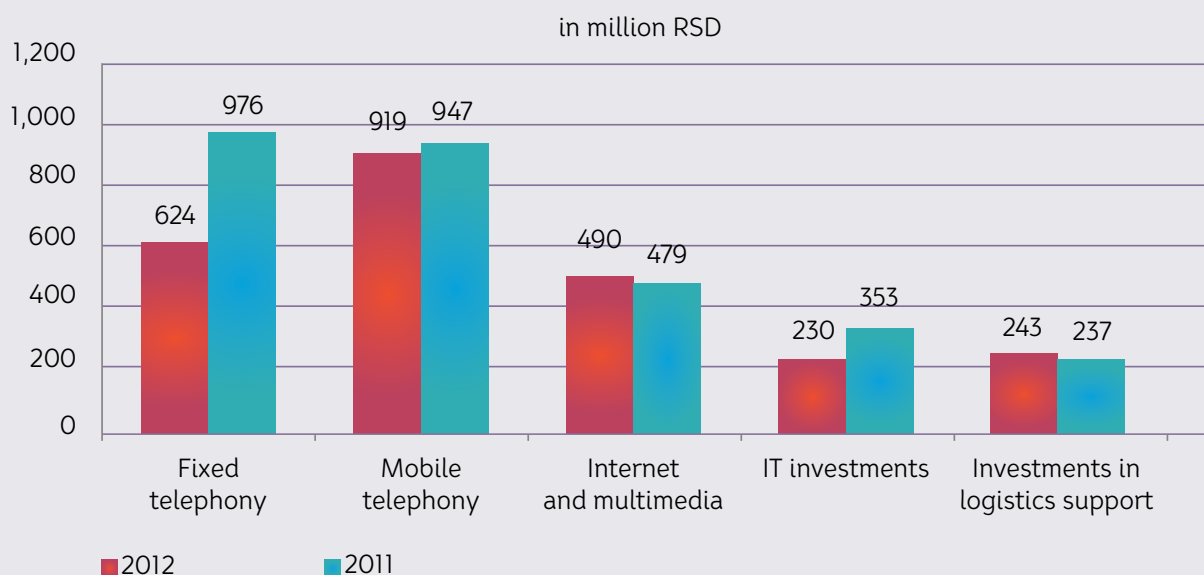
The structure of investments

As it can be seen from the information presented in the table, technical investments amount to 2 billion dinars (KM 34.2 million) and account for 79% of total investments, while infrastructural investments amount to RSD 522 million (KM 9 million) with 21% share.

FIXED TELEPHONY

Capital investments in fixed telephony in 2012 amounted to RSD 624 million (KM 10.7 million). In the structure of capital investments the largest investments are those in access network accounting for 36%, cable transport network 35% and access equipment 10%.

In the overall realized capital investments in 2012, the capital investments in fixed telephony account for 27%. During 2012, FTTH-based cable access network was planned, designed and constructed at two new facilities in the centre of Banjaluka, whereby a new method of planning and construction of access networks was successfully implemented in such



Total investments per operating segment

urban environments that have a convenient market, which is the key prerequisite for the sale of advanced services to new customers.

By planned construction of new and reconstruction of a part of the existing cable access networks, in accordance with the Company's business policy and cost-efficient analyses, as well as the completion of installation of access equipment, the demands for the provision of broadband services have been accommodated at a number of sites, thus securing high-quality provision of services to customers.

MOBILE TELEPHONY

Capital investments in mobile telephony in 2012 amounted to RSD 919 million (KM 15,8 million). In the structure of capital investments, the largest share belongs to the investments in wireless access network accounting for 72%, and the investments in services and service systems in mobile network accounting for 19%. Capital investments in mobile telephony account for 38.8% of total realized capital investments in 2012.

One of the most important projects within mobile telephony investments is the implementation of the project of Modernization of wireless access net-

work SWAP 1st phase - replacement of the existing network elements (controllers, 2G and 3G base stations) in the regions of Bijeljina and Dobo.

PCRF, network elements in the package part of mobile network, was put into commercial operation, which enabled the offer of flat rate Internet for mobile customers, thus facilitating m:tel to follow global trends in the respective area.

Steering of Roaming system was replaced with a solution that was designed and created within the network of the Parent Company and m:tel Montenegro subsidiary.

INTERNET AND MULTIMEDIA

Capital investments in the Internet and multimedia, in 2012, amounted to RSD 490 million (KM 8.4 million). In the structure of capital investments, the largest share belongs to the investments in access equipment - residential customers 58%, investments in NOC systems 23%.

Capital investments in the Internet and multimedia account for 19.6% of the total realized capital investments in the course of 2012.

By introducing synchronization in IP/MPLS network, simultaneous provision of synchronous network services with the IP services was enabled through IP/MPLC.

The introduction of Performance Management in M:tel network was implemented 2012. This enabled monitoring the performances of IP/MPLS network, as well as the devices used by ISP of Telekom Srbije. By putting this system into use, more efficient planning of these two networks was enabled, bottlenecks are more easily observed, network problems are more efficiently resolved.

As the IPTV service becomes increasingly popular and the respective number of users grows, the capacity of IPTV Middleware system was expanded.

INFORMATION TECHNOLOGIES

Capital investments in this area in 2012 amounted to RSD 230 million (KM 4 million). In the structure of capital investments, the largest investments are those in user software and licences accounting for 38%, investments in servers and storage of 27%.

Capital investments in information technologies account for 9.2% of total realized capital investments in 2012.

One of the major projects in 2012 was the implementation of Provisioning interface for mobile telephony platforms.

In the domain of business analytics, numerous analyses have been made (customer segmentation, churn), and within the SAS project - the implementation module Campaign Management.

Development of the document management system was continued and new functionalities of e-register were implemented.

In the domain of system IT infrastructure, a set of projects and enhancements have been made, such as the upgrade of centralized backup system and the upgrade of corporate network.

LOGISTICS SUPPORT

Capital investments in logistics support in 2012 amounted to RSD 243 million. In the structure of capital investments, the largest investments were in car pool which account for 53%, whereas the investments in intangible assets account for 8%.

Capital investments in logistics support account for 9.7% of total realized capital investments in 2012.

mtel

Total investments of the mtel subsidiary in 2012 amounted to RSD 392 million (EUR 3.5 million). The investments are focused on the development of new functionalities in the network, in order to ensure high-quality of services.

in million RSD	2012	Growth rate	2011
	392	48.1 %	265

The level of total investments

Investments in mobile telephony network largely refer to the construction of radio access network, implementation of SACC systems and enhancement of the package core of mobile network.

13 new base stations and 2 repeaters were activated in 2012, for the purpose of increasing capacity and coverage. Current coverage of populated territory by GSM signal is over 90%. 6 pico repeaters were installed for business customers.

Billing system licences were extended to the level of 525,000 subscribers, which represents the actual number of mtel customers. The number of licences on EMA platform were extended in October to final 525,000 customers, thus equalizing that number with the number of licences on HLR. EMM Online platform was procured, which is required for integration of the billing system and Ericsson SACC (Service Aware Charing & Control) node. SACC system will enable better functionality and flexibility in

the collection of packet-based traffic and its implementation is underway.

The investments in computer equipment refer to the procurement of HP Blade servers for virtualization of corporate IT services (Domain, Exchange, Navision, ...), servers to be used for new Wireless Media Internet service, central records of contracts and for a new version of electronic top-ups, where mobile phones instead of POS terminals are used.

The investments in construction works are related to adaptation of sites for base stations, in accordance with the network development plan, for the purpose of increasing the coverage of territory by signal. Refurbishment of the premises for housing RBSs at 22 sites was completed (19 sites for housing RBSs, 2 sites for housing repeaters and one site for housing RR equipment). To cut down the power supply and air-conditioning costs, five containers at remote sites were refurbished. Power drop lines were constructed for three sites, wherefrom a generator-based power supply was removed.

Telus

Telus a.d. had no significant investments in 2012. Machines and equipment for providing services were procured as fixed assets.

FiberNet

Total value of capital investments in 2012 amounts to RSD 7.5 million (EUR 66,003). Almost the entire amount of investments is related to technical investments (99%).

The investments of the Fibernet subsidiary in 2012 refer to the procurement of material for the construction of fibre optic drop line, as-built works on the construction of fibre optic drop line, procurement of RTU unit (equipment for remote surveillance of fibre optic cable), procurement of the equipment for expanding the SDH DWDM network, and the procurement of office equipment.

HD-WIN

Total value of capital investments of the HD WIN subsidiary in 2012 amounted to RSD 57 million.

The largest portion of capital investments refer to the expansion of the play-out system in the amount of RSD 19 million, virtual set/studio in the amount of RSD 14.2 million and studio equipment in the amount of RSD 19.6 million.

CUSTOMERS

On the level of the Parent Company and subsidiaries, the number of Internet and multimedia customers increased, and the number of fixed and mobile telephony customers decreased in 2012.

Fixed telephony customers

Fixed telephony services of the Parent Company and subsidiaries are used by 3.2 million customers.

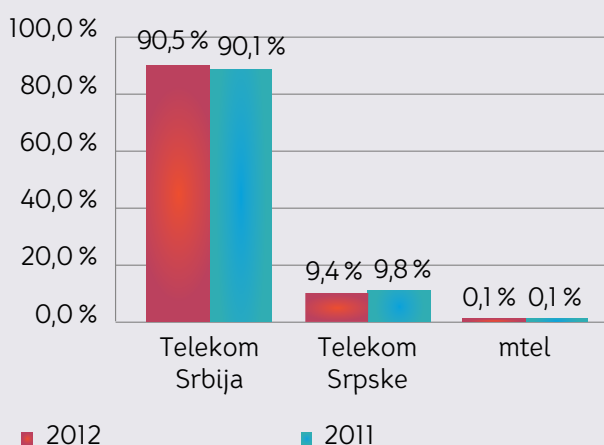
In 2012, the Parent Company and subsidiaries had 3 million POTS customers. The rest refers to IP Centrex customers (8 thousand), CLL customers (32 thousand), ISDN BRI customers (82 thousand), ISDN PRI customers (3 thousand) and WIMAX customers (2 thousand).

WIMAX customers refer to the customers of mtel Montenegro and include fixed telephony customers, and the users of packages of fixed telephony service and the Internet through WIMAX technology.

In the structure of POTS customers, 90% refers to residential and 10% to business customers, while in the structure of ISDN BRI customers 59% goes to residential and 41% to business customers.

in million	2012	Growth rate	2011
Telekom Srbija	2,921	-1.3 %	2,960
Telekom Srpske	305	-4.7 %	320
mtel	2	-6.7 %	3
Total	3,228	-1.7 %	3,283

The share of individual companies in total number of fixed telephony customers



Percentage-wise share of individual companies in total number of fixed telephony customers of the Parent Company and subsidiaries

in thousands	2012	Growth rate	2011
POTS customers	3,101	-1.4 %	3,146
IP Centrex	8	59.0 %	5
CLL customers	32	-10.4 %	36
ISDN BRI customers	82	-9.2 %	90
ISDN PRI customers	3	0.9 %	3
WIMAX customers	2	-6.7 %	3
Total	3,228	-1.7 %	3,283

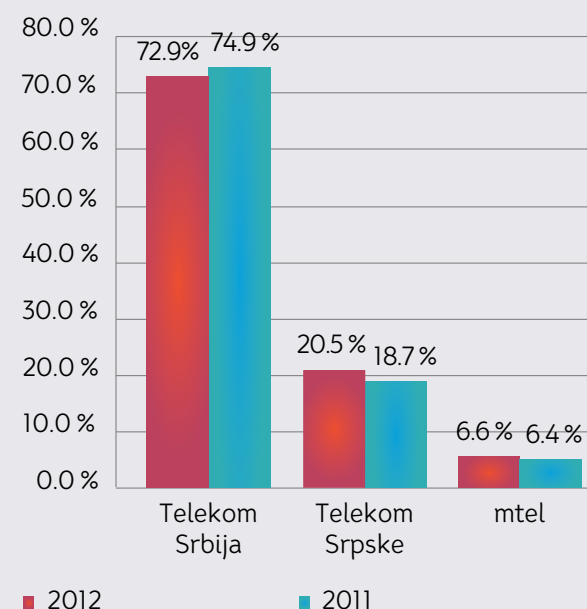
Total number of fixed telephony customers

Mobile telephony customers

Total number of mobile telephony customers on the level of the Parent Company and subsidiaries in 2012 amounted to 6.9 million.

in thousands	2012	Growth rate	2011
Telekom Srbija	5,029	-8.7 %	5,509
Telekom Srpske	1,415	2.7 %	1,377
mtel	459	-1.9 %	468
Total	6,903	-6.1 %	7,354

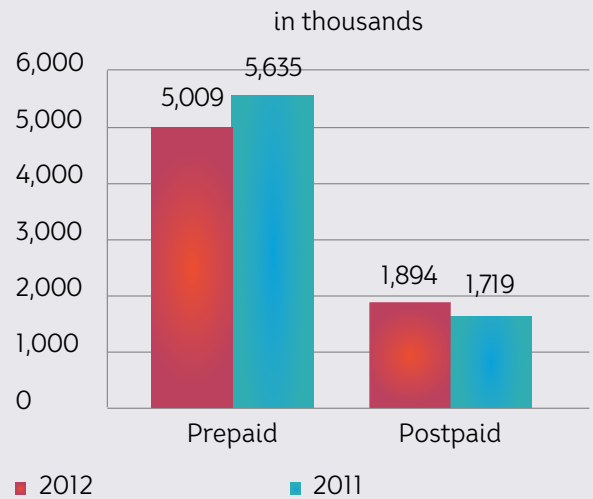
The share of individual companies in the total number of mobile telephony customers of the Parent Company and subsidiaries



The share of individual companies in total number of mobile telephony customers of the Parent Company and subsidiaries

As it can be noticed from the information shown in the previous graph, in the total number of mobile telephony customers, the Parent Company accounts for 72.9%, Telekom Srpske subsidiary for 20.5% and mtel subsidiary for 6.6%.

In 2012, the number prepaid customers amounted to 5 million which accounts for 73% of total number of customers, and the number of postpaid customers amounted to 1.9 million which accounts for 27% of total number of customers.



Total number of mobile telephony customers

A growth of postpaid customers was achieved in 2012 versus the previous years, where the increase in the number of postpaid customers largely refers to the Parent Company.

ADSL and IPTV customers

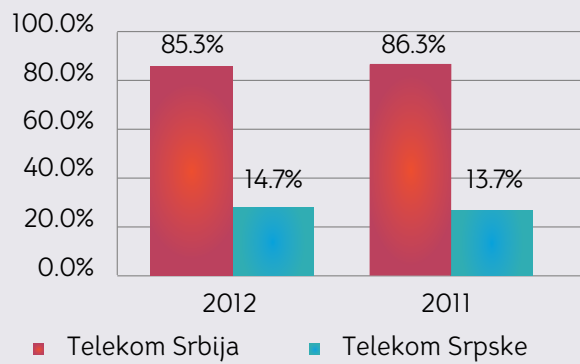
As for the ADSL access, which is the most common way of broadband Internet access, an increase of 27 thousand customers was recorded on the level of the Parent Company and subsidiaries, which brings the total number of customers 750 thousand, of which retail accounts for 83% and wholesale for 17%.

Telekom Srpske subsidiary has only retail sale which accounts for 18% of the retail of the Parent Company and subsidiaries, while mtel subsidiary does not provide ADSL services.

The number of IPTV customers at the end of 2012 amounted to 199 thousand. The Parent Company started providing the IPTV service on 15 October

in thousands	2012	Growth rate	2011
Telekom Srbija	640	2.5 %	624
Telekom Srpske	110	11.4 %	99
Total	750	3.7 %	723

Total number of ADSL customers



The structure of ADSL customers in 2012 and 2011

in thousands	2012	Growth rate	2011
Telekom Srbija	175	48.1 %	118
Telekom Srpske	24	74.5 %	14
Total	199	50.1 %	132

An overview of IPTV customers

2008, while the service provision in Republika Srpska commenced in June 2010.

In 2012, out of total number of IPTV customers 89.5% refers to Telekom Srbija customers, and 10.5% to the customers of Telekom Srpske subsidiary.

Telekom Srbija

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

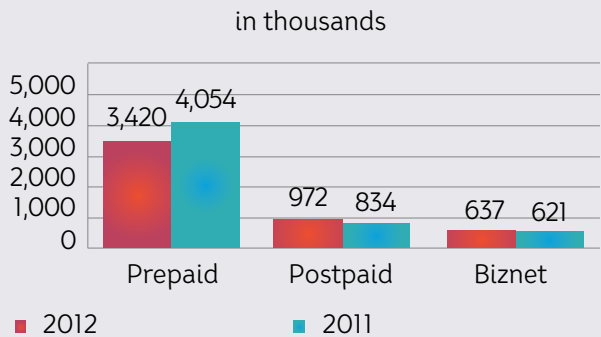
Fixed telephony

in thousands	2012	Growth rate	2011
POTS	2,846	-1.1 %	2,878
ISDN	75	-8.5 %	82
Total	2,921	-1.3 %	2,960

The users of fixed telephony of Telekom Srbija

At the end of 2012, fixed telephony services of the Parent Company were used by almost 3 million customers. In 2012, the Company recorded 1.3% decline in the number of customers compared to 2011, among other things due to alternative types of communication such as mobile telephony and the Internet. The structure of fixed telephony comprises POTS connections with 97% share, while the rest consists of ISDN connections. In the structure of POTS customers, the largest increase in the number of new customers in 2012 was recorded in the IP phone segment.

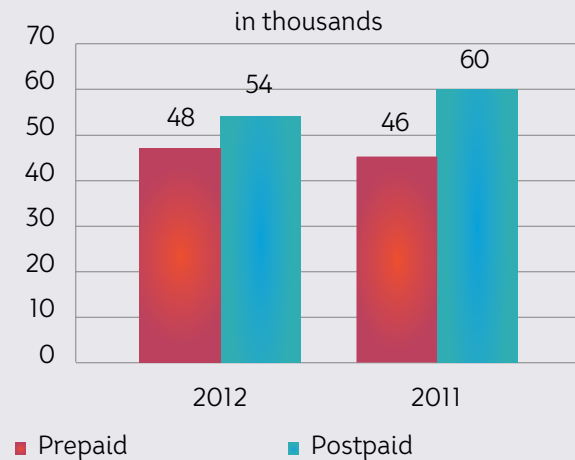
Fixed telephony development is conditioned by the implementation of state-of-the-art technologies enabling new types of services. By means of CDMA network, phone line is secured for the customers in remote and rural areas, where the telecommunications infrastructure is either undeveloped or under-developed. By the development of IP technology, customers are provided with services of making phone calls via IP network, such as IP phones and IP Centrex.



Mobile telephony customers*

*total number of mobile Internet customers is shown

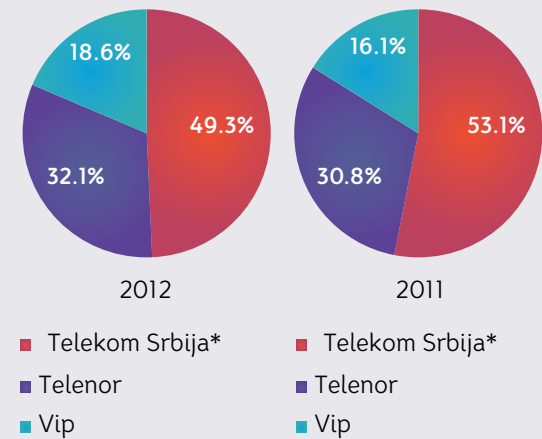
In 2012, a decrease in the total number of mobile telephony customers compared to 2011 was caused by reduced number of prepaid customers.



Mobile Internet customers

Mobile Internet customers that are shown within prepaid and postpaid customers of mobile telephony, recorded 3.8% decrease compared to 2011. At the end of 2012 the Company had 102 thousand mobile Internet customers.

Mobile telephony



The shares of mobile telephony operators
*total number of prepaid customers is shown

Market share	2012	2011
Telekom Srbija*	49.3%	53.1%
Telenor	32.1%	30.8%
Vip	18.6%	16.1%

The data are prepared on the basis of the Report of mobile operators
RATEL's data have been used

Despite a strong competition in the circumstances of a liberalized market, the Company is the leader on the market with some 49% market share.

Internet and multimedia

in thousands	2012	Growth rate	2011
ADSL retail	512	3.2 %	496
ADSL wholesale	128	0.0 %	128
IPTV	175	48.3 %	118
WEB TV	16	23.1 %	13
Total	831	10.1 %	755

Internet and multimedia customers

Significant changes can be observed in the Serbian Internet market, primarily those in the number of users, and then in the structure of Internet connections themselves. In the period 2007-2011 a growth of 2.5 million¹ Internet users was recorded (including 3G network users). Likewise, a decline in the number of dial-up customers is noticeable in the observed period, as well as a growing customers' need for broadband Internet, which reflects the customers' interest in the service enabling high-quality and easily accessible content.

At the end of 2012 the Company had 512 thousand ADSL customers in the retail segment, which accounts for 80% of the ADSL Internet market. Compared to the previous year, the Company recorded 3% growth of ADSL customer in retail.

As of October 2008, the Company offers the service of RTV program distribution via IP protocol (IPTV). The number of customers increased by 57,000 in 2012.

Web TV is a service providing customers with access to various online video contents (TV channels, Video clips, etc). Telekom Srbija has been providing this service since October 2011. At the end of 2012, the Company had total of 16,000 Web TV service customers.

Telekom Srpske

Telekom Srpske directs its capacities not only to creation and implementation of the state-of-the-art services for good communication among people, but it also tries to be an active driver of positive changes and a support to true values in the society.

As regards Telekom Srpske customers, the general trend in 2012 could be described as follows:

- Continued dissipation of cumulative customer base of fixed telephony, yet with a slightly lower drop rate compared to 2011. Orientation to provision of quality services within integrated service bundles has resulted in increased growth rate in the number of customers in that segment,

- and also, with a considerable growth of number prepaid customers, in mitigation of erosion of customer base of Telekom Srpske in the fixed telephony segment;
- Observed on an annual basis, continuity was maintained with regard to the growth rate of the number of mobile telephony customers, owing to more attractive offer, in terms of tariff models and mobile Internet services;
 - Continuous growth of ADSL customer base has been present since 2007, while 2012 has seen very prominent migrations of ADSL customers to integrated service bundles.

Fixed telephony

in thousands	2012	Growth rate	2011
Residential customers - non-integrated	232	-12.0 %	264
Residential customers - integrated	41	75.6 %	23
Total residential customers	273	-4.9 %	287
Total business customers	32	-2.3 %	33
Total	305	-4.7 %	320

Total number of fixed telephony customers, per customer type

* Of total number of business customers in 2012, 27 customers are users of integrated services

Total number of fixed telephony customers of the Telekom Srpske subsidiary, as at 31 December 2012, amounts to 305,000.

Within the structure of fixed telephony, residential customers account for 89.5%, and business customers

account for 10.5%, which is a direct indicator of economic circumstances in the market of Bosnia and Herzegovina.

The users of non-integrated services in fixed telephony are the users of basic voice services (POTS, ISDN, CLL), while the users of integrated services are the users of bundle packages (the users of at least two services). Over the last couple of years, there has been an evident trend of integration and convergence of specific telecommunications services, both in the global market and that of Bosnia and Herzegovina, with a single goal to reduce churn and retain customers in fixed network.

In 2012, 4.7% decline in the number of customers was recorded as compared to 2011, which conforms to the feature of fixed telephony market, which entered a devolving stage from the life-cycle aspect, primarily caused by substitutive relations between fixed and mobile telephony.

One of the most important strategic goals in fixed network is to increase the number of users of integrated services. The offer of integrated packages of fixed telephony services, broadband Internet and new IPTV (Open) service represents an instrument for retaining the customer base in fixed telephony, augmenting the number of ADSL customers and marketing the new IPTV service.

Pursuant to the Rules on the model of revising the price of voice telephone services in BiH, which binds the incumbent telcos to bring the prices of their services as close as possible to the cost-based pricing principle regarding service provision, and to ensure for all their subscribers, in order to encourage them, the equivalent of free minutes, within the monthly subscription fee, the prices in the fixed telephony segment were adjusted in 2012 (in line with the said rules and market trends).

Given the orientation and general market trends, a high growth rate of the number of Open customers is expected, with the goal to retain customers in the fixed telephony segment and to increase the Internet and IPTV service penetration.

Mobile telephony

Total number of mobile telephony customers, as at 31 December 2012, equals 1.4 million, 84% of whom are prepaid customers, 7% postpaid customers, 5% VPN customers and 3% M2M customers and 1% M.net customers.

in thousands	2012	Growth rate	2011
Prepaid	1,195	1.9 %	1,173
Postpaid	102	6.2 %	96
M2M	44	2.5 %	42
M.net	8	138.9 %	3
VPN	66	5.8 %	63
Total	1,415	2.7 %	1,377

Total number of mobile telephony customers, per customer type

Total number of M2M (Machine-To-Machine) customers refers to Total data customers and the users of fiscal cash registers. In 2012, POIU vehicle tracking service was not commercialized, the contract between Telekom Srpske and partners is currently in signing phase.

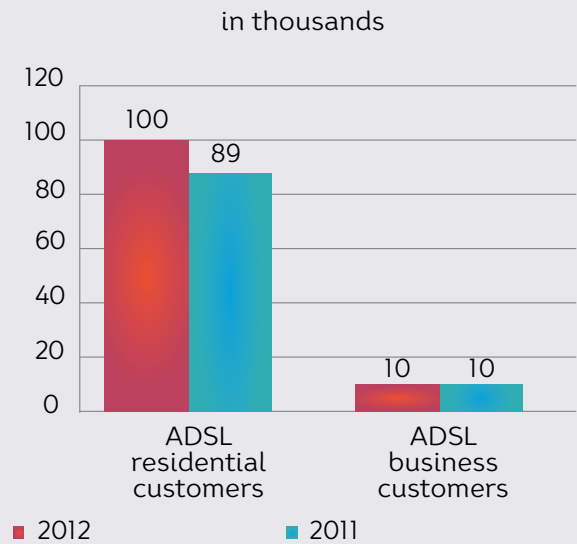
M.net customers refer to m:net, Homenet, Office net and Prepaid net customers.

Total number of mobile telephony customers at the end of 2012 is 2.7% higher than the number of customers at the end of 2011.

Internet

Total number of ADSL customer (individual and within integrated service bundles) as at 31 December 2012 amounts to 110 thousand, which is 11.4% higher compared to the previous year. The share

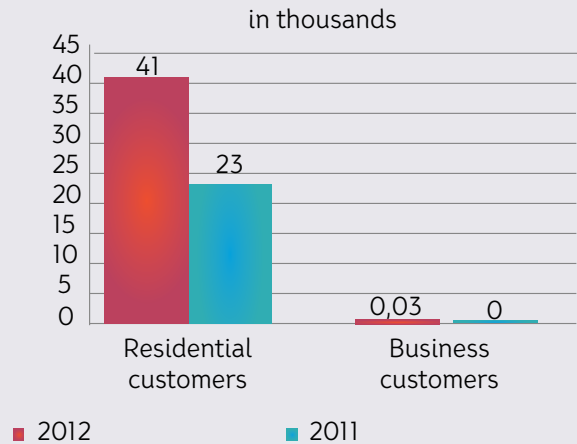
of specific segments in total number of ADSL connections testifies to negative industry trends in the market of Bosnia and Herzegovina (small share of business customers). In 2012, migrations of ADSL customers to the packages of integrated Open services were prominent.



Total number of ADSL customers

Total number of registered Dial up customers, as at 31 December 2012, amounts to 42 thousand.

Users of integrated services



Total number of users of integrated services

Telekom Srpske launched Open services in commercial use on 15 June 2010.

Within Open duo and Open trio packages and Biznis duo and Biznis trio packages for residential customers and business customers, respectively, Telekom Srpske offered an integrated offer of fixed telephony services, broadband Internet access via ADSL and IPTV, as a prerequisite for retaining the fixed telephony customer base, increase in the number of ADSL customers and marketing of new IPTV service, concurrently with the goal to compensate for decline of physical volume of fixed traffic telephony by the offer of flat traffic.

Open duo service bundle has been designed as a package involving an integrated offer of fixed telephony services and ADSL service, or the offer of fixed services and broadband Internet access via ADSL, or an integrated offer of ADSL and IPTV services.

Open trio service bundle has been designed as a package involving an integrated offer of fixed telephony services, broadband Internet access and IPTV.

Total number of customers within the package of integrated services, as at 31 December 2012, amounts to 41,000.

Telekom Srpske commercialized its IPTV service for business customers on 15 May 2012.

Total number of IPTV customers (individual and within the package of integrated services), as at 31 December 2012 amounts to 24,000.

in thousands	2012	Growth rate	2011
IPTV customers	24	74.5 %	14

Total number of IPTV customers

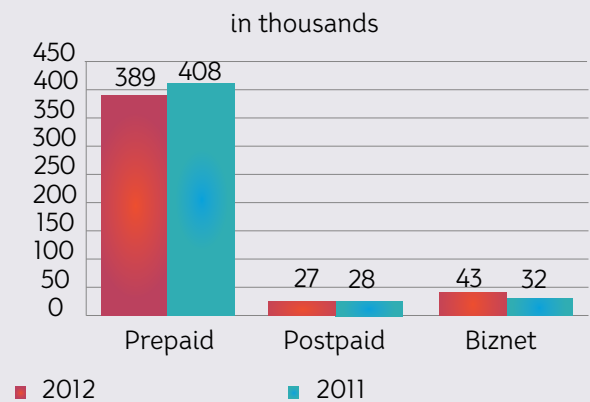
mtel

Mobile telephony

The realized market share at the end of December 2012 amounts to 25.67%, with 159.81% penetration in the market of mobile telephony of Montenegro (according to the definition of the Telecommunications Agency).

The number of mobile telephony subscribers at the end of 2012 was 1.9% lower compared to 2011. The reduction of the number of customers compared to 2011 is a result of obligation to register prepaid customers as defined by the Telecommunications Agency, particularly in February 2012, when the number of customers was considerably reduced due to the expiry of the deadline for registration and deletion from the system.

The number of mtel customers, at the end of 2012, amounted to 459 thousand. The most significant share belongs to prepaid customers with 84.9%, postpaid customers account for 5.8%, while 9.3% goes to biznet customers.



Total number of mobile telephony customers

The number of active prepaid customers (in accordance with standards) at 31 December 2012 amounts 188,000.

The users of biznet services have special importance, above all because they are big companies,

foreign branch offices and prosperous companies, which also stand as a recommendation for good business cooperation. Within this segment, there is a fierce competition, given that mtel is the third operator and that the competition in the market has already won the largest number of major customers.

The growth of number of biznet customers, in 2012, was achieved by virtue of a wide variety of add-on services (Autotrack, Observer, Internet access, GPRS packages, My View, etc.) which serve to attract major customers to migrate to mtel's network.

WIMAX customers

WIMAX customers include 3 categories of customers: the customers who use only fixed telephony services via WIMAX technology, the customers who use only Internet services via WIMAX technology, and combined customers – those who use fixed telephony services and the Internet via WIMAX technology.

At the end of 2012, total number of WIMAX customers amounted to 6.9 thousand, which is 9% more compared to 2011.

in thousands	2012	Growth rate	2011
Customers who use only fixed telephony services	0,4	7,6 %	0,4
Customers who use only Internet services	4,5	19.6 %	3,8
Combined customers (fixed and Internet)	2	-7.6 %	2,1
Total	6,9	9.0 %	6,3

Total number of WIMAX customers

Customer	2012 realisation
Revenues from Telekom	57.7 %
Revenues from services in the market	37.4 %
Revenues from PTT	24.3 %
Revenues from other customers in the market	13.1 %
Other revenues	1.8 %
Total operating and other revenues	96.9 %
Financial revenues	3.1 %
TOTAL REVENUES	100 %

The structure of generated revenues in 2012, per customer group and revenue type

Telus

Beside 'Telekom Srbija' a.d., Telus a.d. also achieved very good business cooperation with a number of reputable customers in the market.

In public procurement procedures, contracts were awarded, among others with JP PTT saobraćaja "Srbija", the Flight Control Agency of Serbia and Montenegro, City Municipality Novi Beograd, CM Savski Venac, ED Novi Pazar, Drinsko-limska HE, Town Administration of Zrenjanin, Republic Geodetic Authority, Novi Sad City Assembly.

Also, based on conducted internal procurement procedures for customers, contracts were concluded with: DDOR Novi Sad, Dunav osiguranje, Delta Generali osiguranje a.d.o., Banka Poštanska štedionica, Findomestic banka a.d., Piraeus banka a.d., Alfa banka a.d., Opportunity banka a.d., Veolija, Elnos BL.

FiberNet

As of obtaining an exploitation permit from the competent authorities of the Republic of Montenegro and putting the fibre optic cable in commercial operation, FiberNet has entered into the following contracts:

- The contract with mtel on the lease of 2.5 Gbit/s capacity, for 3-year period,
- The contract with mtel on the lease of one pair of fibre optics on the routes Podgorica -Sutomore/Sutomore-Bar, for 3-year period,
- The contract with Telekom Srbija on the lease of STM capacity, 1-year lease period,
- The contract with Telekom Srbija, on the lease of Gb Ethernet, 1-year lease period,
- The contract with Telenor Podgorica on irrevocable right to use one pair of fibre optics on the route Vrbnica-Bar according to the IRU 15 model, for 15-year period of the right to use.



EMPLOYEES

EMPLOYEES

Telekom Srbija

The management and development of human resources is one of the topmost goals and tasks of the Company. A care about employees involves care about overall satisfaction of employees, boosting their motivation and adherence to the Company. Telekom Srbija always strives to ensure for its employees a better future, adequate working conditions, equal treatment of employees, safety at work, health care and possibilities for further advancement and education.

Total number of employees in the parent company and its subsidiaries equals 13,201, of whom the largest portion 68.5% is related to the parent company, 16.8% to Telekom Srpske subsidiary, 1.8% to mtel, 12.5% to Telus subsidiary, 0.5% to HD-WIN, while 0.0% is related to FiberNet subsidiary.

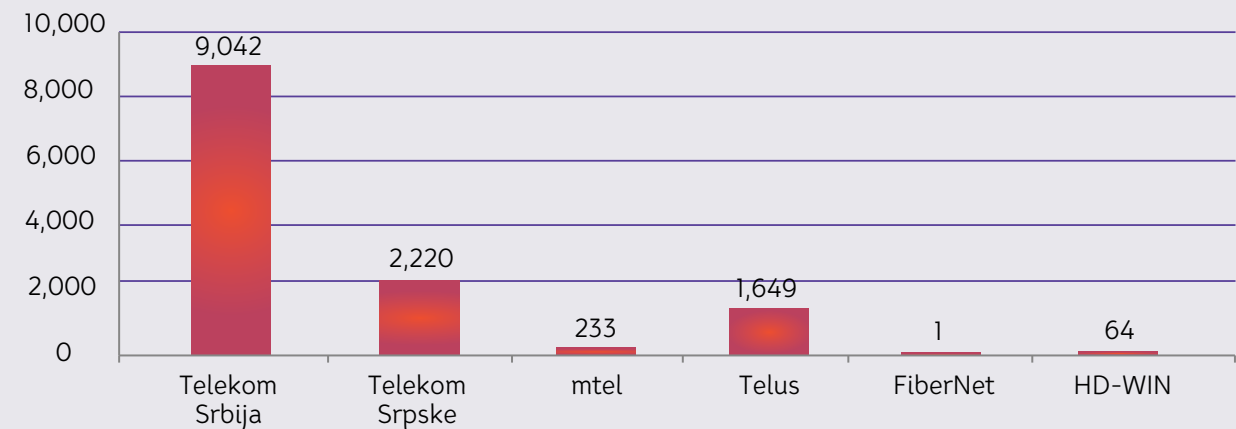
Owing to the nature of jobs, certain number of employees, to be precise 20 of them, 17 of whom employed with Telekom Srbija a.d., have a dormant employment status in their parent company as they are referred to work in another subsidiary.

By analyzing the educational structure of employees on the level of the Parent Company, it can be noticed that the largest share belongs to the employees with secondary school education (61.7%), followed by university education (27.1%) where the total number includes specialists, master and PhD degrees. The smallest share belongs to the employees with college education (11.2%).

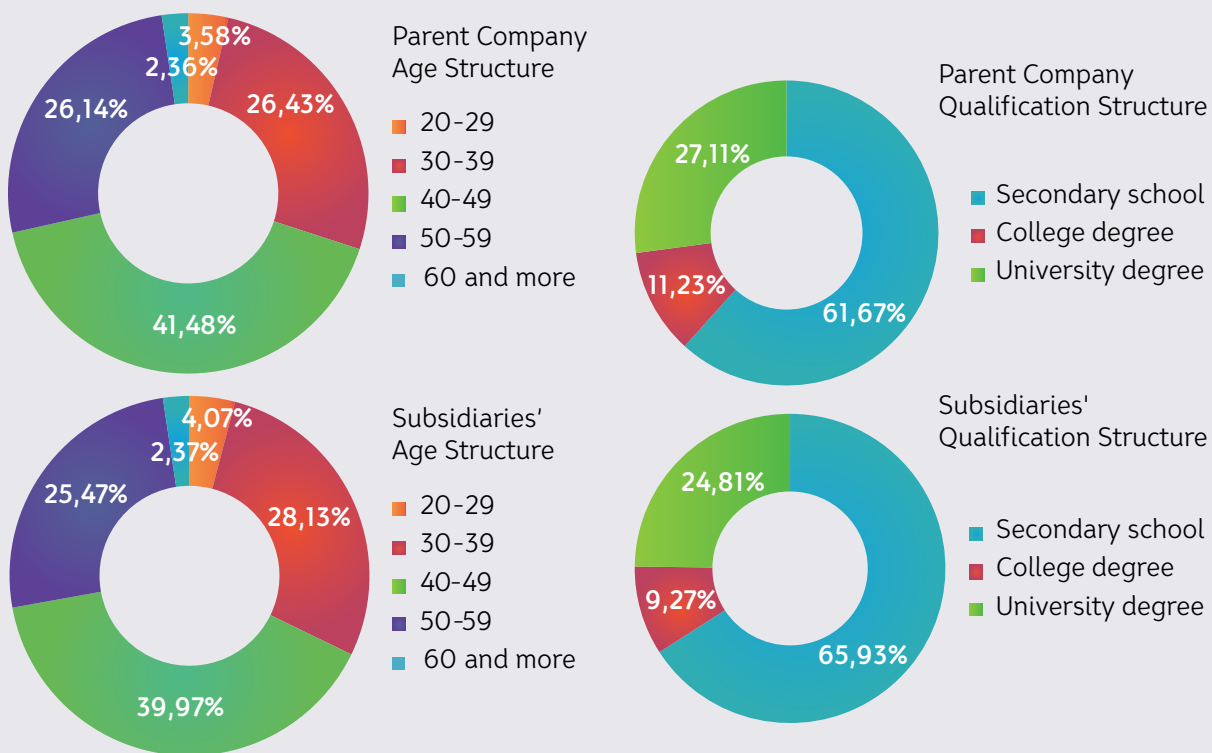
Similar educational structure of employees is present on the level of subsidiaries.

As for the employees' age structure in the Parent Company, the largest share belongs to the employees aged between 40 and 49 (41.5%), followed by 30-39 age group (26.4%), 50 - 59 (26.1%), up to 29 years of age (3.6%), and the smallest share of employees over 60 (2.4%).

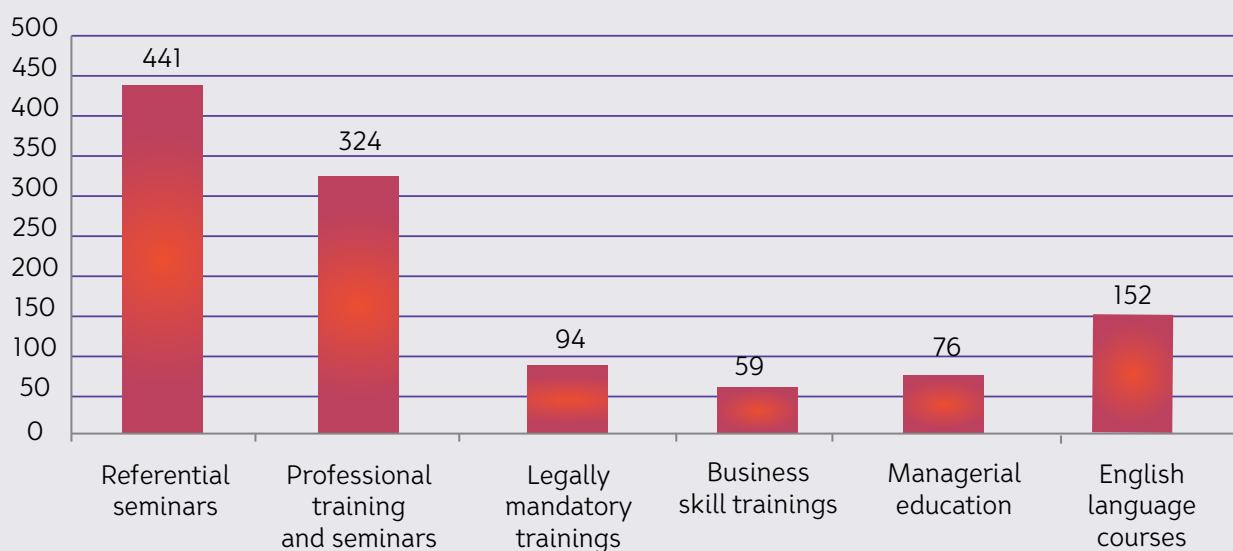
In addition to those employed for definite and indefinite period of time in the Parent Company and subsidiaries, based on different contracts on engagement outside the working hours (temporary and occasional jobs, agency and medication) total of 1,600 staff is engaged, of which the largest number in Telus 45.3%, 42.3% in Telekom Srbija 7.1% in Telekom Srpske, 5.2% in HD-WIN, while 0.1% is engaged in FiberNet.



The number of employees in the parent company and subsidiaries, related to such employees who have employment contracts



Age and qualification structure in the Parent Company and subsidiaries



Employees sent to various trainings in the country

Recruitment

In order to secure the best possible human resources, trained and motivated to meet the business requirements in a competitive environment of telecommunications sector, 73 assistants with university degrees were admitted in 2012, based on a public announcement. On the other hand, the employment was terminated for total of 65 employees in 2012.

Education

In 2012, 1,703 employees were referred to external education in the country and abroad.

The English language courses on different levels were realized in 2012 for 152 trainees. Likewise, the English language testing was conducted for 1,510 employees performing highly competent operations in the Company.

Educational events abroad were attended by total of 557 employees. 10 different internal trainings were conducted for 1,393 internal education trainees in the organization of the HR Training Centre.

Schooling

For the purpose of professional advancement and development of competences, the employees are continuously referred to various types of additional schooling. Mutual rights and obligations of the Company and employees, particularly with regard to manner of financing, the period of completion of schooling and the period of mandatory stay in the Company, are regulated by special contracts, the number of which equals 63 as at 31 December 2012. 27 new schoolings were approved in 2012, 19 for master studies, 6 for the 1st grade academic studies and 2 for the 1st degree vocational studies.

Licences, certificates, memberships

In 2012, the Company financed different types of licences, certificates, professional exams and enrolment fees for total of 686 employees.

Practice

Professional practice has been organized in the Company for 333 trainees, 30 of whom were students and 303 pupils.

Knowledge base

Based on the assessment of appropriateness of the Expert Team, decisions were passed by the director general in 2012 regarding the renewal of the Company's membership in the knowledge bases of international organizations, such as:

1. Gartner Ireland Limited (modules: Gartner Executive Program EXP membership - CIO ESSENTIAL; Gartner for Business Leaders, Program Management&Marketing)
2. TeleManagement Forum - NGOSS program,
3. Information Security Forum
4. Telegeography inc, Primetrica (modules: Global Internet Geography, Internet Transit Pricing Service, Wholesale Bandwidth Pricing Database)
5. Informa Telecoms & Media, report Global Mobile Forecasts to 2015,
6. Wireless Federation (modules: Telecom Loyalty and Churn management, Segmentation Strategies (Enhancing ARPU From Segmentation), Promotions (Recession Beating Operator Promotions), Reducing Churn Through Innovative Retention Programs: Best Mobile Operator Practices, MNO BRANDING: Most-successful Mobile Operator Branding Campaigns and Strategies, Global Mobile Innovative Pricing Tariffs and Strategies)

Assessment of Work Performance

According to the applicable annual model of evaluation of individual performances of all groups of employees, the procedure of Assessment of Work Performance (AWP) for 2011 was conducted in Q1 of 2012, on a sample of total 9,560 employees.

Employees' benefits

Payment of jubilee awards is made to employees and former employees who celebrate 10 years of continuous work in Telekom Srbija a.d. in the period from June 2th the previous year until June 1st of the current year, and 20, 30 or 35 years of continuous work in the PTT system of Serbia.

Implementing the policy of financial and social protection of employees

COLLECTIVE INSURANCE PROGRAM

All employees in the Company are insured from the consequences of accidents, severe illness and surgeries, at work or outside the work (24x7), with additional insurance of employees who are assigned to the work posts entailing increased risk.

The program is implemented pursuant to the agreement/insurance policy, which the Company concluded with the insurance companies DDOR Novi Sad a.d.o. and AMS Osiguranje a.d.o in 2012, for the insurance of employees from the consequences of accidents and with Delta Generali osiguranje a.d.o. and AMS Osiguranje a.d.o for the case of severe illness and surgeries. Pursuant to the concluded insurance policies, the insurance companies reimbursed insured sums in 2012 for 262 employees and members of their close families.

VOLUNTARY RETIREMENT INSURANCE PROGRAM

All employees in the Company are provided with regular monthly payments against retirement contribution for voluntary pension insurance up to

the amount of non-taxable amount in line with the Law. The program was implemented according to the agreement on retirement schemes which the Company has entered since 2007 with the joint stock companies for the management of voluntary pension funds Delta Generali a.d. and Dunav a.d.

SCHOLARSHIP PROGRAM FOR THE CHILDREN OF DECEASED EMPLOYEES

In accordance with the Company's internal by-laws governing the field of monetary aid for the children of deceased employees during the regular secondary and university education (scholarships), the Company granted, based on the contracts concluded in 2012, regular monthly payment of scholarships for 114 children of deceased employees.

SOLIDARITY AID PROGRAM AND OTHER TYPES OF HELP

In accordance with the Company's internal by-laws governing the field of granting solidarity and other types of aid, the Company paid total of 391 solidarity aid on all grounds for granting such right, to the employees and members of their close families.

IMPLEMENTATION OF THE POLICY OF HARMONIZATION OF RELATIONS WITH EMPLOYEES

All employees in the Company have at their disposal expert teams of lawyers, psychologists and social workers in terms of labour, legal and psychological counselling. During 2012, 12 texts were published on the website – short professional topics and latest news in the domain of labour right, and 12 answers were published for the questions put by employees within the section Labour and Legal Counselling. Within the psychological counselling, 68 requests of employees were realized and 14 texts were published on the internal portal within the section Psychological Counselling.

IMPLEMENTATION OF POLICY OF INTERNAL INFORMING OF EMPLOYEES

It represents a program of continuous, accurate and timely informing of employees via the Internet and Company's Newsletter. The Intranet implies regular

and continuous preparation, processing and publishing of information on the internal site My Portal. The posted information are classified in categories: ad hoc information related to important announcement in the field of human resources (the rights of employees), announcements of current events in the company which are posted on a daily basis and the information which are posted twice a month (current events in the sphere of culture and sports, telecommunications in the country and abroad, sections Visit Serbia, the Worlds, Famous Serbs, Great Thoughts by Great People, Proofreader's Perspective, Psychological Counselling, Labour and Legal Counselling, Funny press clipping, The German and English language tests, Survey and New Technologies). In 2012, 97,050 single user visits were recorded and 2,302,661 single hits, distribution of the corporate Newsletter was made (total of 16 issues), with the latest updates from subsidiaries, presentation of new services and current events in the sphere of culture and telecommunications and 9 (nine) corporate bulletins were issued.

SOCIAL ACTIVITIES

The program of sport and in-house contests of employees – in line with the internal by-laws, in cooperation with the Association of Fitters, the Company implemented the Program of sport and in-house contests of employees where 2,500 employees took part.

The program of sport recreation of employees – in line with the internal by-laws, in 2012 the Program of sport recreation of employees was funded which was realized according to the contract on provision of sport recreation services which the representative trade unions concluded with service providers.

SOCIALLY RESPONSIBLE BEHAVIOUR

Humanitarian association of employees in Telekom Srbija "From the Heart" organized in Belgrade and all major towns in the territory of the Republic of Serbia in 2012, total of 37 blood donation campaigns where total of 1,230 employees took part and 5 campaigns of signing donor cards involving participation of 50 employees in the Company.

Within the promotion of socially responsible con-

duct of the Company, participation of a sport team of the Company employees was organized in September 2012, in a basketball fair play tournament organized by UNICEF.

Telekom Srpske

Micro-organization change in the Company was made in 2012, for the purpose of optimizing the business processes in the Marketing and Sales Division and the Technical Affairs Division, executive units, groups of tasks for support to business processes, for the purpose of improvement, integration and more efficient operation in a competitive market. These organizational changes have enhanced the business processes within the Marketing and Sales Division.

In order to resolve the status of unassigned employees in keeping with the Labour Law, collective agreement and general by-laws of the Company, the Program of accommodating the surplus of employees was endorsed in March, where the Trade Union of the Company's workers also took an active part. The deadline for the implementation of the program was six months within which 55 workers were pronounced redundant and their employment was terminated upon the expiry of the termination notice subject to payment of severance in the event of redundancy. The average severance amounted to KM 39,892.

For the purpose of accommodating the job process requirements, 17 new employees were employed in 2012, in accordance with the Program of introducing new employees to work.

Bearing in mind the importance of creation, adoption and implementation of the Strategic Guidelines, training was organized at the beginning of the year for all managerial levels, with special emphasis on the implementation of a strategy and planning and monitoring the operations. In the activities which ensued, one of the leading initiatives was to enhance the employees' motivation and satisfaction.

Team building activities were organized towards

developing and building teamwork as well as internal communication between different Company segments, and all levels of management.

Education of employees in the segment of sale and customer care was continued.

A team of internal trainers was also set up. A large number of internal trainings were organized, which were evaluated with high scores by the employees who also showed high level of satisfaction with trainers as well as with the content of trainings.

A distance learning system was introduced. Thus, the knowledge and possibility of acquiring the knowledge was enabled for even larger number of employees.

m:scholarship project continued in 2012 as well, and numerous practices were enabled in the Company.

mtel

When establishing the Telecommunications Company mtel d.o.o., in April 2007, employment was made through public announcements via the Employment Office or by an agreement on takeover. 33 public announcements were published and 39 agreements on takeover were concluded, and total of 158 persons entered into employment contracts.

HR database of the Company employees was formed as well as personal files, and the procedure of registering of all employees in the Funds for healthcare and retirement and disability insurance was made and input of data into the HR database through Navision was ensured.

Collective insurance of employees was provided.

The employees who entered into the employment contracts for the jobs involving work under special working conditions, as set out in the Rules on Safety and Protection at Work, have undergone general medical checkups for establishing special health capacities.

A procedure of enlisting into the Employers' Union

of Montenegro was conducted.

The number of employees has constantly changed, only to reach 233 employees at the end of 2012.

The Telecommunications Company mtel d.o.o. has an employment policy where the persons who have been engaged for a definite period of time, longer than one year, and who showed good results, have their labour and legal status regulated by entering into the employment contract for an indefinite period of time.

Telus

The policy of Telus a.d. towards its employees was primarily conditioned by market conditions, yet fully committed to abiding by high standards set by the founder.

There are four trade unions in the Company, two of which are representative: the Unified Trade Union Telus and the Trade Union of Telekom Srbija and two unions that do not meet the representation requirements: Independence (Nezavisnost) and ASNS.

The rights and obligations of employees are regulated by the Collective Agreement which has been in force as of 2009 and which guarantees to employees more extensive rights than the ones stipulated by the law (increased allowance for shift and night work, number of annual leave, paid leave of absence, increased salary by past work and the like).

HD-WIN

At the end of 2012, HD-WIN had 52 employees and some 80 persons without employment contracts (technicians, announcers and production), while HD-WIN Arenasport Zagreb has 9 employees and some 20 persons without employment contracts.

Following its accession to Telekom Srbija, Telecommunications Company HD-WIN had a reorganization and job classification of the entire production process within the company and operating stand-

ards were established. Employment contracts were concluded with the persons engaged on the work posts recognized as vital in the operation of a TV station.

All employees in the Company are insured from the consequences of accidents and severe illness and surgeries, occurring at work or outside the work (24x7). This program is implemented pursuant to the Contract /insurance policies with Delta Generali a.d.o.

RISK MANAGEMENT

Financial risk management

In its regular operations, Telekom Srbija is exposed, to different extent, to certain financial risks: market risk (including the risk of a change in the foreign exchange rates, the risk of a change in interest rates and the risk of a change in prices), liquidity risk and credit risk.

The risk management in the Company is directed to minimizing potential negative effects on financial position and Company's business operations in the circumstances of unpredictable nature of financial markets.

Risk management is defined by accounting and financial policies of the Parent Company, adopted by the competent corporate management body.

In 2012, there were no changes in the risk management policies.

Market risk

THE RISK OF A CHANGE IN FOREIGN CURRENCY EXCHANGE RATES.

The Company is exposed to the risk of a change in foreign currency exchange rates when performing business in the country and abroad, arising from the operations in different currencies, primarily EUR. The risk arises both from future business transac-

tions and from recognized assets and liabilities in foreign currency.

The Company's management has established the risk management policy regarding the change in the foreign currency exchange rates versus its functional currency. The foreign exchange clause in contracts with local suppliers is possible only if a contract with credit line is concerned, and also lease contracts.

In case the local currency (RSD) recorded 10% growth/decline versus other currencies that are not the functional currency (i.e. if the RSD exchange rate vs. EUR amounted to RSD 102.3465/125.0901 for 1 EUR), as at 31 December 2012, and all other variables remained unaltered, the profit of the Parent Company for 2012, after taxation, would be higher/lower by RSD 6,798,869 thousand (2011: RSD 3,471,237 thousand), largely due to exchange rate gains/losses arising from credit liabilities, as well as re-calculation of claims/liabilities from international traffic.

The profit for 2012 was under stronger influence of changes in the foreign currency exchange rates than it was the case in 2011 as a result of considerable decrease in the value of dinar versus EUR, which was additionally influenced by increased liabilities in foreign currency, and the same immediately influenced the amount of capital as at 31 December 2012.

RISK OF A CHANGE IN INTEREST RATES

The Company is exposed to the risks that affect its financial position through the effects of changes in the amount of market interest rates, operating results and cash flows. Given that the Company does not have significant interest-bearing assets, the revenues and cash flows are to large extent independent of changes in the market interest rates. The Company risk of changes in the fair value of interest rates primarily arises from the liabilities against granted long-term loans from banks and suppliers.

The loans granted at variable interest rates expose the Company to the interest-based risk of cash flows. The loans granted at fixed interest rates expose the

Company to the risk of a change in the fair value of interest rates.

In 2012 and 2011, the largest portion of liabilities against loans (99%) had a variable interest rate, which was linked to Euribor. The liabilities against loans with variable interest rates are expressed in foreign currency (EUR), i.e. by foreign currency clause they are linked to EUR.

Gross interest rate on the loans granted by suppliers cannot exceed the level of Euribor plus up to 2% margin p.a., while the price adjustment for local currency contracts is made on the basis of retail price growth above 5% only during the grace period.

The Company performs analyses of risk exposure from the change in interest rates on a dynamical basis, taking into account alternative financing sources and refinancing, above all for long-term liabilities, given that they represent the most important interest-bearing position.

If the interest rate on loan-based interests in foreign currency (from banks and suppliers) was higher/lower by 0.1% annually, as at 31 December 2012, with other unalterable variables, the profit for 2012, after taxation, would be lower/higher by RSD 65,115 thousand (2011: RSD 35,417 thousand), as a result of higher/lower expenditures against interest.

If the interest on the loans from suppliers and banks in the country was higher/lower by 0.1% annually, as at 31 December 2012, with other unalterable variables, the profit for 2012, after taxation, would be lower/higher by RSD 52,491 thousand (2011: RSD 6,700 thousand), as a result of higher/lower expenditure against interest.

RISK OF A CHANGE IN PRICES

The Company is not exposed to a change in the prices of proprietary securities given that the report on financial position does not refer to investments classified as being available for sale or as financial assets at fair value the effects of changes in value are expressed in the income statement. The Company's investments in capital of subsidiaries is not subject to public trading in active market of securities.

On the other hand, the Company is exposed to risk of a change in the service prices, as it is faced with intensive competition in the sphere of mobile telephony, the Internet and multimedia, as well as the emergence of fixed telephony operators, which the Company tries to compensate for by introducing various services.

Besides, the Republic Agency for Electronic Communications (the Agency) has imposed, among other things, the obligation of price control for specific markets where the Company was pronounced an SMP operator.

Pursuant to the Decision of the Agency's Managing Board, dated 16 June 2011, the subscription for direct telephone line has increased to RSD 430 (VAT exclusive) as of 1 August 2011, which includes 300 free-of-charge pulses (instead of 150 pulses thus far).

The prices of local calls increased as well, and the prices of long-distance calls were reduced. By virtue of the Agency's Decision, the fees of termination in fixed network for the traffic coming from mobile networks were reduced, while termination of traffic coming from other fixed networks were brought to a cost-based level.

Liquidity risk

Liquidity management has been centralized on the Company level. The Company manages its assets and liabilities in a manner which ensures, at any time, fulfilment of its liabilities.

The Company has sufficient amount of highly-liquid funds (cash and cash equivalents), as well as continuous inflow of pecuniary funds from service implementation, which enable it to settle its liabilities within due dates. The Company generally does not use financial derivatives.

In order to manage the liquidity risk, the Company has adopted financial policies, defining maximum amount of advance payments to suppliers of works and equipment, the grace period and repayment

term, subject to the value and type of contracted procurement. Besides, the business policy has made dispersion in the decision-making levels when procuring goods/services.

Credit risk

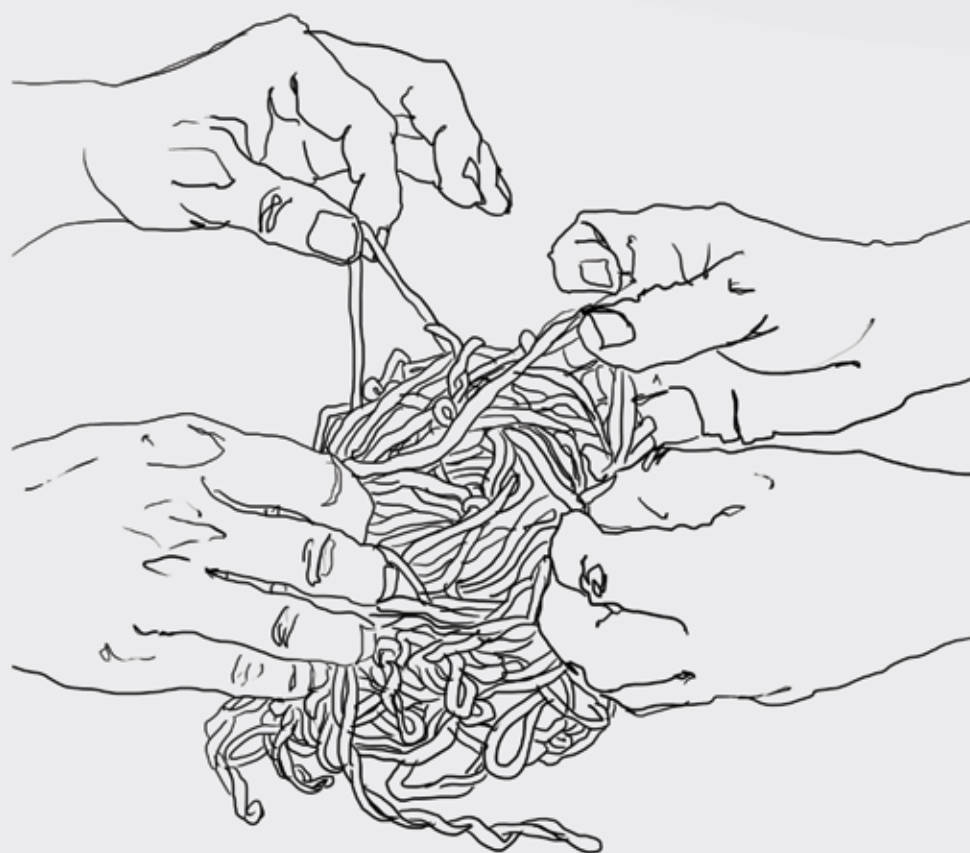
The credit risk emerges with cash and cash equivalents, deposits with banks and financial institutions, loans granted to employees, claims from buyers and assumed liabilities.

The Company is exposed to the credit risk to limited extent. Security from credit risk has been constituted by taking specific measures and activities on the Company level.

In case of untimely settlement of customer's liabilities, the Company conducts defined measures for collecting receivables: notices, termination of service provision, suits, etc.

Receivables against roaming and international settlement are not under the direct influence of local market conditions. The said receivables are based on solid bilateral contracts, with concurrent and mutual service provision.

Collection of loans granted to employees in the Company is ensured through attachment of salary, i.e. through deducting the adequate instalment amount from salaries.



REPORT ON CORPORATE
SOCIAL RESOPNSIBILITY

REPORT ON CORPORATE SOCIAL RESPONSIBILITY

Access to social responsibility

Telekom Srbija and its subsidiaries, as a group of successful telecommunications companies in the region, produce by its activity a considerable impact on the social environment they operate in, and follow their strategic commitment to share a part of that business success with the community through planned socially responsible activities.

The companies endeavour to integrate, in their day-to-day operations, business responsibility, guided by the principles of positive business practice, both towards the customers and employees, business partners and community as a whole.

Besides conducting successful business activities in the region, the Parent Company and subsidiaries actively supported numerous socially responsible projects and initiatives in 2012. Stable presence in regional markets in the field of telecommunications facilitated the benefit from realized socially responsible activities to be felt in wide community, which is an advantage that the success of the Parent Company and subsidiaries relies on.

Vision and values of Telekom Srbija

In accordance with the vision of the Parent Company to contribute sustainable development of the society by using communication tools and new technologies, through improving the quality of citizens' lives, the values are created for:

- Owners of the capital - by providing clear and available information, protection of interests and fair treatment for all capital owners, with the goal to maximize the profits and value of the Company for its shareholders.
- Employees - safety and health at work, professional upgrade, harmonization of internal relations, creation of motivation system, health and

social protection, family care and timely and accurate informing.

- Customers - Telekom Srbija is a company focused on the needs and satisfaction of its customers, and regulation of customer relations is the subject of the Company's Code of Ethics and it evolves in accordance with the established principles, such as: providing relevant information, availability, choice of the type of service conformed to the needs, advisory and professional help, safety, protection and guaranteed quality.
- Community - for Telekom Srbija, investment in community represents an investment in technologically advanced, knowledge-based inclusive society. The spheres supported by the company are youth and education, vulnerable groups and areas, culture and art, health and environment. The Company has a strategic approach to the investments in community.

Corporate governance

For Telekom Srbija, good corporate governance does not only involve the work in the interest of shareholders, but it also means an adequate representation and protection of other interests of all interested parties: employees, partners, clients and society in general. This refers to equal treatment of all our stakeholders, clarity and availability of information provided to them and wider public, ethics and transparency in the efforts to achieve business objectives. The framework of corporate governance ensures that free market competition is observed and that illegal forms of conduct and unfair market practice are condemned. Books are kept in accordance with legal regulations. Financial statements are published annually, and the Company enables insight into other business-related data to its interested parties, on a voluntary basis. The Company adopted the Corporate Governance Code in 2012, which is available at the corporate website www.telekom.rs.

Transparency in operations

Telekom Srbija transparently and regularly publishes its financial results, within the annual financial statements, verified by an external auditor. In line with its statutory obligations, Telekom Srbija publishes periodical reports as well, containing different types of data related to customers and services provided to customers, as well as other reports required by various state institutions, such as the line ministry, the Serbian Government and RATEL. Internal websites are the means of informing the employees of the business principles, business processes and decisions, as well as of the ethical norms and standards cherished within the company. Financial statements, as well as other relevant strategic documents, are available on the corporate website.

Code of Ethics

In order to reach specific relations and transparency to all interested parties in the conduct of all business and other activities, Telekom Srbija relies on the Code of Ethics, published on the official Company website. This document is a point of departure when the Company's social responsibility is concerned and a pertinent part of corporate philosophy. It defines standards, ethical norms and conduct expected in relations with shareholders, employees, clients, community, etc. The Code of Ethics without exception refers to all employees within Telekom Srbija.

Approach to social responsibility

In 2012, the Parent Company continued developing and enhancing its activities in the area of social responsibility, complying with the strategically established guidelines in the subject domain. The greatest efforts in that field were exerted by a task force in charge of implementation and enhancement of social responsibility in the Company. The vital importance in achieving success was the support of management, CSR experts, and colleagues who contributed with their professional expertise and experience to finalization of the conceived projects.

To adequately approach identifying and addressing complex social issues, Telekom Srbija points to the significance of setting strategic partnerships with other organisations from private, public and civil sectors, and tries to remain focused on the projects of wide social importance, which contribute to the welfare of a large number of people.

Strategy of socially responsible operations

In the field of social responsibility, 2012 is characterized by the activities that follow key guidelines envisaged by the strategy of socially responsible conduct of the company, and investments in youth and education, culture and art, development of employees and contribution to environmental protection, remained the topics that the Company was committed to in 2012 as well.

Strategy of investments in community

In 2012, in the choice of topics and content of projects, as well as in the choice of partners, Telekom Srbija continued following key strategic directions, focusing on the projects including as many customers as possible and thus stronger effect and response in the public. In that way, total of 57 organisations and 48 projects were supported in 2012.

An important step ahead regarding the upgrade of community relations is the launch of an on-line competition for encouraging civic activism, *Uradi nešto* (Do Something). As a result of the idea itself and the medium where it unfolds, this competition represents a completely innovative approach to corporate philanthropy.

Membership in organisations committed to social responsibility

Telekom Srbija is committed to constant upgrade of all its socially responsible activities, establish-

ing partnerships of interest for the community and spreading a socially responsible concept among its employees, as well as amount the companies it co-operates with.

Since August 2010, Telekom Srbija is a member of the Global Compact, a network of socially responsible companies on the global level, operating in Serbia as of 2005. The local Serbian network comprises over 60 companies and associations operating in keeping with 10 principles based on the UN Millennium Goals, regarding human rights, work, environment and combat against corruption. In 2012, the Company took an active part in the Global Compact work groups for social inclusion and support in emergencies.

Since 2011, Telekom Srbija has been a member of the Business Leaders Forum – first network of socially responsible companies in Serbia, set up with a mission to encourage the development of socially responsible business activities and introduce permanent and stable social responsibility practice in domestic business sector. Further to its membership, Telekom Srbija took part in the Forum's regular annual activities.

Connected with employees

One of the basic characteristics of Telekom Srbija approach to social responsibility is protection offered to 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 higher motivation of employees and thus higher productivity and better operating results. Internal by-laws within the Company define the work standards and labour rights of our employees, and also the basic guidelines and values of socially responsible behaviour in our relationship with the employees.

According to the applicable Code of Ethics it is continuously invested in improvement of qualification structure of employees aimed at providing the same chances for education and advancement, monitoring and guiding each individual on their de-

velopment path within the Company. This is also supported by the fact that in 2012 Telekom Srbija, in accordance with the Policy of professional development and continuous education of employees, invested rsd 94,769,000.00 in internal and external training and educational programs for employees aimed at encouraging their creativity and talent so to develop in the best possible way within the Company.

Implementation of the policy of professional development and continuous education of employees, implementation of the policy of social and material protection, implementation of the policy of harmonizing the relationships with employees are described in this Report, Part Employees.

Making the loyal and well coordinated team, Telekom Srpske is building conscientious relationships and strong connections with employees. It is reflected in transparent operations, continuous mutual internal communication and also in series of employee motivation, education and professional development research. The activities in social and material protection of employees, health protection and family care are carried out.

Ready to invest in their efforts in building up the team spirit, in helping people in need and taking part in socially responsible campaigns in the Company like Struggle for Babies or Voluntary Blood Donation, the employees in Telekom Srpske strongly initiate socially responsible activities in the Company so becoming an important factor of business success.

In 2012 m:tel proved its social responsibility primarily in its relationship with employees. Following the 1st of September it has been regulated the labour legal status of 51 employees working for unlimited periods of time in m: tel. Creating a positive work environment generates employees' awareness of social responsibility importance.

Employee Volunteering

In 2012 Telekom Srbija tried to encourage both the employees and the business partners to take part

in voluntary activities so contributing to arrangement of environment. In May 2012 cooperating with the Business Leaders Forum, the Company participated in the campaign entitled Our Belgrade dedicated to public space arrangement in the city. In November the employees in Niš had an opportunity to show their good will and team spirit participating in arrangement of Homeless Children Shelter in the town within the similar campaign, Our Niš.

We are also proud of the fact that ten employees were dedicated to preparing and participating in seminars of youth organizations, which the Parent company cooperates with, and to their tutorship so making considerable contribution to development of cooperation with young people in the field of education and transfer of knowledge and experience within the business field of the Company.

In September 2012, within promotion of socially responsible activities of the Company, the sports team of employees took part in the basketball fair play tournament organized by UNICEF.

The humanitarian association of employees, From the Heart organized 37 voluntary blood donation campaigns for employees in the Company. The total number of 1,230 responded to invitation contributing to this humanitarian campaign.

Also, there were organized 5 campaigns of organ donation cards responded by 50 employees in the Parent Company.

Connected with the business environment

The responsibility of the Parent Company relies on operations that are in accordance with the social moral and ethical standards as well as with generally accepted standards referring to respect of human rights, of both our clients and employees, our partners and suppliers and all those we come into contact with.

In the same way, and in accordance with the Public Procurement Law, Telekom Srbija conducts the

process of public procurement. Special attention is paid to fostering partner relations with product and service suppliers that reached the number of almost 3,000 in 2012 since it is the way of making an indirect contribution to development of the Company.

Telekom Srbija was conferred several awards. One of them was My Choice award, which was granted to mt:s brand in the category of services by Association of Citizens, My Serbia according to customer votes.

Also, as for mobile telephony services brand of the Parent Company, mt:s was granted two first awards by the Association of Serbian Economic Propagandists (UEPS) in the category of the corporate advertising the mobile network upgrade campaign, Upgraded Network and also in the category of Communication Products and Services for the spot entitled Novak and Friends.

Connected with the community

Telekom Srbija, the company that is running business throughout Serbia, employees a large number of people, provides services to a large number of customers, has a responsible approach to any operation conducted by the Company, which is its strategic orientation. Such approach contributes to overall development of the Company, and even better results are achieved if the business sector is working in synergy with the public and civil sectors.

The Parent Company is making its best efforts in directing attention and support to those in need by careful estimation of the Company's needs and acting in accordance with well elaborated strategy.

Telekom Srbija is actively supporting a large number of education, culture and social programs and initiatives. Also, independently or cooperating with the partners, the Parent Company initiated several projects directed to development of the Company.

Support to Citizen Activism - the competition Do Something!

Telekom Srbija announced on-line competition Do Something! for the citizens' initiative that contribute to improvement of living conditions in the local community. The Parent Company decided to implement this project because its concept and goals fully correspond to the Company's vision of sustainable development of the Company and improvement of citizens' living conditions using communication tools and new technologies.

Do Something! is the web platform aimed at motivating the citizens to figure out, propose and perform the project that contribute to positive changes in their direct environment.

A total of 105 projects from 45 towns in Serbia entered into competition. More than 600.000 citizens' votes were collected supporting 9 projects in the total amount of RSD 4,320,000. The competition as an innovative solution in the field of corporate philanthropy became a permanent mechanism for supporting the projects from the local communities.

Youth and Education

For several years Telekom Srbija offers pupils and students the possibility of having in-company professional practice. Such practice is basically aimed at getting the youth familiar with the way of practical application of knowledge and skills acquainted at the university and at encouraging them to start thinking about their professional career even during education. Also, the professional practice provides the youth with better professional positioning on the labour market when they start their career.

The Parent Company organized practice for 30 students and 303 pupils, in the first place of the technical profile in the field of telecommunications and information technologies, which is in accordance with the basic operations of the Company, but also for economists, psychologists and the organization science students.

An idea of practical application of knowledge characterizes both projects and activities in supporting young entrepreneurs, which the Company performed autonomously or in cooperation with the partners in this specific field.

Cooperation with High School of Mathematics

Within continuous cooperation with the eminent educational institution it was successfully completed the second m:is Android competition for designing software in Android operating system, which is organized for the pupils attending this school by Telekom Srbija.

The competition was preceded by workshops for designing the Android software, which were held by our engineers as mentors, where the participants could additionally improve their knowledge in this field. The competition proved that mobile software make good platform for pupils to show their programming skills and creative potential that resulted in high level works.

In addition to the competition, the cooperation with the High School of Mathematics developed also through supporting the pupils to attend various competitions and organization of the Summer Math Camp, which was also attended by talented children of our employees.

Installation of solar mobile phone chargers

The successful cooperation with S Energy team initiated in the previous period was further developed by installation of solar mobile phone chargers in towns in Serbia.

This unique project, which is set up by the young entrepreneurs, the students of the Belgrade University, makes an excellent combination of an idea of using the renewable sources of energy and modern technologies and the Telekom Srbija's basic activities

thus contributing to development of its brand and services.

Thanks to this project, the citizens of Kikinda, Vranje, Bor and Valjevo, the towns in the list of those that have the largest number of sunny days in a year, were offered the possibility to charge their mobile phones in the Strawberry tree using the solar energy in the public place. The Association of Young Entrepreneurs and Telekom Srbija also developed the portable model of solar charger, which will be installed in front of our retail store.

Pupils as Entrepreneurs

Telekom Srbija recognized an idea of supporting the young entrepreneurs as one of the additional ways of improving the education of young people. The Business Challenge competitions organized by the Serbia Junior Achievement organization were held in Belgrade, Niš, Novi Sad and Požega involving more than 300 secondary school pupils. Telekom Srbija tried to initiate creativity and inventiveness of pupils in resolving the business problems by making a list of actual topics.

Cooperation with students' organizations

Aware of the fact that educated young people are the holders of the development of society, the Parent Company is consistent to its earlier orientation to transfer of recent experience from the world of business to students getting them familiar with contemporary trends in the sphere of telecommunications through expert lectures given by employees.

Supported by Telekom Srbija and cooperating with ESTIEM (Organization for European Students of Industrial Engineering and Management), which has its seat at the Faculty of Organizational Sciences in Belgrade, there were organized two important events – Case Study Show and Academy of Modern Management. As for the case study, ESTIEM is a true partner due to its extensive experience. This year's

task for the students was working out a comprehensive environmental protection project.

In this year's Open IT v.6. seminar on mobile phones application held by students organization AIESEC (Association Internationale des étudiants en Sciences économiques et Commerciales), the students were offered the opportunity to improve their knowledge in this sphere and to get the first-hand information how the High School of Mathematics conceived and conducted the workshop on design of mobile phones application.

As regards the students of electrical engineering, the transfer of knowledge was a true challenge for our colleagues who attended the seminar, Brand New Engineers held by the students' organization, EESTEC (Electrical Engineering Students' European Association) since those were the students whose future vocation is closely connected with the activities of the Company.

Cooperation with UNICEF in the School without Violence Programme

The successful multi-year cooperation with the UNICEF office in Belgrade continued through support to the School without Violence programme, according to which the schools in Prokuplje, Pirot and Bujanovac were given space on the future School without Violence website. This programme is aimed at creating safe and stimulating environment for learning, working and development of children in primary and secondary schools in Serbia.

Telekom Srpske pays great attention to investment in young people. The company conducted many campaigns, in which young people were rewarded for their knowledge and exceptional achievements. An intention to support the real values and the most talented ones to take their chances is reflected in many projects for students and pupils, one of them is I Have an Idea, which was performed with the Universities of Banja Luka, Mostar and Sarajevo. The Company furnished the classrooms with computers for the children's knowledge competition, Kvizolog, the helped awarding the best student's business

plan in creative industry, but also in working out and initiating the own CSR activities.

This is the second year m:tel conducted the campaign Android League granting young Android application designers high pecuniary rewards, who designed application in Serbian, thus the Company contributed to development of the local IT network.

Also, in the Scholarship for the Future campaign the second generation of m:scholarship holders was promoted, so that until the end of the course of study the best students of electrical engineering at the Universities of Banja Luka, Sarajevo, Istočno Sarajevo, Tuzla and Banja Luka will be supported by m:tel.

The company m:tel is the first partner of UNICEF Bosnia and Herzegovina from the private sector, such partnership continued in 2012. In the campaign Children's Wishes Wall the wishes of primary school children were heard and all of them fulfilled this year. Ten primary schools got new classrooms, sport courts, lavatories, security cameras and other equipment which the pupils considered important, so the schools became more comfortable and safer places for learning and making the first steps in the world of knowledge.

The company m:tel contributes to better education in Montenegro through many campaigns and cooperation with primary and secondary schools and also with faculties. The best students and pupils and also the prize winners are granted the gifts, and in 2012 it was supported the Montenegro's in the project, Factory of Knowledge and Open Days of Science. In November the company released 3-month announcement for designing applications. The participants were offered to use software tools free of charge in cooperation with Wireless Media and Samsung.

Support to Health Care

Making its best efforts to grant aid and support on time and to the largest number of people, Telekom Srbija invested considerable funds in improvement of curing conditions and staying of patients

in hospitals in Serbia. Thanks to such approach the Neurosurgical Department of the Serbia's Clinical Centre was provided with the surgical microscope, the Abdominal Surgery Department of the Children Hospital in Belgrade was reconstructed, and also the incubators were procured supporting the Battle for the Babies campaign.

Telekom Srpske unselfishly grants aid for prematurely born babies within the Struggle for the Babies campaign by donating and collecting funds for buying incubators for maternity hospitals so directly influencing survival and growing of handicapped or prematurely born children in the maternity hospitals throughout Bosnia and Herzegovina. In the very beginning of the 7-month campaign, the most modern incubators were donated to maternity hospitals in Banja Luka and Sarajevo. Supported by customers, business partners, institutions, employees and media, the funds were collected for buying 36 most modern incubators for maternity hospitals. The employees collected funds for one incubator for the maternity hospital in Foča. This humanitarian campaign was conducted in cooperation with the Fund B92 of Belgrade and partnership with the Ministry of Health and Social Protection of the Republic of Serbia and the Federal Ministry of Health.

mtel mostly helped the Montenegro's health care and education system for the 5th birthday of the Company granting funds for buying the needed devices for post-operative monitoring of the patient after cadaver kidney transplantation, which was the most sophisticated surgery undertaken in Montenegro's health care system.

Support to Marginalized Social Groups

In addition to supporting many disabled persons associations, trying to make the status and inclusion of marginalized groups of children better, Telekom Srbija supported the issuance of magazine, Face of the Street, which is sold by young people who come to Homeless Children Shelter in Belgrade.

Trying to unify all efforts in this sphere, the photo workshop project, EYE of the Street, was organized

for the beneficiaries of the Shelter to instruct them how to take photos of city life, which were displayed at the exhibition in Belgrade Youth Centre in May. Telekom Srbija contributed to addition education of the workshop attendees buying some photos displayed at the exhibition.

Thanks to Telekom Srbija's support, in May 2012, it was organized the second exhibition of the works by trainees in the art workshop, Tribute to the Hand, which involves persons with Down syndrome.

As the Company that shows special sensitivity to the youngest, by the end of 2012 Telekom Srbija donated Internet and IPTV services to children protection institutions in Serbia. Such donation involved 33 institutions for children and young people, children without parental care, the S.O.S. Children's Village Kraljevo, S.O.S. Children's Village Kamenica, the Foster Care Centre in Miloševac, Institute for the Education of Children and Youth Center, Zvečanska.

Telekom Srbija donated the New Year's parcels to the Kolevka Residential Centre in Subotica, the Homeless Children Shelter, and to children in Abdominal Surgery Department of the University Children's Hospital in Belgrade.

By the end of 2012 Telekom Srpske donated holiday's gifts for children without parental care staying in the Orphanage, Rada Vranješević in Banja Luka, the children who are the patients in the Institute "Dr Miroslav Zotović", and the children in kindergarten with the Hercegovina Eparchy in Trebinje.

mtel is conducting humanitarian campaigns to help people in need, especially children. So, the company donated equipment for children's playroom in the Institute of Education and Rehabilitation of Disabled Children and Youth, took part in the project, Bikers without Borders intended for the children without parental care in the Mladost Orphanage in Bijela.

Culture and Art

In times when performance of many big events in the sphere of culture and art largely depends on support from the economy and successful companies, which is some way to pay back to the community,

in 2012 Telekom Srbija identified several important projects in the sphere of culture.

The valuable donation supported renovation of the Bora Stanković Theatre in Vranje, which was almost completely destroyed in the fire. Telekom Srbija was among the first ones that were ready to restore splendour of this important cultural institution with the tradition longer than a century.

Making its contribution to affirmation of young and enterprising young artists in the sphere of design, architecture, interior decoration and visual communications, the Company recognized the potential of making the specially intended working space in Belgrade – Nova Iskra when such idea was in its very beginning. The Nova Iskra is the first design incubator in Serbia and in the region according to co-working concept intended for young professionals in design and architecture and for making connection between creative sector and production.

Opening of the street gallery Bezistan in Belgrade and the idea of converting the neglected passage in the city centre into space intended for exhibiting the works of young artists makes the completely new approach to gallery space and it is such first project in Serbia. The street gallery program is adjusted to exhibiting the works of unrecognized young artists, which illustrate important social themes.

Telekom Srpske endeavours to keep tradition and cultural values. Within the Art of Connecting campaign it was organized the exhibition in the gallery of visual arts in Sarajevo. The students of the visual art academies and the academic artists from Banja Luka, Sarajevo, Trebinje, Široki Brijeg presented their vision of elements that connect us to the cultural public.

Telekom Srpske is traditionally present at the Petar Kočić Theatre Festival and also supports the national Theatre of the Republic of Srpska. In addition to many supported cultural projects, the young demo bands that competed in the Demofest were also supported.

mtel supported the 11th International Music Festival, ATEMPO in cooperation with the Montenegro's Music Centre.

Environmental Protection

By a series of actions of proper disposal of electronic waste and responsible relationship to nature, Telekom Srbija and related companies show their dedication to environmental protection and readiness to conduct ecologically appropriate activities.

In making its 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 impact that may reflect on the natural environment, particularly given the specific characteristics of the telecommunications sector operations. The programs in the field of energy efficiency, economic consumption of resources and e-waste management were continued, and the activities related to recycling and disposal of e-waste in Telekom Srbija produced positive results.

About 35,000 kg of paper was collected in the Printing Centre and given free of charge to SWIFT Cooperative, which foundation was donated by the UN and the Republic of Norway Government. Also, in 2012 the Company gave free of charge or sold the following waste:

- In accordance with the obligations stipulated by the law the Company handed over free of charge the electronic waste in the amount of 8,200 kg;
- In accordance with the contract 4,200 toner cartridges were collected and given for recycling;
- It was sold 170 kg of used transformer batteries containing pyralene followed by liquidation and sale of written-off fixed assets consisting of various structure waste materials (about 30 types) in the amount of 747,500 kg, of which about 33,211 kg hazardous waste, or amounting to around RSD 35,300,000;
- In accordance with the obligations stipulated by the law the Company handed over free of charge about 15,000 l of hazardous waste - the unusable fuel collected when power supply units and boiler rooms were cleaned;
- In accordance with the obligations stipulated by the law the Company handed over about 2,000 l of hazardous waste - used antifreeze solution and 200 l of sulphuric acid collected during

regular maintenance of power supply and air conditioning plants;

- In accordance with the obligations stipulated by the law the Company handed over about 2,000 l of hazardous waste - used engine oil collected during regular maintenance of spare power supply units.

Besides, Telekom Srbija is making effort to develop its employees and partners' awareness of this subject growing importance in the contemporary world in the field of services. Such efforts are much supported by partnership organizations.

Thus, it was started the cooperation with Green Initiative, the network of civic organizations which carry out activities aimed at development of functional mechanisms of waste primary selection on local and national level. Since the Company monitors standards and takes activities related to collecting and recycling the e-waste and paper the cooperation with Green Initiative will enable the vehicle for collecting the secondary raw materials in Požarevac is also used for transport of used paper from the Telekom Srbija's business premises and the retail store in the town.

Telekom Srpske continuously conducts activities related to recycling of used mobile phones, but also to electronic delivery of bills or information in order to save paper.

Also, in order to create conditions for optimal development of contemporary technologies, m:tel is extremely careful about environmental protection when the base stations are installed. The measures and procedures of absolute observing and implementing the ecology law provisions are defined. Accordingly, the best available equipment is procured for environmental protection. The authorized organizations, institutions and experts are continuously involved for making the studies of the electromagnetic radiation influence on human environment and expertise on the base station effect on human environment.

%

Operating
expenses

Net
profit

1,573,000

Amortization

96%

Total
liabilities

Consolidated
Income
Statements

Capital

Current
assets

Free
cash
flow

FINANCIAL RESULTS

FINANCIAL RESULTS

CONSOLIDATED STATEMENTS

Consolidated income statement

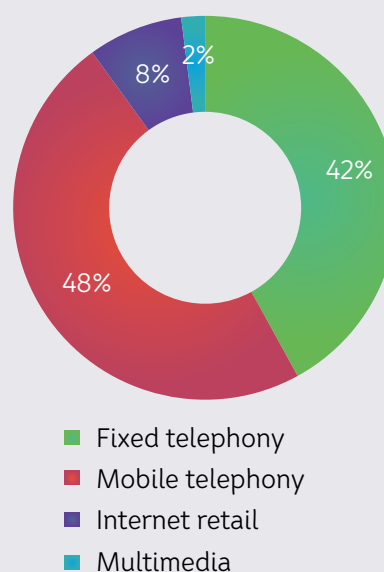
In RSD million	2012	2011
Operating revenues	122,222	118,082
Operating expenses	(100,566)	(94,121)
EBIT	21,656	23,961
EBIT margin	17.7 %	20.3 %
EBITDA	47,422	49,473
EBITDA margin	38.8 %	41.9 %
Finance income/ (expense) net	(9,671)	614
Profit tax	301	(1,346)
Net profit	12,286	23,229
Net profit margin	10.1 %	19.7 %

In 2012 the total operating revenues were generated in the amount of RSD 122.2 billion, which accounts for 3.5% growth compared to previous year. The operating expenses increased in the observed period at the rate of 6.8% reaching the amount of RSD 100.6 billion. The net profit was generated in the amount of RSD 12.3 billion.

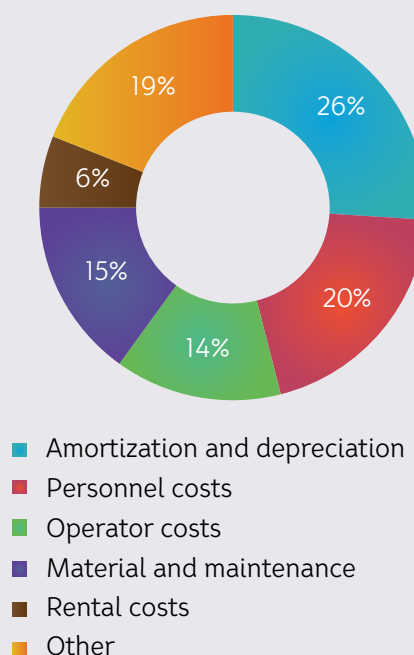
The 2012 results decline resulted from the negative financial sub-balance mostly due to forex losses, net, as well as higher interest expense, mainly in the Parent Company. The presented results were also influenced by 11% weakening of the RSD average value vs. EUR/KM.

The operating profit (EBIT) and EBIT margin declined due to faster growth of operating expenses vs. operating revenues. EBITDA also declined by 4.1%.

The expenses of sold mobile telephony equipment during upgrade of the Parent Company's network amounts to RSD 2.5 billion. Exclusive of this effect,



The structure of operating revenues per segments of the Parent Company and related companies



The structure of operating expenses per segments of the Parent Company and related companies

EBITDA margin would amount to 40.9%.

The total operating revenues increased at the rate of 3.5% compared to previous year recording growth also in the segments of mobile telephony, Internet retail and multimedia.

The revenues from mobile telephony increased by almost RSD 3.0 billion (5.3% growth). In mobile telephony the prepaid revenues declined due to decreased number of customers. The postpaid revenues increased due to increased number of customers and generated traffic. The interconnection revenues also increased.

The broadband services, i.e. Internet and multimedia, are the segments that record the fastest growth due to increased number of customers. In 2012 their rates of growth amount to 16.8% and 72.2% respectively.

The revenues from fixed telephony resulted mostly from decreased number of customers and volume of traffic (the revenues from traffic declined by RSD 1.4 billion).

The largest share in the structure of operating expenses is taken by depreciation, personnel costs and costs of operators making together about 60% of total operating expenses. Out of said expenses, the personnel costs recorded 7.1% decline in 2012.

The costs of IPTV licenses increased in accordance with multimedia segment growth.

Consolidated Balance Sheet

In RSD million	31.12.2012.	31.12.2011.
CURRENT ASSETS	49,256	47,348
Inventories	6,777	7,254
Receivables	15,384	15,022
Cash and cash equivalents	15,879	17,942
Term deposits	3,252	2,243
Other	7,964	4,887
NON-CURRENT ASSETS	206,269	211,270
Intangible assets	63,880	62,159
Property, equipment and advances	137,556	145,243
Other	4,833	3,868
TOTAL ASSETS	255,525	258,618
CURRENT LIABILITIES	59,200	66,791
Current portion of long-term borrowings	33,005	33,098
Accounts payable	8,092	8,100
Other short-term liabilities	18,103	25,593
LONG TERM LIABILITIES	59,772	30,604
Long-term borrowings	52,677	23,368
Other long-term liabilities	7,095	7,236
EQUITY	136,553	161,223
TOTAL LIABILITIES	255,525	258,618

Consolidated Cash Flow

In RSD million	2012	2011
Profit before tax	11,985	24,575
Depreciation and amortization	25,766	25,511
Adjustment of profit and change in working capital	(6)	(3,724)
Net cash flows from operating activities	37,745	46,362
Net capital expenditure	(15,356)	(14,617)
Free cash flow	22,389	31,745
Net cash flows from other investing activities	279	10
Net cash flows used in financing activities	(24,731)	(23,598)
Net cash (outflow) / inflow	(2,063)	8,157
Cash as of the end of year	15,879	17,942

Free cash flow has been sustained despite of considerable capital expenditure and financing activities.

Ratio Analysis of Parent Company and Related Companies

In RSD million	2012	2011
Total debt	85,682	56,466
Net debt	69,803	38,524
Debt coverage (Net debt/EBITDA)	1,5	0,8
Total liabilities/ EBITDA	2,5	2
Acid test	0,8	0,7

In 2012, 2.51 EBITDA were needed for repayment of liabilities, whereas in 2011, 1.97 Rigorous liquidity ratio remained on acceptable level.

In the structure of borrowings a considerable share is taken by long-term borrowings recording an increase in the first six months of 2012 up to the level of almost RSD 70 billion and having a declining trend until the end of the year. As at 31/12/2012 a gearing ratio was 33.8%, the long-term borrowings decreased down to RSD 53 billion.

In the beginning of 2012 the short-term borrowings amounted to RSD 42 billion, whereas in the end of the year they amounted to RSD 33 billion.

TRANSACTIONS WITH RELATED COMPANIES

Telekom Srpske

Number of Contract	Date of contract	Scope of Contract
2135/1	05/01/2012	Contract on Overtaking the TV Channel
73421/1	12/03/2012	Contract on inter-operator discount - roaming in the period 01 July 2012 - 31 March 2012
160911	04/06/2012	Contract on provision of VLAN:CONNECT services to NIS customer
217400/1	24/06/2012	Contract on inter-operator discount - roaming in the period 01 April 2012 - 30 June 2012
186811/1	26/06/2012	Contract on sale of products and services, Research in Motion UK Limited in Bosnia and Herzegovina
262507	07/09/2012	Contract on provision of VLAN:CONNECT services to Komercijalna Banka customer
372730/1	07/12/2012	Contract on inter-operator discount - roaming in the period 01 October 2012 - 31 December 2012
372703/1	07/12/2012	Contract on inter-operator discount - roaming in the period 01 January 2013 - 31 March 2013

mtel

Number of Contract	Date of contract	Scope of Contract
15062	16/01/2012	Contract on provision of VLAN:CONNECT services
168685/1	10/05/2012	Contract on inter-operator discount - roaming in the period 01 April 2012 - 30 June 2012
168678/1	08/06/2012	Contract on inter-operator discount - roaming in the period 01 January 2012 - 31 March 2012
236299/1	10/08/2012	Settlement of mutual relations of the contracting parties related to compensation of line leasing costs referred to in the contract on international line leasing in accordance with the stipulations of the contract on providing the international telecommunication services
296048/1	09/10/2012	Annex to the contract on provision of VLAN CONNECT services for replacement of the Form which makes the integral part of the contract
180826-10	24/10/2012	Provision of technical support services for SoR (Steering of Roaming) platform
334149/1	08/11/2012	Contract on inter-operator discount - roaming in the period 01 October 2012 - 31 December 2012
384882/1	17/12/2012	Settlement of mutual relations of the contracting parties for sale of RIM products and providing the service to the end users in Montenegro
396726/1	26/12/2012	Contract on inter-operator discount - roaming in the period 01 January 2013 - 31 March 2013

FiberNet

Number of Contract	Date of contract	Scope of Contract
145090/1	18/05/2012	Contract on transport capacity lease

Telus

Number of Contract	Date of contract	Scope of Contract
21534/9	16/05/2012	Temporary and occasional performance of physical works
51814/11	31/05/2012	Provision of public call box cleaning services
21534/12	22/08/2012	Office cleaning services
21534/11	22/08/2012	Physical-technical security services for facilities and property

HD-WIN

Number of Contract	Date of contract	Scope of Contract
2569	05/01/2012	Distribution of program via Internet (WEB TV for Diaspora)
34928	02/02/2012	Distribution of program via IPTV
65472	06/03/2012	Renting media on Arena Sport channels

FINANCIAL OVERVIEW OF PARENT COMPANY AND RELATED PARTIES

Telekom Srbija

Income Statement

In RSD million	2012	2011
Operating revenues	90,946	90,806
Operating expenses	(75,071)	(71,913)
EBIT	15,875	18,893
EBIT margin	17.5%	20.8%
EBITDA	32,677	36,277
EBITDA margin	35.9%	40.0%
Finance income/ (expenses) net	(5,465)	4,255
Profit tax, net	841	(874)
Net profit	11,251	22,274
Net profit margin	12.4%	24.5%
Earnings per share	0,01	20,6

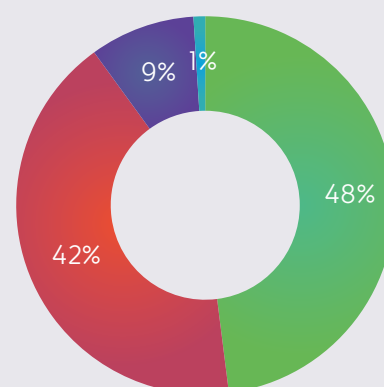
The Parent's Company profit after tax amounts to RSD 11.3 billion. Faster growth of operating expenses vs. operating revenues resulted EBIT and EBITDA decline and their margins, too. In 2012, EBIT amounts to RSD 15.9 billion, whereas EBITDA amounts to RSD 32.7 billion.

In 2012 the net result was further considerably influenced by negative financial sub-balance resulting from forex losses and higher interest expenses for new borrowings aimed at financing payment of minor shareholder, OTE's share in the Company's equity and also for refinancing the liabilities under the Term Facilities Agreement concluded with financial institutions (the original lenders - 19 banks) of which Unicredit Bank A.G. London Branch Office is the facility agent, whereas Unicredit Bank

Srbija a.d. is the payment agent. The total credit funds amount to EUR 470 million with 36 month repayment period for both facilities.

The positive effect on financial and net result was exerted by revenues from dividends paid by Telekom Srpske amounting to RSD 4.1 billion.

In the observed period the operating revenues increased by RSD 141 million amounting to RSD 90.9 billion. In the structure of the parent Company's business segments, fixed telephony recorded decline, whereas mobile telephony, Internet services and multimedia sale increased. An increase in revenues from broadband in 2012 covers decline of revenues from traditional services, but it is not sufficient for additional growth of operating revenues.

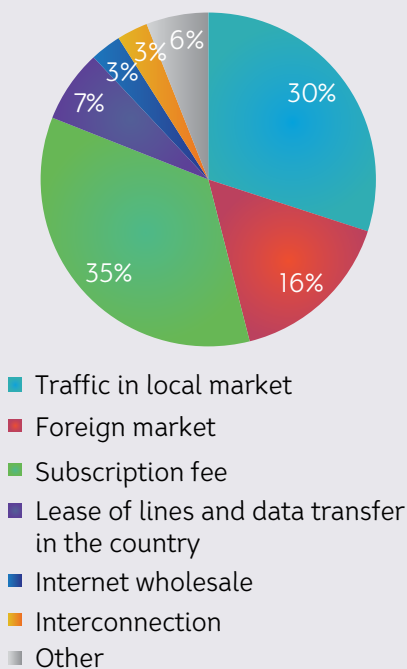


- Fixed telephony
- Mobile telephony
- Internet retail
- Multimedia

Operating revenues per business segments

In 2012 the operating revenues from fixed telephony amount to RSD 43.2 billion recording a decline by RSD 2.0 billion. The revenues from traffic continue to decline considerably amounting to RSD 2.2 billion due to smaller scope of minutes in generated traffic (13.8%) and also due to smaller number of customers (1.3%).

The revenues from mobile telephony increased by RSD 668 million and in the end of the observed pe-



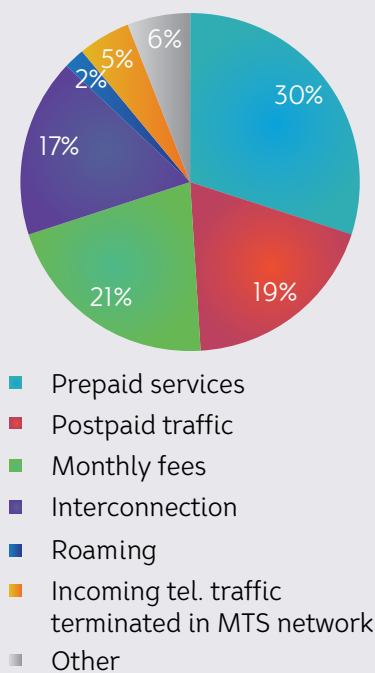
The structure of fixed telephony revenues in 2012

riod amount to RSD 38.2 billion. The revenues from postpaid increased (+15%) mostly resulting from higher revenues from monthly fees amounting to RSD 1.6 billion due to increased number of postpaid customers (16.5%), but also due to larger generated traffic. The revenues from interconnection increased by RSD 567 million. On the other hand, the revenues from prepaid services continue to decline by RSD 1.6 billion followed by decline in the number of customers (15.6%).

The operating revenues growth is considerably contributed also by broadband services, i.e. Internet and multimedia services, which share in the total operating revenues is becoming even more significant. The RSD 1.5 billion growth mostly resulted from increased number of customers.

The operating revenues from Internet retail increase at the rate of 14.7% reaching the amount of RSD 8.2 billion.

The multimedia operating revenues record growth at the rate of 49.4% reaching RSD 1.3 billion in the end of observed period.



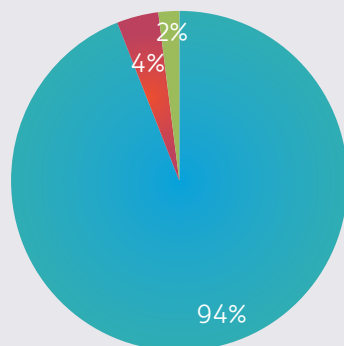
The structure of the operating revenues from mobile telephony

In the observed period the operating expenses amount to RSD 75.1 billion and continue to increase at the rate of 4.4%. In the structure of operating expenses the major share is taken by amortization and depreciation, personnel costs and costs of operators

Costs of material and maintenance increased by RSD 738 million mostly due to increased sale of mobile phone packages amounting to RSD 757 million. Besides, the costs of fuel and electricity increased by RSD 171 million. On the other hand, the ADSL modem costs decline by RSD145 million due to decline of the average purchase price of modems, whereas the costs of spare parts are lower by RSD 68 million.

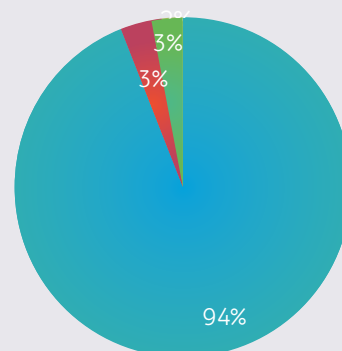
An increase in the costs of operators by RSD 663 million is considerably influenced by larger costs of interconnection for termination of calls routed from MTS network on the networks of other national operators due to larger volume of traffic.

The rental costs increased by RSD 467 million mostly due to weakening of the RSD value vs. EUR (most rental contracts include the foreign currency clause).



- ADSL
- Direct Internet access
- Other

The structure of Internet retail revenues



- Monthly fees
- Installation services
- Other

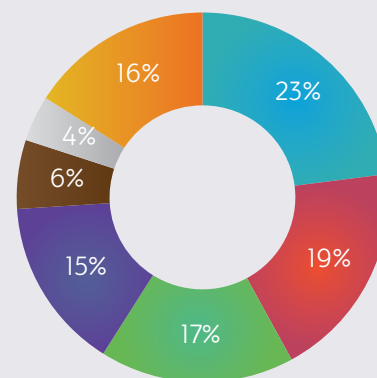
The structure of multimedia revenues

The personnel costs declined by 2.0 billion at the rate of 12.5%. The costs related to Parent Company voluntary lay-off in 2011 amounted to RSD 1.6 billion when 597 employees left the Company.

An increase in other costs is mostly influenced by growing costs of fees for public property usage and payment operations costs, which increased by RSD 545 million in total. Besides, in the current period there were recorded the costs of writing-off the replaced radio base stations during upgrade of mobile network in the estimated amount of RSD 2.5 billion.

The highest growth rate is recorded for the costs of IPTV licenses amounting RSD 1.6 billion.

As for personnel costs, which record 12.5% decline, the costs of employees' salaries were increased by 7.0% in January 2012, but the costs of the 13th salary and bonuses were reduced.



- Amortization and depreciation
- Personnel costs
- Operator costs
- Material and maintenance
- Rental costs
- Provision of receivables
- Other

The structure of operating expenses

Balance sheet

In RSD million	31.12.2012.	31.12.2011.
CURRENT ASSETS	34,565	35,924
Inventories	5,829	6,021
Receivables	12,670	12,427
Cash and cash equivalents	10,862	14,019
Other	5,204	3,457
NON-CURRENT ASSETS	167,845	174,308
Intangible assets	6,303	6,178
Property, equipment and advances	96,010	104,143
Share in capital of related legal entities	60,909	60,894
Other	4,623	3,093
TOTAL ASSETS	202,410	210,232
CURRENT LIABILITIES	51,458	57,478
Current portion of long-term borrowings	29,931	28,339
Accounts payable	6,908	6,634
Other short-term liabilities	14,619	22,505
LONG-TERM LIABILITIES	50,946	21,751
Long-term liabilities	46,658	17,317
Other long-term liabilities	4,288	4,434
EQUITY	100,006	131,003
TOTAL LIABILITIES	202,410	210,232

Cash Flows

In RSD million	2012	2011
Profit before tax	10,411	23,149
Depreciation and amortization	16,802	17,384
Adjustment in profit and change in working capital	(2,273)	(5,143)
Net cash flows from operating activities	24,940	35,390
Net capital expenditure	(12,202)	(10,773)
Free cash flow	12,738	24,617
Net cash flows from other investing activities	3,764	2,696
Net cash flows used in financing activities	(19,658)	(21,244)
Net cash (outflow) / inflow	(3,156)	6,069
Cash as of the end of year	10,862	14,019

Despite considerable indebtedness level, the positive free cash flow was reached in the amount of RSD 12.7 million mostly due to operating activities cash inflow.

In 2012 the dividends were paid to shareholders amounting to RSD 11.1 billion, which implies the amount of the preliminary dividends and a difference up to final amount of dividends in 2011.

Capital Structure

In RSD million	31.12.2012.	31.12.2011.
Share capital	100,000	82,513
Other capital	9	9
Reserves	590	590
Retained earnings	39,369	47,892
Negative issue premium	(23,459)	/
Repurchased own shares	(39,962)	/
Total	100,006	131,003

Profitability indicators	2012	2011
ROE (return on equity)	9.7%	17.6%
ROCE (return on capital employed)	10.5%	12.4%

Since in 2012 the Parent Company repurchased 20% of the own shares amounting to RSD 40.0 billion, the capital is reduced by the amount of repurchased shares for the reporting purposes.

Ratio Analysis

In RSD million	2012	2011
Total debt	76,589	45,656
Net debt	65,727	31,637
Debt coverage (Net debt/EBITDA)	2,01	0,87
Total liabilities/EBITDA	3,13	2,18
Interest expenditures / operating revenues	4.7%	1.8%
Acid test	0,65	0,59

In 2012 the indebtedness level increased mostly due to new borrowings of the parent Company and, on the other hand, due to repurchase of 20% of the own shares.

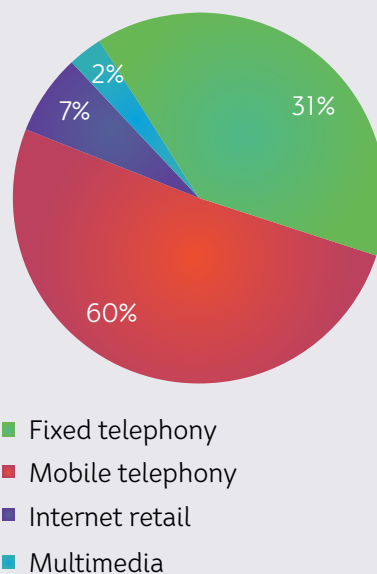
Telekom Srpske Income Statement

In RSD million	2012	2011
Operating revenues	28,257	25,124
Operating expenses	(21,260)	(18,859)
EBIT	6,997	6,265
EBIT Margin	24.8%	24.9%
EBITDA	13,396	12,012
EBITDA margin	47.4%	47.8%
Finance income/ (expenses) net	101	(32)
Profit tax, net	(713)	(628)
Net profit	6,419	5,605
Net profit margin	22.7%	22.3%

The presented results were influenced by 11% weakening of the rsd average value vs. convertible mark.

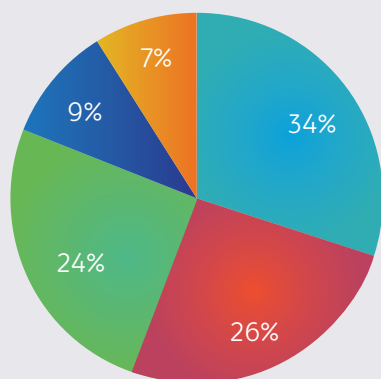
In 2012 the operating revenues amount to RSD 28.3 billion, which is an increase of 12.5% compared to the previous year (the 1.1% growth in real values). In the observed period the operating expenses amount to RSD 21.3 billion representing the 12.7% growth compared to 2011 (the 1.3% in real values).

Faster growth of operating revenues in nominal values vs. operating expenses influenced growth of EBIT, EBITDA and net profit. Also, all mentioned categories slightly increase in real values. In 2012 EBIT is higher by 11.7% amounting to RSD 7.0 billion, whereas EBITDA records 11.5% growth amounting to RSD 13.4 billion. In the observed period the net profit increase at the rate of 14.5% reaching the amount of RSD 6.4 billion.



Share of business segments in total revenues

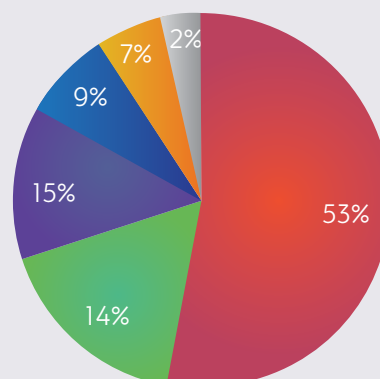
The operating revenues increase by RSD 3.0 billion. In the first quarter of 2012 the revenue amounted to RSD 196 million generated from prepayment of loan to Nokia Siemens Networks. Without effect of commodity loan prepayment, the operating revenues would increase by 11.7% (0.4% in real values).



- Traffic
- Monthly fees
- Net settlement
- Interconnection
- Other

Fixed telephony revenues in 2012 per services

The revenues from fixed telephony increase by RSD 247 million in nominal values reaching the amount of RSD 8.8 billion at the rate of 2.9% p.a. (these revenues decline in real values by 7.6%). The number of customers continues to decline (4.7%), which resulted in lower revenues from monthly fees by RSD 62 million. The revenues from traffic increase by RSD 179 million (decline in real values), although it is accompanied with smaller volume of realized traffic (3.2%). The revenues from international net settlement increase by RSD 207 million, whereas Internet whole sale revenues decline. In real values almost all fixed telephony services record decline.



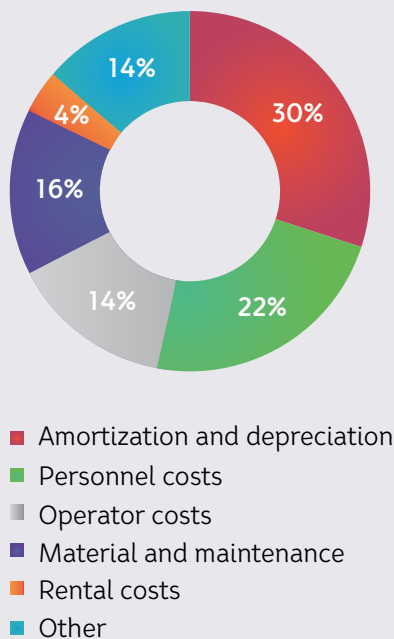
- Prepaid services
- Postpaid traffic
- Monthly fees
- Interconnection
- Roaming
- Other

Mobile telephony revenues per services

The mobile telephony revenues in 2012 total RSD 16.9 billion. The revenues from mobile telephony increase in nominal values by 14.2%, i.e. by RSD 2.1 billion result from considerable increase in prepaid revenues by RSD 998 million. Such increase resulted mostly from larger number of customers (2.2%) and larger scope of traffic volume (22.3%). In real values these revenues slightly increase by 1.0%. The revenues from postpaid fees increase by RSD 474 million due to 5.8% increase in the number of customers and 12.0% increase in generated traffic. The revenues from roaming services increase by RSD 295 million. The mobile telephony revenues record an increase of 2.6% in real values.

The continuous growth of broadband revenues (Internet retail and multimedia) by RSD 405 and RSD 378 respectively, respectively mostly resulted from extension of the number of customers. These services considerable grow also in real values increasing share in operating revenues. The operating revenue from Internet retail increase at the rate of 27.1% p.a. reaching an amount of RSD 1.9 billion. In 2012 the operating revenue from multimedia services increased at the rate of 148.1% и y 2012 amounting to RSD 0.6 billion.

In the observed period the operating expenses reach an amount of RSD 21.3 billion, i.e. increase at the rate of 12.7%. In the structure of operating expenses the major share is taken by the costs of amortization and depreciation, the personnel costs and the costs of operators making 65% of the total operating expenses. The operator-related costs increase at the rate of 12.6% amounting to RSD 2.9 billion. The depreciation and amortization cost grows at the rate of 11.3% and at the end of 2012 amounts to RSD 6.4 billion. The fastest growth is recorded by IPTV license costs amounting to RSD 176 million.



The structure of operating expenses

An increase of RSD 2.4 billion of operating expenses mostly results from an increase of RSD 652 million in depreciation and amortization costs, and also an increase of RSD 321 million in operator-related costs, which mainly refers to net settlement costs. The costs of material and maintenance increased by RSD 483 million. Such increase mainly refers to increased maintenance costs (RSD 165 million) and increased sale of mobile phone packages (RSD 127 million).

Balance Sheet

In RSD million	31.12.2012.	31.12.2011.
CURRENT ASSETS	10,641	8,762
Inventories	557	766
Receivables	2,585	2,211
Cash and cash equivalents	4,457	3,679
Term deposits	2,309	1,344
Other	733	762
NON-CURRENT ASSETS	37,929	39,059
Intangible assets	4,655	5,901
Property, equipment and advances	29,771	29,472
Share in capital of related companies	3,402	3,100
Other	101	586
TOTAL ASSETS	48,570	47,821
CURRENT LIABILITIES	5,636	6,672
Current portion of long-term borrowings	1,254	2,330
Accounts payable	1,679	1,766
Other short-term liabilities	2,703	2,576
LONG-TERM LIABILITIES	2,472	3,946
Long-term liabilities	1,861	3,367
Other long-term liabilities	611	579
EQUITY	40,462	37,203
TOTAL LIABILITIES	48,570	47,821

Cash Flows

In RSD million	2012	2011
Profit before tax	7,131	6,233
Depreciation and amortization	6,399	5,747
Adjustment in profit and change in working capital	(104)	(597)
Net cash flows from operating activities	13,426	11,383
Net capital expenditure	(2,285)	(2,155)
Free cash flow	11,141	9,228
Net cash flows from other investing activities	(344)	137
Net cash flows used in financing activities	(10,019)	(7,253)
Net cash inflow	778	2,112
Cash as of the end of year	4,457	3,679

The trend of larger inflow from operations continued in 2012, so free cash flow continues to grow in 2012 reaching the amount of RSD 11.1 billion.

In 2012 the dividends amounting to RSD 6.8 billion were paid to the shareholders. The approved total amount of dividends is RSD 6.4 billion including dividends from the 2011 profit up to the full amount and the interim dividends from the profit generated in the first six months of 2012.

Ratio Analysis

In RSD million	2012	2011
Debt	3,115	5,697
Accounts payable	1,679	1,766
Other liabilities	3,314	3,155
Total liabilities	8,108	10,618
Borrowings	3,115	5,697
Cash and cash equivalents	4,457	3,679
Net debt	(1,342)	2,018
Equity	40,462	37,203
Total capital (Net debt+Equity)	39,120	39,221
Gearing ratio (Net debt/Total capital)	/	5.1%
Debt coverage (Net debt/EBITDA)	/	0,2
Total liabilities/EBITDA	0,6	0,9
Acid test	2,3	1,3

mtel

Income Statement

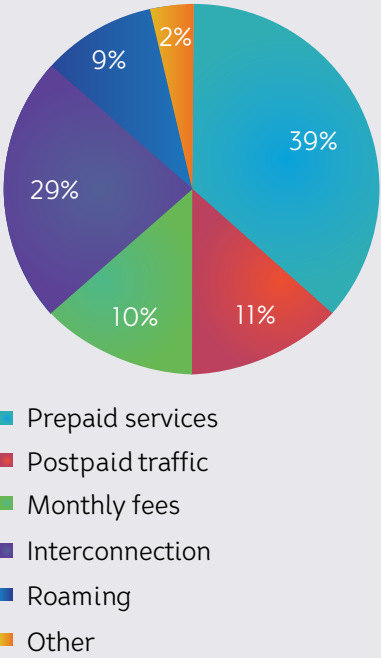
In RSD million	2012.	2011.
Operating revenues	4,860	4,518
Operating expenses	(4,652)	(4,443)
EBIT	208	75
EBIT margin	4.3%	1.7%
EBITDA	1,407	1,195
EBITDA margin	29.0%	26.5%
Financial (expenditures) net	(156)	(147)
Profit tax	16	13
Net profit / (loss)	68	(59)
Net profit margin	1.4%	/

The presented results were influenced by approx. 11% decline of rsd average value vs. EUR.

Faster growth of operating revenues compared to the growth of expenses resulted in an increase in EBIT and net profit amounting to RSD 68 million.

Despite decline in revenues in real values, considerable cost savings resulted in EBIT growth in real values.

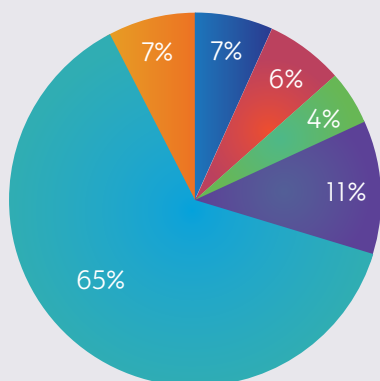
The operating revenues increased by 7.6% compared to the previous year reaching an amount of RSD 4.9 billion. In the structure of operating revenues major share is taken by mobile telephony revenues amounting to RSD 4.6 billion, which is an increase of 7.8%. The revenues from WIMAX services increased by RSD 7.8 million in nominal value. Such growth mostly resulted from WIMAX Internet revenues.



The structure of mobile telephony revenues

The mobile telephony revenues take 95.5%, whereas the revenues from WIMAX services take 4.5% in the structure of operating revenues.

The mobile telephony revenues increased by RSD 335 million. The postpaid revenues increased by RSD 135 million with simultaneous increase in the number of customers (16.0%) and in generated traffic. The prepaid revenues increased by RSD 107 million in nominal value and declined by 4.5% in real value accompanied with the number of customers (4.5%) generated traffic decline.

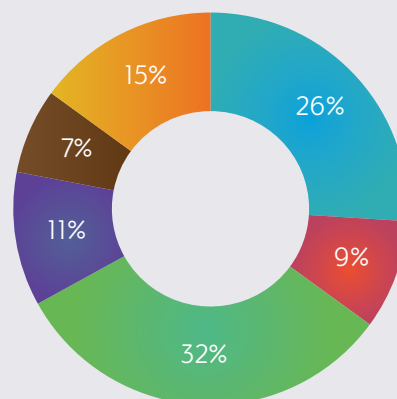


- Traffic
- Monthly fees
- Lease of lines
- Internet wholesale
- Internet retail
- Other

The structure of WIMAX services revenues

Operating revenues from WIMAX services increased by 3.7%.

The operating expenses amount to RSD 4.7 billion so recording an increase of 4.7% (in real values, the operating expenses decline by 5.9%).



- Amortization and depreciation
- Personnel costs
- Operator costs
- Material and maintenance
- Rental costs
- Other

The structure of operating expenses

In the structure of total operating expenses the major share is taken by the operator related costs and the costs of amortization and depreciation, which together make 58% of operating expenses generated in 2012.

The costs of material and maintenance increased by RSD 32.2 million mostly due to higher costs of sold mobile phones, whereas the personnel costs increased by RSD 41.5 million. In real values all expense categories decline compared to 2011.

Balance Sheet

In RSD million	31.12.2012.	31.12.2011.
CURRENT ASSETS	1,324	1,509
Inventories	359	438
Receivables	503	568
Cash and cash equivalents	59	59
Other	403	444
NON-CURRENT ASSETS	5,689	5,911
Intangible assets	1,873	1,985
Property, equipment and advances	3,727	3,830
Other	89	96
TOTAL ASSETS	7,013	7,420
CURRENT LIABILITIES	1,819	2,477
Current portion of long-term borrowings	944	1,769
Accounts payable	534	376
Other short-term liabilities	341	332
LONG-TERM LIABILITIES	2,422	2,455
Long-term borrowings	2,232	2,249
Other long-term liabilities	190	206
EQUITY	2,772	2,488
Total liabilities	7,013	7,420

The inflows from operations resulted in positive cash flow in 2012 despite considerable cash outflow from financing activities.

Cash Flows

In RSD million	2012	2011
Profit / (loss) before tax	52	(71)
Depreciation and amortization	1,199	1,120
Adjustment in profit and change in working capital	71	(333)
Net cash flow from operating activities	1,322	716
Net capital investment	(263)	(133)
Free cash flow	1,059	583
Net cash outflow from financing activities	(1,059)	(549)
Net cash inflow	/	34
Cash as at the end of year	59	59

Ratio Analysis

In RSD million	2012	2011
Total debt	3,176	4,018
Net debt	3,118	3,959
Debt coverage (Net debt/EBITDA)	2,2	3,3
Total liabilities/EBITDA	3,0	4,1
Interest expenditure/operating revenues	3.5%	4.7%
Acid test	0,6	0,4

The Company's debt level declines.

Telus

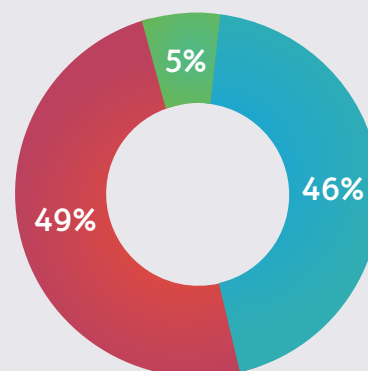
Income Statement

In RSD million	2012	2011
Operating revenues	1,654	1,601
Operating expenses	(1,495)	(1,465)
EBIT	159	136
EBIT margin	9.6%	8.5%
EBITDA	167	149
EBITDA margin	10.1%	9.3%
Finance income, net	53	40
Profit tax, net	(20)	(19)
Net profit	192	157
Net profit margin	11.6%	9.8%

The operating revenues amount to RSD 1.7 billion, which is an increase of 3.3% compared to previous year.

Faster growth of operating revenues compared to operating expenses resulted in an increase in EBIT, EBITDA and net profit, and their margins, too. The net profit annual growth rate is 22.1%.

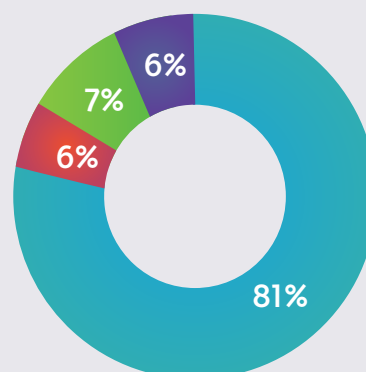
The revenues from sale to the Parent Company make 60.7% of the sales revenues, PE PTT 25.5%, whereas other revenues make 13.8% (2011: Parent Company 62.3%, PE PTT 24.4%, other 13.3%). The finance income, net, mainly refers to income from interest on term deposits.



- Security
- Maintenance
- Other

The structure of operating revenues

The operating expenses amount to RSD 1.5 billion recording an increase of 2.0% mostly due to increasing costs of security and maintenance special services.



- Personnel costs
- Material and maintenance
- Specilized services
- Other

The structure of operating expenses

Balance Sheet

In RSD million	31.12.2012.	31.12.2011.
CURRENT ASSETS	978	799
Inventories	6	9
Receivables	399	378
Cash and cash equivalents	166	58
Term deposits	400	345
Other	7	9
NON-CURRENT ASSETS	31	35
TOTAL ASSETS	1,009	834
CURRENT LIABILITIES	136	162
Accounts payable	32	51
Other short-term liabilities	104	111
LONG-TERM RESERVES	99	90
EQUITY	774	582
TOTAL LIABILITIES	1,009	834

Cash Flows

In RSD million	2012	2011
Profit before tax	212	176
Depreciation and amortization	8	13
Adjustment in profit and change in working capital	(107)	(177)
Net cash flow from operating activities	113	12
Net capital investment	(2)	(3)
Free cash flow	111	9
Net cash outflow from other investing activities	(55)	(18)
Net cash outflow from financing activities	52	38
Net cash inflow	108	29
Cash as at the end of year	166	58

Ratio Analysis

In RSD million	2012	2011
Accounts payable	32	51
Other liabilities	203	201
Total liabilities	235	252
Total liabilities/EBITDA	1,4	1,7
Acid test	7,4	4,9

FiberNet

Income statement

In million RSD	2012	2011
Operating revenues	43	13
Operating expenses	(132)	(33)
Operating loss	(89)	(20)
EBITDA	(44)	(6)
EBITDA margin	/	/
Finance income	16	12
Net loss	(73)	(8)

In 2012 the sales revenues mainly refers to income generated by leasing the transport capacities to related company, m:tel (80%) and to Parent Company (16%), whereas in 2011 the income from related company, m:tel made 97% of sales revenue.

The operating expense growth mainly resulted from increasing costs of depreciation and amortization and of fees for land usage with Montenegro Railways (total growth of RSD 94.3 million), which make 83% of operating expense in the current period. Such growth resulted in higher operating loss and negative EBITDA.

The financial income fully refers to income from interest (income from interest on term deposits makes 94%).

Balance Sheet

In million RSD	31.12.2012.	31.12.2011.
CURRENT ASSETS	373	282
Inventories	22	21
Receivables	27	5
Cash and cash equivalents	45	12
Term deposits	259	225
Other	20	19
NON-CURRENT ASSETS	819	788
Intangible assets	447	433
Property and equipment	372	355
TOTAL ASSETS	1,192	1,070
CURRENT LIABILITIES	105	2
Accounts payable	6	2
Other short-term liabilities	99	/
LONG-TERM RESERVES	81	75
EQUITY	1,006	993
TOTAL LIABILITIES	1,192	1,070

TS:NET

Income Statement

In RSD million	2012	2011
Operating revenues	69	56
Operating expenses	(38)	(30)
EBIT	31	26
EBIT margin	44.6%	46.8%
EBITDA	62	51
EBITDA margin	89.6%	91.7%
Profit tax	(7)	(5)
Net profit	24	21
Net profit margin	35.0%	37.0%

The operating revenues fully refer to income from leasing the equipment (PoP) to Parent Company. Net profit increased (16.9%).

The operating expense growth is considerably influenced by amortization and depreciation costs making more than 80% of operating expenses.

Balance Sheet

In RSD million	31.12.2012.	31.12.2011.
CURRENT ASSETS	137	74
Cash and cash equivalents	123	62
Other	14	12
NON-CURRENT ASSETS	241	235
TOTAL ASSETS	378	309
CURRENT LIABILITIES	6	4
EQUITY	372	305
TOTAL LIABILITIES	378	309

HD WIN

Income Statement

In RSD million	2012	2011
Operating revenues	1,560	815
Operating expenses	(1,926)	(1,425)
Operating loss	(366)	(610)
EBITDA	(332)	(580)
Finance (expenses)/ income, net	(91)	24
Net loss	(457)	(586)

The operating revenues (92%) mainly refer to income from sale of TV rights and sub-licenses, of which 32% is related to operations with Parent Company and 2% with related company, Telekom Srpske. This income resulted in considerable increase in operating revenues.

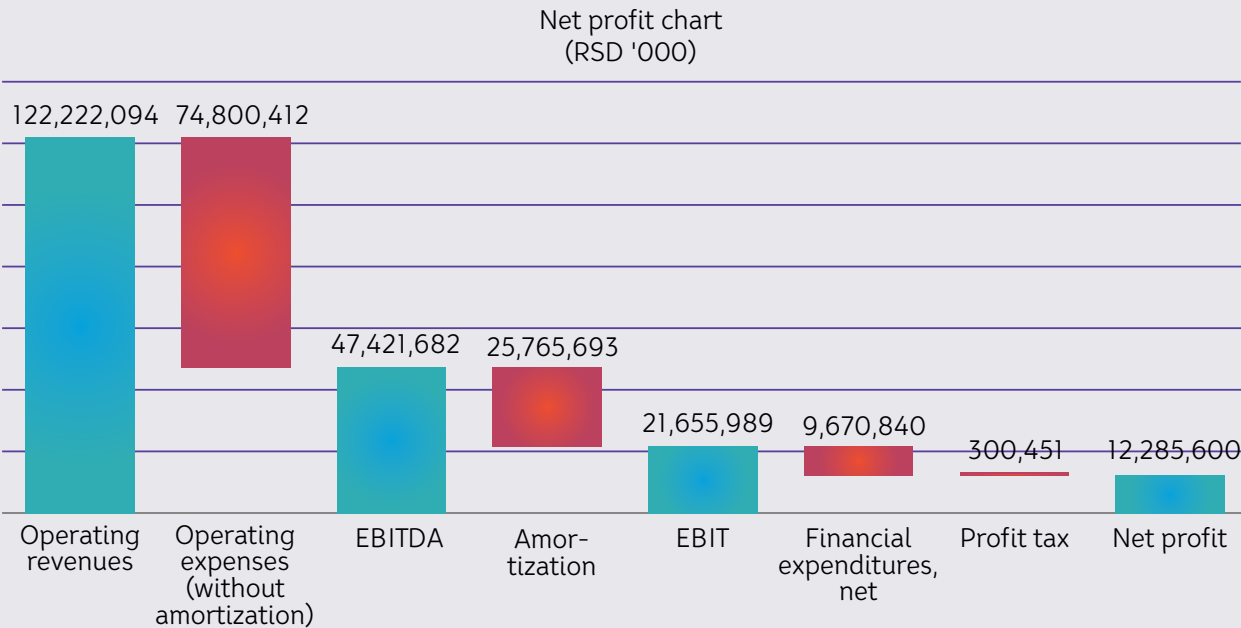
Costs of fees for buying TV rights and licenses make the largest portion of operating expenses (58%) influencing their growth in the current period.

In 2012 net profit on consolidated level amounts to RSD 12.3 billion, whereas in 2011 net profit amounted to RSD 23.2 billion. The net profit decline resulted from forex losses, net and higher interest expense due to higher *indebtedness* of Parent Company. Net profit margin is 10.1%.



KEY FINANCIAL INDICATORS

KEY FINANCIAL INDICATORS

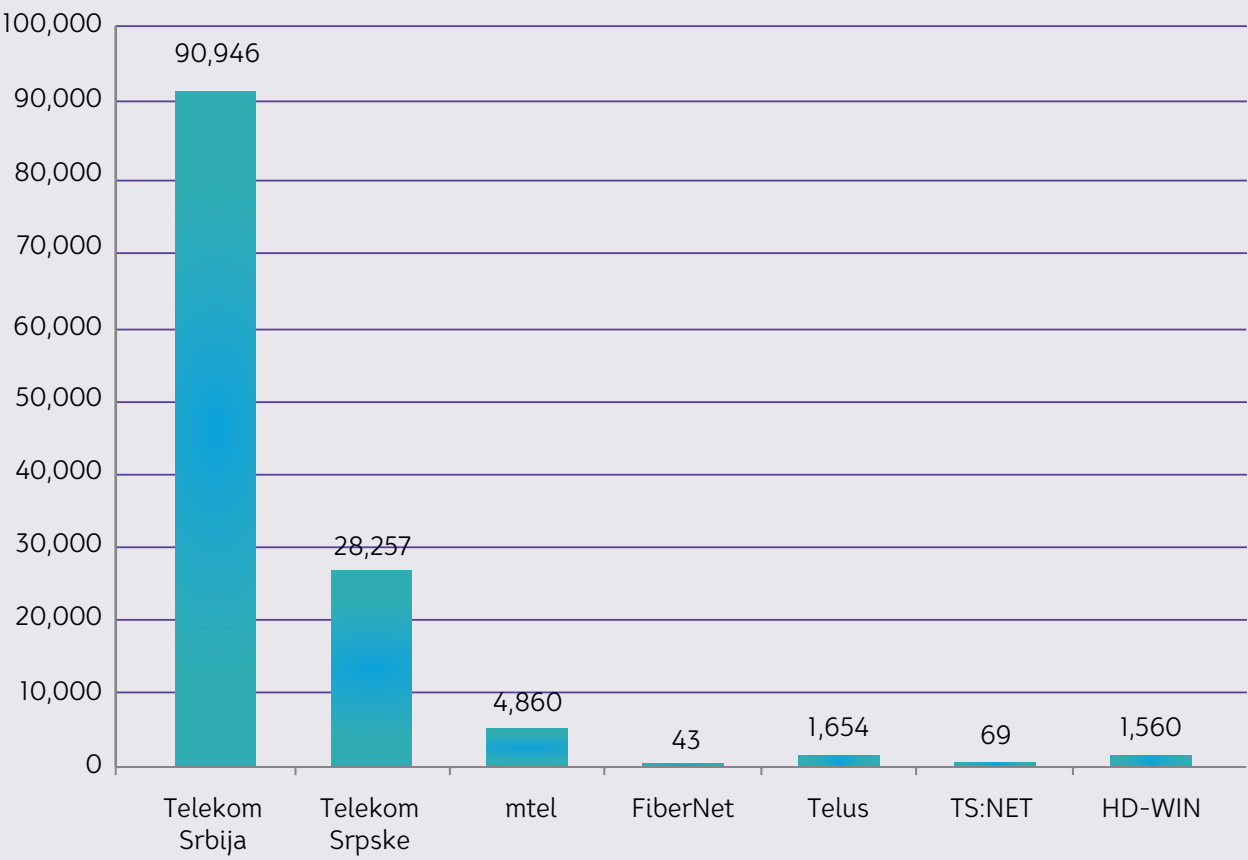


The graph below shows net profit of Parent Com-
pany and related companies in 2012 in RSD million.

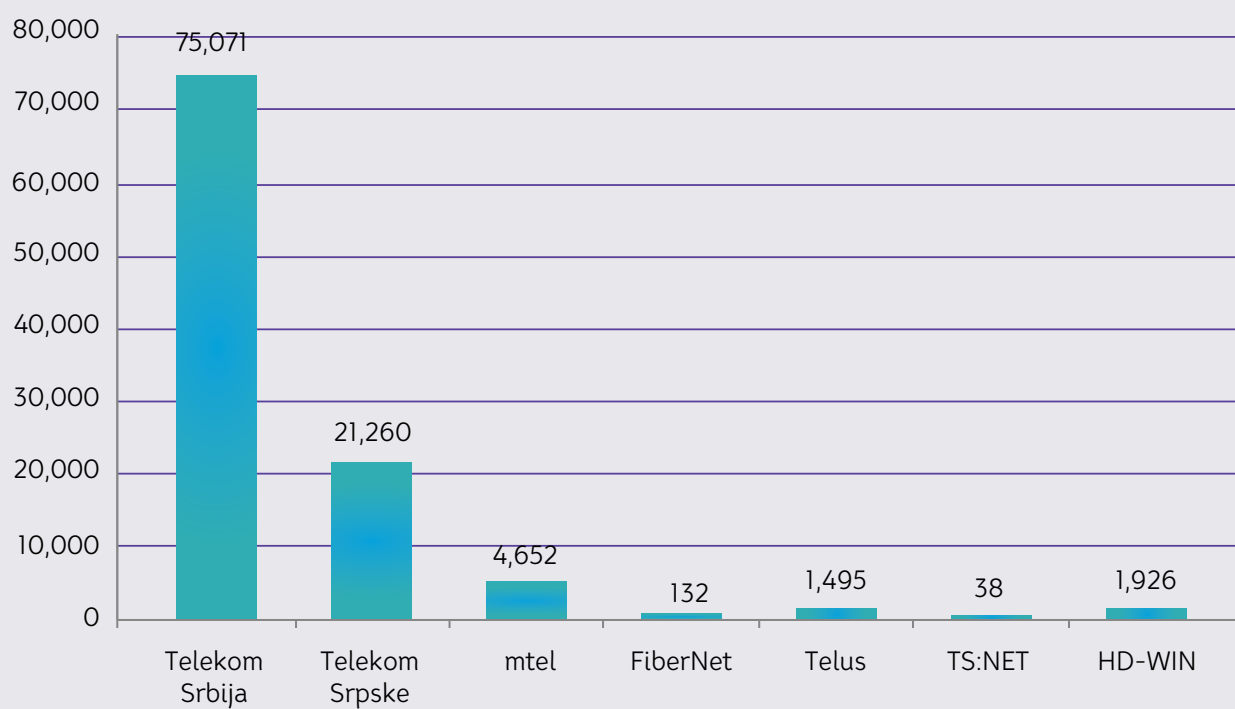
In 2012 consolidated operating profit (EBIT) amounts to RSD 21.7 billion. EBIT margin is 17.7%. EBITDA reaches the amount of RSD 47.4 billion in 2012, whereas EBITDA margin is 38.8%.

The Table below is the review of consolidated and individual Income Statements of Parent Company and of related companies in RSD 2012 in million.

2012	Telekom Srbija	Telekom Srpske	mtel	FiberNet	Telus	TS:NET	HD-WIN	Telekom Srbija and subsidiaries
Operating revenues	90,946	28,257	4,860	43	1,654	69	1,560	122,222
Operating expenses	(75,071)	(21,260)	(4,652)	(132)	(1,495)	(38)	(1,926)	(100,566)
EBIT	15,875	6,997	208	(89)	159	31	(366)	21,656
EBIT margin	17.5%	24.8%	4.3%	/	9.6%	44.6%	/	17.7%
EBITDA	32,677	13,396	1,407	(44)	167	62	(332)	47,422
EBITDA margin	35.9%	47.4%	29.0%	/	10.1%	89.6%	/	38.8%
Finance income/ (expense), net	(5,465)	101	(156)	16	53	/	(91)	(9,671)
Profit tax	841	(713)	16	/	(20)	(7)	/	301
Net profit	11,251	6,419	68	(73)	192	24	(457)	12,286
Net profit margin	12.4%	22.7%	1.4%	/	11.6%	35.0%	/	10.1%



Comparative overview of operating revenues, Parent company and related companies



Comparative overview of operating expenses, Parent company and related companies

