

**CONSOLIDATED
ANNUAL BUSINESS REPORT
TELEKOM SRBIJA A.D.
FOR 2013**



 *Telekom Srbija* **2013.**

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SUMMARY REPORT



TELECOMMUNICATIONS COMPANY "TELEKOM SRBIJA" A.D., BEOGRAD AND SUBSIDIARIES

TELECOMMUNICATIONS COMPANY "TELEKOM SRBIJA" a.d., BEOGRAD

On 23 May 1997, the Public Enterprise of PTT Traffic "Srbija", Beograd (PE PTT or PE of PTT Traffic "Srbija") established the Telecommunications Company "Telekom Srbija" a.d., Beograd (hereinafter: Telekom Srbija or the Company or the Parent Company) when it assigned to the Company all telecommunications assets, including real estate and some other assets and liabilities. The Company was registered on 29 May 1997 as a joint stock company, incorporated for an indefinite period of time.

In accordance with the Law on Business Companies (Official Gazette of RS, no. 36 of 27 May 2011 and no. 99 of 27 December 2011), the Company's General Meeting adopted the Articles of Association in 2012, defining the following management bodies in the Company: the General Meeting, the Supervisory Board and the Executive Board.

The Company's core activity is the provision of telecommunications services, the most important being the services of local and international telephone traffic, fixed telephone services, traffic transit, data transfer, lease of lines, services in the entire network area, add-on services in the field of mobile telephony, fixed services, the Internet and multimedia services. The Company's predominant activity, according to the applicable activity classification, is the cable telecommunications activity.

The Company also provides services in the area of lease, construction, management and

protection of telecommunications infrastructure, it issues telephone directories, provides operator-assisted call services and e-directory services in the field of fixed telephone services.

The Company has a mobile telephony licence (GSM/GSM1800 and UMTS/IMT-2000). In 2007, the Company renewed the fixed telephony licence. Since 2009, the Company has been in possession of a fixed wireless access licence (CDMA).

In keeping with the Law on Electronic Communications (Official Gazette of RS no. 44, of 30 June 2010) the Republic Agency for Electronic Communications (RATEL or the Agency) has defined nine markets that are subject to previous regulation.

Various obligations have been imposed upon the operator depending on the market where it was declared an SMP operator. Among others, the following obligations are prescribed for an SMP operator: announcing certain information in a standard offer form, non-discriminatory actions, enabling access and using network elements and associated facilities, price control, application of cost accounting, prohibition of charging excessive fees, tariff control, etc.

Telekom Srbija was declared an SMP operator in 2011 in all markets, save for the retail market of media content distribution.

Telekom Srbija is a joint stock company whose registered, authorised, issued and paid-in capital consists of 1,000,000,000 ordinary shares.

As at 31 December 2013, Telekom Srbija has a share in the capital of the following subsidiaries:

- *"Telekomunikacije Republike Srpske" a.d. Banja Luka, Republika Srpska, i.e. Mtel a.d. Banja Luka (65% of share capital);*

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- *Društvo za telekomunikacije* (Telecommunications Company), "mtel" DOO, Podgorica, Crna Gora (51% of capital);
- *Privredno društvo za održavanje i obezbeđivanje objekata, imovine i druge usluge „Telus“ akcionarsko društvo*, (Company for providing maintenance and security of facilities, property and other services) Beograd, Republika Srbija (100% of share capital);
- *Društvo za telekomunikacije „FiberNet“ DOO* (Telecommunications Company), Podgorica, Crna Gora (100% of capital);
- *TS:NET B.V., Amsterdam, the Netherlands* (100% of capital); and
- *Društvo za telekomunikacije „HD-WIN“ d.o.o.* (Telecommunications Company), Beograd, Republika Srbija (51% of capital).

SUBSIDIARIES

TELEKOMUNIKACIJE REPUBLIKE SRPSKE akcionarsko društvo, Banja Luka

The joint stock company "Telekomunikacije Republike Srpske" akcionarsko društvo Banja Luka (hereinafter: Mtel) with its seat in Banja Luka, Republika Srpska, is located at the address 93, Kralja Petra I Karađorđevića Street. The company's full name is *Telekomunikacije Republike Srpske akcionarsko društvo Banja Luka*, and two additional short commercial names are also used: *Mtel a.d. Banja Luka* and *Telekom Srpske a.d. Banja Luka*.

Mtel's core activity is the provision of telecommunications services, the most important being the services of national and international telephone traffic. Besides, Mtel offers a wide portfolio of other telecommunications

services, including other fixed and mobile telephony services, data transfer, lease of lines, private lines, services in the entire network area, add-on services in mobile telephony, the Internet and multimedia services. Mtel also provides services in the field of lease, construction, management and protection of telecommunications infrastructure.

As at 31 December 2013, Mtel provided fixed telephony services for 291,371 customers and the Internet services for 161,008 customers, including integrated services for 56,698 customers. Likewise, as at 31 December 2013, Mtel provided mobile telephony services for 1,434,630 customers.

As at 31 December 2013, Mtel had 49% share in the affiliate company Mtel d.o.o. Podgorica (the Republic of Montenegro). The remaining 51% shares is owned by the Parent Company—"Telekom Srbija" a.d. Beograd.

DRUŠTVO ZA TELEKOMUNIKACIJE "mtel" DOO, PODGORICA

In 2007, in a consortium with Ogalar B.V., Amsterdam, the Parent Company was granted 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 mobile network was constructed within 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.

PRIVREDNO DRUŠTVO ZA ODRŽAVANJE I OBEZBEĐIVANJE OBJEKATA, IMOVINE I DRUGE USLUGE „TELUS“ akcionarsko društvo, 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
- hiring staff to perform auxiliary and physical jobs.

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.

In 2013, the planned implementation of the quality standard: ISO 14001 – Environmental Management Systems was carried out.

DRUŠTVO ZA TELEKOMUNIKACIJE “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.

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 (hereinafter: TS:NET, B.V. or the company) is the lease of telecommunications equipment and performance of the related activities for the purpose of creating conditions for the construction and operation of the international transport network of the Parent Company.

DRUŠTVO ZA TELEKOMUNIKACIJE “HD-WIN” d.o.o., BEOGRAD

Telecommunications Company “HD-WIN” d.o.o. (hereafter: HD-WIN or the company or Arenasport) deals with cable telecommunications via TV Channel Arena Sport.

HD-WIN was established on 13 March 2009, under the Decision on Incorporation as a limited liability company and holds the broadcasting rights for sports channels in the territory of Serbia, Bosnia and Herzegovina, Montenegro and Croatia.

On 21 July 2011, under the Agreement on Assignment, HD-WIN’s ownership structure was changed, whereupon “Telekom Srbija” a.d. Beograd acquired 51% stake in the Company.

SUMMARY REPORT

INTRODUCTORY NOTE BY THE DIRECTOR GENERAL

Dear Sirs/Madams,

The Company's business operations in 2013 were marked by the trends present in our market for a number of years. As a consequence of heavy legacy issues, the whole public sector and economy were faced with numerous challenges, and the resulting position of citizens could not be satisfactory either.

Nevertheless, in 2013, we remained firmly committed to fulfilling our business goals so as to be even better prepared for a fierce market competition that was taking place and was becoming increasingly stronger. That is why we can be satisfied with the achieved results.

We achieved considerable growth of net profits, both on the Company level and on the level of the Parent Company and its subsidiaries. It was primarily influenced by stabilisation of the foreign exchange rate in the Republic of Serbia and repayment of significant portion of loans.

We succeeded in reducing the level of operating expenses by applying control measures, both on the Company level and on the level of the Parent Company and its subsidiaries.

Operating revenues and EBITDA have, likewise, recorded a slight decline on the Company level and on the level of the Parent Company and its subsidiaries.

The pressure by the competition and the regulator in all market segments were evident, and it was reflected both in the realized revenue and in the number of customers. Notwithstanding the circumstances, in 2013 we succeeded in arresting the progress of some negative trends from the past, primarily in mobile telephony.

Mobile telephony recorded a slight increase in the number of customers and significant change in their structure in favour of postpaid customers. Attractive service bundles offered to our customers and the quality of network and services made a hefty contribution to reversing the trend.

The number of customers and the traffic generated in fixed telephony are on a downward path, in keeping with the global trend. The number of our *broadband* and IPTV customers already has a stable growth, while our BOX bundle is getting stronger year over year, and it makes a strong distinction versus our competition.

Significant investments in 2013 were targeted to maintenance and increasing the network quality in all segments. Our goal was to enable higher bitrates in data transfer and the quality of all other services, but also to introduce new services, in the domain of integrated ICT services, among others.

In 2013, we ensured financial stability and regularly settled all our liabilities towards creditors, we conducted a re-organisation for the purpose of achieving efficiency of business processes and bringing our services closer to our customers.

In 2013, the decision on payment of an interim dividend of RSD 7.6 billion was passed, which was paid out to our shareholders by this time.

We expect to be facing new challenges in the market and society in the following year as well. We can expect a strong pressure by the competition and the regulator in all segments, particularly in fixed telephony through the introduction of number portability option.

We will respond to such challenges by making further investments in our network and by introducing new services and service bundles,

whereby we will facilitate our customers to use, in an affordable fashion, a wide portfolio of the services we offer.

It will require increased efforts and commitment, both on the part of the management and on the part of employees, achievement of strategic goals which is to be defined in a new Strategic Business Plan, together with innovation of services and technology, and maximum deployment of all resources: human, financial and technical and technological ones and additionally improved optimization of operating expenses.

Our intention is to retain the position of the regional leader in all spheres of business activities by making sound strategic decisions.

Next year, as all these years, Telekom Srbija will continue building its reputation as one of the leading socially responsible companies, that proactively acts in all spheres of cultural, social and sports life, through cooperation with and support to the community and individuals.

I would like to thank all our shareholders, business partners, employees and everybody else who recognize our ideas and support our vision that Telekom Srbija a.d. Beograd, as a national company, should be a modern one and keep up with all trends in the present communications market. I particularly thank our loyal customers who show us their trust and who are the reason why we exist so long and so successfully in the market.

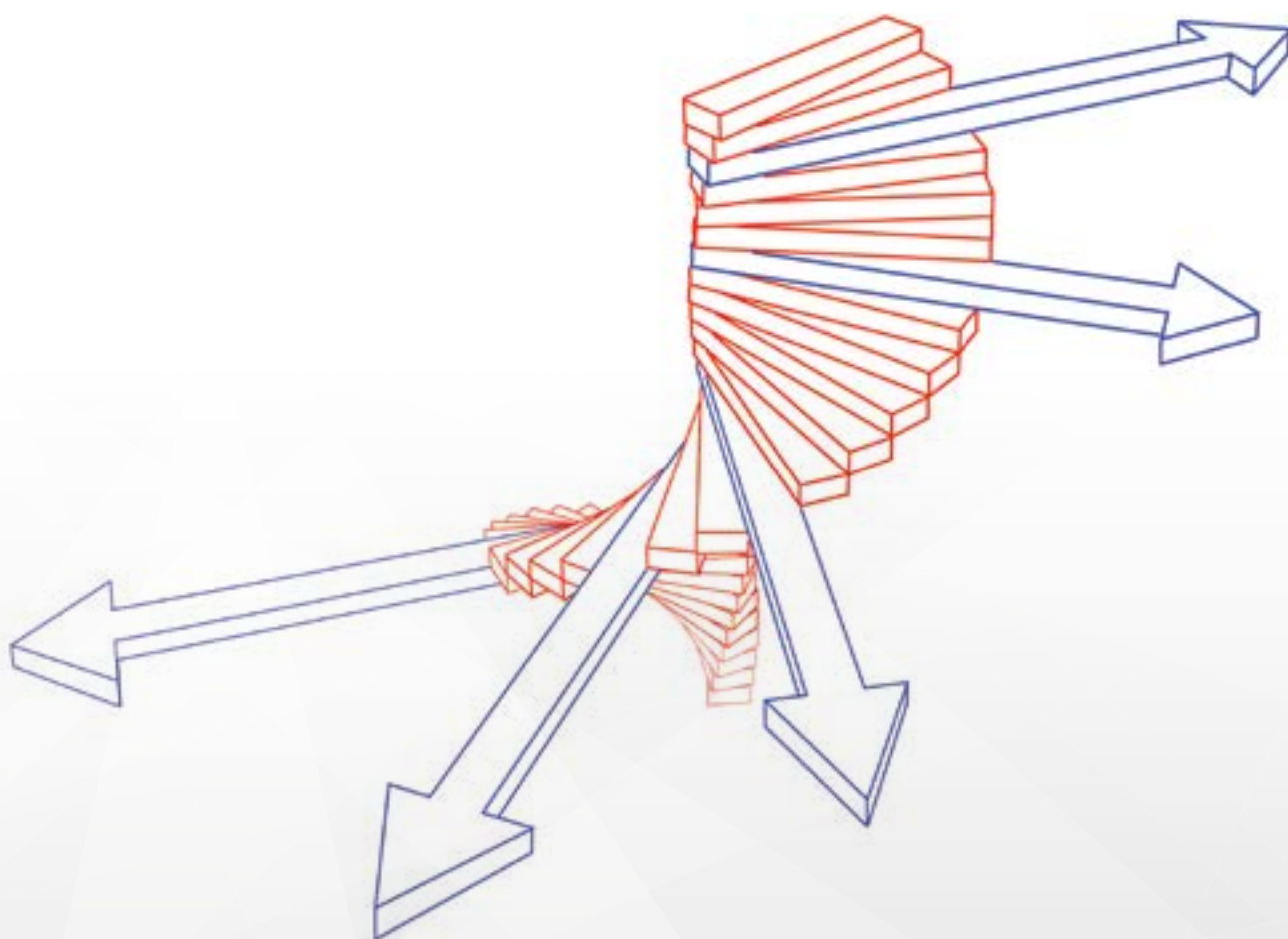
I invite you to continue sharing our vision in the future.

Cordially yours,

Predrag Ćulibrk

Director General of Telekom Srbija a.d.
Beograd

DEVELOPMENT AND BUSINESS ENVIRONMENT



BACKGROUND

Telekom Srbija

May 1997 – the Public Enterprise of PTT Traffic “Srbija” (hereinafter: PE PTT) founded, as single-member joint-stock company, Telecommunications Company Telekom Srbija (hereinafter: Telekom Srbija or the Company or the Parent Company).

June 1997 – Within the privatization of a part of the capital, 49% of shares were sold to STET INTERNATIONAL NETHERLANDS N.V., 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 Telekom Srbija shares, owned by Telecom Italia, and thus acquired a total of 80% shares in Telekom Srbija, while the remaining 20% of shares stayed 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, previously owned by OTE, as the Company’s minority shareholder, whereunder the General Meeting approved the conclusion of the Share Sale Agreement between Telekom Srbija and Hellenic Telecommunications Organization S.A., which was eventually signed on 30 December 2011.

January 2012 – On 25 January 2012, Telekom Srbija paid in full the funds against the stake of the minority shareholder OTE in the capital of Telekom Srbija. Since that date, Telekom Srbija has become the owner of 20% of 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 was 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.

Mtel

The Basic Public Telecommunications Company Republike Srpske, Banja Luka – Mtel,

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was registered on 20 December 1996 and established by 12 December 2002 as a fully state-owned company, when the ownership transformation took place into a joint stock company and its name was changed to *Telekomunikacije Republike Srpske, a.d. Banja Luka*.

In accordance with the Law on Privatization of the State-Owned Capital in Companies, and pursuant to the Decision of the Basic Court in Banja Luka of 12 December 2002, the change of name to *Telekomunikacije RS, a.d. Banja Luka* was registered, as well as a status-related change. Pursuant to the Decision of the Basic Court in Banja Luka of 28 June 2007, the status-related change – ownership transformation – was registered, by selling the total share of the state capital to Telekom Srbija a.d. Beograd.

Following the acquisition of 65% of the state-owned capital, Telekom Srbija became the majority owner of Mtel.

Currently, Mtel has the following capital structure:

- Telekom Srbija, a.d. Beograd, Srbija – 65.01%;
- *Penzijski rezervni fond a.d., Banja Luka* (Pension Reserve Fund) – 9.47%;
- *Fond za restituciju Republike Srpske, a.d. Banja Luka* (Restitution Fund of Republika Srpska) – 5.03%;
- *Zepter fond, a.d. Banja Luka* – 4.89%;
- Other shareholders – 15.60%.

In 2013, a merger procedure was initiated, along with a merger of subsidiary entity – TT Inženjering d.o.o. Banja Luka by Mtel.

Mtel is the owner of 49% stake in Telecommunications Company mtel DOO Podgorica.

mtel

Društvo za telekomunikacije mtel DOO Podgorica was registered on 4 April 2007 in the Central Registry of the Commercial Court in Podgorica, in keeping with the Law on Business Companies of Montenegro (Official Gazette of RCG, no. 6/2002, Official Gazette of CG, no. 17/2007, 80/2008, 40/2010, 73/2010, 36/2011 and 40/2011) under registration number 5-0368574/001.

Mtel's founders were:

1. Telecommunications Company "Telekom Srbija" a.d., seated in Belgrade, the Republic of Serbia, with 51% of shareholding and
2. Ogalar B.V., seated in Amsterdam, the Netherlands, with 49% shareholding.

On 1 February 2010, the minority shareholder of mtel, Ogalar B.V., Amsterdam, the Netherlands, sold its stake to the Telecommunications Company Republike Srpske Banja Luka, Republika Srpska.

In accordance with the Decision of mtel's owner on an increase in capital, dated 12 March 2010, additional capitalization was carried out in the amount of EUR 40,000,000. The funds for additional capitalization were paid by the owners by and inclusive of 15 March 2010, relative to their respective stake in mtel.

mtel is in possession of licences for the performance of telecommunications activity granted by the Agency for Electronic Communications and Postal Services of Montenegro.

mtel's core activity is the provision of telecommunications services and other business activities.

TELUS

Telus was founded pursuant to the Decision of the Telekom Srbija Managing Board and it launched its operations in May 2005 as a closed joint stock company, 100% owned by its founder – Telekom Srbija.

FiberNet

July 2008 – the Parent Company concluded with the Montenegro Railways (Željeznica Crne Gore) a Joint Venture Agreement for the purpose of laying down, operating and maintaining 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.

April 2013 – for the purpose of enabling recovery of a part of the initial capital, the Supervisory Board of the Parent Company passed Decision no. 125658/11-2013 on 25 April 2013, whereby consent was granted for the adoption of the Decision on reducing the initial capital of Fibernet.

July 2013 – On 30 July 2013, the competent corporate body of FiberNet passed the Decision on reducing the initial capital.

TS:NET B.V.

February 2010 - TS:NET B.V. was registered as a closed joint stock company with limited liability. **May 2013** – the Supervisory Board of the Parent Company passed Decision no. 152744/14-2013 on 23 May 2013, whereby consent was granted to the adoption of the Decision on reducing the initial capital of TS:NET B.V., for the purpose of recovering available funds in favour of the Parent Company.

September 2013 – the Supervisory Board of the Parent Company passed Decision no. 288253/11-2013 on 19 September 2013, whereby consent was granted regarding the amount of the approved decrease in capital of TS:NET B.V.

HD-WIN

Telecommunications Company "HD-WIN" d.o.o was founded on 13 September 2009.

As of September 2010, it has been 100% owner of HD-WIN ARENA SPORT in Croatia, that possesses a broadcasting licence for the territory of Croatia.

MARKET

Macroeconomic data

REPUBLIKA SRBIJA

During Q4 of 2012 and early 2013, macroeconomic indicators showed signs of improvement: economic activity was slowly recovering, inflation came to an abrupt halt, while the foreign trade deficit was decreasing.

The information about economic trends in 2013 has been evaluated based on the available and published data. The real GDP growth, in terms of the prices from the last year, in Q4 of 2013, versus the same period last year, accounted for 2.7%. GDP expressed in current prices in 2013 amounts to RSD 3,761.3 billion.

Consumer prices in December 2013, compared to the same month 2012, increased by 2.2%, while the average annual growth equalled 7.8%.

Industrial production in the Republic of Serbia in December 2013 was 0.5% higher compared

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to December 2012, or 9.5% higher compared to the 2012 average. Industrial production in the January – December 2013 period, versus the same period 2012, was 5.5% higher.

The following sector-specific trends were recorded in December 2013, compared to the same month in 2012:

- Sector of power-supply, gas, steam and air-conditioning - 5.9% growth,
- Mining sector – 5.7% growth, and
- Processing industry sector - 1.9% fall.

The strongest influence upon the growth of industrial production in 2013, versus 2012, can be attributed to: production of motor vehicles and trailers, production of oil derivatives, electric power production and the production of chemicals and chemical products.

Total foreign trade commodity exchange of the Republic of Serbia for the January-December 2013 period amounts to:

- USD 35,157.4 million – 16.6% growth compared to the same period last year;
- EUR 26,462.1 million – 12.8% growth compared to the same period last year.

The deficit amounts to USD 5,928.6 million, which accounts for 23% decrease compared to the same period last year.

The export/import coverage index equals 71.1% and it is higher than that in the same period last year, when it equalled 59.3%.

Inflationary pressures in 2013 were rather low, particularly in the second half of the year, when the average monthly inflation rate equalled -0.1%. Along with a low aggregate demand, a good agricultural season and, consequently, lower food production costs were a significant

disinflationary element, while the largest pressure upon inflation was made by regulated prices – almost the entire growth of prices in 2013 (2.2%) owes to the growth of regulated prices (contribution 2,1 p.p.).¹

The average salary without taxes and contributions disbursed in 2013 in the Republic of Serbia, compared to 2012, was 6.2% higher in nominal, or 1.5% lower in real values. The average net salary of employees in the Republic of Serbia in 2013 was RSD 43.932.²

According to the results of the Survey of Work Force from October 2013, the unemployment rate, compared to data from April, dropped by 4.0 p.p., to 20.1%. In the same period, the employment rate increased by 2.8 p.p., and the activity rate by 1.1 p.p.

According to the information provided by the National Employment Service, the number of unemployed, following two declining quarters, has seen an increase in Q4 by 10,174, totalling 769,546 persons.

In early 2013, the reference interest rate equalled 11.5% and was reduced to 9.5% by the end of the year.

The balance-of-payments deficit was reduced to 5.0% of GDP, primarily owing to sharp rise of export in automotive and oil industries.

BOSNIA AND HERZEGOVINA

Within the reporting period, Mtel was, like majority of other business entities in Republika Srpska, under specific influence of the financial crisis and deteriorating economic conditions in the market of Republika Srpska and Bosnia and Herzegovina. Mtel will probably operate

1. <http://www.nbs.rs/internet/cirilica/index.html>

2. <http://www.cekos.rs/prose%C4%8Dne-bruto-zarade-plate-decembar-2013-godine>

in challenging and unpredictable economic circumstances in the forthcoming period as well, which is a consequence of slow-down of general economic activities in Republika Srpska and Bosnia and Herzegovina. The influence of this crisis on business activities cannot be fully forecast, which creates an ambiance of general uncertainty.

To date, the current financial crisis has had a very limited and indirect influence on financial standing and performances of Mtel, primarily due to a decline in operating revenues and slower collection of receivables from buyers, which resulted in increased provision for accounts receivables from buyers, and decreased revenues in fixed telephony.

The sluggish economic circumstances will most probably cause reduced usage of telecommunications services in the market of Republika Srpska and the environment, which will probably result in a slow-down of business activities. This may directly affect the amounts of expected revenues from core activity in 2014.

The GDP growth rate and reduction of deficit:

The real GDP growth in Q3 2013, versus the same period last year, equalled 1.7%. Also, the GDP growth in Q3 2013 amounted to 0.1% compared to the previous quarter.

Total consumer price index for 2013 equalled 5.7%.

Total number of employees in Bosnia and Herzegovina in 2013 amounted to 689,270, and the number of unemployed was 553,762.

The average gross salary per employee:

- according to accounting period Q4 2013 = KM 1,302,
- according to accounting period 2nd semester of 2013 = KM 1,291.

The Central Bank of Bosnia and Herzegovina (CBB&H) has announced statistics of payment balance for Q2 2013, which shows that the current account deficit was recorded in the amount of KM 321.4 million.³

MONTENEGRO

Observing the achieved results at the end of the year, 2013 was a year of great challenges, but also a year of turnover in the economic growth trend and considerable progress towards the recovery of Montenegrin economy.

The available data show that after 2012, when 2.5% GDP decline was recorded, 3.1% GDP growth was realized in the first nine months of 2013.

A moderate growth was recorded in all sectors, save for the processing industry, as well as in the real estate business sector. Starting from the available indicators, with the expectations that the established trends will be retained by the year's end, it is estimated that the Montenegrin economy will achieve real growth of 2.6% in 2013.

From the aspect of public finance, the deficit was reduced to 4.6% of GDP from 6.7% GDP at the end of 2012, owing to collection of revenues in the amounts which were 10.2% higher compared to 2012.

The average inflation rate, in the period January-October, amounted to 2.6%, which was below the level of projected inflation for the current year (3.0%). After the growth of prices during 2012, the annual inflation rate in 2013 had a declining trend and it was on a significantly lower level than that from the previous year. The inflation trend in 2013 was predominantly determined by a rise in the prices of food, electricity, tobacco excise

³. <http://www.cbbh.ba/?id=907&lang=bs>

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duties, the increase in the basic VAT rate from 17% to 19%, and a drop in the fuel and accommodation prices.

The average gross salary in October 2013 amounted to EUR 721, and the average net salary EUR 475. In the period January-October 2013, compared to the same period in 2012, the salaries decreased by 0.4% , net salaries by 1.8%, while the real net salaries were 4.3% lower.

The balance-of-payments deficit for nine-month period in 2013 amounted to EUR 231.7 million and was reduced by 29.1% compared to the same period last year, primarily due to reduction of foreign trade deficit by 6.3% and a positive balance on other accounts.

An increase in the export of goods by 3.8%, together with reduction of import by 4.1% caused the reduction of commodity exchange deficit on the annual basis. The rise of export was mostly influenced by the export of electricity or 197.0% more compared to the same period last year.

Regulations

Telekom Srbija

In accordance with the Law on Electronic Communications (Official Gazette of RS no. 44/10) and the licences issued by the Republic Agency for Electronic Communications, as the competent regulatory body, (hereinafter: RATEL), Telekom Srbija Company "Telekom Srbija" a.d., Beograd performs the activity of electronic communications, which includes: construction and installation, maintenance, using and granting the use of public communications networks and associated facilities,

as well as the provision of publicly available electronic services.

In keeping with the Law on Telecommunications, the Rules on the number and period for which the licence for public mobile telecommunications networks and services is issued, and minimum requirements and minimum amount of one-off fee for licence issuance (Official Gazette of RS no. 29/06 and 77/06), in a procedure of replacing the existing GSM/GSM1800 licence, RATEL issued to the Company, on 28 July 2006, the Licence for public mobile telecommunications network and services of public mobile telecommunications network, in keeping with GSM/GSM 1800 and UMTS/IMT-2000 standards, which was issued for a 10-year period. After the expiry of the said period, the Licence validity is to be extended to further 10-year period, without a demand by Telekom Srbija, provided that the Licence requirements have been met.

On 13 April 2007, in accordance with the Law on Telecommunications, the Company was granted by RATEL, in a replacement procedure, a Licence for construction, possession and operation of public fixed telecommunications network and provision of services of public fixed telecommunications network, issued for the period until 9th of June 2017. After the expiry of the said deadline, Telekom Srbija may file a request for extending the Licence validity, no later than six months prior to the expiry of this Licence.

On 16 June 2009, the Company was granted the Licence for public fixed wireless telecommunications network (FWA) and for voice services, data packet transfer and simultaneous voice and data transfer (CDMA licence). The licence was issued for a period of 10 years, where the

provision of commercial services was to start within six months from the Licence effective date.

Among the activities related to regulatory framework, bearing the implications upon the Company's operations in 2013, we emphasise the following:

- The Company conducted administrative and technical preparations for the process of number portability in fixed network, in accordance with the obligation provided for in the Rules on Number Portability in Public Telephone Networks at a Fixed Location, the commencement of which is projected for 1 April 2014.
- Regulatory Report for 2012 was submitted to RATEL in conformity with the new model (current cost accounting – CCA), as one of the bases for prescribing the prices of regulated services by RATEL.

Mtel

The regulation of telecommunications market in Bosnia and Herzegovina is within the competence of the Communications Regulatory Agency (hereinafter: the Agency), and based on the Law on Telecommunications (Official Gazette of B&H no. 31/03, 75/06, 32/10 and 98/12) and the Policy of Telecommunications Sector and relevant by-laws.

In 2013, the process of public consultations was completed regarding the preliminary draft of the law on electronic communications that was prepared by the Ministry of Communications and Transport of B&H.

In 2013, the Ministry of Communications and

Transport of B&H established the Draft Policy of Telecommunications Sector of Bosnia and Herzegovina for the period from 2013 to 2017, defining the directors for the development of telecommunications market. The existing regulatory framework in B&H is based on the EU regulatory framework.

Mtel operates in conformity with the valid licences granted to it by the Agency, as follows:

- The Licence for a public operator of fixed telephony, as of 1 June 2002;
- The Licence for the performance of the ISP activity, as of 15 March 2013;
- The Licence for the provision of GSM services, as of 12 October 2004;
- The Licence for the provision of mobile services on universal mobile telecommunications systems (UMTS), as of 26 March 2009;
- The Licence for the distribution of audio-visual media services and radio media services, as of 16 March 2010.

In April 2013, pursuant to the Analysis of market of calls terminating in individual mobile networks, the Agency declared Mtel a.d. Banja Luka, BH Telecom d.d. Sarajevo and HT d.o.o. Mostar as SMP operators in the market of call termination in own public mobile telephone network, subject to the B&H network the call originated from.

The Agency has defined various regulatory obligations for the declared operators, such as the provision of access to and utilization of network elements, non-discrimination, transparency, accounting-wise separation, price control and cost accounting.

According to the Instruction on Methodology

DEVELOPMENT AND BUSINESS ENVIRONMENT

of Analysing the Quality of Public Telecommunications Services in Fixed Networks, the Agency must be provided with regular six-month reports on the results of quality measurements of public telecommunications services in Mtel's fixed network, starting from 1 January 2012.

mtel

Full application of the Law on Electronic Communications (Off. Gazette of CG, no. 40/13, of 13 August 2013) begins from 21 February 2014.

Regulation of the telecommunications market in Montenegro is within the competence of the Agency for Electronic Communications and Postal Services (hereinafter: the Agency). Based on the completed Analysis of relevant markets regarding the fixed network, the following operators have been declared SMP operators:

- Termination in fixed network - *Crnogorski Telekom* (Montenegro Telecom) and mtel
- The service of leasing fixed network infrastructure (including LLU) – *Crnogorski Telekom*.

In the market of broadband Internet access, on the retail level, *Crnogorski Telekom* has been declared an SMP operator and respective regulatory obligations for business operations in 2014 have been imposed upon it.

The number portability option has been effective since the beginning of 2012.

Among other things, cost accounting obligation has been imposed upon the operators.

TELUS

A special legal regulation, as to the hygiene maintenance service, does not exist.

As for the services of physical and technical and fire protection, this area is governed by the Law on Weapons and Ammunition (Official Gazette of RS no. 9/92, 53/93, 67/93, 48/94, 44/98, 39/2003, 85/2005-other law, 101/2005-other law and 27/2011 - US), the Law on Private Security (Official Gazette of RS no. 104/13), the Law on Fire Protection (Official Gazette of RS no. 111/2009) and by a few by-laws.

FiberNet

FiberNet operates in accordance with the Law on Electronic Communications of 2013. In 2013, except for the newly-adopted Law on Electronic Communications (Official Gazette of Montenegro 40/2013) there were no amendments to the law affecting the business activities.

TS:NET B.V.

TS:NET B.V. operates under the Netherlands' law. At the end of 2012, amendments to the law entered into force which enabled more flexible form of operations of companies in the Netherlands (*Flex BV act*), and preparations ensued for the purpose of harmonizing the operations of TS:NET B.V. to the said amendments.

HD-WIN

In addition to the laws and legal regulations from the segment of general corporate

operations, the business activities of Arenasport TV are particularly influenced by: the Broadcasting Law (Official Gazette of RS, no.42/2002, 97/2004, 76/2005, 79/2005-other law, 62/2006, 85/2006, 86/2006-revision and 41/2009), the Law on Copyright and Related Rights (Official Gazette of RS, no. 104/2009, 99/2011 and 119/2012) and the Law on Public Information (Official Gazette of RS, no.43/2003, 61/2005, 71/2009 and 89/ 2010-decision CC and 41/2011-decision of CC).

There were no amendments to these laws in 2013, but drafting of a new Law on Public Information and Media is underway.

Telecommunications market

Telecommunications industry, as the core activity of the Parent Company and majority of its subsidiaries, represents an economic sector which records stable revenues accompanied with a mild growth, despite unfavourable market conditions and global financial crisis. Notwithstanding the observed negative trends in economic domain, telecommunications market is still dynamic. In addition to strong competition, primarily in the domain of telephony and the Internet, the activities in this sector are also capital-wise intensive.

The Parent Company and its subsidiaries are specific inasmuch as they operate in the territory of Serbia, Bosnia and Herzegovina and Montenegro, unlike majority of local operators in the above markets. In addition to the aforementioned countries, HD-WIN subsidiary also operates in Croatia and Macedonia, and due to its specific activity, the description of the market where it operates will be separately shown.

Over the last decade, telecommunications markets have been regulated and gradually liberalized per operating segment. Significant indicator of telecom market liberalization is number portability.

For the three key operating markets referred to above, for the Parent Company and its subsidiaries, fixed telephony may be said to have entered a slight declining stage from the aspect of its life cycle, primarily due to attractiveness of mobile telephony and increasingly prominent migration to digital telephony. The number of telephone, cable and Internet operators relying on the voice over Internet technology, constantly increases.

The common trait of all three markets in mobile telephony is firmly established competition with at least three operators, as well as full liberalization of operations based on 3G technology, even though demand for this type of service is still relatively low. Several segments of mobile telephony can be said to be in a stable phase, with a slight increase in the number of customers, primarily those using *postpaid* services. An increase in the number of smart phones contributes to intensification of this segment and opens room for further growth.

The Internet use nowadays represents an irreplaceable segment of contemporary society and an efficient support to the development of information society. The Internet technologies are one of extremely important drivers of economic growth and progress of a country as the increase in the number of broadband Internet connections is in direct correlation with the increase in GDP. The penetration rate of the Internet services is characterized by continuous growth, which is mainly conditioned by fixed broadband access. The services in this operating segment are being constantly developed by means of an increase in the

DEVELOPMENT AND BUSINESS ENVIRONMENT

access bitrates, introduction of various service bundles for specific customer categories and reduction of service bundle prices.

The markets of media content distribution have not significantly changed compared to the previous year, in terms of the transfer structure and technologies. The competition in this segment in all individual markets is extremely intensive, with a large number of distributors.

The common trait of all three main markets of the Parent Company and its subsidiaries, whose core activity is in the field of telecommunications, is further development and extension of *bundled* services, i.e. service packages that incorporate several services, which results in a growth of service bundle subscribers in 2013.

SERBIA

Telecommunications market in the Republic of Serbia has been regulated and gradually liberalized per operating segment since 2006. According to preliminary data of the Republic Electronic Communications Agency, the overall share of telecommunications in the Serbian GDP in 2013 remains on the stable level of almost 5%, with total revenue of EUR 1.6 billion and investments that record 13.4% growth, in the amount of EUR 262 million.

The largest share in the overall revenues belongs to mobile telephony with 56.3% and fixed with 20.9%, followed by the Internet services with 11.9% share and distribution of media content with 7.53%.

The development of IT sector is followed by legal and regulatory activities and liberalization of regulatory regime, including the adoption of the Strategy of Development of Information Society in Serbia by 2020, and the introduction of e-governance program in a number of state institutions.

The fixed telephony market may be said to have entered the liberalisation phase, which will be finalized by the introduction of number portability as of 1 April 2014. As is the case with other markets of fixed telephony, the trend of migration to digital telephony is evident. Likewise, there is an apparently decreased traffic volume through fixed networks due to increasingly dominant share of mobile telephony. However, the importance of this market is still high, as evidenced by the fact that it is only now that some companies are emerging in this segment.

In addition to Telekom Srbija, the companies that have operated in the market of fixed telephony since 2009 are Orion telekom d.o.o., Beograd, formerly known as Media Works, then Telenor d.o.o., Beograd that was granted the licence for public fixed telecommunications network and services in 2010. In 2012, the licences were also granted to Serbia Broadband – Srpske kablovske mreže d.o.o., Beograd, IKOM d.o.o. Beograd and Invest Inženjering d.o.o., Novi Sad, and in 2013 the companies Beogrid d.o.o., Beograd, Knight Development Support, Novi Sad and JET TV, Šabac entered the fixed telephony market in Serbia whereby the number of operators possessing the fixed telephony licence was increased to nine.

According to RATEL's preliminary data for 2013, there were around three million fixed customers in Serbia. Telekom Srbija's operations in fixed telephony segment remain dominant, both in financial and in technical terms.

In mobile telephony market there are still three operators in place: Telekom Srbija a.d., Telenor d.o.o. Beograd and Vip mobile d.o.o. Beograd. All three operators possess licences for public mobile telecommunications network and the services of public mobile telecommunications network in conformity with GSM/GSM1800 and UMTS/IMT-2000 standards issued by Ratel. The licences have been issued for the territory of the Republic of Serbia, for a 10-year

period, whereafter the licence validity will be extended for a next 10-year period, for which the licence holder shall not be required to file a request, provided that all requirements from the licence have been fulfilled.

Several segments of mobile telephony can be considered stable, with a slight increase in the number of customers, primarily those using postpaid services.

The Republic Agency for Electronic Communications announced that the migration of numbers from one to another network in 2013 was increased by 5% in 2013 compared to the previous year.

The Internet market in the Republic of Serbia in 2013 continued the rising trend from the previous years. ADSL is still the most common mode of the Internet access. The Internet access can be also established by means of a cable modem, directly, via Ethernet, by fibre optic cable, wirelessly in bandwidths of 2.4 GHz and 5.8 GHz, which are in free usage mode, in fewer cases by using bandwidths 3.4-3.6 GHz and via UMTS (3G) network of mobile operators.

According to the data of the Republic Statistics Office, in 2013, 59.9% households in Serbia had a computer, which accounts for 4.7% increase, while 55.8% households had the Internet connectivity, i.e. 8.3% increase compared to the previous year. More than 2.6 million persons used computers every day, and more than 2.4 million persons used the Internet on a daily basis. A part of the research conducted by the Republic Statistics Office, related to companies, shows that 100% use computers in their business, 99.6% have the Internet access, while 87.6% use the electronic services of public administration.

ADSL retail segment will remain a significant growth driver in the forthcoming period.

The market of media content distribution in

the Republic of Serbia was not significantly changed in 2013. The operators provided their services through the following public telecommunications networks:

- Cable distribution network (coaxial, hybrid and optical) – KDS, which include analogue and digital cable distribution system;
- Public fixed telephone network– IPTV;
- Satellite distribution network (*Direct to Home*) – DTH.

In 2013, 36 operators pursued their business activities in Serbia, predominantly OpenIPTV and PTT KDS. The digital platform is undeveloped, and consequently Pay packages as well. DTH platform Polaris Media is used, which is also the main mode of distribution of Arenasport channel, owned by our subsidiary HD-WIN, and the market coverage of this subsidiary is around 50%.

In order to enhance the service and its quality, customer retention, defending the market position, and strengthening the Company's image as the operator that provides all types of services, Telekom Srbija constantly enriches its Box packages, or bundled services, by incorporating several services in a unified offer.

BOSNIA and HERZEGOVINA

The share of telecommunications sector in the realized GDP of Bosnia and Herzegovina equals 5.5%. According to the data of the Central Bank of B&H, the estimated value of telecommunications market for 2013 equals 1.4 billion KM.

The structure of realized revenues in telecommunications market is continuously changing in favour of mobile telephony and data transfer in fixed and mobile networks. The

DEVELOPMENT AND BUSINESS ENVIRONMENT

revenues from mobile telephony services in 2013 amounted to some 55% of totally estimated market revenues.

From the life cycle aspect, the fixed telephony market entered the declining phase. At the same time, the market of broadband services enters the maturity phase, save for the segment of data transfer via mobile telephony.

In the market of fixed telephony in B&H, as at 31 December 2013, 13 operators were present, three of which with significant market power, Mtel a.d. Banja Luka, BH Telekom and HT Mostar.

The number of subscribers of fixed telephony of the dominant operators in B&H at the end of 2013 amounted to some 850 thousand (which is 5% less compared to the previous period). The estimated market share of Mtel, from the aspect of number of customers equalled 34.2%.

The liberalization of B&H telecommunications market, particularly that of number portability services for the customers of fixed public telephone services, resulted in a transfer of more than 8,000 numbers in 2013. The penetration rate of fixed telephony in B&H dropped and it amounted to 22.5% in 2013, while compared to the number of households in B&H it amounted to 77.0%.

The services of mobile telephony are used by 92% citizens of B&H, which shows that mobile market is in maturity phase, particularly in the segment of voice and SMS services. It is estimated that the share of smart phones in mobile telephony market this year reached the amount of 40%. In 2013, digitalization of network in B&H was fully completed.

The mobile telephony market in Bosnia and Herzegovina is characterized by operations

of three dominant operators and four service providers. The licence holders for the provision of GSM services in B&H are: BH Telekom d.d. Sarajevo, Mtel a.d. Banja Luka and HT d.o.o. Mostar (Eronet), as well as service providers: Izi, Happy, Haloo and Blic net. Majority of the aforementioned service providers offer the services from the prepaid segment.

Number portability in mobile network commenced on 1 January 2013, with a total of 7 thousand transferred numbers.

The penetration rate of mobile telephony in B&H slows down the growth and it was estimated at 92% in 2013 with some 3.5 million mobile customers.

Mtel's market share, according to internal assessments, from the aspect of the number of customers on the level of B&H, amounted to 43.0%, with some 17% share of *postpaid* customers.

The penetration rate of broadband customers in mobile network was 4%.

During 2013, the dominant operators continued their activities on developing UMTS networks in Bosnia and Herzegovina. The existing UMTS networks cover the population of Bosnia and Herzegovina by approximately 60%.

In May 2013, Mtel became the first operator in Bosnia and Herzegovina that implemented an LTE pilot project and thus it became entitled to be exempted from the digital dividend.

On 31 December 2013, 71 ISPs operated in Bosnia and Herzegovina (2012: 64).

The Internet services penetration rate in the market of B&H is characterized by continuous growth, primarily due to fixed broadband access. The number of users of fixed broadband access in B&H in 2013, amounted to

some 507,000, which means that the penetration rate compared to the number of citizens in B&H equalled 13%. The penetration rate of fixed broadband access versus the number of households in B&H amounted to 44%. Mtel's market share on the level of B&H, in the field of fixed broadband access, is internally estimated at 23%.

MONTENEGRO

In the market of Montenegro direct operations are performed by mtel, FiberNet and HD-WIN, in the segment of mobile telephony, fixed telephony (via Wi-Max network), distribution of media content and provision of transport capacities for the providers of communications services, as well as connection with foreign telecommunications networks.

The mobile telephony market is characterized by strong competition, with three operators in place, that aspire towards full modernization of mobile network, extension of radio spectre, better offer of handsets in the market and the development of services and multimedia content. In the fixed telephony market, there is an evident domination of T-com, as well as a number of operators providing services by means of digital technology. Mtel provides fixed telephony services via Wi-Max network.

The number portability project is present in this market.

Four cable operators perform business activities in Montenegro, predominantly ExtraTV (T-com) and BBM, with a developed bundle sale. From the subsidiary HD-WIN, DTH platform TotalTV is used which does not have Arenasport channels.

HD-WIN operates in two other markets, in Croatia and Macedonia.

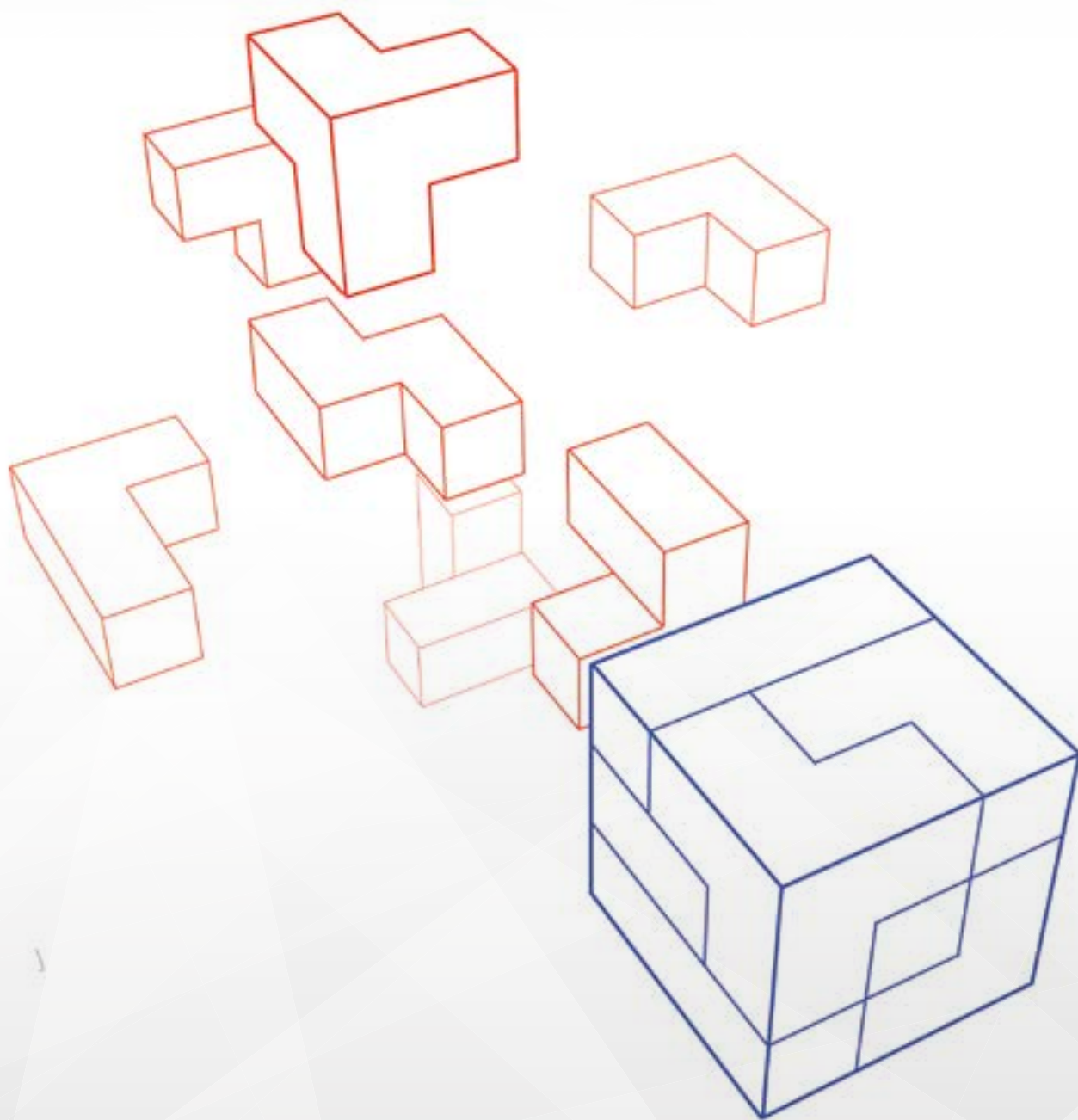
Croatian market of cable distribution is characterized by exclusive presence on IPTV and DTH MaxTV platform of the Croatian Telecom and a developed bundle sale. As in the previously described markets, DTH platform TotalTV is used by the subsidiary, covering around 60% of the market.

In Macedonia, HD-WIN is exclusively present on the IPTV MaxTV platform of the Macedonian Telecom. The platform used in this market is also DTH from TotalTV, with some 30% market coverage.

The main competitor in the markets where Arenasport operates is IKO media with its SportKlub channels, member of the United Group.

Unlike all the aforementioned companies, the subsidiary Telus performs the activities of regular maintenance of business premises and physical security of facilities and property and it operates in the territory of the Republic of Serbia. In 2013, the main clients were Telekom Srbija and PE PTT (85% of the sales revenues) and other non-affiliated clients.

CORPORATE MANAGEMENT



CORPORATE MANAGEMENT

Corporate management is a system for the management and control of business companies. Such management approach makes it possible for Telekom Srbija to implement better mechanisms of organization and control and assign competences in an efficient manner. This approach also enables Telekom Srbija to gain the trust of investors. The distinction between the ownership right and the management of Telekom Srbija, responsibility towards the shareholders, taking care of the shareholders' interests, transparency and mandatory information requirements represent the current principles which provide for better results.

A good corporate management is the practice that also contributes to a sustainable economic growth by improving the business result of the Company, the company growth and profitability. As a business company that is engaged in one of the core infrastructure activities in the society, Telekom Srbija thus provides an incentive to the numerous business partners and to the society, as a whole.

CORPORATE BODIES AND CORPORATE MANAGEMENT SYSTEM

Telekom Srbija

In order to organize the management of the Company and respond to the business challenges in the best possible way, 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 accomplish

its operating goals through the operating units headed by the executive directors.

The scheme on the next page shows the organizational structure of Telekom Srbija.

GENERAL MEETING

The General Meeting is a corporate body of the Company where the shareholders may exercise their ownership rights. The General Meeting is composed of all the shareholders of the Company. In 2013, two sessions of the General Meeting were held: 45th regular session of the General Meeting held on 27 June 2013 and 46th extraordinary session of the General Meeting held on 18 December 2013.

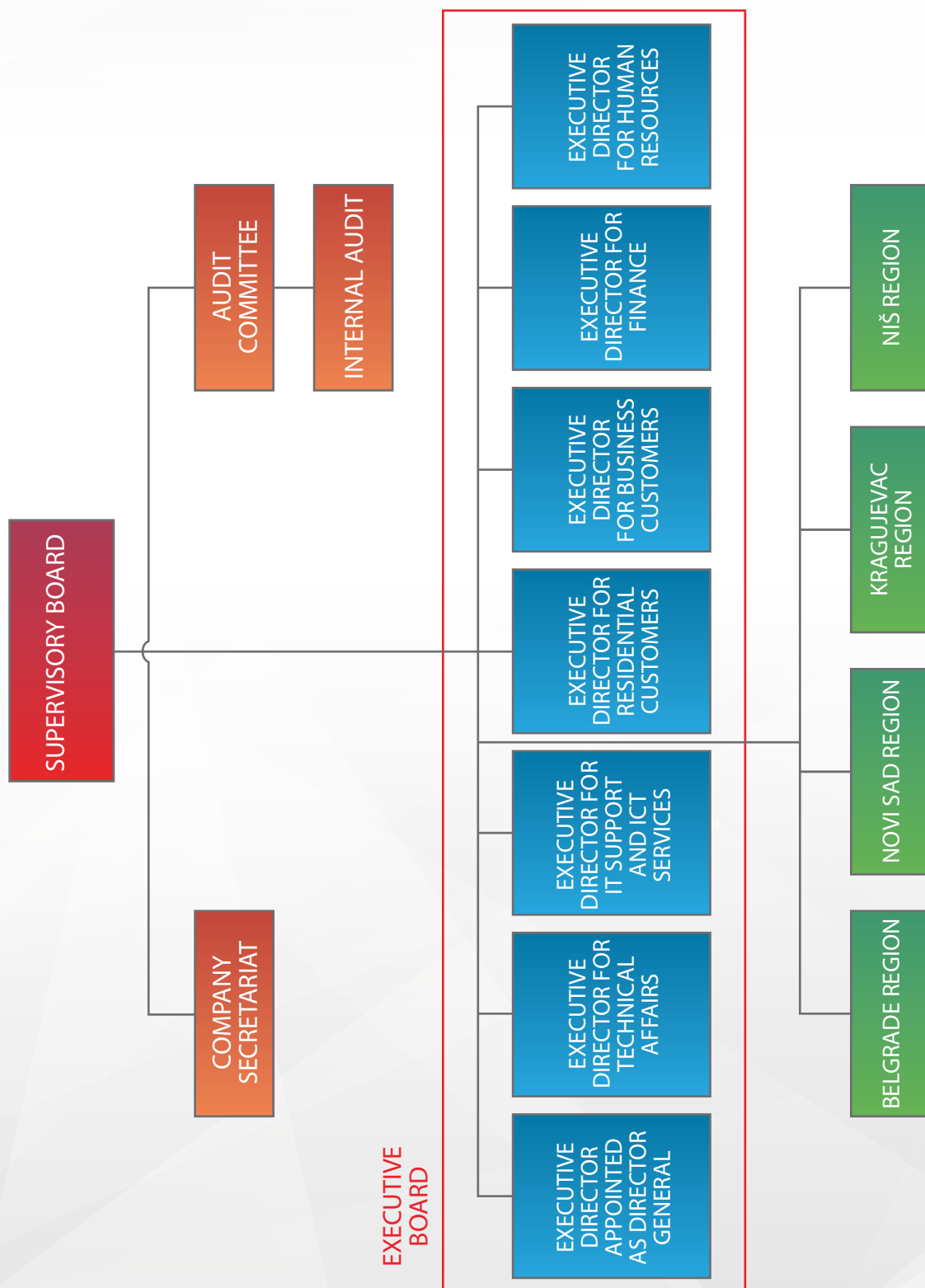
SHAREHOLDERS' RIGHTS

The Company guarantees for 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 Company website),
- participating and voting at the General Meeting session,
- provision of the timely, true and full information about the issues of particular importance for the Company's operation concerning the significant corporate

CORPORATE MANAGEMENT



Telekom Srbija Organizational Structure

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,

- ensuring the equal treatment of all shareholders (including the minority and foreign shareholders), especially the efficient legal protection of the rights of the minority shareholders against any abuses by the majority shareholders.

The Company prohibits and shall continue to combat any unauthorized trade in shares based on confidential (insider) information and any possible cases of abuse that may occur in connection with any transactions made.

SUPERVISORY BOARD

The Supervisory Board is a corporate body of the Company. The number of the members of the Supervisory Board is established by the Company Articles of Association observing the principle setting forth that the prescribed number should provide for a continuous operation with a team possessing the skills and expertise necessary for the operation of the Supervisory Board. The Supervisory Board consists of 7(seven) members of whom at least one member is an independent member in accordance with the applicable Law on Business Companies.

The Supervisory Board and the members thereof shall be conscientious and loyal to the Company and the shareholders and shall perform the tasks falling within the scope of their responsibility with due diligence and with the reasonable belief that their actions are in the Company's best interest.

The members of the Supervisory Board shall:

- base their decisions on a reasonable and competent judgement and all available information and opinions rendered by the relevant experts,
- observe the rules related to the conclusion of transactions that involve any personal interest and competition ban in any dealing and/or legal transaction which is entered into by the Company or which is subject to a decision of the Bodies,
- during and after the expiry of their terms of office, treat the data and material concerning the Company as confidential information no matter whether such information is confidential, in accordance with the Company's policy and internal by-laws governing confidential information.

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

The candidates for the Supervisory Board members are nominated by the Supervisory Board, the Appointment Commission, if any, or by the Company's shareholders who have the right to propose the agenda for the General Meeting session.

AUDIT COMMISSION OF THE SUPERVISORY BOARD

In order to increase the operating efficiency and in accordance with the Articles of Association of Telekom Srbija, on 13 December 2012, the Supervisory Board passed a decision on setting up the Audit Commission of the Supervisory Board of Telekom Srbija a.d. The Audit Commission is responsible for its work to

CORPORATE MANAGEMENT

the Supervisory Board of the Company and is obliged to submit the reports on the operations and activities taken by it, in compliance with the competences laid down by the applicable legal regulations, at least twice a year any time the Supervisory Board requests such reports to be submitted. The Audit Commission has 3 (three) members one of whom is the chairman of the Commission.

The Audit Commission oversees, but does not manage, the process of financial reporting. Its role is primarily to ensure that the procedures, actions and audits performed by the management and the external auditor provide for the identification and remedy of errors and irregularities, i.e. make it possible for them to prepare and issue the financial statements in a fair and adequate manner. Likewise, the Audit Commission supervises the performance of tasks related to the internal supervision of the Company and nominates the manager of the organizational unit in charge of internal supervision in the Company.

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

EXECUTIVE BOARD

The members of the Executive Board, including the Director General, are elected by the Supervisory Board. The members of the Executive Board are executive directors. The Executive Board has 7 (seven) members. The Executive Directors, i.e. the Executive Board manages the Company's activities within the respective scope of responsibilities set forth under the Law and the Company internal by-laws.

COMPANY SECRETARY

Telekom Srbija has the Company Secretary that is appointed by the Supervisory Board. The competences of the Company Secretary are governed by the Articles of Association of the Company and the relevant decisions of the Supervisory Board.

STATEMENT ON THE APPLICATION OF THE CODE OF CORPORATE MANAGEMENT

Telekom Srbija has been 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 answers is exercised by the shareholders with at least 1.0% of the total number of the Company shares 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, insisting on a census in line with the Articles of Association is imperative because its absence might affect the 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 at 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.

CORPORATE MANAGEMENT

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 an Audit Commission 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 consists of 7 (seven) members. The executive directors are appointed by the Supervisory Board and one of the executive directors authorized to represent the Company is appointed as the director general of the Company by the Supervisory Board. When electing the 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 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 COMPANY BODIES

The General Meeting passed Decision No. 117294/12 of 20 April 2012 determining the remunerations paid to the chairman and members of the Supervisory Board (with amendments No. 203325/11-2013 of 27 June 2013) and Decision No. 117294/13 of 20 April 2012 on determining the remuneration policy for the work of the executive director appointed as director general and other executive directors of Telekom Srbija a.d. (including the employment contracts of the director general and other executive directors) (with amendments No. 203325/12-2013 of 27 June 2013). The Supervisory Board passed Decision No. 380052/6 of 13 December 2013 on setting up an Audit Commission of the Supervisory Board of Telekom Srbija a.d. whereby, among other things, it stipulated the right to remuneration for the chairman and members of the Commission.

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 head of Internal Supervision 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. 152744/18-2013 of 23 May 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 Rules on Internal Audit in Telecommunications Company Telekom Srbija a.d. (No. 152744/17-2013 of 23 May 2013), 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

CORPORATE MANAGEMENT

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 of the Company's operation for 2013.

Mtel

The operation of Mtel, as a corporation i.e. joint stock company, is defined by the provisions of the Company Law of Republika Srpska. Pursuant to these provisions and the Articles of Association of Mtel, the bodies of Mtel are as follows:

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

The Managing Board has 7 (seven) members, two of whom were elected in March 2013 under the Decision of the General Meeting.

The Executive Board is composed of the director general and executive directors, as follows:

- Finance Executive Division,
- Technical Affairs Executive Director,
- Corporate Affairs Executive Director,
- Marketing and Sales Executive Directors.

The Strategy Function in Mtel is organized as a support function.

The Audit Board has 3 (three) members and is in charge of auditing the Mtel reports.

THE STATEMENT ON THE APPLICATION OF THE CORPORATE MANAGEMENT STANDARDS

For the purpose of improving the corporate relations between the interested parties that arise from the applicable legal regulations and internationally accepted standards and the best experience in the corporate management practice, Mtel adopted its own Code of Conduct and Corporate Management which it has applied in all cases. This Code specifies in more detail the mechanisms of functioning of the bodies of a joint stock company and protection of interests in mutual relations of various stakeholders in Mtel. The Code was

established on the basis of the Company Law of Republika Srpska, the provisions of the Corporate Management Standards, Corporate Management Principles, as adopted by the OECD.

Any matters that are not regulated by the Code, shall be directly subject to the provisions of the Company Law, provisions of the Corporate Management Standards as prescribed by the Securities Commission, provisions of the Articles of Association and other general by-laws of a joint stock company.

By permanently applying the set standards and by managing and supervising the business and managing functions in a proper and responsible manner, the joint stock company will enhance the competitive capacities and provide for a better environment for investment activities of a joint stock company.

During 2013, thanks to the application of the Corporate Management Standards and own Code of Conduct and Corporate Management, Mtel secured an efficient application of the corporate management principles of a joint stock company by the action referring to:

- ensuring the basis for an efficient application of the principles of management of joint stock companies;
- the shareholders' rights and key ownership functions;
- equal treatment of the shareholders;
- role of the interested parties – stakeholders in the management of joint stock companies;
- issuance and publicity of information and,
- role and responsibility of the board.

The statement of the joint stock company certifying compliance of the organization and

activity with the code of conduct, i.e. corporate management standards, constitutes an integral part of this reports and is published on the Internet web page, under section Investors:

<http://www.m:tel.ba> and web page of the stock exchange: <http://www.blberza.com>.

mtel

Pursuant to the Articles of Association of Mtel, the bodies of Mtel are as follows:

- Board of Directors composed of the President of the Board and additional four members and
- Executive Director.

The Executive Director shall appoint the managers who will be responsible for certain fields of operation.

TELUS

The management of Telus is organized as a one-tier board system.

The bodies of Telus are:

- General Meeting and
- Managing Director

The organizational structure of Telus is as follows:

- Head Office and
- Territorial centres

The Head Office is divided in four organizational units:

- Managing Director's Office:
 - Assistant Director for Cleaning and Regular Maintenance
 - Assistant Director for Physical and Technical Security

CORPORATE MANAGEMENT

- Section for Legal and General Affairs
- Commercial Section
- Finance Section.

The territorial centres of the company are organized in:

- Belgrade,
- Niš,
- Kraljevo and
- Novi Sad,

and are managed by the Heads of Territorial Centres.

FiberNet

The bodies of FiberNet are:

- The Founder, and
- The Executive Director.

TS:NET B.V.

The bodies of TS:NET B.V. are:

- General Meeting and
- Board of Executive Directors

TS:NET B.V. is managed, with the authorizations and competences of the Board of Executive Directors, by legal entity Sovereign Trust B.V. of Amsterdam based on a special Management Contract, while the activities related to the General Meeting are taken by the director general of the Parent Company in the capacity of a founder.

HD-WIN d.o.o.

The bodies of HD-WIN are: the General Meeting and the Managing Director, so that the management of HD-WIN is organized as a one-tier board system.

HD-WIN is organized in the following units:

- Managing Director's Office
- Technical Affairs Department
 - Studio Technology Section
 - Satellite Direction Section
 - IT and Development Section
- Production Department
- Program Department
 - Revision Section
- Marketing and Sales Department
- Economic and Legal Affairs Department

The only corporate body in HD-WIN is the General Meeting of the Company which is composed of all the shareholders /members of the Company. The General Meeting enables all the members of the Company to exercise their ownership rights. The sessions of the General Meeting are held periodically in order to define the basic guidelines of the Company development, the strategy for the acquisition of sports content, market approach and to take other decisions of strategic importance of the Company. At sessions, the members of the Company are also informed about the business results achieved and about further development trends in accordance therewith.

The General Meeting of the Company is the body that grants consent and approval for entering into an Agreement with the value exceeding EUR 1 million, considering that

the Accession Agreement stipulates that the Director General of the Company is authorized to enter into Agreements with the value of up to EUR 1 million, while the Agreements exceeding this value shall be concluded only with the consent of the General Meeting.

BUSINESS OPERATIONS



STRATEGY

The Parent Company and its Subsidiaries hold a unique position in the domain of telecommunications primarily on the markets of Serbia, Bosnia and Herzegovina and Montenegro offering to their clients the integrated services based on the provision of the widest spectrum of high-quality convergent services. Thus, they contribute to the entire economic recovery and further development of the region by supporting other economic segments at the same time increasing their own business activity and evolving their brand perception.

The Parent Company and its Subsidiaries have a leading position in numerous business segments, primarily on the above mentioned markets in the region, and such position is constantly maintained by innovative development of the integrated operator's networks and services.

The high business ambitions are reflected in aspirations towards a continuous growth and development with a strong connection with

customers whose wishes and needs in the domain telecommunications we are trying to identify and accommodate. We endeavour to provide them with all basic advantages of the modern society, such as, global connection and high-quality means of communication and entertainment.

The contemporary market activity is increasingly characterized by intangible values, beside the material values, which primarily imply:

- Human capital, i.e. the competences and skills that are necessary for the employees to support the business strategy,
- Information technology capital or information technology system, data bases, techniques and methods that are necessary for strategy implementation, and
- Organizational capital, i.e. the ability of the organization to conduct the process of changes that are necessary for the implementation of a value creating strategy.

The competitive capacity of the Parent Company and the Subsidiaries is constantly increased tracking the trends and development of the technological base, economic environment and customer affinity. This primarily refers to the companies that provide a wider spectrum of telecommunications services, such as Telekom Srbija, Mtel and mtel. Their strategic orientation is the development of all business segments, i.e. fixed and mobile telephony, Internet and multimedia.

The Management and employees of the Parent Company and the Subsidiaries are constantly engaged in improving and strengthening both the quality and diversity of services and the organizational efficiency in order that they could respond to high customer demands in the extremely competitive business environment.

Beside the continuous development of the technical and technological base, one of the key development modalities in the field of telecommunications is promotion of integrated services and their adjustment to specific user groups through service packages. The further development of commercial service packages and improvement of the service portfolio will secure and maintain the leading position on the markets on which such companies operate.

Since mobility is of the basic customer requirements today, the Parent Company and the Subsidiaries have invested significant funds in the multimedia services that have become an indispensable part of each package. In this respect, the on-line sales channels and mobile payment services have also been introduced. Business customers represent another customer segment which demands specific packages.

The retention of the existing and attraction of new customers is more successful thanks to the further development of mobile applications, frequently in synergy with social networks and various types of smart phones that

are offered in the market. In the forthcoming period, the Parent Company will make a surprising offer for its customers in the domain of smart phones by introducing a brand new manufacturer of top-class equipment to the Serbian market.

The specific strategic goals of FiberNet are - besides establishing the closer connections with mtel via fibre optic infrastructure - connection via fibre optic technology with Albania and Republika Srpska and lease of optical fibres. The connection with Albania would help open a new market for the sale of Internet services.

The business strategy of TS:NET B.V. is directed towards the creation of conditions for the construction and operation of the international transport network of the Parent Company.

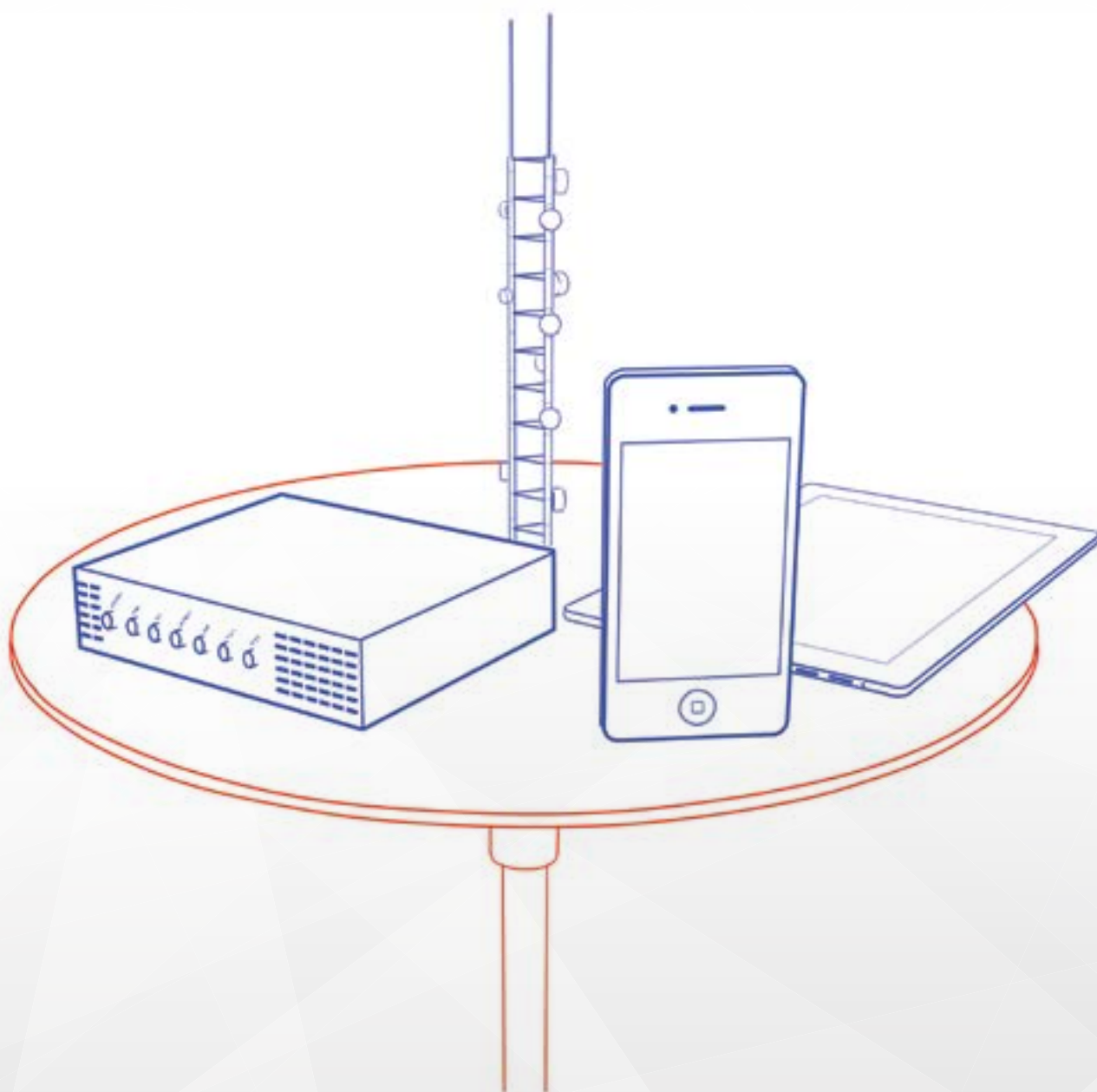
The main strategic goal of HD-WIN is first to retain and expand the premium content that is broadcast on the company channels on each individual market and then, to enlarge the customer distributor / base and possibly win some new markets.

On the commercial level, the Parent Company and the Subsidiaries will endeavour, by optimizing their brands, to ensure that the customers could better recognize the values and functionalities of marketing and sales operations.

In the domain of marketing, innovative spirit will be appreciated primarily in the domain of mobile applications and Internet with target companies, which is in line with the global increasing trend when the use of Internet and social networks is concerned.

The specific nature of the activity conducted by Telus requires a special business strategy, which is based firstly on the retention of the existing clients and then, on a gradual expansion on the market of services that fall within the registered activity, with a focus on the medium-sized and large business entities.

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SERVICES

Telekom Srbija

Telekom Srbija, the leading telecom company in the region, offers to its customers a wide range of services: mobile and fixed telephony, Internet, multimedia, data transmission.

The Company tends to respond to its customers' requirements and remain competitive in the market by launching new services while keeping the pace with continuous technological development in this sphere.

BUSINESS CUSTOMERS

Aimed at meeting the business customers' needs and making the Telekom Srbija's offer complete, a new antivirus protection service was launched in the first quarter of 2013, enabling the customers to use larger number of antivirus software products for all types of customer equipment and data.

In February 2013, new Internet tariff packages (NET packages) were introduced for residential and business customers with the bitrate up to 5/1 Mbps, 10/1 Mbps, 20/1 Mbps, 30/2 Mbps, 50/2 Mbps and 100/2 Mbps.

In March 2013, BOX 3 and BOX 4 service packages were introduced, which were intended for SOHO users including fixed telephone connection, asymmetric Internet access, mobile telephone line and/or basic open IPTV package for business customers.

In August 2013, the offer for business customers was extended by introducing a new Wifi BUS service as a complete solution enabling the customer to buy MiFi device (WiFi modem with GSM module and SIM card) together with chosen WiFi Bus packages.

The CCaaS (*Contact Centre as a Service*) service offers to business customers a complete

outsourcing solution for Contact and Customer Centres, using the infrastructure of Telekom Srbija Contact Centre with optional engagement of people employed with the Company.

In the sphere of mobile package-based communication, the Mobile Net Packages service has been launched applying the latest methods of providing the service to customers based on E2E QoS system for FUP (*fair user policy*). The customer that has consumed free traffic within the package is not charged for the exceeded free traffic quota, but such customer is allowed to continue free usage, at lower bitrate of 64kb/s.

In September 2013, the wavelength leasing service was launched in the sphere of data transmission services enabling connection of various customer locations on the OSI model first layer and fast data transmission via DWDM technology. Point to point network topology is applied in the long distance locations. The service is intended for business customers and mostly used for connecting data centres, i.e. SAN networks for the purpose of implementing the *Disaster Recovery* solution.

In order to improve the sale of services to business customers, the BlackBerry BES 10 service has been launched, by applying BlackBerry 10 platform and new BlackBerry 10 operating system, which enables control not only of BlackBerry 10 *smart* phone but also of phones with specific versions of Android and IOS operating systems. The service offers the new possibility of separating private and business environment on the very phone.

By the end of 2013, the service of Nomadic BizFon connection was launched for the calls in national and international traffic via the Internet using the appropriate client software. Nomadic BizFon connection is a part of BizFon group.

By the end of the year, due to the large number of interested customers, the e-Data service

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was introduced, providing access to the data stored in the public telephone directory and to the data located on the portal 11811.rs to the business customers with the specific requirements in terms of using some or all publicly available data for establishing contact and communication with Telekom Srbija customers in compliance with the privacy and electronic communications regulations.

RESIDENTIAL CUSTOMERS

Within the X Factor partnership project, the X Factor add-on was introduced, enabling the customers to watch the exclusive *live stream* contents and galleries from the X Factor serial. The contents include audition recordings, presenting news, voting, feature stories from recording the shows, etc. There are 3 levels of accessing the contents within the add-on.

After launching the *Fair Usage Policy* (FUP) functionality the *mt:s prepaid* and *postpaid* customers have been offered the unlimited Internet. The users can *surf* the Internet at maximum bitrate as long as they have data quota; after the data quota has been consumed they can use free Internet at lower bitrate (64/32 kb/s).

The Farm Android App enables the user to watch broadcasting of the fourth reality show, the Farm. This app works on Android-supported devices – version 2.1 or more advanced versions. The farm live app could be downloaded by our all private *prepaid* and *postpaid* customers. The app was commercialized in April 2013 and finalized in July of the same year when the show finished.

Since June 2013, mobile telephony customers have been provided with a redesigned *mt:s Android Apps Centre*, offering new possibilities and services such as TV channels free *streaming* via app which enables the users to watch programs on 7 channels via mobile network: *RTS 1, RTS 2, Prva Srpska Televizija,*

Pink, B92, B92 info, Studio B, the customer network check-up service and an option to recommend the app.

In July, the Web TV service was launched enabling the users to access various Internet contents (TV channels, Video clips, etc.) and now it is an independent service available to all Internet users.

In 2013, *KlikSport* portal, which enables the users to watch live exclusive sporting events on computers, included the ABA League (the Balkan-wide Regional Adriatic League) and *Jelen Super League* (the local football league).

HBO GO is a video-on-demand multimedia service (sVOD) which enables the IPTV subscribers to access movies, series, documentary contents and original HBO production via desktop computers, tablets or *smart* phones (iPhone and Android devices).

The *Upload Booster* service offers the customers Net 20, Net 30, Net 50 or Net 100 packages to increase the *upload* rate up to 5, 10 or 15 Mb/s depending on the Net package used. In December 2013, the Express top-up service was changed so the users now get *rsd 60* credit instead of *rsd 40*. The users that have three top-ups in the last year are entitled to use the service.

mMarket is a virtual shop of Telekom Srbija where all customers, both *prepaid* and *postpaid* ones, can buy or download for free various multimedia contents for mobile handsets. mMarket officially rolled out in 2013, and at the moment it is available only in wap version. The purchase is available to all users that have a registered *MojTelekom* account, where either the monthly bill for postpaid users is charged or the credit for prepaid users is reduced.

Mtel

In 2013, the Telekom Srpske subsidiary raised the bar of business success as it was the first

in B&H, but also among the first ones on the regional market, to launch the next-generation LTE network. The development of the unique play music app in the region, m:music, was also initiated.

Throughout 2013, Mtel had attractive offers for *prepaid* customers such as Prepaid Friend start package, followed by the X Factor promotional offer, where customers were enabled to access X Factor HUB and review the exclusive contents. The m:go Android app with new services was also developed.

Aimed at further growth of the customer base, the offer was created for all *postpaid* customers that migrate their number to Mtel network from other mobile networks and opt for any of the following tariff models: MY MIX Flat and MY MIX Flex. A new tariff model, X Factor My MIX, was created with attractive mobile handsets and special X Factor app. The promotional offer of the new tariff models, m:music MY MIX was designed.

The level of product differentiation in B&H fixed telephony is low mainly due to regulations, which does not allow tailoring of services to suit the identified requirements, desires and preferences of consumers and their behaviour model, but strictly within the regulatory framework.

The Open service offering includes Open duo, Open trio and, since September 2013, Open Quadro packages. Within Open duo and Open trio packages, Mtel has offered the integrated service of fixed telephony, the broadband Internet access via ADSL and IPTV as a prerequisite for maintaining the fixed telephony customer base, an increase in ADSL customers and marketing of the new IPTV service. At the same time, the service has been designed so as to compensate for a decline of physical volume of fixed telephony traffic by *flat* traffic offering. The packages have been created with a single monthly subscription fee covering all bundled services.

One of the most important activities in 2013 is commercialization of the Open Quadro service that integrates the services of fixed and mobile telephony, the Internet access and IPTV service. Integration of postpaid services and all charges in one bill has been made available to customers. The service commercialization has been supported by a TV campaign and an attractive *hardware* offering (LCD TV, mobile and fixed line phones).

For the purpose of delivering a high-quality IPTV service, investment has been made in the cutting-edge IPTV platform, so that the customers may properly experience the digital, full HD television available on all their devices – mobile handset, tablet, computer and TV.

mtel

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

In order to meet the needs of all its customers, primarily aimed at retaining the existing and acquiring new customers, guided by the segmented target groups, new services have been carefully planned.

For the purpose of greater synergy with the Parent Company and with the Mtel subsidiary, mtel has introduced favourable tariffs for all customers roaming in Serbia, using mt:s network.

The *Prepaid* customers have been given a special option – SOS top-up enabling them to get 50 cents on their accounts by using the SOS credit service if they cannot top up their credit, but have to make a phone call. The SOS top-up is activated through *105# USSD code and is debited from the next top-up.

In accordance with contemporary trends, the Android m:tel menu application was promoted in March as m:go and it is the only authentic

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application of a mobile operator on the Montenegrin market. The m:go application offers the review and purchase of mtel current services as well as the activation/purchase of special options available through this application only. Owing to its innovative option of free calls and SMS messages through the application itself, m:go is competitive with the contemporary world applications like Viber. By activating the m:call option, customers can make free phone calls with friends in the mtel network while staying in Montenegro or abroad. The m:go application is used for call set-up and the customer has to connect to WiFi or 3G network. The Internet connection is not necessary for sending an SMS message through the android application and it can be sent to all customers, regardless of whether the application has been downloaded. During the test period the customers were enabled to watch TV channels. A list of important numbers, directory, a service enabling the customer to check which network is being used, i.e. whether the number has changed the original network or not and which network is currently used are part of the m:services offered to the customer. Taking into account the number portability option, m:recommendation enables the customer to get to know the current actions, campaigns and mtel news, whereas m:USSD provides the customer with the offer adjusted to the customer's individual habits and desires.

New groups of packages were launched in April: Choose More and Choose Office, which expanded the mtel offer in the segment of *postpaid* residential and business customers. The new group of packages is characterized by the unique benefits which allow the customer to freely choose the combination of services (calls, messages), with unlimited Internet and unlimited calls within the mtel network.

In June, a new *prepaid* package m:go tourist was launched for the summer season,

primarily intended for tourists in Montenegro, with benefits in terms of SMS and voice communication towards foreign networks.

Furthermore, the campaigns for *roaming* benefits in Serbia continued as m:roaming. The mtel customers *roaming* in Serbia (mt:s network) could choose one of the m:roaming add-ons for the period of 1 day, 7 days or 30 days. As part of the offer, the customers had an option of unlimited communication towards the networks of Telekom Srbija and mtel, as well as unlimited Internet. The activation was made through the USSD menu.

In August, a campaign was launched regarding the *roaming* benefits in Slovenia, approaching the European basketball championship. During the promotional campaign, the mtel customers, *roaming* in Slovenia (the Telekom Slovenije network) could activate unlimited minutes towards the mobile and fixed network of Telekom Srbija and towards mtel 068 and 078 network, unlimited SMS messages with numbers in the Telekom Slovenije network and mtel 068 network, and the offer also included the unlimited mobile Internet for all *postpaid* customers. The offer was activated through the USSD menu. There were three m:roaming add-ons: 1 day, 7 days and 30 days.

Special attention is paid to the revenues from *prepaid* customers, so that the USSD service has been upgraded with m:me menu for *prepaid* customers. The m:me menu includes the offers created for each user individually, with personalised offers depending on the customer's previous habits and preferences (calls, SMS or Internet). What makes this menu distinctive is a personalized offer of benefits, tailored to the customer's spending habits, which is loaded to each customer.

A campaign for all split customers has been launched in the business segment – a special

VIP offer. The migration to a Vip plus package offers the unlimited calls in the mtel network and unlimited SMS messages in the mtel network paying the corresponding subscription fee.

A new *prepaid* m:go plus package was introduced in October, characterized by free Internet service depending on the account top-up, as well as the most favourable call rates in the m.tel network and the most favourable SMS rates to all networks in Montenegro.

A new service was introduced in October – *m:ekipa* (m:crew). It is an SMS service in which a group SMS communication – chat - is made available to a group of users, under very favourable conditions – a member sends a message to all other group members at the price of only one message. The maximum number of crew members is 68 (up to 68 SMS messages at the price of one SMS). The application is filed by sending an SMS to a short code. Only mtel customers can use the m:crew service.

At the end of October, a campaign was launched in the Parent Company and the subsidiary as partnership with the X Factor production, a popular music show. The campaign offers X Factor phone handsets with Choose More packages and the X Factor premium add-ons enabling the use of X Factor application. The X Factor application allows the customer to access the premium content and parts of the program that have not been broadcast on TV.

Likewise, Office surf packages were introduced for business customers in October. New *postpaid* packages, such as Office surf 1, Office surf 2, Office surf 3, Office surf 5 and Office surf 10, offer the unlimited Internet and, depending on the subscription, a certain amount of data at the highest data bitrate that the network allows. If the megabytes included in the package have been used up,

the unlimited Internet continues with the reduced bitrate to 128 kb/s. The customer can buy additional megabytes, through SMS, with the maximum data bitrate.

The multimedia services are developed along with the telecommunications services. Watching Pink and Arena Sport channels via mobile TV service is made possible through the partnership. The *postpaid* packages PINK and PINK MEGA and a prepaid package PINK *prepaid* are also offered. Together with a postpaid package, the customers have the unlimited access to and use of Pink and Arena Sport channels, as well as the mobile Internet and other benefits. The code that the customer receives can be used for accessing the channels in the android application, the mobile and the web version of the website.

Following the trends in telecommunications and the needs of the contemporary customer, mtel introduced a Web Shop service to its customers in December. This service provides for comfortable shopping, without visiting the mtel retail store. The mtel Web Shop offers the best mobile handsets. The Web Shop can be directly accessed at www.mtel.me and payment can be made by VISA or Master credit cards of all banks. The new buying option is a safe and unique way for customers to choose, at any time and any place, a mobile handset of their own choice and to make payment or top up their *prepaid* account.

TELUS

Within its registered activity, Telus provides the following services:

- Security of facilities and property (physical & technical security, fire protection and money transport),
- Hygiene maintenance service of office space and facilities, and

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- Recruitment of staff for auxiliary and physical jobs.

In 2013, the ISO 14001 quality standard was introduced – Environmental Management System.

FiberNet

The national digital line provides digital connectivity and connection of two user points in the territory of Montenegro, which is the services provided by FiberNet in the territory of Montenegro. The service is independent of protocol and provides a transparent transmission of requested-capacity signal between the terminal user points. It is used for provision of telephone services and other data transmission services between user locations that require the high quality service. FiberNet offers national and international digital lines of the following capacity: 2Mbps, FETH (4MMbps, 6Mbps...100Mbps) and STM-1 depending on location of the user terminal points.

Leasing of optical dark fibres provides connection of locations in Montenegro or a location in Montenegro with a location abroad.

The service of leasing the transport capacities provides higher bitrate via SDH/DWDM network of FiberNet and its partners abroad. The leased transport capacities can be both national and international.

The service has been designed for operators (wholesale) for connection of terminal points in their network or for connection of their network with other operator's network.

HD-WIN

Arenasport prepares and broadcasts the following channels:

- Arenasport 1, 2, 3 and 4 for the territories of Serbia, Bosnia and Herzegovina, Montenegro and Macedonia,
- Arenasport 5 only for OpenIPTV platform of Telekom Srbija at present
- Arenasport WEB channel exclusively for www.svenaklik.com services.

In 2013, all 4 channels of Arenasport were available in the territory of Macedonia.

All channels are available in SD and HD format (1920x1080i).

The Arenasport channel 1 is distributed to all operators within basic offering, whereas the other channels are a part of a Pay package.

From the onset of its broadcasting, Arenasport TV program has been based on exclusive premium sports *content*. The Arenasport channels broadcast, inter alia, sporting events, whereof the most important are the matches of the Champions League, Europa League, Jelen Super league, ABA Basketball League, BPL, KLS, etc.). Arenasport is involved in production of various sporting events meeting the high quality transmission standards that are set by some competitions (such as the Champions League and Europa League).

All important competitions are covered by studio-based programs and special broadcasts produced by Arenasport.

At the end of 2013 the channels were available in the networks of over 65 distributors in the territories where Arenasport operates and also on the platforms of all major telecommunications operators (T-Com Montenegro, T-Com Macedonia, T-Com Croatia, BH Telecom, Mtel RS, XT Eronet, Telekom Srbija).

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INVESTMENTS

PARENT COMPANY AND SUBSIDIARIES

In 2013 the total investments of the Parent Company and its subsidiaries amount to RSD 18,8 billion. A comparative overview of capital investments made by individual companies of the Parent Company and subsidiaries in 2013 and 2012 is featured in the Table below:

In million RSD	2013	Growth rate	2012
Telekom Srbija	12.944	4,9%	12.339
Mtel	5.207	107,8%	2.506
mtel	667	70,0%	392
Telus	1,5	-18,8%	1,9
FiberNet	1	-80,8%	7
HD-WIN	5	-91,0%	57
Total	18.826	23,0%	15.303

Total investments

Analysed by members of the Parent Company and its subsidiaries, the largest investments in 2013 were made in Telekom Srbija (RSD 12,9 billion), and the lowest in the FiberNet subsidiary (RSD 1 million).

Of total investments made by the Parent Company and its subsidiaries in 2013, 72% was set aside for the technical advancement of the Parent Company and its subsidiaries, whereas 28% for infrastructure.

In million RSD	2013	Growth rate	2012
Technical investments	13.577	10,2%	12.324
Infrastructural investments	5.249	76,2%	2.979
Total	18.826	23,0%	15.303

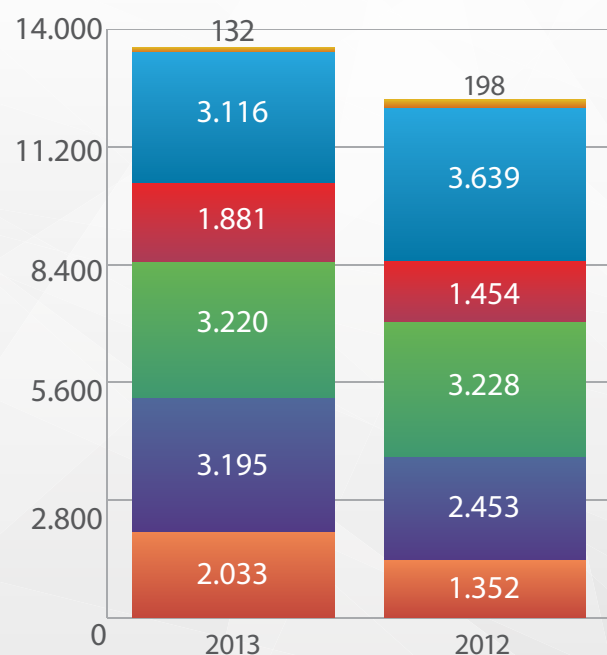
Total investments

On the level of the Parent Company and its

subsidiaries the major technical investments were made in wireless network, access network, Internet and multimedia, followed by the investments in switching system and optical transport network.

In million RSD	2013	Growth rate	2012
Switching and management system	2.033	50,4%	1.352
Access network	3.195	30,2%	2.453
Wireless network	3.220	-0,2%	3.228
Transport optical network	1.881	29,4%	1.454
Internet and Multimedia	3.116	-14,4%	3.639
Other technical investments	132	-33,3%	198
Total	13.577	10,2%	12.324

In million RSD



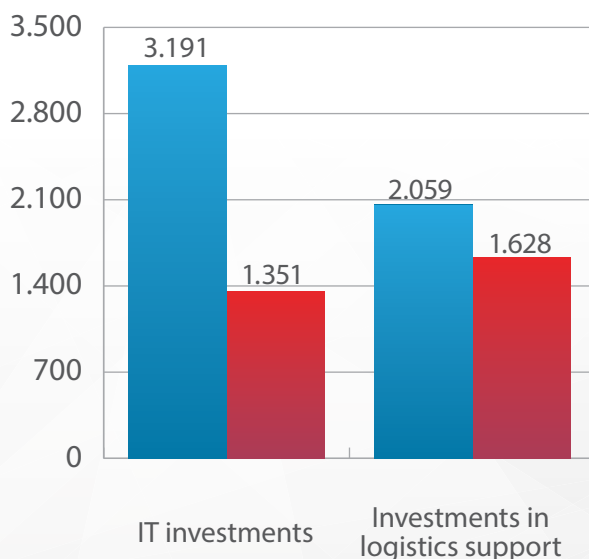
Technical investments

BUSINESS OPERATIONS

On the level of the Parent Company and its subsidiaries, the total investments in infrastructure amounted to RSD 5,2 billion in 2013.

In million RSD	2013	Growth rate	2012
IT investments	3.191	136,2%	1.351
Investments in logistics support	2.059	26,4%	1.628
Total	5.249	76,2%	2.979

In million RSD



■ 2013 ■ 2012

Infrastructural investments

Of the total infrastructure investments, on the level of the Parent Company and its subsidiaries 61% was in IT, whereas 39% was in logistics support. The major share of 66% of the Parent Company and its subsidiaries' infrastructure investments belongs to Telekom Srbija, 30% to Mtel and 4% to mtel.

The investments in IT amounted to RSD 3,2 billion, whereof 58% was invested by Telekom Srbija and 37% by the Mtel subsidiary, whereas 5% was invested by the mtel subsidiary.

In view of the investments in the logistics support, Telekom Srbija mostly invested in power supply units and construction of RBS poles, the Mtel subsidiary mostly invested in motor pool and construction of RBS poles, whereas the HD WIN and Telus subsidiaries made major investments in work equipment.

TELEKOM SRBIJA

In order to retain the Telekom Srbija's leading position in the Serbia's telecommunications market, the investment was made in the amount of RSD 13 billion, which is 5% more than in the previous year.

The investments were made in technical development and creation of the network flexibility and reliability for regular operation of service platforms resulting in better quality of services offered to our customers and in retaining the existing competitive advantage.

The Company allocated 73% of funds for investment in technical development of network, whereas 27% of total funds were invested in IT and logistics support.

In million RSD	2013	Growth rate	2012
Technical investments	9.495	-6,3%	10.134
Infrastructural investments	3.449	56,5%	2.204
Total	12.944	4,9%	12.339

Investments

Considerable investments were planned in all

business segments. In 2013 the development of technical investments was directed to the following activities:

In fixed telephony the investments were mainly intended for upgrade and expansion of access network providing the services on modern *Broadband* (BB) access to users. The network upgrade has eliminated the old systems and increased the number of users that have been offered modern and high-quality services. In 2013 digitalization reached 99.50% (in 2012 it was 99.11%).

In mobile telephony the investments were directed to expansion of network in terms of capacities, coverage and territory and population. The core network has been upgraded aimed at creating the conditions for an increase in package and voice traffic. In 2013, the expansion of RAN network continued. The GSM signal territorial coverage was 82.05%, whereas the population coverage amounted to 87.55%. The UMTS signal territorial coverage was 72.34%, whereas the population coverage amounted to 80.15%.

In the Internet sphere, investments were directed towards expansion of the national IP/MPLS network and of the multiservice network. In 2013 the total number of ADSL ports increased by 7%, which resulted in an increase of free capacity by 12.5%.

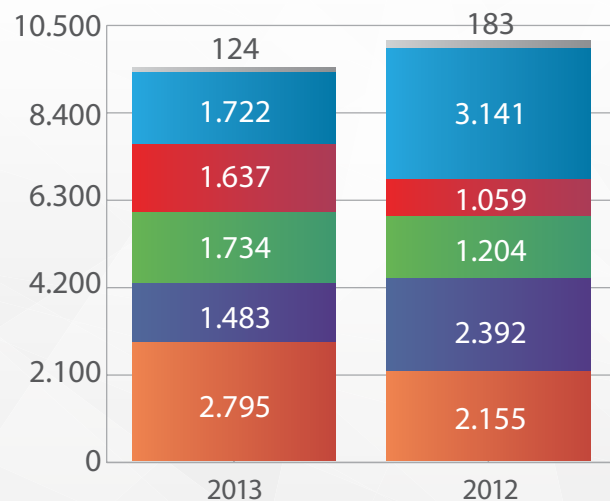
In the sphere of multimedia, services were directed towards expansion of *Headend* and *Middleware* platforms.

As for investments in the technical capacities of the telecommunications network, most of the investments in 2013 by the Company were made in the access network (29%), Internet and multimedia (18%), transport optical network (18%), and switching management systems (17%) and wireless network (16%).

Technical investments

In million RSD	2013	Growth rate	2012
Switching and management system	1.637	54,7%	1.059
Access network	2.795	29,7%	2.155
Wireless network	1.483	-38,0%	2.392
Transport optical network	1.734	44,0%	1.204
Internet and Multimedia	1.722	-45,2%	3.141
Other technical investments	124	-32,1%	183
Total	9.495	-6,3%	10.134

In million RSD



- Switching and management system
- Access network
- Wireless network
- Transport optical network
- Internet and Multimedia
- Other technical investments

BUSINESS OPERATIONS

In 2013, RSD 3.4 billion were invested in infrastructure. Investments in infrastructure were mainly made in IT (54%).

In million RSD	2013	Growth rate	2012
IT investments	1.857	97,1%	942
Investments in logistics support	1.592	26,2%	1.262
Total	3.449	56,5%	2.204

Infrastructural investments

The most important projects in this period include the replacement of the prepaid platform, the expansion of the Billing system, the replacement of the Printing Centre equipment, the national interconnection settlement system and equipment for the Cloud Computing Management platform.

Investments in logistics support primarily refer to the reconstruction and installation of radio base stations, space refurbishment and the procurement of power generators and work equipment. The supply of 334 vehicles was contracted for the purpose of an uninterrupted work process in the Company. The reconstruction of an office building owned by the Company began at the end of the year.

Mtel

The total investments of the Mtel subsidiary in 2013 amounted to RSD 5.2 billion (KM 90.1 million).

In million RSD	2013	Growth rate	2012
Technical investments	3.610	82,0%	1.984
Infrastructural investments	1.597	206,2%	521
Total	5.207	107,9%	2.505

Total investments

In 2013, major investments in fixed telephony referred to investments in the access network, particularly in the construction of junction optical cables, MSAN equipment connections and business customer lines. Likewise, a considerable portion of investments referred to the procurement of MSAN access equipment, which together with the construction of access networks with a shorter length subscriber loop, made broadband services available to all interested subscribers.

Simultaneously with the expansion of the access network capacities, there were also investments in the transport network in 2013 (the construction of backbone junction optical cables, the expansion of OTN/DWDM and SDH/MSPP transport networks, the procurement of SDH equipment in the local transport plane) and fixed switching systems (the expansion of capacities, functionalities and the software upgrade of NGN and IMS systems and the procurement of equipment for the expansion of capacities and functionalities of the application server for residential customers in the IMS system).

The most important project within the investments in mobile telephony is the upgrade of the existing network elements in the Bijeljina and Dobož regions (SWAP Phase I), the procurement and supply of equipment for the upgrade of the existing network elements in the Sarajevo and Banja Luka regions (SWAP Phase II), along with successfully completed works on the installation of a new GSM900 frequency plan (Refarming).

The CS Core and HLR systems were expanded. The PC Core Network Security system was also purchased and the number portability system was modified.

The company performed works on the expansion of the capacities and functionalities of the ADC OTA Provisioning and mGw systems, the procurement and installation of hardware for the mPayment/ePayment system, the

procurement and installation of hardware for the Travellers Messaging system and the payment of a one-off fee for the perpetual assignment of rights to use the software, applications and software licenses for music streaming.

In the structure of capital investments in the Internet and multimedia, the largest share belongs to the investments in IPTV and access equipment for residential customers.

The procurement of an integrated system for IPTV content distribution has been conducted and it should contribute to an increase in the number of customers and offering the latest multimedia services.

The procurement of access equipment for broadband service residential customers (STB and IAD access equipment) was conducted according to their demands and the IP/MPLS network expansion.

In million RSD	2013	Growth rate	2012
Switching and management system	331	44,6%	229
Access network	374	17,9%	317
Wireless network	1.385	96,3%	705
Transport optical network	145	-40,0%	242
Internet and Multimedia	1.375	180,4%	490
Other technical investments	0	-	0
Total	3.610	82,0%	1.984

Technical investments

In the structure of capital investments in information technologies, the largest share belongs to investments in user software and licenses and the investments in servers and storage.

In million RSD	2013	Growth rate	2012
IT investments	1.186	415,4%	230
Investments in logistics support	411	41,1%	291
Total	1.597	206,2%	521

Infrastructural investments

The most important investment in the IT segment in 2013 was the procurement and integration of a convergent billing module, which will facilitate the convergence of fixed and mobile telephony services.

For the purpose of preparatory activities in the convergent billing system implementation, the following activities were performed: the procurement and upgrade of the current functionalities of the system for inter-operator settlement – the repository of Clearing Agreements for VAS SMS, NBG, SMS/MMS InterWorking; the procurement of a system for mobile network service platforms and the procurement of the software and services for creating a central data repository on customers, services and resources.

In 2013, a HRMS system was also procured for facilitating more efficient HR management in the Company.

Important investments in 2013 included the expansion of the integration platform, the procurement of the Network Inventory OSS system, the procurement of a DB server and the Oracle Exdata system.

In the structure of capital investments in logistics support, the largest share belongs to the investments in RBS poles and car fleet.

BUSINESS OPERATIONS

mtel

In 2013 the investments of the mtel subsidiary totalled RSD 667 million (EUR 5.9 million) and were made in the development of new network functionalities aimed at providing high quality services.

In million RSD	2013	Growth rate	2012
Technical investments	471	137,4%	198
Infrastructural investments	196	1,3%	194
Total	667	70,1%	392

Total investments

Investments in the mobile telephony network were mainly made in the construction of a radio access network, upgrade of the transport network backbone, implementation of a new RNC controller and Lu over IP interface, expansion of the BSC controller and the upgrade of the mobile network package core by extending the licenses and upgrading the SGSN platform.

In 2013, 30 new RBS locations were constructed. The radio base stations were upgraded in 11 locations. Considerable investments were made in network optimization in order to increase capacity and coverage. At present, the GSM signal covers over 90% of the populated territory.

New CCBS equipment was procured along with a SAPC network element in order to support the advanced charging of package traffic differentiated according to URL.

Investments in computer equipment refer to the expansion of capacities of HP 3PAR corporate data storage because the utilization of the existing storage was 95%, the procurement of spare parts and additional parts for the Avaya Contact Centre, HP 3PAR data storage and EMC data storage and the procurement of two video transcoder servers for the Mobile/Web TV project. In October, there was a tender for the procurement of new computer equipment that replaced the old desktop and laptop computers.

Investments in construction works refer to the reconstruction of base station locations in accordance with the network building plan aimed at increasing the coverage of territory by signal. The space for accommodation of RBSs was refurbished in 30 locations. Five containers in remote locations were refurbished in order to reduce power supply and air conditioning expenses.

TELUS

In 2013, the Telus subsidiary had no considerable investments.

The machinery and equipment used for the provision of services were procured as fixed assets.

The planned procurement of vehicles was postponed until 2014 due to an uncertain economic situation.

In 2013, Telus' capital investments totalled RSD 1.5 million and they referred to logistics support, the procurement of work equipment (lawn mowers, floor-washing machines and cleaning machines).

FiberNet

In 2013, capital investments made by the FiberNet subsidiary totalled RSD 1.4 million (EUR 12,721). Of that amount, 95% referred to technical investments, while 5% referred to infrastructure investments.

In 2013, the FiberNet subsidiary invested in the construction of the optical access network and the procurement of office equipment.

HD-WIN

In 2013, capital investments made by the HD-WIN subsidiary totalled RSD 5.1 million.

The largest part of capital investments or RSD 2 million were invested in Microsoft licences. In addition, the Cisco HD encoder was procured in the amount of approximately RSD 850,000, while the amount of approximately RSD 1 million was invested in the expansion of the outgoing system for a new channel. The amount of approximately RSD 1 million was invested in the procurement of graphic machinery (*on screen* and animation).

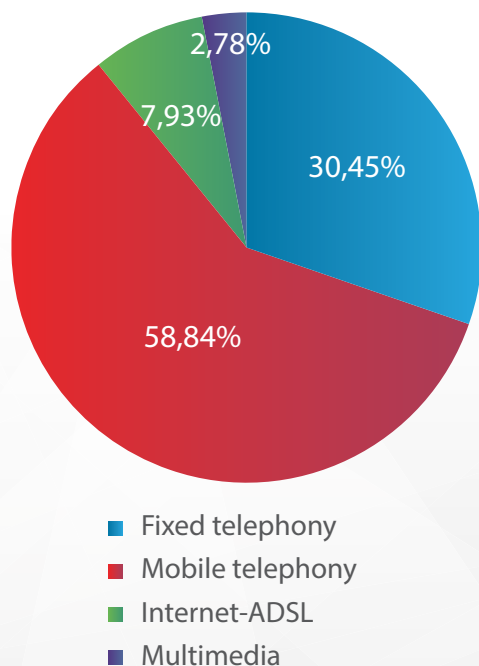
BUSINESS OPERATIONS

CUSTOMERS

PARENT COMPANY AND SUBSIDIARIES

On the level of the Parent Company and its subsidiaries, the number of mobile telephony, Internet and multimedia customers increased, whereas the number of fixed telephony customers declined in 2013.

The structure of customers of the Parent Company and its subsidiaries per type of service is shown in the table below:



At the end of 2013, there were 3.1 million fixed telephony customers, 5.9 million mobile telephony customers, 796 thousand Internet customers and 279 thousand multimedia customers.

Fixed telephony customers

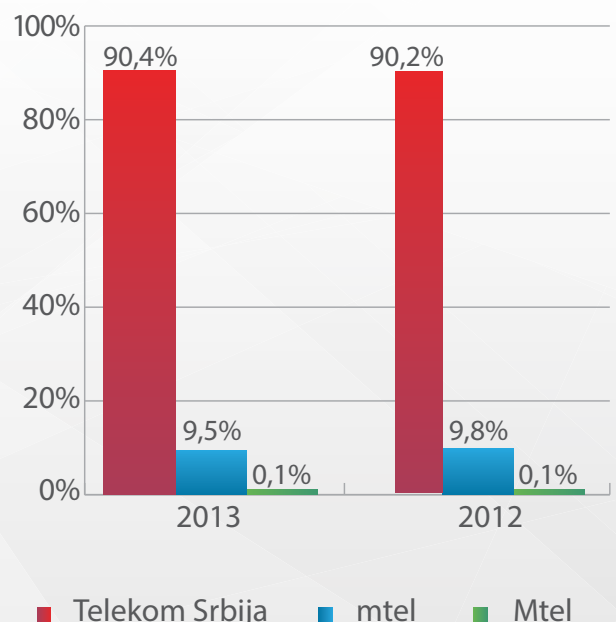
Fixed telephony services of the Parent Company and its subsidiaries are used by 3.1 million customers.

The share of individual companies in the total number of fixed telephony customers of the Parent Company and its subsidiaries is shown in the table below:

In thousands	2013	Growth rate	2012
Telekom Srbija	2.764	-2,0%	2.820
Mtel	291	-4,5%	305
mtel	2,2	-8,5%	2,4
Total	3.057	-2,3%	3.127

Total number of fixed telephony customers

The percentage-wise share of individual companies in the total number of fixed telephony customers of the Parent Company and its subsidiaries is shown in the following graph:



Total number of fixed telephony customers

In 2013, the Parent Company and its subsidiaries had slightly less than 3 million POTS customers.

The rest refers to IP Centrex customers (11 thousand), ISDN BRI customers (75 thousand), ISDN PRI customers (3 thousand) and WIMAX customers (2 thousand).

The WIMAX customers refer to Mtel customers and include fixed telephony customers, and the users of fixed telephony and Internet service packages provided via WIMAX technology.

In thousands	2013	Growth rate	2012
POTS customers	2.966	-2,2%	3.031
IP Centrex	11	30,6%	8
ISDN BRI customers	75	-9,1%	83
ISDN PRI customers	3	0,0%	3
Wimax customers	2,2	-8,5%	2,4
Total	3.057	-2,3%	3.127

Total number of fixed telephony customers

In the structure of POTS customers, 91% are residential and 9% are business customers, while in the structure of ISDN BRI customers 59% are residential and 41% are business customers.

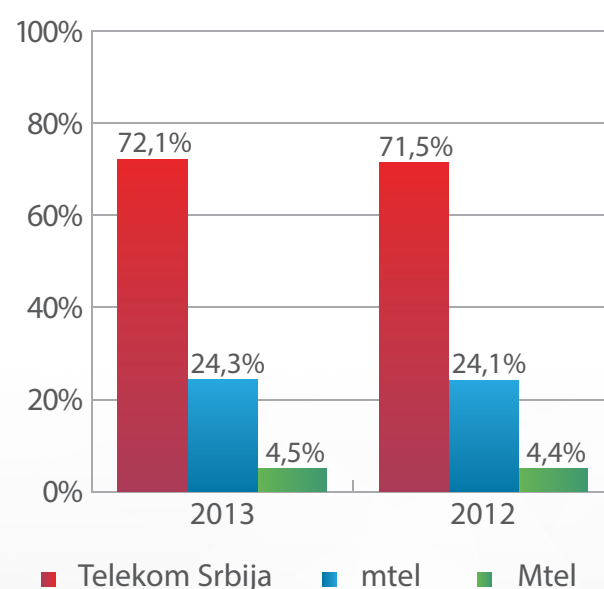
Mobile telephony customers

In 2013, the total number of mobile telephony customers on the level of the Parent Company and its subsidiaries amounted to 5.9 million.

The share of individual companies in the total number of mobile telephony customers of the Parent Company and its subsidiaries is shown in the table below:

In thousands	2013	Growth rate	2012
Telekom Srbija	4.207	0,2%	4.199
Mtel	1.435	1,4%	1.415
mtel	265	2,9%	257
Total	5.906	0,6%	5.871

Total number of mobile telephony customers



Share of individual companies in total number of mobile telephony customers

Of the total number of mobile telephony customers, Telekom Srbija accounts for 71.2%, Mtel makes up 24.3% and the mtel subsidiary accounts for 4.5.

In 2013, the number of prepaid customers amounted to 3.8 million, which accounts for 64% of the total number of customers, while the number of postpaid customers amounted to 2.1 million, which accounts for 36% of the total number of customers.

BUSINESS OPERATIONS

In thousands	2013	Growth rate	2012
Prepaid	3.794	-4,9%	3.990
Postpaid	2.112	12,3%	1.881
Total	5.906	0,6%	5.871

Total number of mobile telephony customers

**Prepaid customers are active customers who have topped up their accounts or registered their activity in the last 3 months.*

In 2013, there was a growth of postpaid customers compared with the previous year, while the increase in the number of postpaid customers mostly refers to Telekom Srbija.

ADSL and IPTV customers

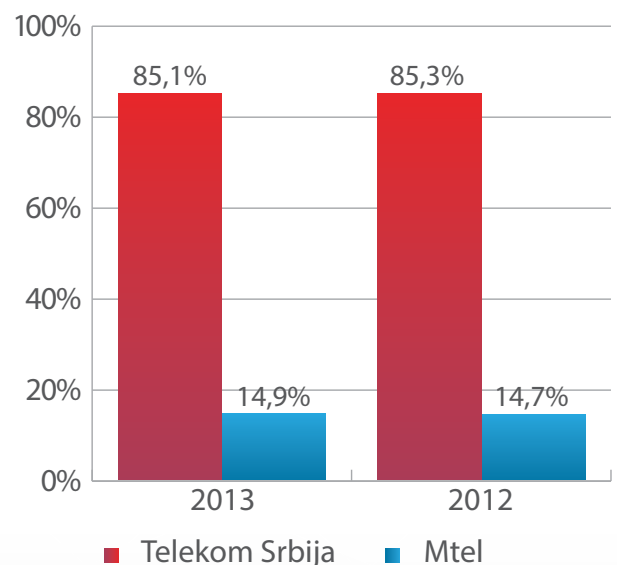
When it comes to ADSL access, which is the most common way of broadband Internet access, an increase of 44.7 thousand customers was recorded on the level of the Parent Company and its subsidiaries in 2013, so that the total number of customers amounted to 796 thousand, of which retail customers accounted for 84% and wholesale customers for 16%.

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

In thousands	2013	Growth rate	2012
Telekom Srbija	677	5,6%	641
Mtel	119	7,8%	110
Total	796	6,0%	751

Total number of ADSL customers

The structure of ADSL customers in 2013 and 2012 is shown in the following graph:

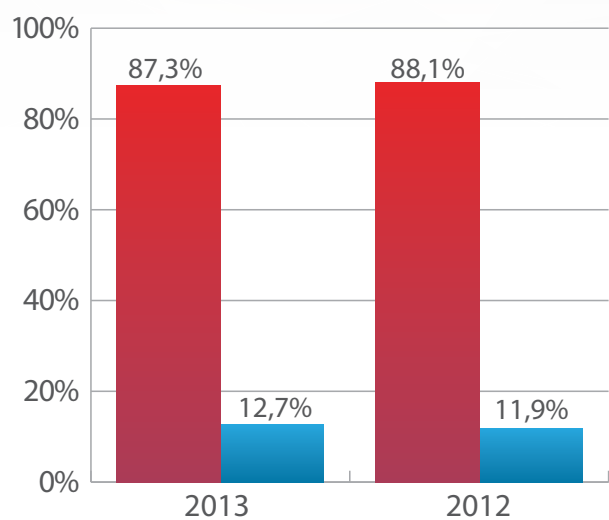


The number of IPTV customers at the end of 2013 amounted to 279 thousand. Telekom Srbija started providing the IPTV service on October 15, 2008, whereas service provision in Republika Srpska commenced in June 2010.

In thousands	2013	Growth rate	2012
Telekom Srbija	244	36,9%	178
Mtel	36	47,0%	24
Total	279	38,1%	202

IPTV customers

Of the total number of IPTV customers in 2013, 87.3% refer to Telekom Srbija customers and 12.7% refer to customers of the Mtel subsidiary.



■ Telekom Srbija ■ Mtel

The structure of IPTV customers in 2013 and 2012

BUSINESS OPERATIONS

TELEKOM SRBIJA

Despite the challenges of growing competition, Telekom Srbija has a considerable number of customers in fixed and mobile telephony and an increasing number of Internet users.

Fixed telephony

Fixed telephony customers

In thousands	2013	Growth rate	2012
POTS	2.687	-1,9%	2.738
ISDN	69	-7,7%	75
Other*	8	25,0%	7
Total	2.764	-2,0%	2.820

*IP Centrex, Business trunking i E1

At the end of 2013, Telekom Srbija's fixed telephony services were used by 2.8 million customers. In 2013, the Company recorded a 2% decline in the number of customers compared with 2012, due to, among other things, alternative types of communication such as mobile telephony and the Internet.

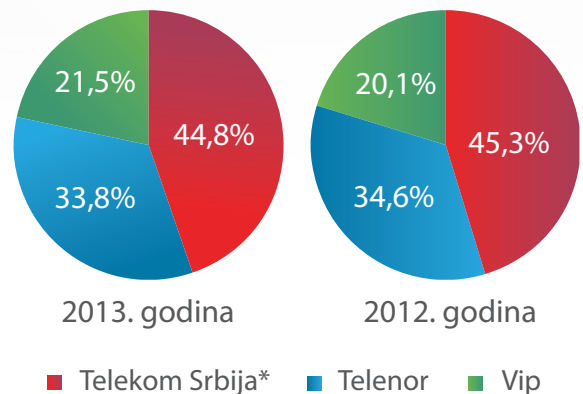
Mobile telephony

Share of mobile telephony operators

Market share*	2013	2012
Telekom Srbija**	44,8%	45,3%
Telenor	33,8%	34,6%
Vip	21,5%	20,1%

*Data is prepared on the basis of the Report of the mobile operators

**Active lines at the end of the period are shown



Share of mobile telephony operators

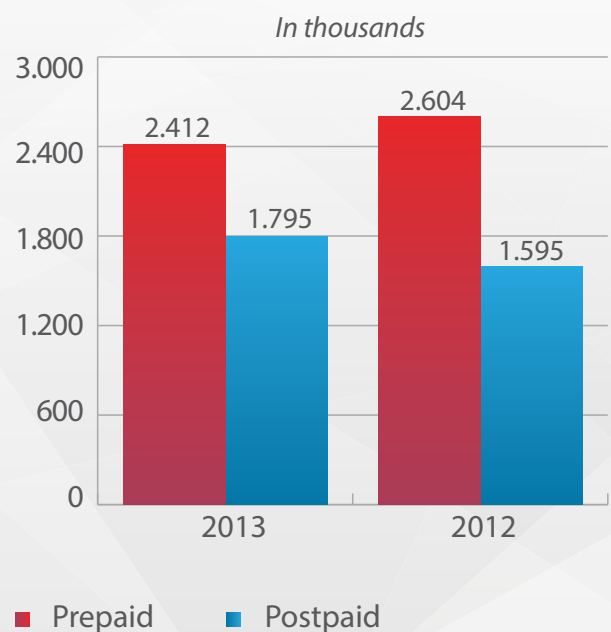
Also, in 2013 the Company was the market leader having the share of approx. 45%.

Mobile telephony customers*

In thousands	2013	Growth rate	2012
Prepaid**	2.412	-7,4%	2.604
Postpaid	1.795	12,5%	1.595
Total	4.207	0,2%	4.199

* mobile Internet users are included

**active customers in the last 3 months of the observed year



In 2013, the total number of mobile telephony customers increased vs. 2012 as a result of the larger number of postpaid customers. A certain number of *prepaid* customers migrated to *postpaid* due to the attractive phone handsets offered in the mt:s packages or decided to take the convergent (Box) package.

Mobile Internet customers (USB)

In thousands	2013	Growth rate	2012
<i>Prepaid</i>	32	24,1%	26
<i>Postpaid</i>	61	20,7%	50
Total	93	21,8%	76

Mobile Internet customers (USB)

The mobile Internet users that are presented within the *prepaid* and *postpaid* mobile telephony customers recorded an increase of 22% vs. 2012. At the end of 2013, there were 93 thousand users of mobile Internet via the USB modem.

Internet and multimedia

Internet and multimedia customers

In thousands	2013	Growth rate	2012
ADSL retail	550	7,4%	513
ADSL wholesale	126	-1,4%	128
IPTV	244	36,9%	178
Web TV*	20	24,0%	16
Total	941	12,7%	835

*No. of subscriptions

The Internet market records growing customers' demands for the Broadband Internet, which reflects the customer interest in the service enabling a high-quality and easily accessible content.

At the end of 2013, the Company had 550 thousand ADSL users in the retail segment, which accounts for 81% of the ADSL Internet market. Compared to

the previous year, the Company recorded a 7.4% growth of ADSL users in retail.

In 2013, the number of IPTV users considerably increased (by 37%) as a result of the convergent packages offering. At the end of 2013, the Company had 244 thousand IPTV users.

Mtel

In 2013, the Mtel subsidiary stood out as a leader in the B&H mobile telephony segment thriving in the sphere of the integrated services and mobile Internet.

Fixed telephony

The total number of fixed telephony customers of the Mtel subsidiary, as at 31 December 2013, amounted to 291 thousand.

In thousands	2013	Growth rate	2012
Residential customers - non-integrated ones	207	-11,1%	232
Residential customers - integrated	53	31,3%	41
Total residential customers	260	-4,8%	273
Business customers - non-integrated ones	31	-2,6%	32
Business customers - integrated	0,09	-	0,03
Total business customers	31	-2,4%	32
Total	291	-4,5%	305

Total number of fixed telephony customers

Within the fixed telephony structure, the residential customers account for 89.2%, and business customers account for 10.8%, which is a direct indicator of economic circumstances in the market of Bosnia and Herzegovina.

BUSINESS OPERATIONS

The users of non-integrated services in fixed telephony are the users of basic voice services (*POTS, ISDN, CLL*), whereas the users of integrated services are the users of *bundle* packages (the users of at least two services).

In 2013, a 4.5% decline in the number of customers was recorded as compared to 2012, which conforms to the feature of fixed telephony market.

Mobile telephony

The Mtel services in the mobile telephony are taken by 1.4 million customers, which is a record number despite a dynamic market and six *brands* in Bosnia and Herzegovina.

In thousands	2013	Growth rate	2012
<i>Prepaid</i>	1.187	-0,6%	1.195
<i>Postpaid</i>	117	14,4%	102
M2M	44	0,5%	44
M.net	11	29,0%	8
VPN	75	12,7%	66
<i>Quadro</i>	2	-	0
Total	1.435	1,4%	1.415

Total number of mobile telephony customers

**Prepaid customers are the active customers that have topped-up their accounts or have their activity registered in the last 3 months*

Owing to successful operations and the offering of new services and latest models of smart phones, and thanks to the campaigns held in 2013, Mtel successfully maintained the B&H market leadership. Mtel has a 43% B&H market share in fixed telephony.

Internet and multimedia

As at 31 December 2013, the number of ADSL users totalled 119 thousand, that is 7.8% more as compared to the previous year. In 2013, a trend of migration of customers from ADSL packages to *Open* services was recorded.

In thousands	2013	Growth rate	2012
ADSL residential customers	108	7,9%	100
ADSL business customers	11	6,5%	10
Total	119	7,8%	110

Total number of ADSL customers

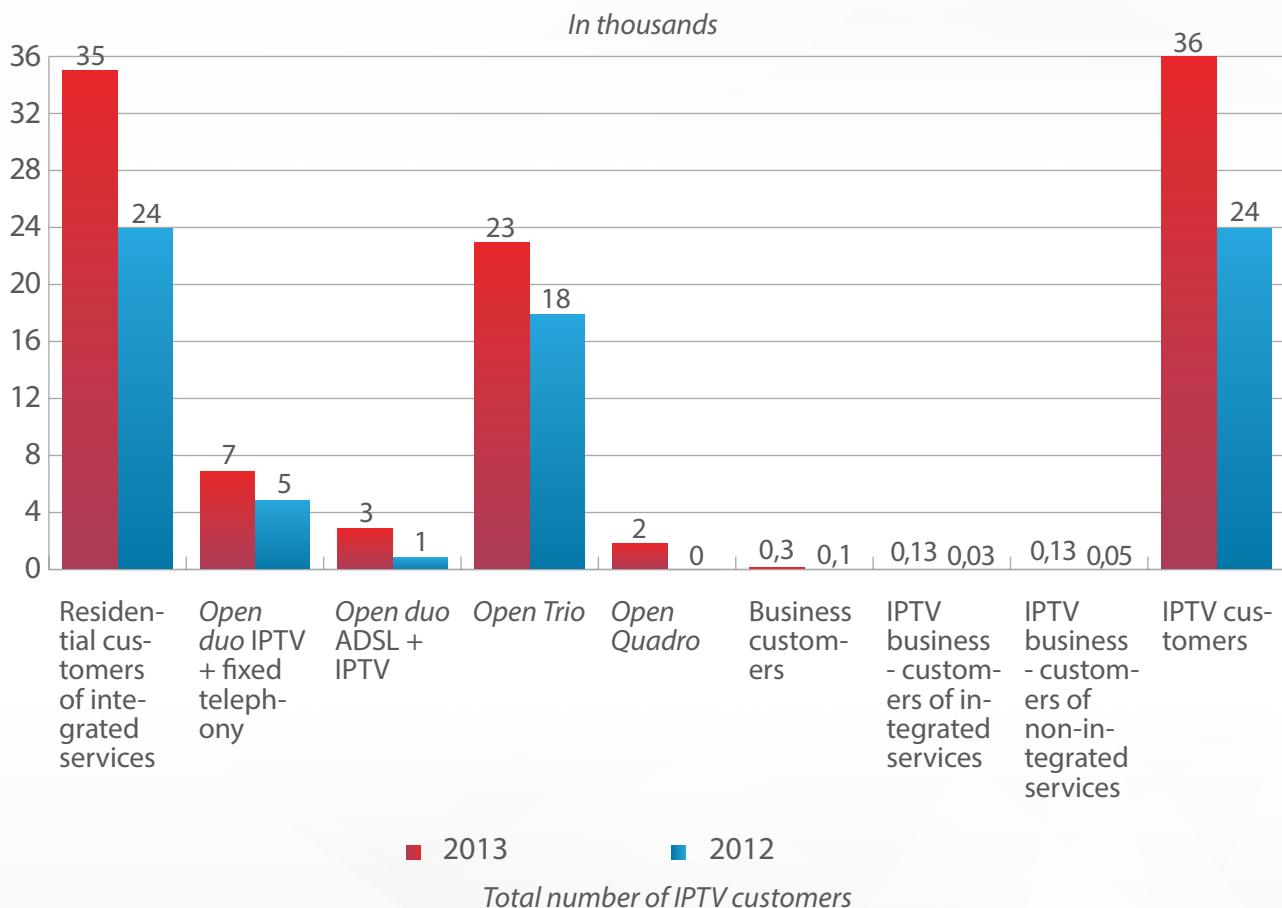
The Mtel B&H market share still grew in the segment of fixed broadband access and it was estimated at 23% in 2013, whereas the penetration rate in the Republic of Srpska is at the level of 14%.

Mtel offered to all the customers the advanced version of ADSL standard (ADSL 2+) providing a higher flow rate compared to the standard ADSL (up to 24 Mbps towards the user and up to 1.4 Mbps from the user).

The total number of IPTV users as at 31 December 2013 amounted to 36 thousand.

In thousands	2013	Growth rate	2012
Residential customers within integrated services	35	46%	24
<i>Open duo IPTV+fixed</i>	7	32%	5
<i>Open duo ADSL+IPTV</i>	3	349%	1
<i>Open Trio</i>	23	28%	18
<i>Open Quadro</i>	2	-	0
Business customers	0,3	228%	0,1
IPTV business customers within integrated services	0,13	306%	0,03
IPTV business customers of non-integrated services	0,13	177%	0,05
IPTV customers	36	47,0%	24

Total number of IPTV customers



mtel

Mobile telephony

The market share recorded at the end of December 2013 amounted to 26.34%, with a 160.3% penetration in the Montenegrin mobile telephony market (according to the definition of the Telecommunications Agency).

The number of mobile telephony subscribers at the end of 2013 was 3.1% higher compared to 2012.

The number of mobile telephony customers, at the end of 2013, amounted to 265 thousand, whereof *prepaid* customers accounted for

71.7 % and *postpaid* customers accounted for 28.3%.

In thousands	2013	Growth rate	2012
<i>Prepaid*</i>	190	1,1%	188
<i>Postpaid</i>	75	8,5%	69
Total	265	3,1%	257

Total number of mobile telephony customers

**Prepaid* customers are active customers that have topped up their accounts or have their activities registered in the last 3 months.

The users of Biznet services have special importance, above all because they are big companies, foreign representative offices

BUSINESS OPERATIONS

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 growing number of Biznet customers in 2013 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 the major customers to migrate to mtel's network.

WiMax customers

WiMax customers include 3 categories of customers: the customers that use only fixed telephony services via *WIMAX* technology, the customers that use only Internet services via *WIMAX* technology, and combined customers using fixed telephony services and the Internet via *WIMAX* technology.

In thousands	2013	Growth rate	2012
Customers using only fixed telephony services	0,42	9,9%	0,38
Customers using only the Internet services	5,3	16,4%	4,5
Combined customers (fixed + Internet)	1,7	-12,0%	2,0
Total	7,4	7,9%	6,9

Total number of Wimax customers

At the end of 2013, the total number of WiMax customers amounted to 7.4 thousand, which is 7.9% more compared to 2011.

TELUS

Besides Telekom Srbija and PE PTT Traffic Srbija, as the major buyer on the market, Telus has significantly developed its operations on the hygiene maintenance service market particularly since 2010.

The security services are predominantly rendered to Telekom Srbija and PE PTT Traffic Srbija.

In public procurement procedures, contracts were awarded, inter alia, to PE PTT Traffic Srbija, the Flight Control Agency of Serbia and Montenegro, City Municipality Novi Beograd, CM Savski Venac, Drinsko-limska HE, the Republic Geodetic Authority, ED (Šabac, Kraljevo, Valjevo, Lazarevac, Užice, Novi Pazar, Loznica), the Ministry of Finance branch offices – Treasury and Tax Administration.

Also, based on conducted internal procurement procedures, contracts were concluded with: DDOR Novi Sad, 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., Dunav osiguranje a.d. branch offices.

FiberNet

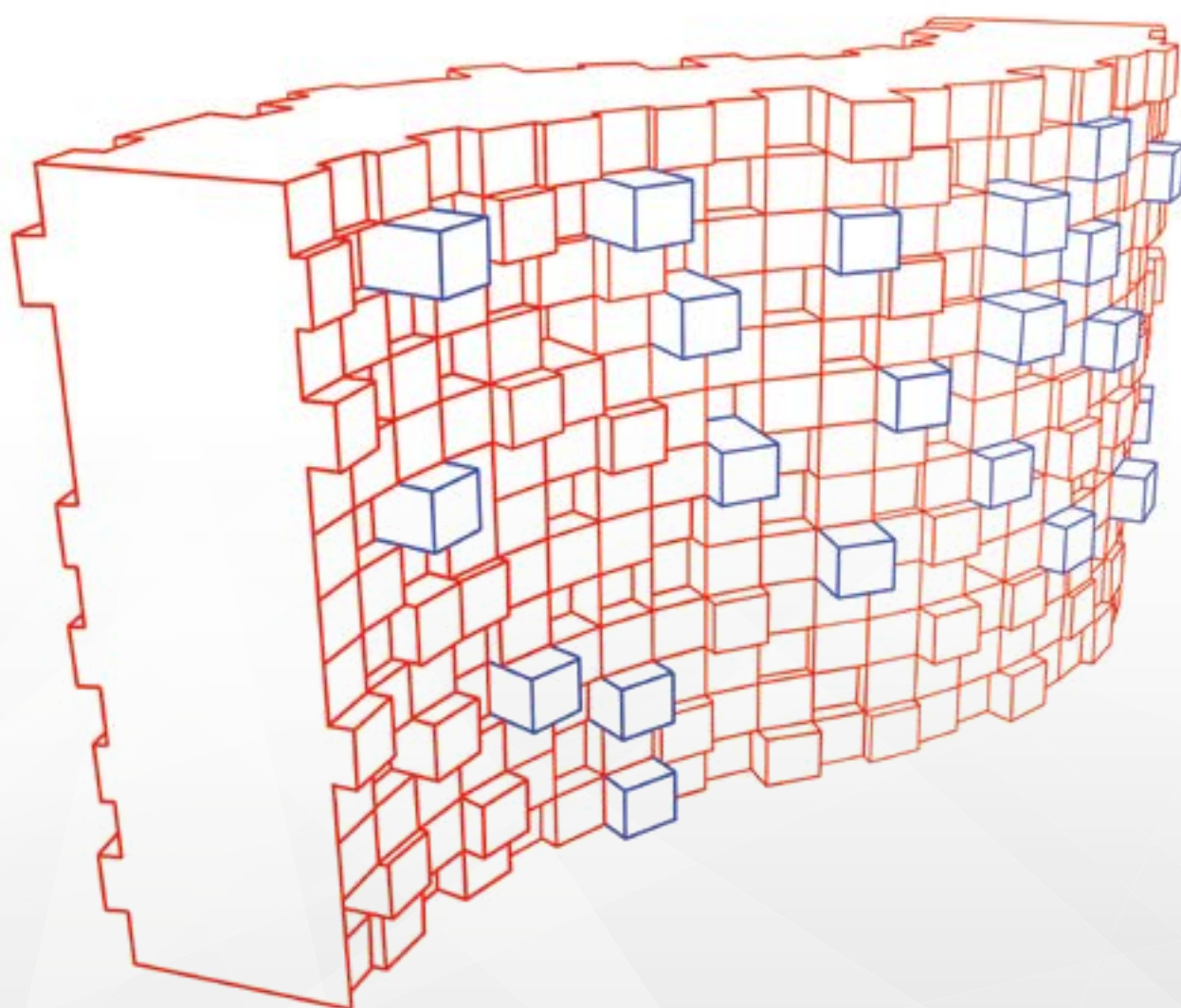
After obtaining an occupancy permit from the relevant authorities of the Republic of Montenegro and putting the fibre optic cable in commercial operation, FiberNet entered into the following contracts:

- 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 the irrevocable right to use one pair of fibre optics on the route Vrbnica-Bar according to the IRU 15 model, for a 15-year period of the right to use.

EMPLOYEES



EMPLOYEES

The management and development of human resources is one of the topmost goals and tasks of Telekom Srbija. 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.

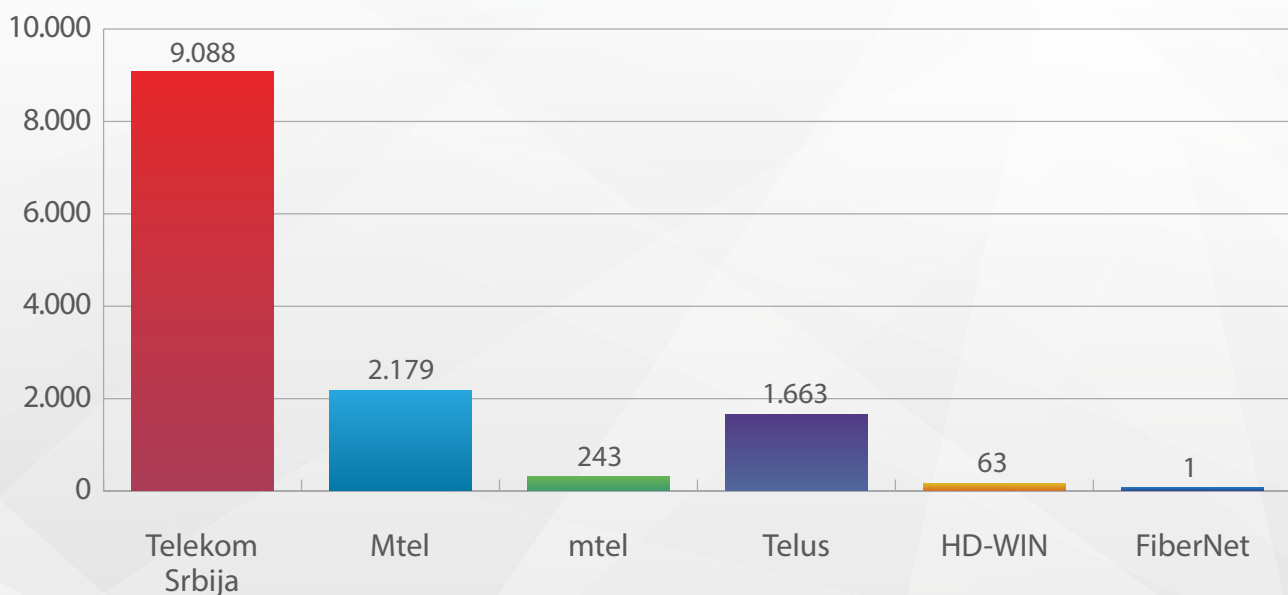
Total number of employees in the Parent Company and its subsidiaries equals 13.239 including the employees that have a dormant employment status (20 in the Parent Company and subsidiaries), whereof the largest portion

relates to Telekom Srbija a.d. (68.65%), 16.46% to Telekom Srpske, 1.85% to mtel, 12.56% to Telus, 0.48% to HD-WIN, whereas 0.08% to FiberNet.

Owing to the nature of jobs, 6 employees of Telekom Srbija are referred to work in subsidiaries, therefore they are presented in the Parent Company and its subsidiaries.

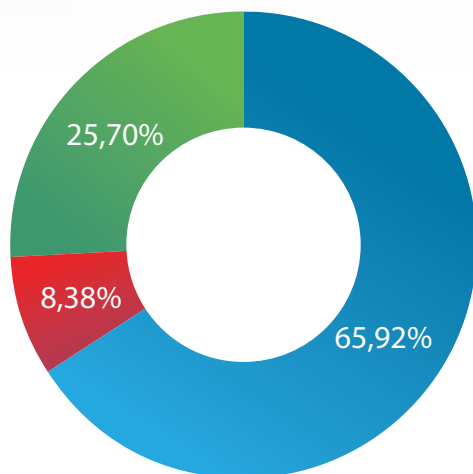
Besides the permanent and temporary employees in the Parent Company and subsidiaries, there is a total of 2,070 workers hired based on various employment contracts (temporary and casual jobs, agency and mediation), whereof 44.4% is hired in Telus, 44.01% in Telekom Srbija, 7.05% in Telekom Srpske, 4.35% in HD-WIN, whereas 0.05% is hired in FiberNet.

The total number of employees in the Parent Company and its subsidiaries as at 31 December 2013.



EMPLOYEES

Educational structure of employees in the Parent Company and subsidiaries

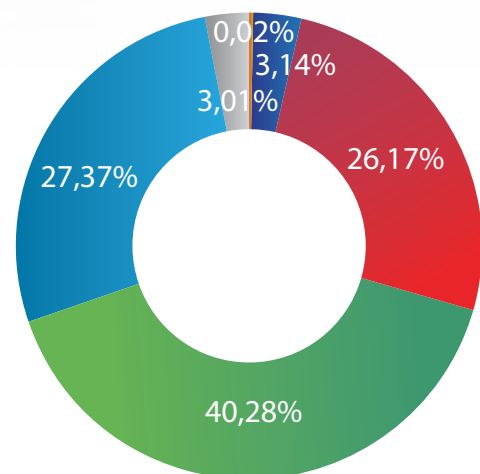


- Secondary school
- College degree
- University degree

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 (65.92%), followed by university education (25.70%) where the total number includes specialists, master and PhD degrees.

The smallest share belongs to the employees with two-year college education (8.38%).

Age structure of employees in the Parent Company and subsidiaries



- up to 20 years of age
- 20 to 29 years of age
- 30 to 39 years of age
- 40 to 49 years of age
- 50 to 59 years of age
- 60 and more y. of age

As for the employees' age structure in the Parent Company and subsidiaries the largest share belongs to the employees aged between 40 and 49 (40.28%), followed by 50 - 59 aged employees (27.37%), 30-39 age group (26.17%), 20 - 29 (3.14%), 60 and over 60 (3.01%), and the smallest share of employees belongs to employees up to 20 years of age (0.02%).

TELEKOM SRBIJA

Jubilee Awards

The jubilee awards are granted to employees and ex-employees, who in the period from 2 June of the previous year to 1 June of the current year have:

- 10 years of uninterrupted employment with Telekom Srbija;
- 20 years of uninterrupted employment in PTT system of Serbia;
- 30 years of uninterrupted employment in PTT system of Serbia;
- 35 years of uninterrupted employment in PTT system of Serbia.

The awards are granted on the basis of the average gross salary in the Company for the month of June paid to the employees with 20 years of uninterrupted employment in PTT system of Serbia, i.e. $\frac{1}{2}$ of the average gross salary for 10 years, 2 average gross salaries for 30 years and 3 average gross salaries for 35 years. In 2013 the jubilee awards were granted to 845 employees.

Education

EXTERNAL EDUCATION IN THE COUNTRY AND ABROAD

In 2013, a total of 1,039 employees were referred to external education in the country and abroad, who had 4,144 training days that accounts for approximately 4 days per attendee.

The external educational events in the country

were attended by 682 beneficiaries, whereof 225 employees were sent to referential seminars, 126 to training and seminars, 17 to law-mandatory training (safety and health at work), 60 to business skills training, and 101 employees to managerial skills courses. The attendees spent 2,195 training days in the country, which accounts for 3.22 per attendee.

Educational events abroad were attended by a total of 357 employees, whereof 186 attended conferences, congresses and seminars, 115 attended the training in operating the equipment according to the contracts concluded with suppliers, 27 attended forums, 26 attended vocational training and workshops and 3 employees visited fairs. The attendees spent 1,949 days abroad, which accounts for 5.45 days per attendee.

The Company enters into contracts with the employees that are sent to training in the country and abroad so that they are bound to stay with the Company for 24 months. The number of employees having the contractual obligation as at 31/12/2013 amounts to 976 (845 for training in the country and 131 for training abroad under the contract concluded with suppliers).

IN-HOUSE TRAINING

In 2013, the Training Centre in the Human Resources Division organized in-house training attended by a total of 325 employees, whereas vocational education was attended by 59 participants, 106 employees attended professional skills training, 71 employees attended the English course (39 – group lessons, 32 – individual lessons with department managers), and 89 employees had *e-learning* training programs. As for *e-learning* training

EMPLOYEES

courses, the employees were tested in the field of IT security and protection. The attendees spent 2,238.25 days on in-house training, which accounts for 11.8 days per attendee.

The number of internal and external education beneficiaries in the country and abroad totals to 1275.

Schooling

The Company enters into contracts on settlement of mutual rights and obligations with employees referred to various types of additional schooling, particularly with regard to the period of completion of schooling and the period of mandatory stay in the Company; as at 31/12/2013 there were 60 active contracts (7 for the 1st degree vocational studies, 12 for the 1st grade academic studies, 24 for master studies, 3 for the 2nd degree vocational studies, 6 for MBA studies and 8 for postgraduate, PhD and specialist academic studies). In 2013, 26 new schooling contracts were approved, as follows: 9 for the 1st grade academic studies, 6 for the 1st degree vocational studies, 4 for master studies, 4 for specialist vocational studies, 2 for specialist academic studies and 1 for MBA studies.

Licences, certificates, membership

In 2013, the Company financed different types of licences, certificates, professional exams and membership fees for total of 679 employees, as follows: the Engineer Chamber membership fee renewal for responsible designer and contractor licenses for 503 employees, acquiring the new licenses for 29 employees, vocational exams for 16 employees, acquiring

of CISCO and other vocational certificates for 40 employees, PMI membership fee for 47, re-certification for 5 employees and taking the PMP exam for 1 employee, the Internal Auditors Association membership for 15 employees, the Association of Accountants and Auditors membership for 20 employees, taking 1 bar examination, the Chamber of Certified Auditors membership for 1 employee and GIAC membership for 1 employee.

Knowledge base

In 2012, the Company renewed its membership in the knowledge bases of international organizations, such as:

1. Gartner Ireland Limited (module: Gartner Executive Program EHP membership – CIO ESSENTIAL; Gartner for Business Leaders, Program Management&Marketing), throughout the validity period of the Contract no. 218519/14 dated 20/12/2012 (2012-2014);
2. TeleManagement Forum - NGOSS program, throughout 30/11/2013 – 29/11/2014;
3. Information Security Forum, throughout 01/07/2013 - 30/06/2014.

ASSESSMENT OF THE EMPLOYEES' WORK PERFORMANCE – AWP FOR 2012

In 2013, the procedure of assessing the managers' and the employees' work performance in 2012 (second phase) was completed, an internal report on the results was made on the level of the Company, the organizational units and groups of employees, and preliminary preparations for AWP for 2013 were completed.

ASSESSMENT OF THE MANAGERS' DEVELOPMENT POTENTIALS

In cooperation with an external consultant, a project of assessing the development potentials of fourth-level managers and regional coordinators in the Company was implemented, reports were created and results on the Company level were presented to the Executive Board.

RECRUITMENT AND SELECTION

In 2013, the Company engaged 136 external candidates of the total of 418 external candidates involved in the selection procedure.

Pursuant to internal advertisements, 15 employees were assigned to new positions – based on internal selections performed with 209 employees. Pursuant to the analysis, it can be concluded that the number of advertised positions in 2013 was 40% higher compared with the previous year.

PRACTICAL TRAINING

In 2013, practical training in the Company was done by 59 university students and 11 high school students. The implementation of university and high school student practical training was regulated and innovated by the *Guidelines for organizing practical training of university and high school students in the Company and granting scholarships for talented students*.

An Agreement on Cooperation was signed with the University of Belgrade and the following higher education institutions: the Faculty of Organizational Sciences, the College of Vocational Studies for Information and Communication Technologies, the College of

Vocational Studies for Electrical Engineering and Computing and the Vocational College for Entrepreneurship in Belgrade.

Within the recruitment of young talents, an Agreement on Cooperation was signed with the Ministry of Youth and Sports that allows the beneficiaries of the Fund for Young Talents to do a two-month summer practical training in the Company, which will facilitate their transition from formal education to practical engagement.

EMPLOYEES' BENEFITS

IMPLEMENTATION OF THE POLICY OF MATERIAL, SOCIAL AND HEALTH PROTECTION OF EMPLOYEES

Collective Insurance Program

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

The program is implemented pursuant to the insurance agreements/policies, which the Company concluded in 2013 with the insurance companies *DDOR Novi Sad a.d.o.* in case of accidents and *Delta Generali osiguranje a.d.o.* in case of severe illnesses and surgeries. Pursuant to the concluded insurance policies, the insurance companies reimbursed the insured sums for 322 employees and members of their close families in 2013.

Voluntary Retirement Insurance Program

All employees in the Company are provided with regular monthly payments against

EMPLOYEES

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

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 regular secondary and university education (scholarships), the Company, based on the contracts concluded in 2013, granted regular monthly payment of scholarships for 117 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 solidarity aid to a total of 296 employees and members of their close families on all grounds granting the exercise of such rights.

Aid program for resolving the employees' housing needs

In accordance with the Company's internal by-laws regulating the allocation of housing loans to the Company's employees, some 70 contracts on housing loans were concluded.

SPECIALIST MEDICAL CHECK-UPS, HEALTH REHABILITATION AND RECREATION

With the aim of prevention and improving the employees' health, the Company organized

specialist medical check-ups for 2,754 employees, health rehabilitation for 641 employees and recreation for a total of 190 employees.

IMPLEMENTATION OF THE POLICY OF HARMONIZING RELATIONS WITH EMPLOYEES

All employees in the Company have at their disposal expert teams of lawyers, psychologists and social workers in the form of labour, legal and psychological counselling. In 2013, 24 texts were published on the company website – short professional topics and the latest news in the domain of labour law, and 21 answers to the employees' questions were published within the Labour and Legal Counselling section. Within psychological counselling, 53 employees' requests were fulfilled and 11 texts were published on the internal portal within the Psychological Counselling section.

IMPLEMENTATION OF THE POLICY OF INTERNAL INFORMING OF EMPLOYEES

It represents a program of continuous, accurate and timely informing of employees via the Intranet and the Company's Newsletter. The Intranet implies regular and continuous preparation, processing and publishing of information on the internal site My Portal. The posted information is classified in categories: ad hoc information related to important announcements in the field of human resources (employees' rights), information about current events in the company that is posted on a daily basis and information that is posted twice a month (current events in the sphere of culture and sports, telecommunications in the country and abroad, sections Visit Serbia, the World, Famous Serbs, Great Thoughts by Great People, From the Proofreader's Perspective, Psychological Counselling, Labour and Legal Counselling, Funny Press Clipping, German and English Language Tests, Survey

and New Technologies). In 2013, 94,547 single user visits and 2,154,462 single visits were recorded, the corporate Newsletter (a total of 12 issues) was distributed, along with the latest news from the subsidiaries and a presentation of new services and current events in the sphere of culture and telecommunications, and 13 corporate bulletins were issued.

SOCIAL ACTIVITIES

Employees' sport contests program

In line with the internal by-laws and in cooperation with the representative trade unions, the Company implemented the Employees' Sport Contests Program in 2013.

Employees' sport recreation program

In line with the internal by-laws, in 2013, the Employees' Sport Recreation Program was financed and implemented pursuant to contracts on the provision of sport recreation services, which the representative trade unions concluded with the service providers.

Gifts for 8th of March

On the occasion of March 8, International Women's Day, and in accordance with the Company's internal by-laws, the Company granted the right to a one-off payment of funds as a gift to women employed/engaged outside of employment contract.

New Year gift for the employees' children

In 2013, the Company granted the right to a one-off payment of funds – gift to employees/individuals engaged outside of employment contract, for the purchase of New Year parcels for children of up to 10 years of age, on the occasion of New Year 2014, including

the organization of New Year shows held in Belgrade, Novi Sad, Kragujevac and Niš.

SOCIALLY RESPONSIBLE BEHAVIOUR

The humanitarian association of Telekom Srbija employees, "From the Heart", organized a total of 45 voluntary blood donation campaigns in Belgrade and all major towns on the territory of the Republic of Serbia. A total of 1,120 employees took part in the campaign, while 46 employees participated in the 4 campaigns of signing donor cards.

Mtel

On December 31, 2013, Mtel had 2,179 employees, which is 40 employees fewer compared with the end of 2012.

According to Mtel's qualification structure, 38.4% or 829 employees have high school education, while 33.5% or 724 employees have university education.

Of the total number of employees, 37.1% are women, while 62.9% are men.

According to the age structure, the largest share of the total number of employees belongs to employees between 40 and 49 years of age who account for 36.65%, and employees between 30 and 39 years of age who make up 29.76%.

In 2013, a total of 60 individuals were engaged in Mtel on an employment contract, while a total of 100 employees had their employment contracts terminated, of which 56 contracts were cancelled with the aim of rationalizing work processes.

Continuous work in the sphere of developing and training human resources remained Mtel's commitment in 2013. Having in mind

EMPLOYEES

that the competencies of successful managers need to be developed into a full set of abilities that characterize leaders, the Company implemented training programs that showed them how to change their work and operations from effective to efficient, how to better lead their teams, organize time and priorities, improve results on both personal and professional planes, develop more productive interpersonal relationships and achieve a balance between their professional and private life. Also, the training programs made it possible for the managers to recognize the value of the performance management system in achieving the strategic and development aims of the organization. By developing such leaders, Mtel is improving the overall productivity of its team and enhancing personal and business relationships.

Sales skills training made it possible for the sales personnel to understand the communication processes, and find out about the needs, intentions, mental strategies and motivations of the potential customers by using numerous tools in sales conversations. It emphasized the need to see the value of each customer and keep the customers satisfied in order to maintain high quality services and a positive image of a market leader, since each customer is important.

By providing quality services to its customers, the Company fosters long-term relationships, which is why the sales personnel is trained to see the value of quality service provision that differentiates the company from many other similar companies since product quality in today's world is already understood.

In the field of maintaining and enhancing the employees' commitment, individual action plans were made so that the employees themselves would, by proactive recognition and action, improve those spheres of the working environment that contribute to greater satisfaction and motivation.

This year, the Company also organized team building activities aimed at developing and enhancing team work and internal communication, dominant within the project teams.

The Company launched a project for the introduction of a new payroll system based on performance, which will additionally contribute to the employees' motivation, and consequently lead to Mtel's greater efficiency.

Supporting knowledge and aspiring to share and expand it with others, the Company continued the m:beneficiary project and numerous practical training programs within Mtel.

mtel

At the founding of Mtel, in April 2007, the employment of personnel was performed by public announcements, through the Employment Agency or by secondment agreement. A personnel data base was created along with the personal files of employees. Collective insurance of employees was provided.

The employees who concluded employment contracts for positions that involve work under special working conditions, established by the Rules on Safety and Protection at Work, underwent medical examinations to establish whether they are capable of performing special tasks. A procedure for accessing the Montenegrin Employers' Union was also implemented.

Apart from the abovesaid, a Collective Agreement was signed between the employer and the representative Trade Union in 2011.

The number of employees in October 2013 was 169, while the number of employees in the period January-October 2013 rose by 3.6% compared with the same period in 2012, and reached 243 employees at the end of

2013. Three persons were engaged outside of employment contract.

Mtel's employment policy is to regulate the legal and labour status of individuals who have been engaged for a definite period of time for more than one year, and who have shown good results, by concluding employment contracts with them for an indefinite period of time.

TELUS

Telus' policy towards the employees primarily depends on market conditions, but it is completely committed to adherence to high standards, established by the founder.

The rights and obligations of the employees are regulated by the Collective Agreement of July 23, 2009 whose validity was extended by agreement no. 4426 of June 29, 2012, which guarantees more rights to employees than those envisaged by the law (bonuses for work in shifts and night work, length of annual leave, paid leave, higher percent of salary increase based on past labour, severance payment in case of layoffs, etc.).

At the end of 2013, Telus had 1,663 employees and 919 persons engaged outside of employment contract.

HD-WIN

Apart from high quality technical and technological equipment of the television itself and the automated broadcasting system, a special emphasis in operations is placed on the overall satisfaction of employees, their loyalty to the television, motivation and specialist training for the job they perform. HD-WIN is trying to provide safe and adequate working conditions, health and personal protection

at work, equality of all employees and a possibility of further training and education.

In the previous period, there were no layoffs of employees. Although the company previously relied on engaging external associates (individuals engaged outside of employment contract), for jobs recognized in the working process as key jobs for the functioning of a television, employment contracts have now been concluded with the employees, which secured continuity and the necessary degree of safety in the company's operations.

At the end of 2013, HD-WIN Belgrade had a total of 129 employees, of which 53 persons were engaged on an employment contract and 76 outside of employment contract (technical staff, reporters and production), while HD-WIN Arenasport – Zagreb had a total of 24 employees, of which 10 persons were engaged on an employment contract and 14 outside of employment contract.

All employees in the company are insured from accidents, serious illnesses and surgeries at work and outside of work (24/7). This program is implemented based on the Insurance Agreement/Policies.

RISK MANAGEMENT

In its regular operations, the Parent Company and its subsidiaries are exposed, to different extent, to certain financial risks, as follows:

- market risk (including the foreign exchange risk, the risk of change in interest rates and the risk of change in prices),
- liquidity risk and
- credit risk.

Risk management in the Parent Company and its subsidiaries is directed at minimizing potential negative effects on the financial position

EMPLOYEES

and operations of the companies in the circumstances of unpredictable financial markets and defined by the financial and accounting policies of the individual companies, adopted by the competent corporate management bodies. In 2013, there were no major changes in the risk management policies which are revised in order to reflect changes in the market conditions and the companies' activities.

MARKET RISK

Market risk is the risk of change in the market prices such as: foreign currency exchange rates, interest rates and the prices of instruments of capital, which may have a negative effect on the revenues of the Parent Company and its subsidiaries or the value of their financial instruments. The aim of market risk management is controlling the exposure to market risk within the acceptable parameters, while generating optimum yield.

The Parent Company and its subsidiaries are exposed to risks that due to fluctuations in market interest rates affect its financial position, its operating result and cash flows.

The risk of change in the interest rates is mainly caused by long-term loans from banks and loans from the suppliers with a variable interest rate. As at December 31, 2013 and 2012, liabilities against loans were mostly expressed in euros with a variable interest rate related to Euribor.

The Parent Company and its subsidiaries are exposed to a risk of change in the prices of services because they face intense competition in the field of mobile telephony, the Internet and multimedia, and the field of fixed telephony, which the Company is trying to make up for by introducing various services.

The Parent Company and its subsidiaries are not exposed to a significant risk of change in the prices of equity securities.

LIQUIDITY RISK

Liquidity risk is a risk that the companies will not be able to settle its financial liabilities when due and it is managed by each individual company.

The approach to liquidity risk management is aimed at providing, to the extent in which it is possible, adequate liquidity for settling due liabilities, both under normal and extraordinary circumstances. The Parent Company and its subsidiaries manage their assets and liabilities in a way that enables them to fulfil all their obligations at any time.

With the aim of managing liquidity risk, financial policies have been adopted which define the maximum amount of advance payment to the suppliers of works, equipment and services, the grace period and the repayment period.

The companies also track the expected cash-ins from receivables, along with the expected cash-outs on grounds of liabilities.

CREDIT RISK

Credit risk is managed by undertaking certain activities and measures on the level of each individual company, such as client risk assessment, monitoring client's operations and its financial situation and managing receivables. In case of a client's failure to fulfil its obligations towards the Parent Company or its subsidiary, further provision of services to the client shall be terminated. There is no significant risk concentration since the companies have a wide base of customers who are not interconnected and who individually have low liabilities towards the company.

CAPITAL RISK MANAGEMENT

The policy of the Parent company and each of its subsidiaries is to provide a sufficient level of capital to maintain the trust of investors, creditors and the market, and sustain further development of operations.

The aim of capital management is to keep the ability of the Parent Company i.e. subsidiary to continue its operations during an unlimited period of time, in the foreseeable future, in order to maintain the optimum structure of capital, with an aim of reducing the costs of capital, and provide dividends to shareholders. The Parent Company and its subsidiaries track capital based on the debt-to-equity ratio, which is calculated as a ratio between the given company's net debts and its total equity.

REPORT ON CORPORATE AND SOCIAL RESPONSIBILITY



REPORT ON CORPORATE AND SOCIAL RESPONSIBILITY

Companies operating in a socially responsible way represent a specific driver of progress of the entire society. Social responsibility is not just an ethical duty of companies, but also involves mutual understanding between the companies and the community where these companies operate.

Commitment to young people and education, employees, service users, interaction with the shareholders, and integration of social care and care about the environment in everyday operations, represent basic principles on which the business strategy of the Company – Telekom Srbija and its subsidiaries lies.

Telekom Srbija wishes to become a modern regional company in all aspects of corporate management. At the same time, the Company sees itself as a leader among companies in the field of corporate social responsibility (CSR), but not only through the implementation of specific activities, but also through pioneering education in this field.

Apart from the Code of Ethics, adopted in 2003, and the Code of Corporate Management, adopted in 2012, as a basis for the implementation of socially responsible practice and corporate philosophy, within the existing CSR strategy and in the creation of a mid-term CSR draft strategy, the Company was directed by guidelines presented in the following documents: "Strategy for the Development and Promotion of Corporate Social Responsibility in the Republic of Serbia for the period between 2010 and 2015", "Strategy for the Reduction of Poverty", "National Environment Protection Program", "National Strategy for the Sustainable Development of the Republic of Serbia for the period 2009-2017". Also, the document includes the recommendations and standards

of international organizations, such as the European Commission and its "Corporate Social Responsibility Strategy" for the period until the end of 2014, the Corporate Management Principles of the Organization for Security and Cooperation in Europe (OSCE) and the UN Global Compact's principles whose guidelines the Company has been following since 2010, when it became a member of this international network of companies that foster the principles of corporate social responsibility.

Activity frameworks

Having in mind the needs of the environment and respecting the values that the Company advocates, the following frameworks were marked as the key fields of activity within CSR: within the company, through corporate management and work environment; towards the community, through investments into education, health care, culture and art and science; towards the business environment, which involves fostering the relationship with customers, suppliers and the competition; in accordance with nature, by launching initiatives in the field of environment protection, sustainable development and renewable sources of energy.

The Company implements its activities through three forms of corporate social responsibility:

- corporate philanthropy,
- integration into operations,
- innovativeness.

Corporate philanthropy mainly refers to charity activities in the form of donations that do not have a direct influence on business results, but have a positive influence on the company's reputation. Fields that are of special interest to the Company have also been defined as follows: health care, sports, education, religion, humanitarian donations, science, culture and the environment. Apart from the donations, additional mechanisms of investment in the community

REPORT ON CORPORATE AND SOCIAL RESPONSIBILITY

are public competitions and projects of national interest.

Integration of the social responsibility aspect into operations includes all the activities by which the Company, by improving corporate management, is trying to increase the quality of services, responsibility towards business partners, the scope of activities aimed at the reduction of costs, and participation in various surveys important for the Company.

The innovative form of operations involves the implementation of those activities within CSR that create a new environment for mitigating all social problems.

The Company is also committed to active engagement of all its employees and managers in the implementation of the Strategy guidelines, both through active participation in the implementation within their field, and through initiating projects on the annual level, which will be included in the business plans as a compulsory segment of operations.

The Company continues to further its corporate social responsibility activities, establish partnerships of interest for the community and expand the concept of corporate social responsibility among its employees, and among the business entities with which it cooperates.

From 2011, the Company has been a member of the Business Leaders' Forum, the first network of socially responsible companies in Serbia, which was formed with the mission to encourage the development of corporate social responsibility and establish a lasting and stable practice of social responsibility in the local business sector. Based on its membership, the Company participated in the regular annual activities of the Forum.

In 2013, the Company launched several socially responsible projects, two of which met with a powerful response and had a strong influence on the public.

"Park Your Phone When Driving!" campaign

In accordance with the business strategy and the draft CSR strategy, the Company launched a campaign in November 2013 aimed at increasing safety in traffic with a special focus on the responsible use of mobile phones while driving. Since the Company is trying to ensure that its services are used in a responsible way, the campaign was launched in order to raise drivers' awareness about the dangers of using mobile phones while driving, either for making phone calls, searching the Internet or exchanging SMS messages. In this way, the Company gives up a part of its profit and the advertising of its own services in favour of greater safety in traffic and for the benefit of the entire society.

With an aim of raising public awareness about the dangers of using mobile phones while driving, the Company and its partners, the Traffic Police Department of the Serbian Interior Ministry and the Serbian Traffic Safety Committee, developed all the communication channels – TV video, radio advertisements, online contents, print solutions in the form of billboards and fliers, to ensure that the campaign message reaches every driver. During the campaign, activities were simultaneously organized in four cities – Belgrade, Novi Sad, Kragujevac and Niš where famous sportsmen stopped drivers and gave them hands-free devices, reminding them to responsibly use their mobile phones while driving. The Company also provided hands-free devices for its customers. Namely, 5,000 citizens who showed a valid driver's license at the signing of postpaid contracts got a hands-free device as a gift. At the end of the year, a lecture was held for the students of traffic high schools in Belgrade, so that the students, as future drivers, would get acquainted with the dangers of irresponsible use of mobile phones while driving. This announced the new, educational phase of the campaign that will continue in the form of lectures and workshops.

“Park Your Phone When Driving” campaign in figures:

- the TV video, as the pillar of the campaign, was viewed almost 100,000 times during the first two months. Many international websites downloaded the video and distributed it further as “The Best Advertisement against the Use of Mobile Phone while Driving”. Among the first, the video was shared by the Liveleak website, and in just 14 hours the video was seen by 31,000 visitors;
- the campaign has an active life on social networks – *twitter* and *facebook*;
- In the opinion poll taken by the Serbian Traffic Safety Committee, in cooperation with the Faculty of Traffic in Belgrade:
 - 96% of the 1,000 participants in the poll noticed the campaign and assessed it positively;
 - Of 72% of the respondents who said they had used mobile phones for texting while driving before the campaign, 61% said that the campaign positively influenced their behaviour and that they stopped doing so.
- 6,000 hands-free devices were distributed in just two months of the campaign – 5,000 in the outlets and 1,000 during the promotional activities within the campaign;
- during New Year holidays, 150,000 fliers about the campaign in both English and Serbian were handed out at the toll stations throughout Serbia;
- all professional drivers in the Company received hands-free devices and all corporate vehicles were marked with a sticker with the campaign logo.

Having in mind the results it achieved and the attention it received in the media, it is clear why the Park Your Phone When Driving

campaign won an award for the best non-profit campaign at the Night of the Ad Eaters 2013, and the award for the best TV video, the best socially responsible campaign and the best elements in digital communications, granted by the Market Communications Association.

“City Talking” project

The “City Talking” project was designed and launched to encourage local communities and partners to take an innovative approach to the challenge of improving the tourist offer and communication tools. It was officially launched by presenting the mobile device application “Belgrade Talking”, and the application “Novi Sad Talking”, which are intended for visitors with the aim of making it easier for them to get around and visit the most important cultural and historic sites in these towns. Innovativeness especially comes into play when using the functionality called Augmented Reality in finding objects. It allows an easy and funny way of accessing basic information about the object described in the application. The Company’s partners in this project, the Tourist Organization of Belgrade and the Tourist Organization of Novi Sad, made the application an integral part of the cities’ presentation at all fairs, including the largest tourism fair “World Travel Market” held in London.

Based on the example of these two cities, it is planned to make applications for all major cities in Serbia with a defined tourist offer and a significant number of cultural and historic sites that can be presented in this way, and include them in the City Talking project.

Based on the example of Telekom Srbija’s “City Talking” project, the Mtel company in Montenegro in cooperation with the Montenegrin National Tourist Organization, presented a free application “Montenegro Talking”, which in a simple, fast, educational and funny way, takes its users to tourist destinations and brings an entirely new perception of Montenegro’s

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tourist offer, its cities and historical and cultural sites. The application includes locations in Podgorica, Cetinje and the Adriatic coast, and it is available in the Montenegrin, Russian and English language.

Investment in young people and education

SUPPORT FOR CHILDREN AND MARGINALIZED GROUPS

Investment in the inclusion and socialization of marginalized groups has been one of the main commitments of the Company in deciding about socially responsible projects, from the Company's very founding. There are numerous examples of participation in projects aimed at improving the position of children without parental care. The Company has thus become one of the first partners of the non-governmental organization Centre for Youth Integration in the implementation of the "Children's Drop-In Centre" in Krfska street.

Investment in sports and popularization of a healthy life style and the true values is one of the main commitments for which the Company has become famous even on the international level. Continuous efforts to include children in sports activities and the promotion of a healthy life style received recognition within the "One Team" project, launched by the prestigious basketball competition "Euroleague". "Partizan One Team Telekom", the project launched in cooperation with the Basketball Club "Partizan", was declared the best example of work and partnership within the "One Team" program. The program is primarily intended for children without parental care to help them become active members of the community and integrate them into society by means of basketball and the values that practicing sports promotes. The "One Team" project is actually trying to use the power of sports to raise the level of tolerance and help eliminate the public's prejudices towards this social category.

One of the activities in this project was a visit by children from the "Drinka Pavlović" children's home to Telekom Srbija's math camp at Tulba near Požarevac, which is traditionally organized in order to develop mental and physical abilities in senior elementary school students.

Thanks to cooperation with the "Partizan" basketball club, inmates of the children's home were able to strengthen team work and fair play, spend time with their favourite basketball players and visit the club's matches.

Within support to sport talents, the Company, in cooperation with the Athletics Federation of Serbia, participated in the project "Children's Athletics", which promotes the introduction of this sport in the classes of physical education in elementary schools in Serbia. The program involves students from the first to fourth grade. The Company contributed to the implementation of the project by providing specially designed training equipment adjusted to the children's age. The campaign was implemented in 30 cities throughout Serbia and held under the auspices of the International Athletics Federation and the European Athletics Association.

Continuing last year's successful cooperation with the Association of Photographers on the Eye of the Street project, the Company supported the Eye of the City project organized by this association in 2013. The project was launched with the aim of engaging young people from marginalized groups and offering them a chance to turn their experience of living in Belgrade into art photographs. The young people gathered in the singing and dancing workshop GRUBB, mostly from the Roma population, were trained and given the necessary equipment and support in taking photos by the association's photographers, while the photographs were displayed at the Artget gallery of Belgrade's Cultural Centre.

The Mtel Banjaluka company successfully launched and completed the humane

fundraiser for building a home for the Đurić family from around Bijeljina, while on the occasion of St. Nicholas, parcels were traditionally given to inmates of the children's home "Rada Vranješević" and children treated at the Institute for Physical Medicine and Rehabilitation "Dr. Miroslav Zotović" in Banjaluka, along with the children from the day-care centre "Carica Milica – St. Evgeny", which is part of the Eparchy of Zahumlje and Herzegovina and the Littoral in Trebinje. Parcels were also given to children who are members of the Trebinje-based "Babies" association.

The Mtel company in Podgorica is also trying to promote support for humanitarian campaigns and be present in the lives of those who are in greatest need of help, especially children. The "Bikers without Borders" campaign in which the company participated by a donation for children without parental care from the children's home "Mladost" in Bijela, the donation of modems with unlimited Internet for pupils who have to walk to school in northern Montenegro, and the donation of 110 modems with unlimited Internet to excellent students from socially vulnerable families, show the Company's commitment to the humane aspect of social responsibility.

THIRD MT:S ANDROID™ COMPETITION

As the support for young people and education represents one of the most important spheres of the Company's social responsibility, a competition for the creation of Android applications was launched in cooperation with the Mathematics Grammar School of Belgrade three years ago. The competition aimed to best connect the core activity of the Company and the entrepreneurship of secondary school students gifted in programming, who thus received an opportunity to practically apply their knowledge obtained in school.

Apart from cooperation with the Mathematics Grammar School, an educational institution

of special importance, the third mt:s Android competition also included the Svetozar Marković Grammar School of Niš and the Jovan Jovanović Zmaj Grammar School of Novi Sad whose students were invited to participate. In order to familiarize the students with the basic idea of the competition and the terms and rules thereof, the Company's representatives held presentations in each of the three schools in the course of September 2013.

The experience so far in conducting the competition has revealed that mobile applications are a good platform for students to use their programming skills and express their creative potentials.

As compared to the first competition launched in 2011, the applications which were shortlisted in the second and third competitions attest to a major progress in terms of quality and functionality. Also evident is a much greater interest of students in participating in the competition.

Besides valuable awards prepared by the Company for the three top-ranked teams – the award for the winning team is a visit to the World Mobile Congress in Barcelona, and tablet computers and smart phones for the runners-up – a special incentive for the students is also an opportunity to master practical IT skills and IT-related professions which are in higher demand as regards their future careers. Likewise, the Company ensures the placement of all functional applications on the mobile application market - Google Play.

THE SUPPORT FOR EDUCATIONAL PROJECTS

A large number of socially responsible activities of the Company are aimed at improving the conditions for the acquisition of knowledge by younger generations.

From among the projects supported in 2013, the most important are: *The Open-Air Geographical Laboratory* in the village of Ripanj,

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The Influence of Interactive Exercises on the Development of Students' Abilities (Brain Breaks) in the Ivo Andrić Primary School of Belgrade, and to mark International Children's Book Day, the Company presented a large number of children's books to the students of the Milun Jakšić primary school in the village of Banje, Kralj Milutin primary school of Gračanica, Sveti Sava primary school in Sušica and Miladin Mitić primary school in the village of Laplje Selo.

The Company supports our "national team of knowledge", that is, a team of young talents that brings medals from international competitions in several scientific disciplines. Apart from students of the Mathematics Grammar School of Belgrade, with whom there is partner cooperation, the teams also include representatives of other secondary schools in Serbia.

Thus, this year, students of the Mathematics Grammar School achieved a fantastic result in the Archimedes competition held in Bucharest by winning six medals: four gold and two silver ones. Besides the support for participation in the Archimedes competition in Bucharest, also made possible is the mathematicians' participation in the Mathematics Competition held in Moscow, Euler's Olympiad in St Petersburg and in the prestigious International Mathematics, Physics and Informatics Competition in Kazakhstan in which young mathematicians competed for the first time.

THE SUPPORT FOR THE ENTREPRENEURSHIP OF YOUNG PEOPLE

Recognizing the importance of promoting education through the development of young peoples' entrepreneurship, the Company has supported the Youth Achievement organization and its project entitled Business Challenge for three years now. This project envisages that representatives of the business sector present secondary school students with business challenges – problems to be solved

by students during a one-day competition. In the course of 2013, through the engagement of the Company's employees as mentors for students' teams and as a jury, the Company actively supported the holding of the business challenge event in Belgrade.

At the beginning of 2014, the prestigious Virtus award – the most important recognition for corporate philanthropy in the country, was presented for long-term partnership which has been maintained with the Youth Achievement organization for three years now.

CONNECTED WITH STUDENTS

For years now, the Company has maintained successful cooperation with the ESTIEM, AIESEC and EESTEC student organizations, through their local offices in Belgrade. This cooperation is maintained during the scheduled annual events staged by these student organizations, in which the Company's employees volunteer endeavouring to pass to students their knowledge and experiences from the business environment at lectures.

This year's events of student organizations – *Open IT* in the organization of AIESEC and the *Academy of Modern Management* organized by ESTIEM devoted to entrepreneurship are a fine indication that students are interested in acquiring knowledge in the sphere of innovative business ideas and launch of business. During lectures and workshops, the Company's experts too had an opportunity additionally to familiarize themselves with the stands and views of students and their would-be peers.

Within the support for young people and education, Mtel awarded 25 new scholarships to students in Bosnia-Herzegovina in the framework of the "m:scholarship" project in 2013. In this manner, for a third consecutive year, the best students of faculties of electrical engineering in B-H became Mtel's beneficiaries.

By rewarding good ideas and positive changes,

the Mtel company endeavours to point to the need for lending support to knowledge and skills, particularly of young people.

In 2013, presented were Srđan Aleksić journalist awards for the professional coverage of marginalized groups in B-H. In the framework of the Student Entrepreneurship project which Mtel has supported for a second consecutive year, in 2013, the Youth Business Forum was held at which the best student business ideas were rewarded. Likewise, Mtel participated in rewarding the best ideas within the *Startup Challenge* competition for the best idea in creative industry.

The Mtel company makes its contribution to higher-quality education in Montenegro through many activities and cooperation with primary and secondary schools and higher education institutions. Mtel presents the best pupils, students and winners of prestigious competitions with a gift. In 2013, the support was lent to the central event within the project of the Montenegrin Science Ministry entitled *Factory of Knowledge – Science Days*, and to the students of the Faculty of Electrical Engineering – NGO “Best”.

Investments in health care

For several years now, the support for health care projects has been a key component of the Company's commitment to invest in the community. Every year, the Company sets aside significant funds for the fitting out and refurbishment of health care institutions, fostering an even regional approach. In this context, special mention should be made of the donations to health care centres providing care for a large number of beneficiaries. The Neurosurgical Clinic of the Serbian Clinical Centre is thus equipped with state-of-the-art surgical microscope which is of exceptional importance for the performance of demanding surgical procedures. This institution performs some 2,500 such operations annually.

Apart from the significant support for the Clinical Centre of Serbia, the Company set aside funds for the University Children's Clinic in Tiršova St for the fitting out of the renovated Abdominal Surgery Ward and the procurement of a portable ultrasound device for diagnosing the musculoskeletal diseases and injuries in children. In the past period, in the form of in-kind donations, the Company also provided free IPTV services on the public premises of the Clinical Centre of Serbia, the Zvezdara Clinical and Hospital Centre, the University Children's Clinic in Tiršova St, the dr Vukan Čupić Institute for the Health Care of Mother and Child and the Sokobanjska Hospital for Cerebral Palsy and Developmental Neurology. The donations were used for procuring the necessary medical equipment to other health care institutions in Serbia, including the Serbian Emergency Centre, the Cardiology Clinic of the Niš Clinical Centre, the General Hospital of Pančevo, the Health Care Centre in the town of Kuršumljia, the Health Care Centre of the town of Kosovska Mitrovica and the Basic Rehabilitation Centre of Kosovska Mitrovica.

In 2013, the Mtel company in Bosnia-Herzegovina continued to foster the tradition of participation in relief projects and activities. Donations to health care institutions in 2013 – the Clinical Centre of Banjaluka for the purchase of 344 mattresses for patients and the Trebinje hospital for the purchase of a hysteroscope, Mtel maintained its assistance to these institutions in order to facilitate treatment and improve the working conditions for health care workers. Likewise, for the purpose of promoting the treatment and training of doctors, Mtel supported the holding the Congress of Medical Doctors of Republika Srpska.

With respect to its activities in the social responsibility sphere, the mtel company in Bosnia-Herzegovina was rewarded for its contribution to the development of corporate social responsibility for 2013 by the Chamber of Commerce of Republika Srpska.

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The support for culture and science projects

Being confident that art and science must rely on the support from the business sector, the Company supports annual projects and events in the sphere of science and culture which are of national significance. The legacy of one of the most distinguished internationally-acclaimed scientists Mihajlo Pupin, who is meritorious for the invention of exceptionally important patents in the sphere of telecommunications, is most certainly the sphere to which the Company wishes to make its full contribution. In the run-up to the marking of an important anniversary in 2014 – 160 years of the birth of the scientist of Serbian descent, the educational association of the same name and Telekom Srbija launched a string of activities with a single commitment – to affirm his legacy and present the details of his life to the domestic and world publics. The first step to this end was cooperation within the Mihajlo Pupin Virtual Museum project, which pays tribute to this brilliant scientist, inventor and professor. Visitors to the Virtual Museum have an opportunity to learn more about Pupin's life through ten museum sections. At the same time, the Virtual Museum also contributes to a brand new manner of presenting his cultural and scientific heritage. Besides, also provided is access to Pupin's Hometown Complex in the village of Idvor through a virtual walk. After the development of the Virtual 3D Presentation of the Hometown Complex in the village of Idvor, interested visitors may see Pupin's home, school, National Hall, the construction of which was funded by himself, and the nearby church, which all constitute an integral part of this hometown complex. Visits to these museums offer an opportunity to learn important and less generally known facts about Mihajlo Pupin.

Likewise, the Company has been a long-standing sponsor of the Music Scene Masters programme organized by the Ilija M. Kolarac

Endowment in Belgrade and the oldest Serbian choral music festival – Mokranjac Days, which, at the same time, is an important cultural event of the Negotin region. The Festival's programme is based on the recognizable concept of choral performances and the promotion of domestic music creativity. As a loyal friend of the event, Telekom Srbija received a special plaque for its contribution to the organization of the festival in 2013.

Just like the previous years, with its support to theatre art in Bosnia-Herzegovina, Mtel continues to foster the tradition of participating in the organization of important cultural events such as the *Petar Kočić Teeter Fest* and the *XII International Children's Theatre Festival Banjaluka 2013*. The Mtel company was also part of a series of cultural and educational events including *Vlada S. Milošević Days*, which were held to mark the birth anniversary of one of the greatest composers and cultural workers in these regions, and supported the holding of the *Dučić Poetic Evenings* in the town of Trebinje.

Wishing to promote good and optimistic life stories, Mtel also launched a project – story about the contemporary heroes in B-H. The *My Hero* is a documentary series of five episodes featuring reports on meritorious people and promoting true social values. In the framework of cooperation with UNICEF, the First Children's Festival of One-Minute Films entitled *Do you have a minute?* was implemented within the project entitled *The Strengthening of the System of Social Protection and Inclusion of Children in B-H*.

Contribution to the preservation of cultural heritage

Since its foundation in 1997, the Company has endeavoured to boost the development of the entire community by supporting the religious communities both in Serbia and in the former Yugoslav countries in which it operates. The

Company is recognized as one of the greatest benefactors of St Sava's Church in Belgrade and has contributed to the building of the Church since its restoration in 2001. The digitalization of the Chilandari treasury was one of the key projects within the Company's socially responsible activities.

With its contributions, the Company has participated in the organization of the Fundraising Evening for St Sava's Church and the Church and Parochial Centre of St Paraskeva at Čukarička Padina in Belgrade, supported the publication of the *Svetigora* magazine and Orlić youth magazine, and set aside funds for the Serbian Orthodox Church's stall at the Belgrade Book Fair for years now. Apart from investing in their construction, the Company has also aided the restoration of religious facilities, including the monasteries in Kosovo-Metohija – the Peć Patriarchate, the Monastery of Banjska, the Monastery of Visoki Dečani, the Monastery of Gračanica and the Monastery of Sokolica.

The Company also supports Orthodox sanctities in the region. In the framework of marking the 1700th anniversary of the Edict of Milan, the newly-built Cathedral of the Resurrection of Christ in Podgorica was consecrated. On that occasion, the Company received the Acknowledgement as the Grand Sponsor of the Cathedral. The Company backed the marking of the anniversary also by providing telecommunications infrastructure for the TV coverage of a liturgy and an Internet link in the town of Niš. Likewise, the funds were raised for the construction of a fountain in front of the My Place Hotel. The fountain is part of the project entitled *17 Fountains for 17 Centuries of Christianity* launched by the Niš metropolitan municipality of Medijana.

The Company endeavours to meet the needs of religious communities. Thus, to mark the Anniversary, it also supported the Belgrade archbishopric and the organization of the Holy Liturgy at the Čair stadium in Niš. Also provided

were the funds for the implementation of cultural projects of the Islamic community.

Responsibility towards the customers

Applying state-of-the-art technological solutions, which ensure communication any time any place, the Company is endeavouring to establish and maintain impeccable communication with its customers and partners. In cases when contemporary solutions do not suffice, responsible companies are expected to make an additional step ahead to accommodate customer needs. Bearing in mind the needs of more than 50,000 our fellow citizens with impaired hearing, the Company launched sign language courses for its employees working in outlets who come into direct contact with customers.

The employees of the outlets in Belgrade, Novi Sad, Bačka Palanka, Zrenjanin, Kikinda, Subotica and Sremska Mitrovica underwent an educational programme tailored to the Company's activity and including some 800 selected gestures grouped into 16 thematic units. Having mastered the envisaged signs and conventional phrases, the employees are able to reply to all questions regarding the telecommunications services without problems. The training was conducted in several phases and included the total of 45 employees. The Company plans to continue the sign language training in order to include all busier outlets in the country. As well as its employees, the Company treats its customers equally, in a bid to adjust its services to their specific needs. The training of the employees in the sign language was launched in cooperation with the Serbian Association of Interpreters for Hearing-Impaired Persons (UTLOSS).

In the course of 2013, the Mtel company presented the citizens of Banjaluka, Bijeljina and Andrićgrad with free *WiFi* zones and a solar tree – ecological mobile phone charger in the town of Bijeljina. Likewise, the citizens of Banjaluka

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were also presented with “Zimzograd” – a New Year’s town, thus keeping abreast of European and world trends and lending support for the projects which bring the spirit of Europe to these regions.

Volunteering

Telekom Srbija’s socially responsible activities are a result of its employees’ activities and efforts – their endeavour and work at their workplaces, and their benefaction and humanness. Active within the Company is the From the Hearth (Od srca) Relief Association which rallies blood donors among the employees and pensioners of Telekom Srbija. Apart from its core activity, the Blood Donors Association also engages in charity work. Recently, it has launched the activities aimed at promoting organ donation.

The Association has been active in the territory of the whole of Serbia and their members foster, through their activities, the tradition of solidarity with other members of the community. The activities of this Association contribute to the promotion of the Company’s social responsibility and raising the awareness of its employees of important social issues such as health and humanness, the improvement of the environment, and the support for a change in the habits as regards the preservation and use of resources.

The *From the Heart Association* has concluded cooperation agreements with the Blood Transfusion Institute of Serbia and the Transfusion Institute of the Military and Medical Academy. Besides the said institutes, the Association established cooperation with other institutions as well, including: the Serbian Red Cross, the Serbian Interior Ministry, the Faculty of Applied Arts and other similar associations in Republika Srpska, the B-H Federation, Montenegro and the like.

During 2013, in a string of activities launched

by this Association in Niš, Pirot, Prokuplje, Novi Pazar, Kragujevac, Sombor, Požarevac, Pančevo, Šabac, Smederevo, Subotica, Sremska Mitrovica, Čačak and Bor, 1,026 units of blood were collected.

This year too, Mtel Banja Luka participated in the activities related to Open Doors Day as part of the support for the marking of the International Day of Girls in Information and Communication Technologies and in the Volunteer-Credit project within which secondary school students had an opportunity to work for the Mtel company for one day.

Environment protection report

The strategy of a socially responsible company is a relevant part of the corporate strategy of Telekom Srbija for the purpose of establishing a balance between economic interests, social development, environment protection and the preservation of natural resources. The Company’s employees and management believe that it is the duty of all, particularly major business entities, not only to make their contribution to the society, but also responsibly, conscientiously and wisely to use the resources, invest in sustainable development and thus repay their debt to society and the community. In accordance therewith, Telekom Srbija, as an active and responsible member of society, observes the law and ethical principles generally accepted in conducting business operations and discards and deplores an illegal and unbecoming behaviour for achieving business goals which it pursues exclusively with the quality of its products and services. When the external public is in question, Telekom Srbija keeps the market, suppliers and the public informed about the operations of the Company, observing fair competition because it believes this to be in its own interest and in the interest of its customers and capital owners.

Telekom Srbija takes measures for the protection of the environment adopting

environmentally-oriented technologies and methods with the aim of reducing negative impacts on the environment. In pursuing its activity, the Company takes care about such aspects of environmental protection as rational energy consumption, the prevention of waste generation, and proper waste disposal and recycling. By investing and applying state-of-the-art telecommunications technology, the Company contributes to the application of clean technologies and technologies consuming less energy as compared to those used over the past decades.

As a company with the greatest telecommunications market share, Telekom Srbija is most certainly a major sponsor in the region and its philanthropic activities are deeply incorporated in its corporate strategic plan, thus constituting its integral part, rather than its optional activity. For this reason, corporate philanthropy represents one of the pillars of the Company and its socially responsible operations a way to contribute to sustainable development, not through individuals, but through projects intended for a large number of customers, through infrastructure which becomes a common asset and so on, through the entire society. The Company contributes to the development of true social values, offering assistance to the broader social community. Special emphasis is laid on the development of creative, talented and young people who are to become leaders in both the local and broader communities in the near future. The Company invests in projected urban and rural development, takes part in the construction of health care wards, service capacities and other forms of infrastructure and supports sustainable development in order to improve the quality of citizen's life and increase the number of donation beneficiaries.

Telekom Srbija generates various types of waste which is disposed of regularly and in accordance with legal regulations. The Company has concluded contracts on the purchase of perilous and non-perilous waste with the companies

authorized for this type of activity, whereas radioactive waste is regularly handed over to the JP Nuklearni objekti Srbije (PE Nuclear Facilities of Serbia), which is the only company permitted to take over this type of waste.

Noise emitted in the environment mainly originates from the chillers of air-conditioners installed within the Company's facilities. If there is reasonable doubt that noise levels emitted in the environment are higher than prescribed by the law, measurements are made. In the course of 2013, we did not exceed the permitted noise levels.

Electromagnetic radiation in the environment mainly originates from mobile radio base stations. Before the installation of a base station, a study of its effects on the environment is made listing all technical data and protection measures for that base station. Once the Study is complete, the base station is put into operation. There are regulations and standards regulating the permitted radiation levels. Before putting a radio base station into operation, the level of radiation is measured, and if third parties complain about the level of radiation, an institution is engaged to measure its levels. In accordance with the Law on Non-ionizing Radiation Protection, the measurement of the level of electromagnetic radiation by radio base stations is made every two years. So far, the radiation levels have not been exceeded.

The supply of 3,000 boxes for the disposal of waste office paper has been contracted and currently under way is the mounting of such boxes inside buildings housing offices. In this manner, the Company will collect waste paper which will not end up as communal waste.

With a string of activities of conscientious disposal of electronic waste and their responsible attitude towards nature, Telekom Srbija and its subsidiaries demonstrate their commitment to the protection of the environment and preparedness to operate in an environmentally-friendly

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fashion. When reaching strategic decisions, the Company takes into consideration the provisions of the applicable law regulating the environmental sphere and all potential risks of its operation and influences on the environment, particularly taking account of the specificities of the operation of the telecommunications industry. Maintained are programmes in the sphere of energy efficiency, economic utilization of resources and electronic waste management and the activities in the sphere of waste recycling and disposal within the Company have had positive results.

During 2013, the Company handed over or sold various types of waste material.

In the domain of environment and people protection, in 2013, the Mtel Banjaluka company mostly dealt with the operation of base stations and electromagnetic radiation and the registration of the company with the B-H Environmental Protection Fund.

Through its continued cooperation with the Health Care and Social Welfare Ministries of Republika Srpska, the Ministry of Urban Planning, Building Trade and Ecology of Republika Srpska, the Regulatory Agency for Communications, the Technical and Ecological Institute, the Institute for Protection, Ecology and Informatics, the Republic Health Care and Sanitary Inspectorate and the Municipal Communal Police, a consistent fulfilment of obligations in the sphere of environment and people protection was ensured in 2013.

In 2013, activities were conducted with the aim of registering the company with the B-H Environment Protection Fund. The Fund includes the activities related to raising funds for and encouraging and financing the preparation, implementation and development of programmes, projects and similar activities in the sphere of preservation, sustainable use, protection and promotion of the environment and use of renewable power resources.

The obligations of the company towards the Fund arise from the Rules of Packaging and Packaging Waste Management and the Rules of Electric and Electronic Product Waste Management. In this manner, Mtel directly influences environment protection in the region of B-H.

In the course of the year, also organized were public debates at which the citizens were familiarized with the data and legal regulations on radiation from base stations, i.e. the fact that the installation of such facilities complies with the regulations of the Law on Non-ionizing Radiation Protection.

With a view to protecting the environment, mtel also continues to conduct internal and external campaigns for paper saving and/or using electronic bills instead of paper ones.

The Mtel company in Montenegro supports environmental projects in accordance with the strategy of socially responsible operation. One of them is the support for the *Blueberry Days* event in the town of Plav. In the course of 2013, the activities continued with the aim of raising the employees' awareness of the need to preserve the environment – the use of paper decreased as communication is conducted exclusively by electronic mail. When it comes to customers, the delivery of bills by electronic mail was also promoted.

FINANCIAL RESULTS



FINANCIAL RESULTS

CONSOLIDATED STATEMENT

CONSOLIDATED INCOME STATEMENT

In million RSD	2012	2013
Operating revenues	122.222	119.477
Operating expenditures	(100.566)	(99.341)
EBIT	21.656	20.136
EBIT margin	17,7%	16,9%
EBITDA	47.422	45.232
EBITDA margin	38,8%	37,9%
Financial (expenditures) net	(9.671)	(2.029)
Profit tax	300	(2.408)
Net profit	12.286	15.700
Net profit rate	10,1%	13,1%

In 2013, the total operating revenues amounted to 119.5 billion dinars and are by 2.2% lower as compared to 2012. In the relevant period,

operating expenses fell by 1.2% and amounted to 99.3 billion dinars.

The said trends result in a drop in operating profits (*EBIT*) and EBITDA, as well as their respective rates.

The net profits generated amounted to 15.7 billion dinars or 27.8% up on the previous year. The increase in net profits in 2013 is due to a decrease in finance expenses, net, as a result of the repayment of part of the long-term liabilities and a decrease in foreign exchange losses.

Operating revenues fell by RSD 2.7 billion due to a decrease in revenues from the public fixed telecommunications network and mobile telephony services.

The public fixed telecommunications network services fell by RSD 1.6 billion and include the fixed telecommunications network, Internet, multimedia and combined service packages. Mobile telephony fell by RSD 1.4 billion, mostly due to a drop in prepaid revenues (by RSD 3.1

billion), whereas post-paid revenues increased (by RSD 1.7 billion).

Operating expenses in 2013 amounted to RSD 99.3 billion and fell by 1.2%. In 2012, the Parent Company modernized its mobile network i.e. replaced the radio base stations the value of which was RSD 2.5 billion.

In million RSD	31.12. 2012.	31.12. 2013.
ASSETS		
Non-current assets	206.269	199.703
Intangible investments	63.880	61.784
Property, plants and equipment	137.232	131.640
Other non-current assets	5.157	6.279
Revolving assets	49.256	39.729
Stocks	6.777	8.046
Receivables	19.339	17.588
Cash and cash equivalents	15.879	8.334
Other	7.261	5.761
TOTAL ASSETS	255.525	239.432
SHARE CAPITAL AND LIABILITIES		
Share capital allotted to company owners	116.595	123.657
Initial capital	100.000	100.000
Other capital	16.595	23.657
Stake without controlling right	19.959	19.437
Total share capital	136.553	143.093
Long-term liabilities	59.772	34.618
Credits	50.880	27.362
Other long-term liabilities	8.892	7.256
Current liabilities	59.200	61.721
Credits and loans	31.975	31.313
Account payables	9.122	13.092
Other current liabilities	18.103	17.316
TOTAL SHARE CAPITAL AND LIABILITIES	255.525	239.432

Consolidated Balance Sheet

Consolidated cash flow:

In million RSD	2012.	2013.
Profit before taxation	11.985	18.107
Reconciliation of profit	28.186	27.615
Net cash-in from business activities	40.171	45.722
Net cash-out from investment activities	(15.032)	(17.725)
Net cash-out from finance activities	(27.202)	(35.542)
Net cash-out of cash and cash equivalents	(2.063)	(7.545)
Cash and cash equivalents at the beginning of the year	17.942	15.879
Cash and cash equivalent at the end of the year	15.879	8.334

Ratio analysis of consolidated business results:

In million RSD	2012	2013
Total debt	82.855	58.675
Net debt	66.976	50.341
Net debt/EBITDA	1,41	1,11
Total liabilities/EBITDA	2,51	2,13
Debt ratio	32,9%	26,0%
Quick ration	0,82	0,89

In the course of 2013, the financial debt to equity and liquidity ratios, which are followed on a consolidated basis, improved mostly due to the repayment of the loan to the Parent Company.

Besides, in December 2013, an Annexe to the Long-Term Facilities Agreement was signed, pursuant to which the Parent Company was granted more favourable terms of repayment of the remainder of the loan. The restructuring

FINANCIAL RESULTS

of the loan has improved the liquidity position of the Parent Company since 2014.

FINANCIAL STATEMENTS OF THE PARENT COMPANY AND ITS SUBSIDIARIES

BASIC FINANCIAL INDICATORS

Telekom Srbija

Income Statement

In million RSD	2012	2013
Operating revenues	90.947	89.049
Operating expenditures	(75.071)	(73.870)
EBIT	15.876	15.179
EBIT margin	17,5%	17,0%
EBITDA	32.678	31.575
EBITDA margin	35,9%	35,5%
Financial revenues / (expenditures) net	(5.465)	2.037
Profit tax	841	(1.887)
Net profit	11.251	15.329
Net profit rate	12,4%	17,2%
Earnings per share	14,06	19,16

The Parent Company's profit after taxation amounted to 15.3 billion dinars, an increase of 36.2% as compared to 2012. In 2013, EBIT amounted to 15.2 billion dinars, and EBITDA 31.6 billion dinars.

The net result in 2013 was significantly contributed to by a positive financial sub-balance as a result of lower foreign exchange losses and interest expenses due to a substantial

reduction in credit liabilities, and by revenues from dividends.

Operating revenues in the relevant period amounted to 89 billion dinars, falling by 2.1% as compared to 2012 mostly due to a drop in the revenues from traditional fixed telephony.

Balance Sheet

In million RSD	31.12. 2012.	31.12. 2013.
NON-CURRENT ASSETS	167.845	161.990
Intangible assets	6.303	5.568
Real estate, equipment and advances	96.010	90.972
Share in capital of subsidiaries	60.909	60.703
Other	4.623	4.747
REVOLVING ASSETS	34.565	25.935
Stocks	5.829	6.663
Receivables	13.167	13.522
Cash and cash equivalents	10.862	2.012
Other	4.707	3.738
TOTAL ASSETS	202.410	187.925
CURRENT LIABILITIES	51.458	52.355
Current account payables of long-term loans	29.931	29.870
Operating liabilities	6.908	8.412
Other short-term liabilities	14.619	14.073
LONG-TERM LIABILITIES	50.946	27.807
Long-term loans	46.658	23.845
Other long-term liabilities	4.288	3.962
CAPITAL	100.006	107.763
TOTAL LIABILITIES	202.410	187.925

Cash flows

In million RSD	2012	2013
Profit before taxation	10.411	17.216
Reconciliation of profit	12.664	13.119
Net cash-in from business activities	23.075	30.335
Net cash-out from investment activities	(7.377)	(8.290)
Net cash-out from finance activities	(18.853)	(30.895)
Net cash-out of cash and cash equivalents	(3.156)	(8.850)
Cash and cash equivalents at the beginning of the year	14.019	10.862
Cash and cash equivalent at the end of the year	10.862	2.012

Ratio analysis

In million RSD	2012	2013
Total debt	76.589	53.715
Net debt	65.727	51.702
Net debt / EBITDA	2,01	1,64
Total liabilities / EBITDA	3,13	2,54
Debt ratio	39,7%	32,4%
Quick ration	0,65	0,68

The lower debt to equity ratio as at 31 December 2013 is mostly due to the repayment of long-term credit liabilities.

Mtel

Income Statement

In million RSD	2012	2013
Operating revenues	28.290	27.399
Operating expenditures	(21.260)	(21.160)
EBIT	7.030	6.239
<i>EBIT margin</i>	24,8%	22,8%
EBITDA	13.429	12.397
<i>EBITDA margin</i>	47,5%	45,2%
Financial revenues net	101	238
Profit tax	(713)	(636)
Net profit	6.419	5.841
Net profit rate	22,7%	21,3%

Net profit in 2013 amounted to 5.8 billion dinars and fell by 9.0% as compared to 2012.

The total generated revenues of Mtel in 2013 were 3.1% lower as compared to the previous year due to a drop in revenues from traditional fixed telephony (by 309 million dinars), and mobile telephony (by 426 million dinars).

In 2013, the operating expenses of Mtel amount-

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ed to 21.2 billion dinars and were by 0.5% lower as compared to the previous year.

Balance Sheet

In million RSD	31.12.2012.	31.12.2013.
NON-CURRENT ASSETS	37.929	38.793
Intangible assets	4.655	4.151
Real estate, equipment and advances	29.771	29.625
Share in the capital of subsidiaries	3.402	3.488
Other	101	1.529
REVOLVING ASSETS	10.641	11.272
Stocks	557	1.085
Receivables	2.585	3.734
Cash and cash equivalents	4.457	5.714
Other	3.042	737
TOTAL ASSETS	48.570	50.065
CURRENT LIABILITIES	5.636	7.440
Current account payables of long-term loans	1.254	1.090
Liabilities from business activities	1.679	3.993
Other short-term liabilities	2.703	2.357
LONG-TERM LIABILITIES	2.472	1.944
Long-term loans	1.861	1.455
Other long-term liabilities	611	489
CAPITAL	40.462	40.681
TOTAL LIABILITIES	48.570	50.065

Cash Flows

In million RSD	2012	2013
Profit before taxation	7.131	6.477
Net cash-in from business activities	13.426	11.051
Net cash-out from investment activities	(2.629)	(2.381)
Net cash-in from finance activities	(10.019)	(7.413)
Net cash-in	778	1.257
Cash at the beginning of the year	3.679	4.457
Cash at the end of the year	4.457	5.714

mtel

Income Statement

In million RSD	2012	2013
Operating revenues	4.860	4.753
Operating expenditures	(4.652)	(4.555)
EBIT	208	198
<i>EBIT margin</i>	4,3%	4,2%
EBITDA	1.407	1.293
<i>EBITDA margin</i>	29,0%	27,2%
Financial revenues / (expenditures) net	(156)	(62)
Profit tax	16	(18)
Net profit	68	118
Net profit rate	1,4%	2,5%

Net profits in 2013 amounted to 118 million dinars and were by 73.5% higher as compared to the previous year, which was significantly contributed to by lower finance expenses, net, as a result of the repayment of credit liabilities.

In 2013, operating revenues amounted to 4.8 billion dinars, and expenses accounted for 4.6 billion dinars.

Operating revenues dropped by 107 million dinars due to a decrease in revenues from mobile services (by RSD 162 million). A fall in the revenues from mobile telephony is mostly due to a fall in prepaid revenues of RSD 143 million, whereas *post-paid* revenues increased by 26 million dinars. The revenues from WiMax increased by 3 million dinars.

Operating expenses in 2013 amounted to RSD 4.6 billion and were by 2.1% lower as compared to 2012 primarily due to lower depreciation costs (by 104 million dinars) and operator costs (66 million dinars). At the same time, the costs of mobile handsets increased by RSD 142 million due to greater sales of post-paid packages.

Balance Sheet

In million RSD	31.12. 2012.	31.12. 2013.
NON-CURRENT ASSETS	5.689	5.449
Intangible assets	1.873	1.692
Real estate, equipment and advances	3.727	3.691
Other	89	66
REVOLVING ASSETS	1.324	1.344
Stocks	359	260
Receivables	503	717
Cash and cash equivalents	59	208
Other	403	159
TOTAL ASSETS	7.013	6.793
CURRENT LIABILITIES	1.819	1.895
Current account payables of long-term loans	944	476
Liabilities from business activities	534	944
Other short-term liabilities	341	475
LONG-TERM LIABILITIES	2.422	1.984
Long-term loans	2.232	1.810
Other long-term liabilities	190	174
CAPITAL	2.772	2.914
TOTAL LIABILITIES	7.013	6.793

Cash Flows

In million RSD	2012	2013
Profit before taxation	52	136
Reconciliation of profit	1.270	1.079
Net cash-in from business activities	1.322	1.215
Net cash-out from investment activities	(263)	(160)
Net cash-out from finance activities	(1.059)	(906)
Net cash-in	-	149
Cash at the beginning of the year	59	59
Cash at the end of the year	59	208

Ratio analysis

In million RSD	2012	2013
Total debt	3.176	2.286
Net debt	3.118	2.078
Net debt/ EBITDA	2,22	1,61
Total liabilities/ EBITDA	3,01	3,00
Debt ratio	52,9%	41,6%
Interest-based expenses/ operating revenues	3,53%	1,65%
Quick ratio	0,56	0,63

The repayment of credit liabilities in the course of 2013 resulted in a lower debt to equity ratio.

FINANCIAL RESULTS

TELUS

Income Statement

In million RSD	2012	2013
Operating revenues	1.654	1.705
Operating expenditures	(1.495)	(1.506)
EBIT	159	199
<i>EBIT margin</i>	9,6%	11,7%
EBITDA	167	206
<i>EBITDA margin</i>	10,1%	12,1%
Financial revenues net	53	34
Net profit	197	197
Net profit rate	11,9%	11,6%

Operating expenses amounted to 1.7 billion dinars, which is by 3.1% more as compared to the previous year. The revenues from the sales to the Parent Company account for 59% of the revenues (2012: 60%); to PE PTT 26% (2012: 26%), and the remainder refers to the revenues from the sale of services to third parties.

A faster growth in operating revenues as compared to operating expenses led to an increase in *EBIT*, *EBITDA* and net profits, and their respective rates.

Balance Sheet

In million RSD	31.12. 2012.	31.12. 2013.
NON-CURRENT ASSETS	31	26
REVOLVING ASSETS	978	842
Receivables	399	694
Cash and cash equivalents	166	139
Other	413	9
TOTAL ASSETS	1.009	868
CURRENT LIABILITIES	136	128
LONG-TERM PROVISIONS	99	64
CAPITAL	774	676
TOTAL LIABILITIES	1.009	868

Cash Flows

In million RSD	2012	2013
Profit before taxation	212	233
Reconciliation of profit	(99)	(145)
Net cash-in from business activities	113	88
Net cash-in/out from investment activities	(57)	184
Net cash-out/in from finance activities	52	(300)
Net cash-in/out	108	(28)
Cash at the beginning of the year	58	166
Cash at the end of the year	166	138

FiberNet

Income Statement

In million RSD	2012	2013
Operating revenues	43	49
Operating expenditures	(132)	(112)
Operating loss	(89)	(63)
Financial revenues net	15	7
Net loss	(74)	(56)

The sales revenues were generated against the lease of an optical cable to the mtel subsidiary (75%) and the Parent Company (16%), whereas other revenues account for 9% (2012: mtel 80%, Parent Company 16%, others 4%).

A fall in the operating expenses is mostly due to lower lease costs as a result of a lower contracted fee for the use of the land of Željeznice Crne Gore for the needs of the optical cable (as of August 2012 by 0.29 EUR/m).

Balance Sheet

In million RSD	31.12. 2012.	31.12. 2013.
NON-CURRENT ASSETS	819	781
Intangible assets	447	427
Real estate and equipment	372	354
REVOLVING ASSETS	373	188
Receivables	27	88
Cash and cash equivalents	45	68
Other	301	32
TOTAL ASSETS	1.192	969
CURRENT LIABILITIES	105	56
LONG-TERM PROVISIONS	81	82
CAPITAL	1.006	831
TOTAL LIABILITIES	1.192	969

TS:NET B.V.

Income Statement

In million RSD	2012	2013
Operating revenues	69	70
Operating expenditures	(38)	(38)
EBIT	31	32
<i>EBIT margin</i>	44,9%	45,7%
EBITDA	62	63
<i>EBITDA margin</i>	89,9%	90,0%
Net profit	24	25
Net profit rate	34,8%	35,7%

Operating revenues entirely refer to the revenues from the lease of equipment to the Parent Company. The depreciation costs have the greatest share in the operating expense structure (more than 80%).

In January 2013, 420 thousand euros worth of dividends were paid to the Parent Company.

In the course of 2013, the return of investment to the Parent Company was made, reducing the capital by 712 thousand EUR.

Balance Sheet

In million RSD	31.12. 2012.	31.12. 2013.
REVOLVING ASSETS	137	60
Cash and cash equivalents	123	45
Other	14	15
NON-CURRENT ASSETS	241	211
TOTAL ASSETS	378	271
CURRENT LIABILITIES	6	1
CAPITAL	372	270
TOTAL LIABILITIES	378	271

HD-WIN

Income Statement

In million RSD	2012	2013
Operating revenues	1.560	1.709
Operating expenditures	(1.926)	(1.936)
Operating loss	(366)	(227)
Financial (expenditures) net	(92)	(121)
Net loss	(458)	(348)

Operating revenues increased by RSD 149 million, primarily due to an increase in revenues from the sale of TV rights and licences.

The expenses increased by RSD 10 million, mainly due to the costs of purchased rights and licences.

The said trends led to a decrease in operating losses as compared to 2012.

