

Consolidated Annual
Business Report for 2014



mts
Tvoj svet

Telekom Srbija

CONSOLIDATED ANNUAL
BUSINESS REPORT
TELEKOM SRBIJA A.D.
FOR 2014

Telekom Srbija

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01

Summary

report



TELECOMMUNICATIONS COMPANY "TELEKOM SRBIJA" a.d., BEOGRAD AND RELATED LEGAL ENTITIES

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).

Beside the above mentioned Licences, the Company has been entered into the Register of Operators maintained by the Regulatory Agency for Electronic Communications and Postal Services (Ratel) and for the services of access to the broadband network, Internet services, services of distribution of media content and the like.

In keeping with the Law on Electronic Communications (Official Gazette of RS no. 44, of 30 June 2010, No. 60 of 10 July 2013 – Decision of the Constitutional Court and No. 62 of 13 June 2014), and within the activities on encouraging competition in the telecommunications market of the Republic of Serbia, applying the instruments of market regulation, on 7 July 2011, Ratel passed the Decision on designating the markets that are subject to prior regulation, whereunder it defined nine markets subject to prior regulation (PRM). Based on the analyses of these PRM, Ratel rendered some resolutions in late 2011 whereunder the Company was declared as an operator with significant market power (SPM) in 8, out of 9 PRM, as follows: I – retail market for access to the public telephone network on a fixed location, II – wholesale market for call origination in the public telephone network on a fixed location, III – wholesale market for call termination in the public fixed network, IV – wholesale market for (physical) access to the network elements and the accompanying facilities (including the shared and full unbundled access to local loop, V – wholesale market for broadband access, VI – wholesale market for leased lines, VII – wholesale market for call termination in mobile network and VIII – retail market of the publicly available telephone service from a fixed location. For each of the above TPM, Telekom Srbija assumed the relevant regulatory obligations: publishing relevant data in the form of a standard offer, non-discriminatory actions, enabling access and using the network elements and associated facilities, price control, application of cost-based accounting, prohibition on 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 2014, Telekom Srbija had a share in capital in the following related legal entities:

- „Telekomunikacije Republike Srpske“ a.d. Banja Luka (Bosnia & Herzegovina), i.e. „Mtel“ a.d. Banja Luka (Bosnia & Herzegovina) (65% share capital);
- Društvo za telekomunikacije „mtel“ DOO, Podgorica (Montenegro) (51% capital);
- Privredno društvo za održavanje i obezbeđivanje objekata, imovine i druge usluge „Telus“ akcionarsko društvo, Beograd (Serbia) (*Business Company for Providing Maintenance and Security of Facilities, Property and Other Services “Telus“ a.d.*) (100% share capital);
- Društvo za telekomunikacije “FiberNet“ DOO, Podgorica (Montenegro) (100% capital);
- TS:NET B.V., Amsterdam, the Netherlands (100% capital);
- Društvo za telekomunikacije “HD-WIN“ d.o.o., Beograd (Serbia) (51% capital).
- Dunav banka a.d. Beograd (Serbia) (55,79% share capital); and
- Dimedia Group SA, Geneve (Switzerland) (50% share capital).

Banja Luka, Bosnia & Herzegovina. 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.

DRUŠTVO ZA TELEKOMUNIKACIJE „mtel“ DOO., Podgorica (Montenegro)

In 2007, in a consortium with Ogalar B.V., Amsterdam, Telekom Srbija a.d. was granted a special licence for the construction, possession and operation of the public mobile telecommunications network and provision of public mobile telecommunications services and licence for the provision of public telecommunications services via fixed wireless access (*WIMAX*) in Montenegro.

For the purpose of creating 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).

After the operating licence had been obtained, the mobile telephony 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 (Serbia)

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.

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

DRUŠTVO ZA TELEKOMUNIKACIJE „FiberNet“ DOO, PODGORICA (Montenegro)

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 Netherlands)

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 other 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 (Serbia)

Telecommunications Company “HD-WIN“ d.o.o. (hereafter: HD-WIN or the company or Arenasport)

is engaged in production and broadcasting of TV channel Arena Sport and production of sports events in the region.

DUNAV BANKA a.d. BEOGRAD (Serbia)

Dunav banka a.d. Beograd (hereafter: Dunav banka) is engaged in banking operations– other monetary mediation.

Having finished the procedure for simultaneous decrease and increase in the share capital of Dunav banka, as required by the Shareholders’ Meeting of said bank, based on the Subscription Agreement concluded in December 2014 with Dunav Osiguranje and Dunav RE, and after the payment of funds for the increase in capital, the Company acquired 55.79% of ownership shares in Dunav banka.

In that way, the necessary preconditions were created for commencing the provision of mobile banking services to the users of the telecommunications services rendered by the Company.

DIMEDIA GROUP SA, GENEVE (Switzerland)

Dimedia Group SA, Geneve, Switzerland (hereafter: Dimedia) is engaged in various activities in the field of telecommunications and multimedia, including software sale and production, investments and holding interests in various other companies, Swiss and foreign, that operate in the same field.

Having entered into the share sale agreement in March 2014, the Company acquired 50% of ownership shares in Dimedia for the purpose of enabling an efficient access to potential markets and increasing the number of users of advanced telecommunications services.

	Share capital
„Mtel“ a.d. Banja Luka	65%
„mtel“ DOO Podgorica	51%
„Telus“ a.d. Beograd	100%
„FiberNet“ DOO Podgorica	100%
TS:NET B.V. Amsterdam	100%
„HD-WIN“ d.o.o. Beograd	51%
„Dunav banka“ a.d. Beograd	55.79%
Dimedia Group SA, Geneve	50%

RELATED LEGAL ENTITIES

TELEKOMUNIKACIJE REPUBLIKE SRPSKE akcionarsko društvo, Banja Luka (Bosnia & Herzegovina)

Joint Stock Company Telekomunikacije Republike Srpske, Banja Luka (hereafter: Mtel) has a seat in

INTRODUCTORY NOTE BY THE DIRECTOR GENERAL

Dear Sirs/Madams,

Being aware of the business environment in which we operate on one hand, and primarily guided by the ambition that is reflected in our mission and vision, on the other hand, we were truly committed during to our business goals in 2014 struggling with fierce market competition. The results that we achieved are on the medium satisfaction level and encourage us to set more ambitious goals in the forthcoming period as far as the improved customer experience and satisfaction of the employees and shareholders are concerned.

During 2014, we adopted a new Strategic Business Plan for the next three-year period to define the strategic goals and the business strategy in all fields of operation with the aim of strengthening the market position, improving the organizational effectiveness and efficiency and enhancing the operating performances. The strategic focus areas for the forthcoming period contain the key challenges faced by the Parent Company and Related Legal Entities through stabilization of the core activity, transformation and modernization of the model of operation and corporate management and maintaining a leading position in the sphere of innovations by entering new market segments.

We maintained the net profit growth and generated a growth in EBITDA, both on the level of the Company, and on a consolidated level. That was achieved primarily owing to the growth in operating revenues that was higher than the growth in operating costs. At the same time, we considerably reduced the Company's indebtedness, timely settled all the liabilities towards the creditors and provided financial stability of operation.

As for the mobile telephony, we had a mild increase in the number of customers and maintained a trend of significant change in customer structure in favour of postpaid customers owing to the offer of services and mobile handsets and devices with an improved quality of the network and services. We managed to stop the decline in the mobile



telephony revenues recorded in 2013 and we even achieved a mild growth in 2014.

As for the fixed telephony, a number portability service was introduced, which additionally influenced the global trend of decrease in the number of customers and volume of traffic. In order to respond to the introduction of the number portability service in an adequate manner, maintain the profitability of operations and stability of the customer base, in August 2014 we completely redefined the tariff system in the fixed telephony by envisaging a mild increase in the monthly subscription fee and introducing a single tariff for national calls in fixed telephony. At the same time, we promoted a richer offer of packages of integrated service (BOX packages) designed so as to meet different customer needs.

We maintained a stable growth in the number of *broadband* and IPTV users by improving the offer of IPTV and add-on services which are expected to show effects in the forthcoming period.

We are particularly satisfied with the results of sale of BOX packages which show that a single, integrated offer, such as BOX, is more and more effective and that BOX has become a dominant brand which makes us different from the competition.

We maintained the level of investment in 2014 for the purpose of improving the quality of the network and the existing services and creating conditions

for introducing new services. We created the technological conditions for introducing the 4th generation of mobile telephony, which will soon become available to the Serbian customers after the recent allocation of frequencies by the regulator. We made significant investments in the creation of a basis for the provision of more advanced multimedia services. We launched some major projects for the transformation of business processes that would provide for cost reduction, higher operating efficiency and better customer experience.

During 2014, we made some crucial changes with respect to expansion to other markets and entering new fields of operation. That primarily involves provision of different services to the Diaspora through various business models. We expect to see the first results during 2015.

Following the strategic guidelines for the development of new services and winning some new market segments that are not traditional for telecommunications operators, in late 2014, we became the majority shareholder of Dunav banka whereby we entered a new segment of operation with the aim of providing our clients with a wide spectrum of new service, mostly based on the synergy between the banking and telecommunications services.

The related legal entity "Mtel" a.d. Banja Luka completed the acquisition of Logosoft d.o.o. of Sarajevo for the purpose of expanding its operations and integrated service offer on the market of the B&H Federation.

During 2014, the related legal entity "Mtel" d.o.o. Podgorica decided to fully outsource the activities related to the management and maintenance of the entire network and IT infrastructure in order to increase the efficiency and reduce the operating costs.

In the next year, we expect some new and even more difficult challenges bearing in mind the fierce competition in all segments of operation and general social and economic circumstances. We are going face such challenges by consistently working on the implementation of the planned projects and achievement of the set strategic business goals. We plan to increase the volume of investments in order to improve the quality of the network and business processes so that we could offer to our

clients a continuous improvement of experience in using our services.

We will endeavour to operate in synergy with our Related Legal Entities in all segments of operation. The improvement of corporate management on the level of the entire group is expected to bring a series of positive effects that can be seen in better operating results of the Parent Company and related legal entities and keeping investor trust, reduction in costs, increase in the companies' value, incentive to the management for accomplishing the goals that are in the best interest of the shareholders and the organization, and mitigation of operating risks.

The ambitious goals that we set in front of us will require a dedicated approach by all the employees, but will particularly be challenging for the management with respect to the optimal utilization of available resources and improvement of operating performances in all segments of operation. In order to maintain the position of a leading regional telecommunications operator, we are bound to pass the best possible decisions in a timely manner on all levels of management.

As we used to do in the previous years, we will continue to act as a socially responsible company on all markets on which the Company operates, establishing a proactive cooperation and providing support to the social community.

I would like to take this opportunity to thank our customers for their trust in us, which is the most important part of our business success. Likewise, I wish to thank all our employees, shareholders, business partners and all others who share our vision to be the first choice of our customers on all markets on which we offer our top-quality services following the state-of-the-art technological trends

I believe that we will continue to share the same values and principles in the future.

Sincerely,

Predrag Ćulibrk
Director General of Telekom Srbija a.d. Beograd

02 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 OTE, Greece, 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 day, Telekom Srbija has been the owner of 20% of company shares (treasury 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. Beograd 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.

January 2015 – The Law amending the Law on Business Companies entered into force (Off. Gazette of RS, No. 5/2015) stipulating the obligation of a company to have its treasury shares disposed of / cancelled. In compliance therewith, the Company may dispose of treasury shares after the expiry of the period set forth by the Law on Business Companies (three years after the acquisition of treasury shares).

February 2015 – The Company announced an invitation to bid for the provision of management consulting services related to the professional assistance in establishing the privatization model.

Mtel

The Basic Public Telecommunications Company Republike Srpske, Banja Luka – Mtel, was registered on 20 December 1996 and operated by 12 December 2002 as a fully state-owned company, when, after the ownership transformation, it was set up as a joint stock company and its name changed to *Telekomunikacije Republike Srpske, a.d. Banja Luka*.

By the end of 1996, the postal, telegraph and telephone services in Republika Srpska were rendered by a single enterprise – Single Public Enterprise of PTT traffic of Republika Srpska.

From 1 January 1997, in keeping with the provisions of the Law on communications, radio-traffic and postal, telegraph and telephone traffic, the enterprise was divided into two separate enterprises: JODP Telekom Srpske and JODP Srpske Pošte.

During 2002, based on the Privatization Law of the Republika Srpska and Decision of the Government of Republika Srpska, 20.0% of the state-owned capital in the Company was privatized by having a voucher privatization scheme, where the Privatization and Investment Funds took over 10.5%, and individuals took over 9.5%. The remaining 80.0% (the state-owned capital - 65.0%, Pension and Disability Fund – 10.0% and Restitution Fund – 5.0%) were privatized under the Special Privatization Program of the Government of Republika Srpska, in accordance with the Law on privatization of the state-owned capital in enterprises. Under the Resolution of the Basic Court in Banjaluka of 12 December 2002, the change of name (to Telekomunikacije RS, a.d. Banja Luka) and the relevant status change were entered into the register. Pursuant to the Resolution of the Basic Court in Banjaluka of 28 June 2007, the following status change was entered: – ownership transformation by way of sale of the full portion of the state-owned capital to Telekom Srbija, a.d. Beograd.

By purchasing 65.0% of the state-owned capital, Telekom Srbija became the majority owner of Mtel with the following structure of capital:

- Telekom Srbija, a.d. Beograd, Srbija – 65.0%;
- Pension and Disability Fund a.d., Banja Luka – 10.0%;
- Zepter fond, a.d. Banja Luka – 5.1%;
- Restitution Fund of Republika Srpska, a.d. Banja Luka – 5.0%;
- Other shareholders – 14.8%.

Mtel is the owner of a 49% stake in Telecommunications Company Mtel d.o.o. Podgorica.

Until 31 January 2014, Mtel had been the owner of a 100% stake in the related legal entity “TT Inženjering d.o.o. Banja Luka”, when a status change was registered, under the decision of the district commercial court in Banjaluka, merger by way of absorption of the related legal entity “TT Inženjering d.o.o. Banja Luka” by Parent Company Mtel a.d. Banja Luka.

From 1 October 2014 on, the related legal entity “Mtel” effected the payments for a 65% share in Logosoft d.o.o. Sarajevo. In mid December 2014, an integrated service with mobile telephony was offered on the market of the BH Federation.

On 1 July 2014, Mtel incorporated a new business company: Mtel Austria with the seat in Vienna with a 100% ownership share with the aim of providing telecommunications services in that country. Mtel Austrija is going to operate as a MVNO (mobile virtual network operator) and render the mobile telephony services: voice, sms and data transmission services. The service includes the offer of multimedia content from the ex-Yugoslav republics - Live TV and web-based music *streaming* services, intended primarily for the people who live and work in Austria.

On 20 December 2014, Mtel a.d. Banjaluka obtained a certificate confirming that the Information Security Management System was successfully introduced and implemented and that it fully complied with the requirements of the international standard for information security ISO 27001:2013. Mtel is the first company in the region which obtained the certification for advanced edition of ISO 27001 standard of 2013. The certificate of compliance with the requirements of Standard ISO 27001:2013 was issued by accredited TÜV Austria Holding AG, to confirm that Mtel efficiently applies the information management security policy.

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.

Since 2008, Telus has possessed a certificate for implementation and application of Standard SRPS ISO 9001 – Quality Management System and, since 2012, Standard OHSAS 18001 – Health and Safety-at Work Management System.

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.

March 2014 – an Agreement on business and technical cooperation was signed with the Montenegrin Electric Transmission System (CGES) for the purpose of exchanging i.e. mutual utilization of optical fibers on certain routes in the territory of Montenegro, which has been in place since May 2014.

TS:NET

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.

Since 3 September 2010, it has been 100% owner of HD-WIN ARENA SPORT in Croatia, which possesses a broadcasting licence for the territory of Croatia.

Under Accession Agreement No. 226414 of 21 July 2011, the ownership structure and capital were changed. On 4 July 2014, based on the share sale and purchase agreement, the acquisition of Agency SportsADD Limited, Nicosia, Cyprus (minority shareholders of HD-WIN-a) was carried out by Agency MYD Sports SA, Geneva, Switzerland, where a 9% share in HD-WIN d.o.o. was transferred to Myd Sports SA, so that the current ownership structure is as follows:

- 51% share held by Telekom Srbija,
- 40% share held by Goran Đaković and
- 9% share held by MYD Sports SA of Switzerland.

DUNAV BANKA a.d.

Dunav banka a.d. was founded on 28 December 1990 upon obtaining the consent from the National Bank of Serbia under the name KOSOVSKO METOHIJSKA BANKA a.d. Zvečan.

After the change in the ownership structure in the procedure for the increase in share capital, the Bank has started to operate, since October 2010, under the current name, still with the seat at Zvečan, and since December 2012, with the seat in Belgrade.

In December 2014, the Parent Company effected the payment in the procedure for the increase of share capital društvo thereby acquiring the ownership of 55.79% of shares in Dunav banka. The stake of Telekom Srbija in the related legal entity "Dunav banka" increased in early 2015 to 57.89% by a takeover bid.

Company Dunav Osiguranje a.d.o. is the owner of 32.76% of shares and Dunav RE a.d. holds 3.63%. JP Srbijagas Novi Sad possesses 1.32%, and Koteks d.o.o. Beograd holds 0.98%. Legal entities hold a total of 99.99% of shares in Dunav banka, while individuals hold only 0.01%.

DIMEDIA

Dimedia was incorporated on 19 March 2013 and it has a seat in Geneva, Switzerland. The Parent Company acquired in March 2014 the ownership over 50% of shares in Dimedia, while the remaining 50% is owned by another, foreign business company.

MARKET

Macroeconomic data

REPUBLIC OF SERBIA

Overall economic activities in 2014 in the Republic of Serbia, as measured by GDP, in real terms, declined by 1.8% versus the last year.

As viewed by business activity, in the 4th quarter of 2014, relative to the same period in the last year, a considerable decline in the gross value added was recorded, in real terms, in the sector of industrial production, water supply and waste water management - by 9.0%, and in the sector of commerce (wholesale and retail) and motor vehicle repair, traffic and warehousing and accommodation and catering services - by 1.3%. A significant growth in the gross value added was recorded in the construction industry - by 8.5%.¹

The industrial production in the Republic of Serbia in December 2014 was lower by 5.3% than in December 2013 and, compared to the average value in 2013, it was lower by 0.2%. The industrial production in 2014, compared to 2013, was lower by 6.5%.

As viewed per sector, in December 2014, relative to the same month in 2013, the following trends were recorded:

- Sector of electric power supply, gas, steam and air-conditioning - a 30.4% decline,
- Mining sector - a 30.2% decline, and
- Processing industry sector - a 6.4% growth.²

Total foreign trade commodity exchange of the Republic of Serbia for the January - December 2014 is as follows:

1. <http://webrzs.stat.gov.rs/WebSite/public/PublicationView.aspx?p-Key=41&pLevel=1&pubType=2&pubKey=2859>
2. <http://webrzs.stat.gov.rs/WebSite/public/PublicationView.aspx?p-Key=41&pLevel=1&pubType=2&pubKey=2820>

- USD 35,493.1 million - increase by 0.9% versus the same period in the last year;
- EUR 26,683.3 million - increase by 0.8% versus the same period on the last year.

The deficit amounts to USD 5,806.4 million, which is a 2.2% decrease relative to the same period in the last year. Expressed in EUR, the deficit amounts to 4,369.2 million, which is a 2.3% decrease as compared to the same period in the last year.

The export/import coverage index equals 71.9% and it is higher than that in the same period last year, when it equalled 71.1%.³

The YOY inflation rate in December 2014, measured by the consumer price index amounted to 1.7%. In December, the basic inflation mildly increased and approximated the lower limit of the permitted deviation from the target value, which was also due to the dinar depreciation in the second half of the year. The inflation trends below the lower target limit during the longest period in 2014 were mostly the result of some temporary circumstances - unexpectedly low growth in regulated prices, a dramatic decline in the prices of primary agricultural products and in the global prices of petroleum.

The average annual growth in retail prices in 2014 was 2.9%.⁴

In 2014, the unemployment rate was 16.8%, 16.4% for the male population and 17.3% for the female population.⁵

The amount of average salary net of taxes and contributions paid in December 2014 was RSD 49,970. As compared to the average salary net of taxes and contributions paid in November 2014, it is higher by 13.0%, in nominal terms, and higher by 13.5%, in real terms.

The average salary net of taxes and contributions paid in December 2014 was lower, in nominal

3. <http://webrzs.stat.gov.rs/WebSite/public/PublicationView.aspx?p-Key=41&pLevel=1&pubType=2&pubKey=2816>
4. http://www.nbs.rs/export/download/pdf_ioi/loi_02_2015.pdf
5. <http://webrzs.stat.gov.rs/WebSite/public/PublicationView.aspx?p-Key=41&pLevel=1&pubType=2&pubKey=2819>

terms, by 1.7% and, in real terms, lower by 3.3% relative to the average salary net of taxes and contributions paid in December 2013.

The average salary net of taxes and contributions paid in the January-December 2014, as compared to the average salary net of taxes and contributions paid in the January-December 2013, was higher by 1.4% in nominal terms and, in real terms, lower by 1.5%.⁶

BOSNIA AND HERZEGOVINA

The gross domestic product in the 3rd quarter of 2014 increased, as compared to the same period in the last year, amounting to 0.6%.⁷

The Central Bank of Bosnia and Herzegovina (CBBiH) published the statistical data for the payment operations for the 1st quarter of 2014, which showed that a current account deficit was noticed in the period concerned in the amount of KM 513.7 million.⁸

The total number of employees in B&H in December 2014 was 707,725⁹, while the number of the unemployed was 547,112.¹⁰

The average gross salary per employee:

- Per accounting period 4th quarter of 2014 = 1,294 KM.¹¹
- Per accounting period 3rd quarter of 2014 = 1,287 KM,

In December 2014, the average reported decrease in the retail price index on a monthly level was 0.7%. In average terms, deflation was recorded at the annual level.¹²

According to the data on the operation of commercial banks, the key indicators of the

6. <http://webrzs.stat.gov.rs/WebSite/public/PublicationView.aspx?p-Key=41&pLevel=1&pubType=2&pubKey=2809>
7. http://www.bhas.ba/saopstenja/2014/GDP_2014Q03_001_01_sr.pdf
8. <http://www.cbbh.ba/index.php?id=34&lang=hr>
9. http://www.bhas.ba/saopstenja/2015/ZAP_2014M12_001_01_bos.pdf
10. http://www.bhas.ba/saopstenja/2015/NEZ_2014M12_001_01_bos.pdf
11. http://www.bhas.ba/saopstenja/2015/BPL_2014Q4_001_01_bos.pdf
12. http://www.bhas.ba/saopstenja/2015/CPI%20_2014_M12_001_02_bos.pdf

banking sector – total assets, capital, loans and deposits at the end of 3rd quarter of 2014 recorded an increase relative to 2013 based on the information received from the entity banking agencies.¹³ The total assets at the end of 3rd quarter of 2014 increased by 3.7% exceeding the amount of KM 22 billion. The amount of the total capital of the banks continued to grow by 5.3%, reaching KM 3.3 billion at the end of 3rd quarter of 2014. The banking sector continued to follow and support the economy of B&H, which was reflected in intensified credit operations by 2.8%, and the total loans granted at the end of 3rd quarter of 2014 amounted to KM 16.2 billion. A somewhat higher increase, 4.2%, was recorded in the deposits which totalled KM 16.8 billion, which has been the highest amount of deposits ever, and it represents another proof of trust in the stability of the B&H banking sector.¹⁴

MONTENEGRO

The gross domestic product of Montenegro in the 1st and 2nd quarter of 2014 increased by 1.5%, i.e. 0.3% as compared to the same period in 2013, according to the official data issued by Monstat.

In the first ten months, as compared to the same period in the last year, a decline was recorded in the following sectors:

- industrial production - 11%,
- electric power supply, gas and steam – 21.6%,
- processing industry sector – 3.3%.

The production growth was achieved in the following categories:

- mining and quarrying – 8.6%.
- number of tourist visits – in the first ten months of 2014 was higher by 1.4% relative to the same period in 2013,
- air traffic – number of passengers on the airports, in the first nine months of 2014,

¹³ http://www.abrs.ba/publikacije/lzvestaj_o_stanju_bankarskog_sistema_RS_31122013.pdf

¹⁴ http://www.fba.ba/images/Publikacije_Banke/INFORMACIJA_BANKARSKI_SISTEM_30_09_2014_bos.pdf

as compared to the same period in the last year, decreased by 0.9%, whereas the cargo transport increased by 4.1%.

- railway transport – in the first nine months of 2014, as compared to the same period in the last year, the number of passengers increased by 27.4%, and cargo transport increased by 1.2%.
- road traffic – the number of passengers in the first nine months of 2014 increased by 14.7% relative to the same period in the last year.
- Forestry – in the first nine months of 2014, a total of 238,958 m³ of forest assortments were produced, which is 5.5% higher than in the same period in 2013.
- Construction industry - in the first nine months of 2014, a 5.4% decline was recorded relative to the same period in 2013 measured by effective working hours.

The average number of employees in October 2014 amounted to 172,306 persons, which is 0.9% lower than the number published in the previous month and 1.9% higher than the number recorded in October 2013.. the number of the unemployed in Montenegro in October 2014 was 33,744, which represented a 6.8% increase relative to the previous month and a 1.4% increase as compared to October 2013.

The budget deficit for first ten months of 2014 amounted to EUR 24.6 million, i.e. 0.7% of the projected annual GDB for 2014. The current account deficit, according to the preliminary data, in the January-September 2014 period, was higher by 16.4% as compared to the same period in 2013 and amounted to EUR 267.6 million. The increase in the foreign trade deficit, as a consequence of the lower demands for the export of goods (by 10.3%), had a significant influence on the increase in the current account deficit, while the import activities was approximately on the same level as in the previous year. In accordance with some preliminary data, the foreign trade deficit amounted to EUR 1 billion and was 3.2% higher than in the previous year. As for the balance account statement for the sector of services, a surplus was recorded in the amount of 666.5 million euros, which was by 5.4% more than in

the same period in 2013, which helped reduce the foreign trade deficit.

The prices in October 2014, as compared to the previous month, increased by 0.1%, while the annual inflation rate in October was -0.5%.

In October, the Central Bank conducted some significant activities related to the fulfilment of obligations required for the accession of Montenegro to the European Union. Within the Estimated Needs Project, a one-day meeting was held for the purpose of defining the reference measures with the experts from the national central banks in the Eurosystem. The Program of Accession of Montenegro to the EU 2014–2018 - Chapters 4, 9 and 17 - were subject to revision at a round table discussion organized for that purpose. The relevant members participated in the meeting of the Task Force to discuss Chapter 11– Agriculture and Rural Development, and also attended 6th and 7th sessions of the European Integrations Committee.

Regulation

Telekom Srbija

In accordance with the Law on Electronic Communications (Official Gazette of RS no. 44/10, 60/13 – Decision of the Constitutional Court and 62/14 and no 62/14 – hereafter: the Law on Electronic Communications or LEC) and the licences issued by the Republic Agency for Electronic Communications and Postal Services, as the competent regulatory body, (hereinafter: RATEL), Telecommunications 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 relevant 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 a 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 the 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 relevant period, the Licence validity is to be extended to an additional 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 the public fixed telecommunications network and provision of services of public fixed telecommunications network, issued for the period until 9 June 2017. After the expiry of the relevant 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 the public fixed wireless telecommunications network (FWA) and voice services, data packet transfer and concurrent voice and data transfer (CDMA licence). The licence was issued for a 10-year period, where the provision of commercial services was to begin within six months from the Licence effective date.

Apart from the above Licences, the Company was also entered in the register of operators maintained by RATEL for the broadband network access services and media content distribution services.

Of the activities related to the regulatory framework with implications on the Company's operations in 2014, the following are the most important:

- Number portability in the fixed network as of 1 April 2014 in accordance with the Rules on Number Portability in Public Telephone Networks on a Fixed Location.

- On 30 June 2014, RATEL was submitted the Regulatory Report for 2013 as the basis for stipulating the prices of the regulatory services by RATEL, while a revised report was submitted on 13 October 2014. At its session held on 14 November 2014, the RATEL Managing Board reviewed and then endorsed the draft report on the revision of the Regulatory Report of Telekom Srbija a.d. for 2013. According to the independent auditor, the financial reports of the Operator with 3TS, as at 31 December 2013 and for the year ended on that day, were compiled, from all materially important aspects, in accordance with the Rules on the application of the cost-based principle, separate accounts and reporting by an operator with significant market power in the sphere of electronic communications (Official Gazette of RS no. 52/11).
- Scheduled for the beginning of 2015 is public tendering for the award of frequencies in RATEL for the issue of individual licences for the use of radio frequencies within the 1710-1785/1805-1880 MHz range for the territory of the Republic of Serbia, which would be valid for ten years, with a possibility of extension for a period of two years, so that the introduction of 4G technology in Serbia can be expected until mid-May 2015.

Mtel

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

The current regulatory framework in B-H is based on the regulatory framework of the EU and is characterized by continued monitoring and analysis of the telecommunications market and the adoption of the required regulatory by-laws for the purpose of its continued development

both from the point of view of an increase in the number of services and in terms of marketing technical innovations.

The telecommunications market of B-H was liberalized at the beginning of 2006 and at the end of 2014 the following are active on the market:

- 3 SMP (Significant Market Power) operators; according to the list of SMP operators (Official Gazette of B-H no. 73/12) Mtel a.d. Banja Luka, BH Telekom d.d. Sarajevo and HT d.o.o. Mostar were proclaimed SMP operators on the market of fixed and mobile services and leased lines;
- 13 holders of the Licence for the provision of fixed public telephone services;
- 85 holders of the Licence for the conduct of the activities of public electronic communications network operators;
- 71 holders of the Licence for the conduct of the activities of an Internet Access Provider.
- Mtel operates in accordance with the applicable licences granted thereto by the Agency, as follows:
 - The licence for a public fixed telephony operator as of 1 June 2002,
 - The licence for the conduct of the activity of an Internet Access Provider as of 15 March 2013,
 - The licence for the provision of the GSM services as of 12 October 2004,
 - The licence for the provision of the mobile services in the universal mobile telecommunications systems UMTS as of 26 March 2009,
 - The licence for the distribution of the audio-visual media services and radio media services as of 16 March 2010.

Annex I to the Licence for the Provision of Mobile Services in the Universal Mobile Telecommunications Systems of December 2010 stipulates that Mtel may provide the UMTS services in the GSM frequency

range too. Annex I to the Licence for the provision of the GSM services stipulates that Mtel may use the E-GSM additional frequency range of as of June 2012.

In the framework of the process of liberalization of the telecommunications market, in accordance with the regulatory framework, the following reference offers of Mtel are effective:

- The reference offer for interconnection with the fixed network of Mtel,
- The reference offer for interconnection and access by a mobile virtual network operator to the mobile network of Mtel,
- The reference offer for interconnection with the mobile network of Mtel,
- The reference offer for access to the unbundled local loop,
- The reference offer for the wholesale of leased lines.

The most important regulatory activities in the course of 2014 are as follows:

In January 2014, the Agency published the Analysis of the market of call termination in individual public telephone networks on a fixed location (wholesale level). The agency declared the following 13 operators as operators with significant market power on the market of call termination in the own network on a fixed location: BH Telekom, HT Mostar, Mtel, AirABA, Aneks, Logosoft, EuroproNET Bosnia, M&H Company, ELTA-KABEL, Telemach, Telrad Net, VoiptelNet and DASTO SEMTEL. The listed operators were imposed the following regulatory obligations: the provision of access and use of market elements; the provision of an even-handed treatment (non-discrimination); transparency and price control (for all operators), and the obligation of separating accounting records and of maintaining of cost-based accounting (only for BH Telekom, HT Mostar and Mtel).

At the end of April 2014, the Agency launched the activities for the introduction of IP interconnection

in the fixed networks of the operators in B-H. The dynamic programme of these activities envisages that SMP operators (BH Telekom, HT Mostar and Mtel) should draw up their reference offers for IP interconnection to their fixed networks (IP-based interconnection) until the end of January 2015 and that the IP RIP documents should apply as of 1 July 2015.

In compliance with Rule 67/2012 governing the model of rebalance of the prices of telephone services in Bosnia-Herzegovina, Mtel adjusted the prices of voice telephone services for 2015, whereby the relative proportion between the prices of individual services is consistent with the relative proportion between the e prices of those services in the countries in the environment and the EU member states.

In January 2014, the Agency adopted the Instructions for acting in cases of the extension of the validity of licences for using blocks of telephone numbers, individual non-geographical numbers, and short numbers and codes for the needs of the network and signalling.

In January 2014, the Council of Ministers of B-H reached a Decision on the fee for the use of the radio frequency spectrum in Bosnia-Herzegovina determining the payment obligation, the calculation method and the amount of the fee for the use of the radio frequency spectrum.

In May 2014, Rule 72/2014 was adopted on radio equipment which may be used without individual licences for devices issued by the Regulatory Communications Agency. This Rule defines the type, terms and method of use of radio equipment the operation of which does not require individual licences for a device issued by the Agency.

In September 2014, Rule 73/2014 on the conduct of the activity of a public mobile telephone service provider came into force. This Rule lays down the terms for the acquisition of the right and basic rules for the provision of public mobile telephone services in Bosnia-Herzegovina. Besides three operators which hold the licences for the provision of the GSM and UMTS services, the activities of providers of public mobile telephone services

(MNVO – Mobile Virtual Network Operators and SP – Service Providers) are also allowed on the mobile communications market in B-H.

In November 2014, the Agency Council adopted the Rule on the Use of Radio Frequency Ranges 3400-3600 MHz and 3600-3800 MHz. This Rule stipulates the method of use of radio frequency ranges 3400-3600 MHz and 3600-3800 MHz for the mobile/fixed communications network in Bosnia-Herzegovina on a technologically neutral basis in different modes (fixed, nomadic, mobile). The Rule enters into force on 31 December 2014.

mtel

The operations of mtel are primarily governed by the Law on Electronic Communications (Off. Gazette of Montenegro 40/13 of 13 August 2013). It has been effective as of 21 August 2013 and its full application commenced on 21 February 2014. after the expiry of the deadline for the alignment of operations with the new law.

When it comes to the fixed network, the regulation is not technologically based, so that there are no special legal provisions for the fixed network. An Analysis of the relevant markets pertaining to the fixed networks has been drawn up as follows:

- termination into the fixed network for an SMPO (significant market power operator): Telekom and MTEL.
- the service of lease of the infrastructure in the fixed network (including LLU) (SMPO: Telekom)

A SMPO on the broadband Internet access market on the level of retail sale has been determined (Crnogorski Telekom) and relevant regulatory obligations were imposed thereon (2014).

The Rules of Number Portability (Off Gazette of CG nos. 89/09, 15/10) lay down the terms and manner of implementing number portability in the fixed and mobile networks. On 29 March 2013, the new Rules of Number Portability came into force. The Number Portability service has

been operative since the beginning of 2012. A total of 13,000 numbers have been ported so far (whereof 1,260 between the fixed networks, or, more precisely, all numbers were ported from Crnogorski Telekom to Mtel, except 2 subscribers that ported from Mtel to CT).

mtel was declared an SMPO on the following markets:

- termination in the mobile network (together with Telekom and Telenor). Since the beginning of 2011, the following measures have been effective: declaration of RIP, cost-based accounting HC and LRIC (*long run incremental cost*). Since 1 November 2014, the price of mobile termination has been 1.9 eurocent/min.
- termination in the fixed network (together with Telekom). Since the beginning of 2011, the following measures have been effective: declaration of a RIP, linking the price of MTEL to the price of Telekom, which calculates it by way of cost-based accounting); the price of fixed termination 0.94 eurocent/min (*single transit*).
- wholesale of origination from the mobile network (joint domination of all mobile network operators). Since the beginning of 2012, the following measures have been effective: declaration of RIP, cost-based accounting HC and LRIC, and in particular, offers for VMNO and national *roaming*.

Currently under way is the implementation of the cost-based accounting obligation in line with the commitments from the relevant decision on SMPOs. These commitments are fulfilled in accordance with the Rules of the Methodology of Cost-Based Accounting. After a one-year application of the historical model (as from September 2013), the operators will be under the obligation to apply the LIRIC model.

Interconnection and operator access is conducted in keeping with the legal obligations (in line with the EU directives and practice) and the Rules of Interconnection. SMPOs are obligated to declare a RIP (*routing information protocol*). The Agency

is authorized to regulate the disputed terms of interconnection on its own as requested by any of the parties in case agreement is not reached.

TELUS

There is no special legal regulation which governs the hygiene maintenance services.

When it comes to the physical and technical and fire protection services, this sphere is regulated by the Law on Weapons and Ammunition (Off. Gazette of RS nos. 9/92, 53/93, 67/93, 48/94, 44/98, 39/2003, 85/2005-state law, 101/2005-state law and 27/2011 - US), the Law on Private Security (Off. Gazette of RS no. 104/13), Fire Protection Law (Off. Gazette of RS no. 111/2009) and several by-laws.

FiberNet

FiberNet is operating in keeping with the Law on Electronic Communications of 2013. In 2013, except for the newly-adopted Law on Electronic Communications (Off. Gazette of Montenegro 40/2013), there were no amendments to the law affecting its operations.

TS:NET

TS:NET B.V. is operating in accordance with the Dutch law. At the end of 2012, amendments to the law came into force providing for a more flexible form of business operations conducted by companies in the Netherlands (Flex BV act), and the preparations were launched for adjusting the operations of TS:NET B.V. to the relevant amendments.

HD-WIN

Apart from the law and legal regulations governing general operations of a company (the Law on Contracts and Torts, VAT Law, Income Tax Law and the like), the business operations

of Arenasport TV is particularly subject to the Law on Broadcasting, the Law on Copyright and Related Rights and the Law on Public Information. In view of the nature of operations (broadcasting of TV programmes) and the advertising of customers on the Arenasport TV channels, in this segment, operations are also regulated by the Law on Advertising.

The new Law on Public Information and the Media came into force in 2014.

DUNAV BANKA

The Dunav Banka bank is operating in keeping with the regulations of the Republic of Serbia, primarily in the specific domain of banking operations (The Law on Banks – Official Gazette of RS nos. 107/2005 and 91/2010 and other regulations).

DIMEDIA

Dimedia is operating in accordance with the Swiss law.

Telecommunications market

The telecommunications industry, as the core activity of the Parent Company and a majority of its subsidiaries, represents an economic sector which sees stable revenues despite the unfavourable market conditions and global financial crisis. Notwithstanding the observed negative trends in the economic domain, the telecommunications market is still dynamic. Despite strong competition, primarily in the domain of telephony and the Internet, the activities in this sector are still intensive capital-wise.

Until now, the telecommunications sector has seen a slight growth, particularly when it comes to the mobile telephony, Internet and pay-TV markets. However, this year, the first slight drop in the total

value of the mobile market has been reported in many European countries, primarily due to a decrease in the prescribed interconnection.

Over the past decade, the telecommunications markets were also regulated and gradually liberalized per business segment. A significant indicator of market liberalization lies in number portability.

The Parent Company and its related legal entities are specific inasmuch as they operate in the territory of Serbia, Bosnia-Herzegovina and Montenegro, unlike a majority of local operators in the above markets. In addition to the aforementioned countries, the HD-WIN related legal entity also operates in Croatia and Macedonia.

For the three key operating markets, as listed above, for the Parent Company and its subsidiaries, fixed telephony can be said to have been on a slight downward path from the aspect of its life cycle, primarily due to the attractiveness of mobile telephony and increasingly more frequent migrations to digital telephony. The number of telephone, cable and Internet operators relying on the voice over Internet technology, is constantly on the rise.

Projections have it that from the point of view of the structure of operating revenues, there will be a significant decrease in the share of the revenues from fixed telephony and Internet services as a result of the migration of these customers to bundle services. At the same time, the share of bundle, multimedia and M2N services will substantially increase, so that the revenues from these segments are expected to compensate for a drop in the revenues from fixed telephony.

The common characteristic 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, with the announcement of a new, more advanced LTE and/or 4G technology. 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 the strengthening of this segment and opens up room for further growth and speeding up of the so-called transition from voice to data.

Internet use currently represents an irreplaceable segment of contemporary society and an efficient support for the development of information society. The Internet technologies are one of the extremely important factors of economic growth and progress of a country as an increase in the number of broadband Internet connections has a direct effect on an increase in GDP. The penetration rates of the Internet services are characterized by continuous growth, which is mainly the result of fixed broadband access. The services in this operating segment are being constantly developed by means of an increase in access bitrates, introduction of various service bundles for specific customer categories and a reduction in service bundle prices. An increase in the communications services based on the Internet such as Skype, Viber and WhatsApp represents an important trend. The future of telecommunications will be data-based and all messages will be IP based.

The markets of media content distribution have not significantly changed as compared to the last 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 characteristic 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 an expansion of bundled services, i.e. service packages that incorporate several services, which results in a growth in service bundle subscribers in 2014 too. This service segment has been on an upward path and represents a new source of revenues and an efficient instrument for preventing customer churn and defence from the current market positions of the operators in the segment of fixed telephony and broadband access.

Service flexibility will continue to be in the

focus of attention of both telecommunications operators and their customers in the future as well. Therefore, an upward trend is also expected in the development of mobile banking as one of the new market niches of the telecommunications sector.

SERBIA

The telecommunications market in the Republic of Serbia has been regulated and gradually liberalized per operating segment since 2006. According to the preliminary data of the Republic Electronic Communications Agency (RATEL), the overall share of telecommunications in the Serbian GDP in 2014 remains stable accounting for some 5%, with the total revenue of over EUR 1.5 billion. Investments in this sector in Serbia amount to tens, and over the last few years, even hundreds of millions of euros annually.

Mobile telephony still has the largest share in overall revenues. This year however it has seen the first drop in the total value of the mobile market in Serbia of some -3%. The Internet and pay TV markets are constantly on the increase.

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

In telecommunications, the offer of the state-of-the-art network remains decisive, so that announced for the beginning of next year is a tender for the issue of a radio frequency spectrum of the advanced LTE and/or 4G technology for the territory of the Republic of Serbia.

The fixed telephony market can be said to have entered the liberalisation phase, which will be wound up with 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 an increasingly more dominant share of mobile telephony. This trend largely compensates for the provision of bundle services.

Apart from Telekom Srbija, the following companies have also been operating on the fixed telephony market in the Republic of Serbia:

- since 2009 Orion Telekom d.o.o., Beograd, former Media Works,
- since 2010 Telenor d.o.o., Beograd,
- since 2012 Serbia Broadband – Srpske kablovske mreže d.o.o., Beograd, IKOM d.o.o. Beograd and Invest Inženjering d.o.o., Novi Sad,
- since 2013 Beogrid d.o.o., Beograd, Knight Development Support, Novi Sad and JET TV, Šabac,
- in accordance with RATEL' new decision, the following companies are also declared SMP operators in the wholesale market of call termination in the public telephone network: Kopernikus Technology d.o.o., Beograd, Sat-trakt d.o.o., Bačka Topola, Beotelnet-ISP d.o.o., Beograd, Radijus Vector d.o.o., Beograd and Telemark Systems d.o.o., Čačak.

According to the preliminary data of RATEL for 2014, there were some three million fixed customers in Serbia. The operations of Telekom Srbija in the fixed telephony segment remain dominant both in financial and technical terms. Despite a slight decrease, primarily as a result of a reduction in the fees of prescribed interconnections, mobile telecommunications have the largest share in the total revenues of telecommunications services in Serbia of as much as 60%.

In the 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 hold 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.

As regards penetration and access to the most advanced services, the mobile telephony market in Serbia is on the level of developed markets. The SIM penetration accounts for almost 130% and available to customers is a wide range of the latest mobile handsets, products and services. Telekom Srbija is the first operator in Serbia which signed an agreement on the sale of iPhone on the domestic market with Apple. The sales were launched in November 2014.

There are over 9 million mobile customers in Serbia, whereof 35% use smartphones and this number is still increasing. This trend is contributed to by the natural demand and mobile operators themselves which subsidize the supply of smartphones in the framework of postpaid contracts offering combinations of voice communications, data transmission and messages.

The mobile telephony segment is characterized by the increased use of Internet-based services such as Skype, Viber and WhatsApp. Statistics has it that almost one third of mobile customers uses some of the listed services, primarily due to significant savings and ease of use.

The mobile banking market, which Telekom Srbija entered in 2014, represents a new segment of services, which additionally enriches user experience.

In 2014, the Internet market in the Republic of Serbia maintained the increase trend from the past years. The most widespread method of Internet access is still ADSL access. Internet access can also be ensured even by way of a cable modem, directly, via the Ethernet, by way of an optical cable, wirelessly in the 2.4 GHz and 5.8 GHz frequency ranges, which are in the free regime of use, to a lesser extent by using the 3.4-3.6 GHz ranges and by way of UMTS (3G) network of mobile operators.

The ADSL retail segment will continue to be a significant generator of growth in the forthcoming period as well.

The market of media content distribution in the Republic of Serbia did not significantly change in 2014. 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.

The United Group with its cable system (SBB) and DTH platform (Total TV) was the largest media content operator in 2014 with a market share of over 50% in terms of the number of subscribers and revenues generated. Telekom Srbija with its IPTV platform is the second largest media content operator and is also the largest IPTV operator on the market.

In order to enhance the service and its quality, retain customers, defend its market position, and strengthen the Company's image of telecommunications companies as operators that provide all types of services, Telekom Srbija constantly enriches its packages, and/or bundle services, by incorporating several services in a single offer.

Bosnia-Herzegovina

The market position of Mtel is of a respectable character taking into account all three generic markets. In this context, it should be stressed that over the past four years, Mtel acquired the position of the telecommunications market leader in B-H.

The influence of the global economic crisis and the general economic circumstances in the country have determined the business framework

in the telecommunications market in B-H. In this regard, it is important to underline that despite all perceived negative trends on the economic plane in the society and economy in general, the telecommunications market in B-H has maintained the characteristics of propulsivity, dynamics and intensity of market relations.

The share in the GDP of Bosnia-Herzegovina accounting for 5.3% is primarily the result of the increasing importance of the telecommunications sector in modern society. The structure of revenues generated on the telecommunications market has continually changed in favour of mobile telephony and data transmission in the fixed and mobile networks.

Generally speaking, the fixed telephony market has, from the point of view of lifecycle, entered the declining phase, which is a general trend in the telecommunications market, irrespective of its geographic position. At the same time, the broadband service market is slowing down growth and is certainly entering the maturity phase with the exception of the data transmission via mobile telephony segment which has improved its performance due the expansion of smartphones and other portable devices.

The mobile services are used by 90.68% of the citizens of B-H, which points to the fact that the mobile telephony market in Bosnia-Herzegovina has entered the maturity phase, particularly in the voice and SMS segment. In this market, there is still room for growth, particularly in the domain of smartphones.

On the fixed telephony market in B-H in the third quarter of 2014, there were 13 operators, whereof three are SMP operators – m:tel, BH Telecom and HT Mostar.

There were some 800 thousand fixed telephony subscribers of dominant operators in B-H at the end of the third quarter of 2014, where the increase rate as compared to the previous year amounted to a negative 5.0%. The total number of own subscribers of alternative operators increased to some 59 thousand whereas those with indirect access increased to 43 thousand. According to

the estimates by the regulatory agency for the third quarter of 2014, the market share of Mtel, from the point of view of the number of customers on the level of B-H, accounted for 34.7%.

The upward trend of ported numbers in the fixed telephone network in B-H was maintained in 2014 as well. Their number increased from over 8,000 in 2013 to over 16,000 in the third quarter of 2014. The fixed telephony penetration rate in B-H as compared to the number of households in B-H amounts to 69%.¹⁵

In B-H, there are three operators which are the holders of the licence for the provision of the GSM services as follows: BH Telecom d.d. Sarajevo, Telekom Srpske a.d. Banja Luka and Hrvatske telekomunikacije d.d. Mostar, and two mobile communications service providers Izi Mobil d.o.o. Sarajevo and Blic.Net d.o.o. Banja Luka. Unlike the fixed telephony market, competition on the mobile market is much stronger given that the current three operators are offering their services in the entire territory of B-H.¹⁶

The implementation of the service of number portability in the mobile telephone network (*prepaid, postpaid*) was launched on 1 January 2013. There were a total of 13 thousand ported numbers in the mobile network at the end of the third quarter in 2014.

The mobile service penetration rate in B-H slows down growth and according to the data of the Regulatory Communications Agency, in 2014 it is put at 92.68%. The mobile telephony penetration rate is still below the current values in the EU states and countries in the environment.

The share of postpaid customers is still lower than the average in the countries in the environment and the EU and accounts for some 19.30%.¹⁷

The number of sent SMS messages saw a decrease in the course of 2014 and this is a

15. [1,163,387 households in B-H, preliminary results of the population census in B-H in 2013, Statistics Agency of B-H](#)

16. [Evaluation of the telecommunications market in B-H](#)

17. [Evaluation of the telecommunications market in B-H](#)

global trend. In the course of the third quarter of 2014, the number of SMS messages sent was by 5.39% lower as compared to the second quarter of 2014 (344 million as compared to 363 million). As at 31 December 2014, 71 Internet service providers operated in Bosnia-Herzegovina, which is by 2 percent more as compared to the previous year, but less as compared to 2012.¹⁸

The rate of Internet service penetration on the market of B-H is marked by permanent growth, the generator thereof being fixed broadband access. There were 534,444¹⁹, users of the fixed broadband access services in B-H for the third quarter of 2014, which means that the penetration rate as compared to the number of citizens in B-H accounted to 14.0%.²⁰

The penetration rate of Internet access using broadband access technologies in the fixed networks in B-H and certain countries in the region points to the fact that, despite an increase in the number of customers on the broadband Internet access market, Bosnia-Herzegovina ranks among less developed countries in the region and is substantially below the EU average. The penetration rate of fixed broadband access in the third quarter of 2014 accounted for 59.37%. The market share of Mtel on the level of B-H in the sphere of fixed broadband access is internally estimated at 24%.

In the course of 2014, the offer of data transmission services was further promoted, primarily in the provision of the ADSL services, which is reflected in an increase in access bit rates, introduction of new packages intended for different customer categories and a reduction in the prices of the existing packages. Operators continued to strengthen the bundle service offer, which resulted in an increase in packet subscribers in 2014.²¹

18. www.rak.ba

19. [A quarterly report of the communications regulatory agency www.cra.ba](http://www.cra.ba)

20. [3,791,622 inhabitants in B-H, the preliminary results of the population census in B-H in 2013, the Statistics Agency of B-H](http://www.cra.ba)

21. [An annual survey of the users of RAK licences for the provision of Internet services in B-H, www.cra.ba](http://www.cra.ba)

The TV programme distribution market is in the maturity phase and it is estimated that each household in Bosnia-Herzegovina owns a TV connection, with analogue terrestrial broadcasting being the primary source of reception of the TV signal, particularly in rural areas.

In Bosnia-Herzegovina, there are 50 operators of media content distribution, dominantly MojaTV (BH Telecom), Telemach and ELTA Kabel.

It is expected that, despite the current deadlock in the process based on the Strategy of shifting to radio broadcasting in B-H by the Council of Ministers, full transition to the digital broadcasting of content will take place in the next few years; the same has already been done in most of the countries in the region.

An important aspect of operators' offer includes so-called bundle services, which practically represent a new market which, in the period to come, will increase its share in operators' revenues and which will also be characterized by intensive competitor relations.

MONTENEGRO

In the market of Montenegro, the following companies directly operate mtel, FiberNet and HD-WIN, in the segment of mobile telephony, fixed telephony (via the 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 the mobile network, expansion of radio spectrum, a broader offer of handsets on the market and the development of services and multimedia content.

That the market is saturated is testified to by the penetration rate which has been over 160% over the last years. The number of prepaid customers on the entire market is falling, whereas the

number of postpaid customers is increasing by 11% in 2014 as compared to the past year. The share of postpaid customers is 36% of the total number of mobile customers, which is the result of a broader offer of smartphones on the market.

However, although the economic and market environments in which the Company operated was very challenging and dynamic, the plan envisaged for 2014 for the purpose of reaching a market share in mobile telephony of 28% was fulfilled so that, as compared to 2013, the market share of mtel increased by 1.8 p.p. The highest growth was seen in the postpaid segment where an increase of 24% as compared to the past year was reported, whereas in the prepaid segment, mtel maintained its prepaid base stable and is currently the second largest operator in terms of market share.

As for the revenues, the total telecommunications market is seeing a decline of some 6%. Apart from achieving an additional market share in the period to come, mtel will endeavour to retain the position of the second largest operator on the market revenue-wise and to promote its market position.

In accordance with the world trends of the importance and use of the mobile Internet, mtel paid special heed to this segment where it saw a 19% increase in revenues as compared to last year.

On the fixed telephony market, evident is the dominance of Crnogorski Telekom, whereas fixed services are offered via the Wi-Max network. The fixed telephony market is seeing a decrease as in most of the countries, but number portability makes it possible for the mtel company to win new customers. Thus, of the 1260 numbers of the totally ported numbers so far, 1258 were ported to mtel.

The TV signal distribution market was divided between the three dominant operators: T Com, SBB and BBM and 4 cable operators.

Bearing in mind this condition on the market, mtel saw the largest growth potential in the domain of fixed services. The strategy of expanding fixed

telephony makes it possible for mtel to win part of that market too and be competitive in the domain of the fixed network, Internet and television with the acquisition of cable operators and generation of additional revenues of a greater market share.

The Arenasport channels of HD-WIN are also present on the markets of Croatia and Macedonia. On both markets, the Arenasport channels are present exclusively on the IPTV platforms of Hrvatski and Makedonski Telekom, both members of the Deutsche Telekom group.

03

Corporate governance



CORPORATE GOVERNANCE

Owing to corporate governance, Telekom Srbija has achieved better organization and control mechanisms and an efficient distribution of competencies between the corporate governance bodies.

CORPORATE GOVERNANCE BODIES AND CORPORATE GOVERNANCE SYSTEM

Telekom Srbija

Corporate governance is organized as two-tier. The corporate governance bodies include:

- General Meeting,
- Supervisory Board,
- Executive Board.

General Meeting

The General Meeting includes all shareholders of the Company that, through its operation, are exercising their ownership rights. In 2014, one session of the General Meeting was held – the 47th regular session (30 May 2014).

Supervisory Board

The Supervisory Board conducts the tasks falling within its scope of responsibility in accordance with the applicable legal regulations, the Company Articles of Association and the Rules of Procedure of the Supervisory Board, endeavouring to act in the best interest of the Company.

The Supervisory Board and their members are obligated to act conscientiously and loyally to the Company and the shareholders, and perform the duties falling within their scope of responsibility with due care and in the reasonable belief that they act in the best interest of the Company.

Supervisory Board members are elected by the General Meeting by a simple majority of the attendees and represented shareholders with the right to vote and the shareholders who, in accordance with the Law and Articles of Association, vote in writing.

Supervisory Board member candidates are nominated by the Supervisory Board, the Supervisory Board, the Appointment Commission, if any, and the Company's shareholders with the right to put forth an agenda.

The chairman elects the Supervisory Board from among its own members by a majority vote of the total number of Supervisory Board members, at the proposal of the Supervisory Board members put up by the controlling shareholder of the Company.

Audit Commission

The Commission for the audit of operations was set up by the Supervisory Board and it conducts the tasks falling within its scope of responsibility in line with the competences laid down by the applicable legal regulations and the Company's by-laws.

Executive Board

Members of the Executive Board, including the director general, are elected by the Supervisory Board. Executive directors are members of the Executive Board.

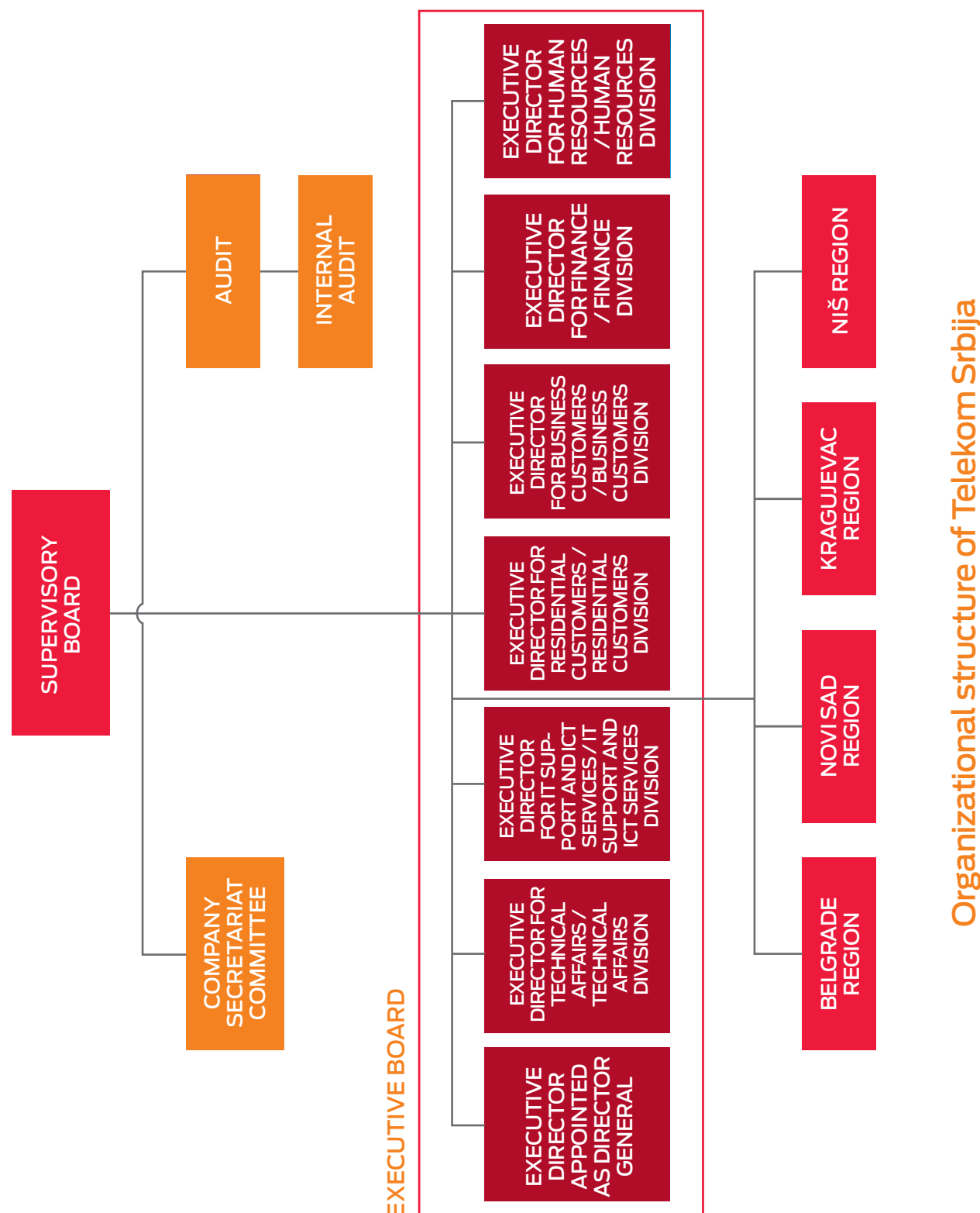
The organization, method of operation and decision-making of the Executive Board are more specifically regulated by the Rules of Procedure which were adopted by the Executive Board in keeping with its legal and statutory competences.

Secretary to the Company

Telekom Srbija has a Secretary to the Company who is appointed by the Supervisory Board.

Internal Control

The Company also includes an organizational unit competent for the activities of internal control (Internal Audit), which conducts the audit of compliance of the Company's operations with the law, and other regulations and by-laws of the Company. With its by-laws, the Supervisory Board regulated the manner of implementation and organization of the activities of the internal audit of business operations, including the terms to be fulfilled by the persons performing the duties of internal audit as regards their professional skills or expertise, experience and respect for the ethical norms which make them suitable for the performance of said duties in the Company.



Organizational structure of Telekom Srbija

The Supervisory Board adopted the Charter of Internal Audit which is necessary for the purpose of ensuring independent and objective functioning of the organizational unit in charge of internal audit activities and the Rules of Internal Audit.

Organizational structure

The Company pursues its business goals through the business units managed by the executive directors.

The chart attached hereto features the organizational structure of Telekom Srbija:

REPRESENTATION ON THE APPLICATION OF THE CODE OF CORPORATE GOVERNANCE

Telekom Srbija has applied the Code of Corporate Governance (hereafter: Code), which was adopted at the 1st session of the Company Supervisory Board held on 26 June 2012 and published on the corporate website at www.telekom.rs.

The Company is endeavouring to develop a practice of corporate governance which is based on the contemporary and generally-accepted principles of corporate governance, experience and best practice in this sphere, with the respect for the requirements laid down by the applicable regulations and the acknowledgement of the global market conditions and trends on the domestic telecommunications market and defined development goals of the Company.

The Company Supervisory Board is competent for the implementation and interpretation of the Code, regular monitoring of its implementation and compliance of the corporate organization and activities of the Company with the Code.

The implementation of the principle of adequate observance of the interest of all the existing and potential shareholders, investors, creditors, service users, employees, and members of the corporate governance bodies, is ensured through the procedures, activities and decision-making method of the corporate bodies, defined by the by-laws and through communication and coordination of the activities between all bodies of the Company, managers at the business seat of the Company and units of its territorial organization, employees, shareholders and the public.

There were no deviations from the rules laid down by the

Code in the implementation of the corporate governance system.

Shareholders' rights

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

All company shares are ordinary shares and each share gives shareholders the right to one vote at the Company's General Meeting.

Through the timely scheduling of General Meeting sessions and the mechanisms of the shareholders' voting in absentia, the Company tries to encourage the participation of shareholders in the work of the General Meeting.

All the relevant information and materials for a General Meeting's session are available at the web page of the Company www.telekom.rs, within the legally prescribed deadlines before the holding of the General Meeting's session, especially having in mind the current situation of there being a large number of shareholders.

Remunerations and bonuses for members of the Company's bodies

The Company's General Meeting made certain decisions by which it established the remunerations for the work of the chairman and members of the Supervisory Board, i.e. the policy of remunerations for the work of executive directors of the Company. By a special decision, the Supervisory Board established the right to remunerations for work of the president and members of the Audit Commission.

Communication with the public, disclosure of data and transparency

The Company shall secure the transparency of its operations by fulfilling the envisaged obligations regarding the reporting and publishing of accurate and complete information, with respect for the principle of regular and timely provision of information via its web page. The shareholders and the public shall primarily via the web page of the Company be informed about the financial results of the Company, and all the important events regarding the Company, which is bound to respect the obligations of such reporting by the applicable legal regulations and the internal by-laws of the Company.

Other activities in the implementation of the Code

The Company invests maximum efforts to permanently improve the corporate system which will guarantee that all the corporate bodies of the Company, their members, employees and the Company as a whole act in accordance with the rules of the Code, especially in the domains regulating the following:

- Existence of personal interest and the duty of avoiding the conflict of interest,
- Cooperation between the corporate bodies of the Company,
- Suppression and prevention of corruption and bribery,
- Engagement of external consultants,
- Business ethics.

This statement represents an integral part of the Consolidated Annual Report on the Company's operations for 2014.

Mtel

The operations of Mtel, as a corporation, and/or a joint stock company, are defined by the provisions of the Law on Business Companies. In accordance with these provisions and Mtel's Articles of Association, the bodies of the Joint Stock Company consist of:

- The General Meeting,
- The Supervisory Board,
- The Director General,
- The Executive Board,
- The Audit Commission,
- The Internal Auditor.

Statement on the implementation of the corporate management standards

For the purpose of improving corporate relations between the interested parties arising from the applicable legal regulations and the internationally accepted principles and experiences of the best practices of corporate management, the Mtel company adopted its own Code of Behavior and Corporate Management, which it fully adheres to. This Code establishes the mechanisms of functioning of the Company's bodies and the protection of interests in the mutual relationships of different interest holders in the Company. The Code was established based on the Law on Business Companies, the Corporate Management Standards and the Principles of Corporate Management adopted by the Organization

for Economic cooperation and Development (OECD).

All the issues not regulated by the Code shall be directly governed by the provisions of the Law on Business Companies, the Corporate Management Standards adopted by the Securities' Commission, the Articles of Association and other general by-laws of the Company.

The aim of the Company is to, by permanent application of the prescribed standards, and good and responsible management and supervision of the business and managerial functions of the Company, improve the competitive ability of the Company and provide a more favorable environment for investment.

By the application of the Corporate Management Standards and its own Code of Behavior and Corporate Management, Mtel, in the course of 2014, secured the efficient implementation of the principle of corporate management of the Company through activities that referred to:

- Providing the basis for an efficient implementation of the principle of managing joint stock companies;
- Shareholders rights and the key ownership function;
- Equal treatment of the shareholders;
- Role of interested parties – interest holders – in the management of joint stock companies;
- Publishing and availability of information,
- Role and responsibility of the board.

Mtel's statement on the harmonization of organization and operations with the code of behavior, and/or corporate management standards constitutes an integral part of this report and is published on the web page of the company within the section "Investors": <http://www.Mtel.ba> and on the web page of the Stock Exchange: <http://www.blberza.com>.

mtel

In accordance with Mtel's Articles of Association, Mtel's bodies are as follows:

- The Board of Directors, consisting of a Chairman of the Board and another four members and
- The Executive Director.

The Executive Director appoints directors responsible for certain spheres of operations.

TELUS

The management of Telus is organized in one-tier. Telus' bodies are:

- The General Meeting and
- The director

The Telus' organization structure consists of:

- The Head Office and
- Territorial centers

The Head Office is divided into four organizational units:

- The director's cabinet:
 - Assistant Director for Hygiene Maintenance and Regular Maintenance
 - Assistant Director for Physical and Technical Security
- Expert Section for Legal and General Affairs
- Expert Section for Sales
- Expert Section for Finances.

The territorial centers of the Company, managed by the heads of the Territorial Centers, are organized in:

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

FiberNet

FiberNet's bodies are:

- The Founder and
- The executive director.

TS:NET

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

- The General Meeting and
- The Executive Board of Directors.

TS:NET B.V. is managed, with the authorizations and competencies of the Executive Board of Directors, by the legal entity Sovereign Trust B.V., from Amsterdam, based on a specially concluded Management Contract, while the tasks from the competence of the General Meeting are performed by the director general of the Parent Company as the founder.

HD-WIN

Within Telecommunications Company "HD-WIN", the only corporate body of the company is the Company's General Meeting consisting of all the shareholders/members of the Company. All the members of the Company exercise their ownership rights through the Company's General Meeting.

Telecommunications Company HD-WIN is organized in the following units:

- Director General's cabinet
- Technical Department
 - Studio Engineering Section
 - Satellite Direction Section
 - IT and Development Section
- Production Department
- Program Department
 - Editing Section
- Marketing and Sales Department
- Economic and Legal Affairs Department
- Accounting is outsourced and entrusted to Deloitte.

DUNAV BANKA

The bodies of the Bank are:

- The Shareholders Meeting of the Bank
- The Managing Board (that has 7 members)
- The Executive Board (that has 3 members)

DIMEDIA

The bodies of the Company according to the provisions of the new Articles of Association adopted by the Shareholders Meeting that are in the procedure of registration are:

- The Shareholders Meeting
- The Board of Directors (that has 4 members)
- The Executive Director

04 Business operations

STRATEGY

The Parent Company and its related legal entities enjoy a unique position on the telecommunications market in Serbia, Bosnia and Herzegovina and Montenegro, as operators that make it possible for their customers to have a unique and integrated customer experience based on the delivery of a wide range of convergent services. The Parent Company and its related legal entities aspire to retain the leading position in several segments of the market in the region, through innovative development of products and services, improving the satisfaction of the customers and business partners and generating growth in the business results.

The strategic commitment of the Parent Company and its related legal entities, apart from retaining the leading position in certain market segments, is to improve the market position and secure sustainable growth of its market share. The said aims are achieved by continuous improvement of customer experience through the introduction of new services and application solutions, network modernization and the strengthening of the brand with respect for the principles of socially responsible behavior.

The contemporary demands of the market and its growing needs require that comparative market advantages and strategy implementation should rely on intangible assets such as: human capital, information capital and organizational capital.

For the purpose of strengthening our market position, improving our organizational effectiveness and efficiency and improving our business performances, a new business strategy for the upcoming three-year

period was adopted, based on an enhanced vision and mission, which develop the key segments of the corporate strategy in the fields of marketing and sales for private and business customers, PR, technological development, IT development, human resources development, finances, logistics and procurement. Strategic goals were defined which refer to all the key areas of operations, and which need to be achieved by the implementation of strategic initiatives, and the implementation of strategic recommendations.

The strategic framework is based on the pyramidal principle and defines answers to the main challenges which the companies face in performing the core activity, i.e. in the development of new spheres of operations. The largest part of the resources needs to be directed at increasing the overall competitive strength in three main spheres: increasing market effectiveness, increasing efficiency and increasing organizational effectiveness. The aim of these efforts is to create superior customer experience and increase the efficiency of the company's organization. In order to cope with the competition, it is necessary to continue investing in order to establish and retain the leading position in the sphere of innovations on the markets where we are present. The success of the Parent Company and its related legal entities will be measured by the sustainability of growth in the value of these companies for their shareholders.

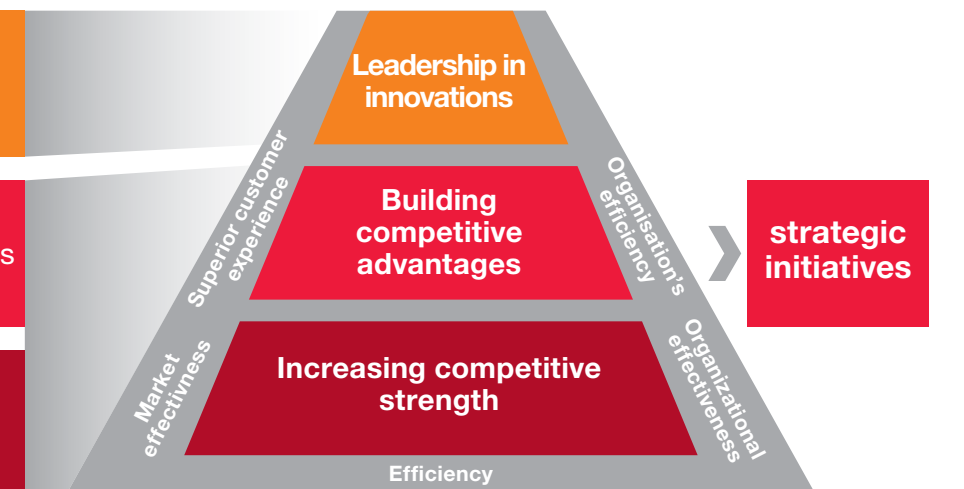
Our strategic commitment in the upcoming period relies on three pillars, which refer to the main challenges:

- Focus and stabilization of the core activity,
- Transformation and improvement of the business model and corporate culture,
- Leadership and retaining the leading position in terms of innovations and network.

What TS should do?

- Leadership and Retention** of leadership position in innovations and network
- Transformation and Improvement** of the business model and corporate culture
- Focus and Stabilisation** of the core activity

HOW to do that?



Strategic framework and links to the pillars of strategic directions



Strategic goals and strategic initiatives that need to be implemented in order to achieve the set goals are defined for each level of the strategic framework.

The strategic goals and initiatives for **increasing competitive strength** are grouped according to the main spheres to which they refer and include the goals and initiatives for increasing market effectiveness, goals and initiatives for increasing efficiency and goals and initiatives for increasing organizational effectiveness.

The strategic goals and initiatives for **building competitive advantage** are grouped into two main spheres: goals and initiatives for creating superior customer experience and goals and initiatives for increasing the efficiency of organization. The initiatives directed at building competitive advantage require bigger investments and a longer time horizon due to a longer period necessary for the return of investment.

The strategic goals and initiatives for **securing a leading position in innovations** refer to entry into new market segments. The initiatives for securing a leading position in innovativeness on the market are directed at providing non-traditional telecommunications services to customers and expanding operations to other activities.

The corporate business strategy, with its three pillars and the strategic framework, creates a balance between the initiatives that are oriented toward just one organizational unit and the initiatives whose implementation requires multidisciplinary cooperation between a larger number of organizational units, which leads to full achievement of the common goals.

In the course of 2014, the company started to implement a large number of strategic initiatives, in accordance with the defined action plans for implementation.

The key factors of successful implementation of the strategy are:

- An internally harmonized plan of implementation, responsibilities and coordination, with full support and consent of top management to the time schedule and the defined priorities;
- Setting up appropriate teams for implementation in terms of skills and capacities, with an intense involvement of stakeholders at higher levels;

- Providing the necessary IT resources, given the high level of dependence of strategy implementation on the availability of information technologies.

A successful implementation of the strategy greatly relies on the implementation of management methodologies and tools that are applied in the best practice:

- Implementation of key performance indicators through the Balanced Scorecard system for monitoring strategy implementations
- Strengthening project and program management in order to create a unique map of changes that exceed everyday operations
- Continued improvement of managing business processes and increasing operational and organizational efficiency

In the upcoming period, the Parent Company and its related legal entities will try to continually identify the possibilities and create synergy effects from the organizational, technical and commercial aspects.

The organizational synergies are reflected in the introduction of corporate management on the group level, which is supposed to create a number of positive effects: improving the business results of the Parent Company and its related legal entities and retaining the investors' trust, cost reduction, increasing the value of the companies, encouraging the management to achieve the goals that are in the interest of the shareholders and the company, and decreasing risks in the operations.

The operational synergies involve the consolidation, and/or centralization of common functions in order to create positive effects on the group level, thanks to the economies of scale.

The technological synergies refer to joint long-term network planning and attitude toward the suppliers, establishing common guidelines for the development and use of certain technical platforms, and the exchange of knowledge, competencies and best practices between the Parent Company and the related legal entities.

The commercial synergies include joint marketing activities on the group level, transfer of solutions during the development of new products and services between the related legal entities, price strategy on the group

level, centralized management of partnerships, for the purpose of achieving cost optimization and securing a single brand strategy.

SERVICES

Telekom Srbija

Telekom Srbija as a leading telecommunications company in the region offers its customers a wide range of services from the sphere of mobile and fixed telephony, Internet, multimedia services and data transmission.

By the introduction of new services, and in accordance with continuous advancement of technology in this field, the Parent Company aspires to respond to the numerous requests of its customers and maintain its competitiveness on the market.

Business Customers

In order to satisfy the needs of business customers and complete Telekom Srbija's offer, several services from the sphere of mobile telephony and ICT services were launched in the course of 2014.

In the field of mobile telephony new tariff profiles were introduced for business customers: in April, BizMix (S/M/L) and BizMixNet (S/M/L/XL/XXL), and in November, the BizMax and BizMax Plus tariffs. The BizMix tariff profiles allow the customers a certain number of minutes for communication toward national fixed and mobile networks and the exchange of SMS messages within the monthly subscription fee. The customers who apart from the above said need to access the Internet, can use the BizMixNet tariffs that allow an unlimited access to the Internet without an additional fee, where the bit rate is reduced after reaching the quantity included in the monthly subscription fee for the given tariff. Apart from national and international traffic, the BizMax tariff profiles contain a certain quantity of free roaming traffic within the monthly subscription fee.

In the field of mobile telephony a new charging system was introduced in roaming, with much more favorable conditions. In April, the company introduced a new

Blackberry BES 10 service, which provides business customers additional services from the Blackberry offer.

In June, the company also launched a satellite telephony service. Business customers may rent from Telekom Srbija a satellite mobile device, Thuraya SG-2520, which serves for mobile communication through the GSM network, while the use of the Thuraya satellite system is also possible in the regions that are not covered by the mobile telephony signal. When renting the device, the customer may decide to use a SIM card of Telekom Srbija or a Prepaid SIM card of the Thuraya operator.

From July 2014 the customers can use the MiFi wireless router which allows them wireless WiFi connection and access to the Internet while moving. By using the Mifi modem they can create a hot spot for up to ten smart devices and simultaneously use the selected Mobile Net package on several devices (telephone, tablet, laptop, PDA).

In the field of Internet access services, the company introduced a new service Internet for Business Customers in August 2014, which is solely intended for business customers, both in terms of its concept (commercial terms completely independent from technology), and in terms of quality. IP bit rates of up to 1 Gb/s were enabled.

In the field of ICT services, the following new services were introduced: Cloud Computing phase I (IaaS and PaaS), the System for the Protection of DDoS Assaults and the Web Control service.

In May 2014, the company presented the Cloud Computing service which represents the renting of virtual cloud computer infrastructure where the customer independently, through a portal, may rent and change server configurations (IaaS) or server platforms (PaaS) in the period that it finds suitable.

The System for the Protection from DDoS Assaults monitors the situation on the Internet links of business customers and in case of a Distributed Denial of Service (DDoS) assault redirects the undesired traffic protecting the customer's infrastructure.

Web Control represents a complete solution for access control where the Internet traffic of a business customer passes through a number of filters (*antivirus, antiphishing, URL filtering, firewall*), offering the customer complete protection on the Internet.

Private Customers

Fixed Telephony Services

In August 2014, a tariff rebalance was performed in fixed telephony. The rebalance included a change in the price of the monthly subscription fee and the quantity of free traffic included in the fee, the abolition of the division into local and long-distance traffic and the introduction of a single (national) zone, the abolition of peak and off-peak traffic, the introduction of per-minute charging, a change in the per minute price of traffic in national fixed traffic and calls toward mobile and nomadic customers, and a change in the price of call toward the voice machines of Telekom Serbia.

Mobile Telephony Services

In March 2014, the Fair Usage Policy functionality was introduced for the users of the Moj Klub postpaid tariff (Mi Smo Partizan, Volim Partizan, Partizan Moja Kuća, Sever, Tokio, Bari).

In April 2014, changes were made to mTel roaming tariff add-ons. The new add-ons are available to all mt:s customers (prepaid, cost control and postpaid) who are in roaming in Montenegro's mTel network and enable free outgoing and incoming traffic (calls/SMS) toward all the networks of the Telekom Srbija group, and free data traffic. There are two types of add-ons depending on their validity period – 10 and 30 days.

At the beginning of April, the SMS insurance payment service was launched into production. In cooperation with AS Neživotno Osiguranje a.d.o. all mt:s customers are able to pay the policies of travel insurance and roadside assistance insurance via SMS.

During April, the company launched into production the Dopuni Mi Kredit service, which allows prepaid customers to request from other mt:s customers, whether prepaid or postpaid, to top up their credit. After sending a request, their credit will be topped up by means of already existing Friendly top-ups and top-ups from a postpaid number. The service is provided to customers free of charge.

A new charging system was introduced in roaming in June 2014, which made the use of mobile telephones abroad much easier, at much more favorable terms.

In July, the company launched altered Evropa postpaid roaming packages. There are 5 packages in the offer with various combinations of the type and quantity of traffic, with the validity period of 30 days. The packages that also include data traffic were designed to include the Bill Shock Prevention functionality, which means that after the consumption of the data traffic from the package, the customer's data traffic is blocked until the expiry of the package.

In July 2014, a general campaign was introduced for all prepaid customers which allows the selection of the following add-ons: Uzmi SVE, Uzmi Minute and Uzmi Poruke, with a validity period of 1 and 7 days. The customers were offered add-ons that contain unlimited calls toward the mt:s network, the fixed network of Telekom Srbija, unlimited messages in national traffic and unlimited Internet.

From September 2014, the company improved the SMS service for the payment of invoices and top-ups of prepaid credit from the customers' bank accounts, by putting into production the Android mobile application „mPlati“, which represents yet another channel of collecting the invoices for Telekom's services and a way to top-up prepaid credit. The aim of this project is to allow, facilitate and simplify mobile payments by the development of an android application, which includes the following services:

1. SMS payment of Telekom's invoices
2. SMS top-up

The customers may download the m:plati application from Google Play free of charge; all they need is to have a telephone with the android operating system 2.3 or a more recent one.

New postpaid tariffs were introduced in October in order to satisfy the specific needs of customers. There are 12 tariff profiles in the offer.

New postpaid extra tariff add-ons (extra minutes, extra messages, mt:s favorite number) were introduced in the same month, which made the postpaid tariff even more favorable.

In December 2014, a hybrid package for prepaid customers was introduced. The offered package allows a 50% discount on all national traffic. It is planned to introduce new packages. The purchase

of a hybrid package is enabled through the USSD menu and SMS. The customer pays a monthly subscription fee for a hybrid package, the package lasts for 31 days and it is renewed automatically.

Telekom Srbija was the first to publish the signing of a contract with the prestigious APPLE company and announced the sale of iPhone handsets. The sale of iPhones started in November 2014. Apart from the said cooperation with the Apple company, Telekom Srbija in October enriched its offer with models produced by: Lenovo, Acer, CAT, while the offer of tablet devices, apart from standard brands, also included the local TESLA brand.

Mobile Internet

In March 2014, another Internet add-on for postpaid customers - Net Plus S was introduced.

In August 2014, the Prepaid Mobile Net service was introduced both for new and the existing customers. The price of a megabyte was reduced and a new Data Plus package of 500 MB was made available at a favorable price. The prices of packages of 1 GB and 2 GB were reduced. The new DATA SIM card contains 50 dinars that may be used for data transmission or the sending of SMS messages, along with an initial credit of 300 MB.

BOX Improvement

Additional lines were introduced within BOX packages.

In July 2014, new BOX packages were introduced and changes were made to the existing packages. BOX 2 packages were introduced (4 packages: a combination of a fixed connection with the mobile, IPTV, mini IPTV and the Internet service) and one BOX 3 package (fixed, Internet and IPTV). A change was made in the quantity of traffic included in the subscription fee for a mobile connection, while a fixed connection within the BOX package is granted unlimited free traffic within the fixed network of Telekom Srbija. It was also made possible to include additional fixed lines (maximum 2) in the BOX package, for which a certain monthly subscription fee is paid, which are like the main fixed line also granted unlimited free traffic within the fixed network of Telekom Srbija.

Internet

In January, the customers were enabled to download all their invoices in the pdf format. This represents the first phase of implementation of the eRačun service when the customer will be able to choose to receive all the invoices of Telekom Srbija solely in the electronic form at his SSO e-mail address.

In July 2014, the company launched its Cloud Computing service. Two services within this service are currently in the offer: Platform as a Service and Infrastructure as a Service. A customer may use the service for a period of 30 days and also purchase additional resources such as memory, disc, etc, at the „pay as you go“ principle.

In June, the mMarket web portal was commercially launched as an add-on to the current mMarket wap portal. The company did a redesign of the mMarket wap portal, which represents a virtual point of sale of Telekom Srbija, through which the users of mobile devices are offered the sale and free downloading of multimedia contents of local and global producers. When a customer initiates the downloading/purchase of content through the web, the content is delivered directly to the mobile device with the delivery of a downloading link within an SMS message which redirects the customer to the wap portal. In this way, the customer is certain that the content he is purchasing is adjusted to the model of his mobile phone.

In December 2014, the company launched a new version of the Android application mt:s centar, which along with the new visuals, also offers improved application functionalities: visual presentation of the remaining minutes, SMSs and data traffic, the number of days until the expiry of the contractual obligation, information about Telekom's outlets, other services in the mt:s offer, etc. By the mt:s centar application, the customers can check their balance on the account, top-up their or their friends' credit, get information about the current promotions or purchase vouchers and activate the service of favorable calls toward fixed and mobile networks abroad, and the service of favorite numbers in the mt:s network. The customers can see the important numbers, a list of Telekom Srbija's outlets, the SMS directory or check which network a customer belongs to. Also available is the service of free watching of TV channels through the mt:s network (RTS1, RTS2, Prva TV, Pink, B92, B92 Info and Studio B), and the description of packages of Telekom Srbija's digital television. The customers can

download interesting Telekom Srbija applications, find out answers to the most frequent questions about the services of Telekom Srbija, or get information about other services in the m:tel offer. In January 2015, the company is expected to commercially launch the application for the IOS operating system, having in mind Telekom Srbija's offer of iPhone devices.

Multimedia

In January 2014, an application for smart telephones was developed within the partnership project X Factor. The application allows the customers to watch exclusive live stream contents, audition videos, news and the like. The application is available to m:tel customers who have a Samsung X Factor mobile handset.

In April, Telekom Srbija in cooperation with the Mikser organization launched the project entitled "The Savamala Creative Quarter" with an idea to allow its customers access to cultural, artistic and entertaining contents, which are available on our platforms. The contents are available within the Mikser application and the IPTV platform. At Mikser House itself, the company opened the Telekom Srbija Media Lab that allows the free use of computers and access to the Internet. Free access to the Internet through the WiFi connection is enabled on over ten locations (galleries, cultural organizations and other facilities) in the Savamala quarter.

With the launching of a new IPTV platform into operation in December 2014, two new functionalities became available to customers: Gledaj Unazad and 72 Sata Unazad. The Gledaj Unazad service makes it possible for the customer to pause the currently broadcast TV content and to see the content broadcast in the previous 60 minutes. Using the 72 Sata Unazad service, the customer can see the shows broadcast in the previous 3 days.

In 2014, the Klik Sport portal, which allows you to watch exclusive sports events live via computer, was enriched by new contents like the ACB league, Eurocup, Serie A and the regional water polo league.

New Services for Customers in the Diaspora - GO4YU

At the end of 2014, Telekom Srbija in cooperation with its partner, under the brand GO4YU, enabled a single solution that offers telecommunications

services intended for customers in the diaspora in the United States of America. The customers can use fixed and mobile telephony services, along with multimedia services.

Within fixed telephony services, the user of GO4YU gets within the package minutes for calls toward the fixed and mobile networks of Telekom Srbija, free calls with the users of GO4YU telephones and quality and reliable connection.

GO4YU mobile telephony users in the United States get a SIM card with a U.S. and a Serbian number, i.e. with the minutes, messages and the Internet in the United States and the minutes for calls towards numbers in the fixed and mobile networks of Telekom Srbija.

Apart from the services of fixed and mobile telephony, also available to customers is the multimedia service EX-YU package, within which they can watch over 60 national, regional and local TV channels that offer a wide range of informative, sports, entertaining, children's, music and film contents via the Internet. Apart from the above said, also available to customers is an additional Video Club service, which enables the renting of domestic films and series.

Mtel

In accordance with its basic mission and vision, the Mtel company continually improves communication with its customers, and a wider public. Apart from the web page www.mtel.ba, the wap and web portal "Mondo", and the social network Facebook - [facebook.com/mtelbih](https://www.facebook.com/mtelbih), communication in 2014 was also enriched with a printed publication "m:agazin" and a new company blog - "m:blog". Another form of communication with the public is a new television show "m:agazin", about interesting topics from the world of modern technologies.

In the **mobile telephony** segment, in 2014, the Telekom Srpske subsidiary focused on the tariff policy and retaining revenues from prepaid services, where all prepaid customers were moved into a single tariff model - prepaid FRENED, with a possibility of including friend numbers from all the

mobile networks in Bosnia and Herzegovina.

During 2014, prepaid promotional campaigns were continually created:

- SMS tariff options - SMS campaign for segmented groups of prepaid customers, where the customers for their average one-day consumption receive 10 times more messages, i.e. the messages are 10 times cheaper. The activation of the SMS tariff option was performed by the USSD menu or via the mGo application.
- Mobile Internet - Internet tariff options for all prepaid customers, with an emphasis on the tariff option of 1 (GB) and a validity period of 1 day at the maximum speed of up to 21 Mbps
- INO tariff options - By purchasing the tariff option via the USSD menu and the m:go application, the customers get a certain number of free minutes for calls toward all networks in Austria, Germany, Slovenia, Italy, Sweden, the United States, Canada and Australia, in the period of 24 hours.

In 2014, the company implemented the Upsell campaign, with the aim to achieve the migration of prepaid customers to postpaid, which was intended for all prepaid customers who over the last three months consumed much more than their average. The prepaid customers who had been informed via a broadcast message and who had chosen the recommended Moj Mix postpaid tariff model with a certain amount of the monthly subscription fee and a combination of minutes, messages and the Internet, received a 50% discount on the monthly subscription fee in the first four months.

Within postpaid, the company redesigned the existing tariff models and performed the migration of all the customers from M, L, XL, XXL and Smart to one of the offered combinations within MOJ MIX flex/flat. Also, for the purpose of further growth of the customer base, a new tariff model Mix VIP tariff was created. The service is intended for more demanding customers, because it was for the first time that a tariff model had been offered that provides unlimited calls toward all networks in Bosnia and Herzegovina, along with a number of additional advantages, such

as unlimited services of telephoning, sending SMSs and MMSs and the Internet, which are based on the fair use principle. An important advantage of the VIP model is that with a 24-month contract you get 1 telephone in the m:tel offer at the price of only 1 KM, the "Moja roaming tarifa" service, which offers the possibility of using roaming services from certain countries at much more favorable prices, lower prices of calls in international traffic and free access to m:music+ service.

A well-designed offer of postpaid tariff models, and attractive offers of the latest models of mobile phones during entire 2014 led to an increase in the customer base by some 30,000 subscribers. Tariff options for international traffic were made available to all mobile telephony customers (prepaid, postpaid, VPN).

Apart from a wide range of services on the territory of BIH, Telekom Srpske has for a number of years offered terminal equipment for end users at subsidized prices.

The sale of mobile phones for postpaid customers rose again in 2014 (7%), which is a significant business result, given the major natural disaster that hit BIH in May and August 2014.

Significant results were achieved in the increased sale of television sets within the integrated service packages, where the sale doubled compared with the previous year, which eventually contributed to an increase in the base of OPEN users.

In 2014, Telekom Srpske also introduced the sale of additional equipment, household appliances and gaming consoles, and after the implementation of the current projects, it will also include the sale of Kasko mobile telephone insurance in its offer.

By offering the sale of household appliances in installments to all Open and ADSL users, Telekom Srpske once again showed that it was an innovative market leader and a company that takes care of its customers at the time when it is most needed.

From September, Samsung household appliances became available at Mtel points of sales, at excellent terms: interest-free payment in 12 installments, free home delivery within three days.

The degree of product differentiation in fixed telephony in BIH is small, which was largely caused by the regulations that do not allow the creation of

services in accordance with the identified needs, desires and preferences of the consumers and their model of behavior, but strictly within the previously defined regulatory framework.

In the domain of integrated services and the services of Internet access via GPON and VDSL technology, GPON is one of the FTTH technologies and involves bringing an optical cable directly to customer, and enables the use of Triple Play services with high Internet bit rates, reliable voice transmission and a high quality IPTV HD picture with a download rate of 2.5 Gbit/s and an upload rate of 1.25 Gbit/s. Also offered are service packages under the commercial title MAX.

In 2014, a new version of Mtel's m:go application „m:go IOS“ for iPhone users was launched, and a version for Windows phone is underway.

In 2014, packages integrating fixed and mobile broadband for private and business customers under the commercial title: OPEN DUO NET and OPEN BIZ DUO NET were first made available to customers.

Also, in 2014, Mtel successfully acquired the company Logosoft d.o.o Sarajevo, which in mid-December 2014, offered an integrated service that includes mobile telephony on the market of the BIH Federation.

Mtel a.d. Banjaluka founded a new business company Mtel Austria, with an aim of providing telecommunications services in this country. Mtel Austria will provide mobile telephony services including: voice, sms and data transmission services. The service also envisages an offer of multimedia contents from the territory of the former Yugoslavia – Live TV and web-based music streaming services, primarily intended for people from the region who live and work in Austria.

mtel

mtel offers its customers mobile telephony services, along with fixed telephony and Internet services provided via WiMax technology.

In order to satisfy the needs of all the customers - primarily with the aim to retain the existing and gain new customers, and having in mind the segmented target groups, the company carefully planned new services.

In 2014, the mtel related entity launched a new “Revolution“ network as a single prepaid offer on the Montenegrin telecommunications market. “Revolution” with the 060 numbering is a new prepaid tariff package intended for younger population. The basis characteristic of the new package is that it is oriented toward special benefits toward all the networks in Montenegro with a single price of call toward all the mobile and fixed networks in Montenegro of 0.06 euros/minute, and a single price of SMSs toward all the mobile networks in Montenegro of 0.02euros/SMS. By activating their card before 31 December 2014, the customers will, until the end of 2015, receive free of charge (on the monthly level): 1,000 minutes toward 060 numbers from this package, 1,000 SMS messages toward 060 numbers from this package, and an unlimited access to the web pages of the social networks: Facebook, Twiter, Instagram and the mobile portal mondo.me with a fair use policy.

For the purpose of achieving greater synergy with the Parent Company and its related legal entities, mtel continued the campaign of offering benefits to all the customers who are in roaming in Serbia, within the mt:s network, now entitled m:roaming tickets. All mtel's customers who were in roaming in Serbia (mt:s network) were able to choose one of the m:roaming add-ons, for 1 day, 7 days and 30 days. Within the offer, the customers had unlimited communication toward the networks of Telekom Srbija and mtel, and unlimited Internet. Also, the customers had in their offer a special m:roaming “First Class” ticket, which allowed them to use all the said benefits until the end of 2014.

Apart from the standard offer of postpaid tariff packages, the company introduced multimedia packages for the customers who prefer multimedia content, with special benefits for the Internet. Within the package, the customers can watch 35 Pink and 4 Arena Sport channels. Apart from this, the packages have the most favorable price of call toward all networks in Montenegro and a certain quantity of Internet traffic at the maximum rate, with unlimited calls within the network.

Continued campaigns of selling mobile phones (with a special emphasis on smart phones), modems and tablets were aimed at popularizing mobile Internet as much as possible and greater Internet consumption.

In order to popularize web shop / on-line purchases,

in April, the company launched a “web shop sale“ campaign with favorable prices for a large number of phone models from the offer with the signing of a postpaid contract.

Apart from the standard offer within the USSD menu, and with an aim to increase revenues in the prepaid segment, a special menu was enabled – the “m:me” menu, which was created for each individual customer, with a personalized offer of benefits depending on the customer's previous habits and preferences (calls, SMS or the Internet). Offers are through the “m:me” menu generated for prepaid customers on the daily, weekly and monthly level. Certain offers refer solely to resources for consumption within the m:tel network, while the other type of offers refer to consumption toward all the networks in Montenegro.

Several packages were introduced ahead of the tourist season: the new Internet prepaid package Hello NET, which allows customers an unlimited possibility to surf, communicate on the social networks and use the Internet in a way that suits them best; Hello Net Extreme package within which the customers get a USB modem and Hello NET prepaid; mgo turist and ALL INCLUSIVE intended for Russian tourists.

A new postpaid package Odaberi Više 38.9 and in the business segment Odaberi Office 38.9 were introduced in August, with a subscription fee of 38.9 euros. The Odaberi Više and Odaberi Office packages give the customer absolute freedom to create himself an original combination of services – during the signing of a contract, he chooses the quantity of calls, SMSs and the Internet, which he will use within the subscription. Apart from the said benefits, the free combinations of resources provide the customers with 5,000 minutes within the network and an unlimited Internet bit rate.

The existing prepaid package m:go plus was supplemented with new benefits in September. With each top-up higher than 2 euros the customers get the double amount of money for consumption toward all the networks in Montenegro and free 300 MB of Internet.

The development of mobile applications significantly contributes to retaining the existing and gaining new customers, which is why mtel innovated its two single applications MondoGo and Montenegro Talking.

An innovative design, an always interesting content of the Mondo portal, the possibilities of free calls, SMSs and chats through the application itself place the mondoGO application in the company of the most famous contemporary applications that connect the users of 3G and WiFi networks such as Viber and Skype.

MondoGO is an application that apart from the latest news, entertaining and multimedia contents from produced by Mondo's editorial office, enables an overview and purchase of the current services from the mtel offer, and the activation of benefits available only via this application. By activating the m:call option, customers can make phone calls absolutely free of charge in the mtel network, and for call set-up it is only necessary to connect to a WiFi or 3G network.

The “Montenegro Talking” application, in a simple, quick, educational and entertaining way, leads the customers to the most significant tourist locations in Montenegro and brings an entirely new perception of the offer, its cities and historical and cultural sights. Of recent, this application has in its offer a directory of most tourist facilities, hotels, restaurants, cafes and clubs. The application is translated into English and Russian. It is primarily intended for tourists who visit Montenegro, and it was promoted in this way during the summer tourist season via a Facebook photo competition.

TELUS

Within its registered activity, Telus offers the following services:

- Securing facilities and property (physical and technical security, fire protection and money escort),
- Maintaining hygiene of office space and facilities and
- Engaging employees for auxiliary and manual jobs.

FiberNet

The national digital line enables digital connectivity and the connection of two customer's points on the

territory of Montenegro and this service is provided by FiberNet on the territory of Montenegro. The said service does not depend on the protocol and enables a transparent transmission of the signal of required capacity between the customer's endpoints. It is used for the provision of telephone services or other services of data transmission between the customer's locations that require high quality service. FiberNet offers national and international digital lines of the following capacities: 2Mbps, FETH (4MMbps, 6Mbps...100Mbps) and STM-1, depending on the locations of the customer's endpoints.

The services of leasing optical dark fibers allow customers to connect their locations in Montenegro or to connect a location in Montenegro with a location abroad.

The service of lease of transport capacities represents the service of lease of higher bit rate capacities implemented through the SDH/DWDM network of FiberNet and its partners abroad. Transport capacities that are leased may be national and international. The said service is intended for operators (wholesale) customers for the connection of the endpoints of their network or for the connection of their network with the network of another operator.

HD-WIN

At the end of 2014, the Arenasport channels were present in the distribution networks of 48 operators on the territory of Serbia, 23 on the territory of Bosnia and Herzegovina, five on the territory of Montenegro and 1 in each Macedonia and Croatia, i.e. a total of 78 operators.

It is important to note that in all the said markets, the Arenasport channels were present on the platforms of all the main telecommunications operators (T-Com Crna Gora, T-Com Makedonija, T-Com Hrvatska, BH Telecom, m:tel RS, HT Eronet, Telekom Srbija).

Arenasport prepares and broadcasts the following channels:

- Arenasport 1 for the territories of Serbia, Montenegro and Macedonia
- Arenasport 1 for the territory of Bosnia and Herzegovina
- Arenasport 2, 3 and 4 for the territories of Serbia, Montenegro, Macedonia and BIH

- Arenasport 1, 2, 3 and 4 for the territory of Croatia
- Arenasport 5 currently only for the needs of OpenIPTV of Telekom Srbija
- Arenasport WEB channel exclusively for the needs of the www.svenaklik.com service
- MaxGP channel (specialized auto-moto channel) for the territory of Croatia.

All the channels are available in the SD and HD formats (1920x1080i), while the entire production process, from the reception (ingest) of the signal, through its processing, i.e. post-production, until the delivery to end users was projected and performed in high resolution.

The basic elements of play-out are based on automation systems by the reputed producers of broadcasting equipment such as Snell, Harmonic, Omneon, Miranda, Rorke, etc., while the entire system is connected through Cisco servers and switches.

The virtual studio For-A, which is also one of the most modern studios in the country, has been operational since the first round of the Champions League season 2012/13.

Since the beginning of its broadcasting, the program of Arenasport TV has been based on the exclusive premium content from the world of sports. The content itself is mainly provided on the basis of three-year contracts based on negotiations and negotiated procedures with the holders of the rights. The exception is the UEFA which has strict rules and procedures thanks to which telecom operators from this region managed to win the bid for the seasons 2012-2015.

With the work of the studio, the program was enriched with studio shows that comment on the Champions League and the Europa League, and the events regarding the Jelen Super League, the French and the Italian leagues, and a show that deals with the events in the world of basketball. The daily news show, Arena News, was also launched in 2014. Arenasport is engaged in the production of various sports events on the territories where it is present (the Jelen Super League, the ABA League, the Barclay's Premier League, the Basketball League of Serbia, the Champions League and the Europa League) and it proved the quality of its broadcasts by meeting the high standards set by some competitions such as the Champions League and the Europa League. All the important competitions are covered by studio shows and special shows from its own production.

INVESTMENTS

PARENT COMPANY AND RELATED LEGAL ENTITIES

In 2014 the total investments of the Parent Company and the related legal entities amount to RSD 19.5 billion. A comparative overview of capital investments made by individual companies of the Parent Company and the related legal entities in 2014 and 2013 is featured in the Table below:

in million RSD	2014	Growth rate	2013
Telekom Srbija	12,267	-5.2%	12,944
Mtel	5,717	9.8%	5,207
mtel	1,483	122.5%	667
Telus	0.7	-53.6%	1.5
FiberNet	2	12.6%	1
HD-WIN	25	392.1%	5
Total	19,494	3.5%	18,826

Total investments

Analysed by members of the Parent Company and the related legal entities, the largest investments in 2014 were made in the Parent Company (RSD 12.3 billion), whereas the lowest were made in the Telus related legal entity (RSD 719 thousand).

Of the total investments made by the Parent Company and the related legal entities in 2014, 65% was set aside for the technical advancement of the Parent Company and the related legal entities, whereas 35% for infrastructure.

in million RSD	2014	Growth rate	2013
Technical investments	12,746	-6.1%	13,577
Infrastructural investments	6,748	28.5%	5,249
Total	19,494	3.5%	18,826

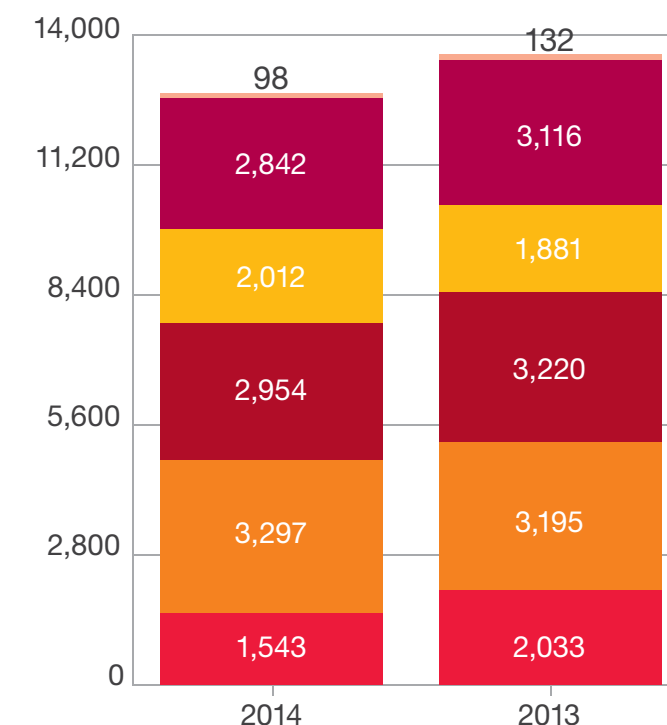
Total investments

On the level of the Parent Company and the related legal entities the major technical investments were

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

in million RSD	2014	Growth rate	2013
■ Switching and management system	1,543	-24.1%	2,033
■ Access network	3,297	3.2%	3,195
■ Wireless network	2,954	-8.3%	3,220
■ Transport optical network	2,012	7.0%	1,881
■ Internet and multimedia	2,842	-8.8%	3,116
■ Other technical investments	98	-25.7%	132
Total	12,746	-6.1%	13,577

in million RSD



Technical investments

On the level of the Parent Company and the related legal entities, in 2014 the infrastructure investments total to RSD 6.7 billion.

in million RSD	2014	Growth rate	2013
IT investments	3,979	24.7%	3,191
Logistics support investments	2,769	34.5%	2,059
Total	6,748	28.5%	5,249

Infrastructural investments

Of the total infrastructure investments, on the level of the Parent Company and the related legal entities 59% was in IT, whereas 41% was in logistics support. The major share of 63% of the Parent Company and the related legal entities' infrastructure investments belongs to Telekom Srbija, 29% to Mtel and 8% to mtel.

The investments in IT amounted to almost RSD 4 billion, whereof 46% was invested by the Parent Company and 34% by the Mtel related legal entity, whereas 19% was invested by the mtel related legal entity.

In view of the investments in the logistics support, the Parent Company mostly invested in motor pool, real estate and land, and construction of RBS poles, the Mtel related legal entity mostly invested in technological plants and construction of RBS poles. The mtel related legal entity mostly invested in real estate, land and construction of RBS poles, whereas the HD WIN, Telus and Fibernet related legal entities made major investments in the work equipment.

Telekom Srbija

Major investments by Telekom Srbija in all segments of operations were aimed at increase in revenues through attracting the new customers and retaining the existing ones and further improvement in the service portfolio both in private and in business spheres.

Through implementation of contemporary technological solutions the customers are offered new top quality services. Implementation of the smart technological solutions in various fields generates revenues in the turbulent period for

telecommunications and makes the basis of further customers' experience. The total investments amounted to RSD 12.3 billion, that is 5% less compared to the previous year.

Telekom Srbija allocated 71% of the funds for investment in the network technical development, whereas 29% of the total funds was allocated for investment in infrastructure.

in million RSD	2014	Growth rate	2013
Technical investments	8,674	-8.6%	9,495
Infrastructural investments	3,593	4.2%	3,449
Total	12,267	-5.2%	12,944

Investments

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. In 2014, it was introduced the new IMS platform with new functionalities for modern services in fixed telephony.

Investments in **mobile telephony** make Telekom Srbija a leader in mobile network territorial coverage providing its users with high quality signal and fast mobile Internet throughout the country. In 2014, the new CS core was launched in mobile telephony making the architecture of the mobile network segment as simple as possible and ready for implementation of the LTE technology.

Aimed at further upgrade of its telecommunications network, in 2014 Telekom Srbija initiated procurement and implementation of new PS core and of new VAS platform. The Telekom Srbija mobile network will be completely upgraded and capable of offering the top quality services on the telecommunications market.

In the **Internet** sphere, investments were directed towards expansion of the IP/MPLS network aiming at implementation of the best solutions available on the market and providing the capacities for all future network and customers' demands.

In the sphere of **multimedia**, services were

directed towards implementation of new multimedia platform, by which Telekom Srbija wants to improve its position in this market segment offering the attractive high quality multimedia contents in contemporary manner.

Shortening the loop makes a prerequisite for better flow rate, i.e. fast fixed Internet and high-quality offering of IPTV contents with HD channels.

As for investments in the technical capacities of the telecommunications network, most of the investments in 2014 were made in the access network (29%), Internet and multimedia (23%).

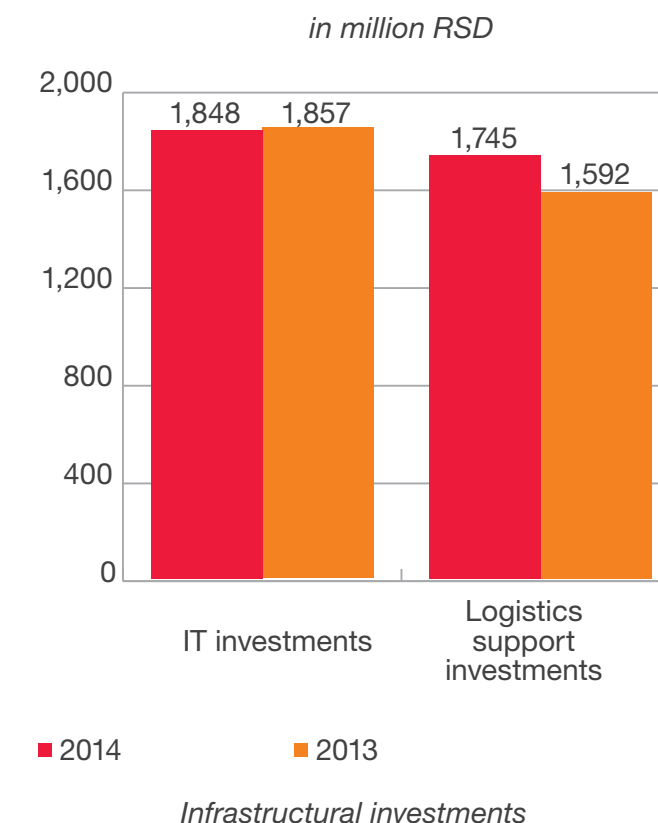
in million RSD	2014	Growth rate	2013
Switching and management system	1,312	-19.9%	1,637
Access network	2,481	-11.2%	2,795
Wireless network	1,438	-3.1%	1,483
Transport optical network	1,386	-20.0%	1,734
Internet and multimedia	1,962	13.9%	1,722
Other technical investments	96	-22.8%	124
Total	8,674	-8.6%	9,495

Technical investments

In 2014, RSD 3.6 billion was invested in infrastructure. Investments in infrastructure were mainly made in IT (51%).

in million RSD	2014	Growth rate	2013
IT investments	1,848	-0.5%	1,857
Logistics support investments	1,745	9.6%	1,592
Total	3,593	4.2%	3,449

Infrastructural investments



Investments in IT were based upon demands of customers that use various services, change devices and expect us to keep pace with them. New technologies are expected to make this relationship more simple and flexible while shortening the time needed for launching the new product on the market.

The most important projects in this period include the Business Support System transformation, upgrade of *time-to-market* for Telco services, further upgrade of Enterprise domain, support to new *revenue streams*, entering eCommerce, ePayment and *digital banking markets*, implementation of the internal *Cloud* project, and Billing platform consolidation.

Investments in logistics support primarily refer to the reconstruction and installation of radio base stations, space refurbishment and the procurement of the work equipment. The motor pool was considerably improved aimed at uninterrupted development of the work process. The reconstruction of an office building owned by Telekom Srbija has been in progress.

Mtel

The total investments of the Mtel related legal entity in 2014 amounted to RSD 5.7 billion (KM 95.3 million).

in million RSD	2014	Growth rate	2013
Technical investments	3,456	-4.3%	3,610
Infrastructural investments	2,262	41.6%	1,597
Total	5,717	9.8%	5,207

Total investments

The Table above indicates that technical investments amount to RSD 3.5 billion (KM 57.6 million) taking a share of 60.4% in total investments, whereas the infrastructure investments amount to RSD 2.3 billion (KM 37.7 million) taking a share of 39.6%.

In the structure of total investments in 2014, the major share is taken by fixed telephony. Development of the existing network infrastructure is based on introducing the new technologies, whereof GPON and VDSL2 + vectoring are considered as the most important in fixed access.

Major investments in **fixed telephony** were made in cable transport network, i.e. optical transport network (backbone planes and access networks), procurement and installation of OTN/DWDM equipment, procurement of optical cables, construction-installation works in the backbone planes, access network and procurement of ODF installation material. Also, considerable investments refer to construction of new and reconstruction of existing cable access networks aimed at shortening the subscriber loop for provision of the broadband services to as many users as possible. The remained investments were made in access equipment, installation of equipment for MSANs, procurement of MSAN access devices, expansion of DSLAM capacities, procurement of mini MSAN equipment and procurement of access equipment for construction of FTTX networks.

Simultaneously to reconstruction and shortening of subscriber loop, in 2014 application servers

were implemented on IMS platform enabling the migration of fixed telephony customers from existing old switching nodes to IMS and interconnect SBC for traffic interconnection via IP using SIP or SIP-I protocol. In 2014 the reconstruction of one of the Mtel strategic facility was completed, Trebević RR, and the reconstruction of Banjaluka TKC was contracted (facade, roof, power supply and air conditioning).

In the sphere of **mobile telephony** investments, the implementation of the most important project was continued, i.e. upgrade of SWAP wireless access network, phase 2 – replacement of existing network components in the regions of Banjaluka and Sarajevo (controllers, 2G and 3G base stations), entering into contract on upgrade of SWAP wireless access network, phase 3 – replacement of existing network components in the regions of Krajina and Herzegovina.

Five mobile trailers with infrastructure for accommodation of mobile telephony base stations were procured for the first time since mobile network construction, which would considerably improve the mobile telephony signal and provide sufficient capacity where large gatherings are expected. Implementation of this project will provide smooth introduction of *flat rate* packages for data transfer services also for prepaid customers with better access rates, and facilitate the operation of POS terminals, electronic top-ups, cash registers, etc.

In 2014, the network core was upgraded in the package component and PS core was prepared for the fourth generation of mobile networks (LTE ready), and also m:go app was upgraded with IOS operating system. It was also contracted the upgrade of VPN service by its migration to the new platform, which would enable the convergence of fixed and mobile telephony services.

In the sphere of **Internet and multimedia** major investments were made in access equipment – residential customers, IPTV and IP/MPLS network devices.

The access equipment for residential customers, STB and IAD devices, and ten Catalyst 2960C switches were procured. The procurement procedures were conducted for installation,

works, integration and compile of technical documentation needed for expansion of IP/MPLS.

Keeping pace with growing interest in IPTV services and increasing number of customers, the capacity of the existing IPTV *middleware* system was enlarged. In 2014, it was almost completed the project of implementation of the new IPTV platform with new functionalities (*multiscreen, nPVR, TSTV, catchupTV, OTT, mobileTV, webTV, internet STB, VoD*). The platforms for fault, performance and *monitoring* systems and also NOC were upgraded.

In the sphere of **information technologies**, major investments were made in user software and licenses, servers and storage.

The strategy of investing in information technologies was based upon needed improvement of the Company operations efficiency implementing the advanced applicative solutions. Procurement and integration of modules for convergent billing, expansion of Trouble Ticketing system, procurement of software for implementation and monitoring the implementation of the Company's strategy – BSC software, procurement of Inventory OSS system and procurement of Loyalty program – Loyalty support were important for that purpose.

In 2014, the following important procurement was initiated: System for consolidation of *provisioning* functionality and replacement of existing *provisioning* system for mobile telephony platforms, IP Real – Time Billing Enabler, Support to Sales & Marketing activities, procurement of Network Analytics software.

Of significant investments in 2014 there should be mentioned investments in the project Oracle EXEDATA, procurement of applicative servers and DB servers, active equipment for corporate computer network, printing center equipment, servers and storage, system for DDoS protection and redundant CA (Public Key Infrastructure-PKI).

In the structure of investment in **logistics support**, major investments belong to technological facilities and RBS poles. In addition, considerable investments were made in electrical installations, procurement of power generators, reconstruction,

space refurbishment and air conditioning of the fixed telephony facilities, procurement of UPS equipment, rectifiers, etc., and procurement of air-conditioning equipment for TKC Banja Luka. Investments were made in construction of wireless access network structures for accommodation of mobile telephony base stations. Office equipment, air-conditioners and heating units for offices and retail stores were also procured at the organizational units' requests

in million RSD	2014	Growth rate	2013
Switching and management system	151	-54.3%	331
Access network	808	116.0%	374
Wireless network	1,131	-18.3%	1,385
Transport optical network	623	329.0%	145
Internet and multimedia	741	-46.1%	1,375
Total	3,456	-4.3%	3,610

Technical investments

In the sphere of technical investments, the Mtel related legal entity made major investment in access and wireless network.

in million RSD	2014	Growth rate	2013
IT investments	1,358	14.5%	1,186
Logistics support investments	903	119.7%	411
Total	2,262	41.6%	1,597

Infrastructural investments

Of total infrastructure investments of Mtel, 60.1% belongs to IT investments, whereas 39.9% belongs to logistics support investments.

mtel

In 2014, the investments of the mtel related legal entity totalled to RSD 1.5 billion (EUR 12.6 million). The investments were made in: upgrade of RAN network, better coverage by 2G and 3G network, enlargement of the network capacity in line with growing traffic volume, upgrade of IP/MPLS network aimed at reaching high quality services.

in million RSD	2014	Growth rate	2013
Technical investments	615	30.6%	471
Infrastructural investments	868	341.9%	196
Total	1,483	122.3%	667

Total investments

The Table above indicates that technical investments amount to RSD 615 million (EUR 5.2 million) taking a share of 41.5% in total investments, whereas the infrastructure investments amount to RSD 868 million (EUR 7.4 million) taking a share of 58.5%.

The investments were made in 27 new locations and the project of radio network upgrade was implemented. The total of 214 old RBS 2000 and RBS 3000 were replaced with RBS 6000. The capacity in all towns was increased and the second carrier on 3G network activated. The same project included the optimization of radio network and compile of the technical documentation for new equipment. The new BSC software was procured within upgrade of RAN network. It was completed the expansion of existing RNC with 7 EPB1 due to increasing volume of package traffic on UTRAN network and procured spare parts for SGSN, GGSN, RNC and BSC, IMT, MPBN, AAA.

The investments in MPLS network refer to upgrade of MPLS network in data center and distant locations. 15 devices were installed in data center, whereas 32 devices were installed in distant locations.

The investment, which had been initiated in the previous year, was made in *upgrade* Navision. *In-house* software was activated: Chat&SMS platform, application for mobile telephony, Mondo & MGO, CALL Center, SOS app, *roaming* rating software, Roaming Interconnection and Rating Postpaid Roaming. The OSS software and additional software for *broadworks* and MRR functionality was implemented. The following network nodes software was upgraded: SW upgrade of BSS, SW upgrade of RNC, SW upgrade of GGSN, SGSN, EMM and EMA, MSC was upgraded to 13A. The OSS software was also procured. There were procured new software for additional functionalities in radio segment of the network, codecs AMR FR, AMR HR, AMR WB with the functionality A over HD, software for new GSM base stations, software for SIU units, and software for upgrade of WCDMA network. The works were executed in OLM software adaptation so to bypass MIEP. It was developed WEB Mondo portal having an access from Web, mobile and android phones and investment was made in Titus – software for classification of e-mails and documents. MIEP was upgraded to EMM Online platform and IMT software improved. Software for SAS functionality was procured. The storage system for 80 TB extended and MPBN system upgraded.

TELUS

In 2014, the investments made in logistics support by the Telus related legal entity totalled to RSD 719.

The investments of the Telus related legal entity in 2014 belong to procurement of work equipment (equipment for cleaning the premises, photocopying machines, computer equipment and other electrical devices).

FiberNet

In 2014, the related legal entity Fibernet's investments totalled to RSD 1.6 million (EUR 13.8 thousand), whereof 95% belong to technical investments and 5% to infrastructure investments.

The related legal entity Fibernet's investments in 2014 belong to procurement of equipment for upgrade of SDH Fibernet network.

HD-WIN

In 2014 the related legal entity HD Win's investments totalled to RSD 25.2 million.

Major investments were made in expansion of the system with one more channel (Max GP), procurement of four Cisco encoders and two vehicles.

CUSTOMERS

PARENT COMPANY AND RELATED LEGAL ENTITIES

On the level of the Parent Company and the related legal entities, the number of mobile telephony, Internet and multimedia customers increased, whereas the number of fixed telephony customers declined in 2014 and the number of mobile telephony customers remained on the previous year's level.

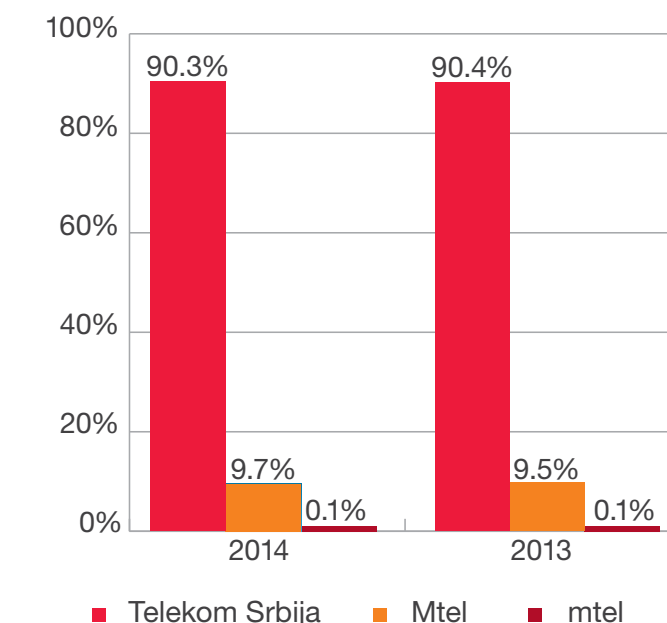
Fixed Telephony Customers

The **fixed telephony** services provided by the Parent Company and the related legal entities are taken by 2.9 million customers.

in thousands	2014	Growth rate	2013
Telekom Srbija	2,618	-5.3%	2,764
Mtel	281	-3.7%	291
mtel	2.0	-9.4%	2.2
Total	2,901	-5.1%	3,057

Total number of fixed telephony customers

Percentage of the Parent Company and the related legal entities' share in the total number of fixed telephony customers is shown in the graph below:



In 2014, there are 2.8 million POTS users in the Parent Company and the related legal entities. The rest refers to IP Centrex customers (14 thousand), ISDN BRI customers (67 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	2014	Growth rate	2013
POTS customers	2,815	-5.1%	2,966
IP Centrex	14	33.4%	11
ISDN BRI customers	67	-12.4%	76
ISDN PRI customers	3	0.4%	3
WiMax customers	2.0	-9.4%	2.2
Total	2,901	-5.1%	3,057

Total number of fixed telephony customers

In the structure of POTS customers, 91% are residential and 9% are business customers, whereas in the structure of ISDN BRI customers 57% are residential and 43% are business customers.

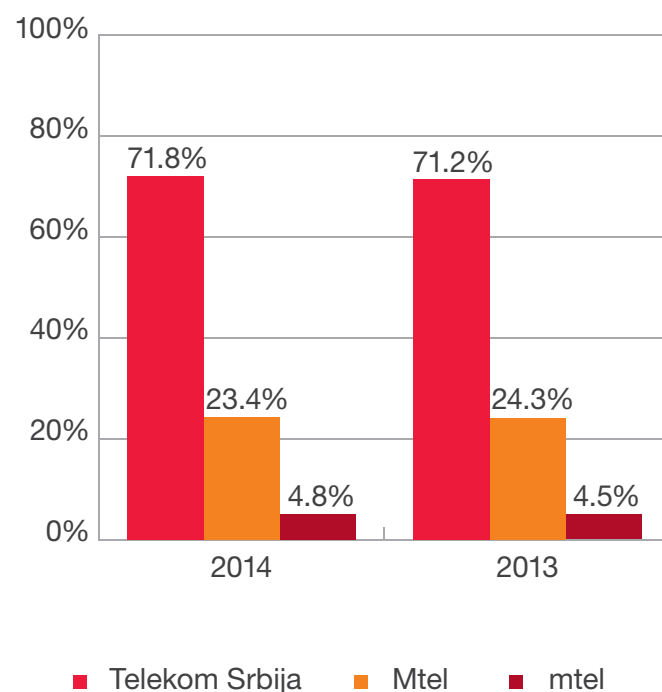
Mobile Telephony Customers

In 2014, the total number of **mobile telephony** customers on the level of the Parent Company and the related legal entities amounted to 5.9 million.

The total number of mobile telephony customers of the Parent Company and the related legal entities is shown in the Table below:

in thousands	2014	Growth rate	2013
Telekom Srbija	4,239	0.8%	4,207
Mtel	1,382	-3.6%	1,435
mtel	282	6.5%	265
Total	5,903	0.0%	5,906

Total number of mobile telephony customers



Percentage of the Parent Company and the related legal entities' share in the total number of mobile telephony customers

In 2014, the number of *prepaid* customers amounts to 3.5 million taking a 60% share in the total number of customers, whereas the number of *postpaid* customers amounts to 2.4 million taking a 40% share in the total number of customers.

in thousands	2014	Growth rate	2013
<i>Prepaid</i>	3,526	-7.1%	3,794
<i>Postpaid</i>	2,377	12.6%	2,112
Total	5,903	0.0%	5,906

Total number of mobile telephony customers

In 2014, the number of *postpaid* customers increased compared to the previous year mostly referring to the Parent Company.

ADSL and IPTV Customers

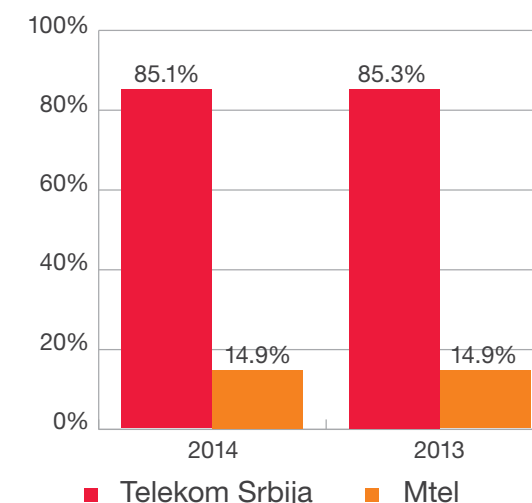
When it comes to ADSL access, which is the most common way of broadband Internet access, an increase of 38.5 thousand customers was recorded on the level of the Parent Company and the related legal entities in 2014, so that at the year end the total number of customers amounted to 834 thousand, whereof retail customers accounted for 86% and wholesale customers for 14%.

The Mtel related legal entity has only retail which accounts for 17% of the retail of the Parent Company and the related legal entity, whereas the mtel related legal entity does not provide the ADSL services.

in thousands	2014	Growth rate	2013
Telekom Srbija	710	4.9%	677
Mtel	124	4.5%	119
Total	834	4.8%	796

ADSL customers

The structure of ADSL customers in 2014 and 2013 is shown in the graph below:

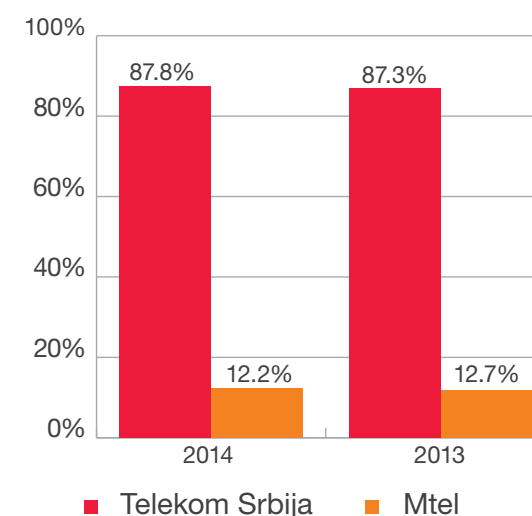


The number of IPTV customers at the end of 2014 amounted to 358 thousand. The Parent Company launched the IPTV service in October 2008, whereas service provision in Republika Srpska commenced in June 2010.

in thousands	2014	Growth rate	2013
Telekom Srbija	314	28.9%	244
Mtel	44	23.1%	36
Total	358	28.1%	279

IPTV customers

Of the total number of IPTV customers in 2014, 88% refers to Telekom Srbija customers and 12% refers to customers of the Mtel related legal entity.



The structure of IPTV customers in 2014 and 2013

TELEKOM SRBIJA

Despite the challenges of growing competition, Telekom Srbija has a considerable number of customers²² in fixed and mobile telephony and an increasing number of IPTV and Internet users.

The number of convergent package users is intensively growing because the customers have recognized the advantages of convergent packages offered by Telekom Srbija. In the previous two years the number increased by almost five times and at the end of 2014 amounted 299 thousand customers.

Fixed Telephony

Liberalization of the **fixed telephony** market has not jeopardized the leading position of Telekom Srbija. Declining number of customers has been mostly caused by alternative forms of communication such as mobile telephony and Internet, but also by launching the number portability service in April 2014.

in thousands	2014	Growth rate	2013
POTS	2,548	-5.2%	2,687
ISDN	61	-12.5%	69
Other*	10	20.4%	8
Total	2,618	-5.3%	2,764

*IP Centrex, Business trunking i E1

Fixed telephony customers

At the end of 2014, Telekom Srbija's fixed telephony services were used by 2.6 million customers. Owing to development of IP technology, the number of ISDN customers declined, whereas an interest in IP Centrex and Business trunking services increased due to their advantages.

Mobile Telephony

In 2014, Telekom Srbija had a steady number of customers on the **mobile telephony** market taking its major share.

22. Active connections / customers at the end of period.

in thousands	2014	Growth rate	2013
Prepaid	2,239	-7.2%	2,412
Postpaid	2,000	11.4%	1,795
Total	4,239	0.8%	4,207

Mobile telephony customers

In 2014, the total number of mobile telephony customers increased vs. 2013 as a result of the larger number of *postpaid* customers.

The new tariff profiles were introduced aimed at meeting the specific demands of various groups of customers, whereas since October 2014 the new *iPhone* models have been available to customers.

At the end of 2014 Telekom Srbija recorded 75 thousand users of mobile Internet via USB modem.

Fixed Internet and Multimedia

in thousands	2014	Growth rate	2013
Fixed Internet - retail	592	7.6%	550
Fixed Internet - wholesale	118	-6.7%	126
IPTV	314	28.9%	244
Total	1,024	11.3%	921

Fixed Internet and multimedia

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 2014, the Company had 592 thousand fixed Internet users in the retail segment. The Company recorded a 7.6% growth of fixed Internet users in retail.

In 2014, the number of IPTV users considerably increased (by 29%) as a result of the convergent packages offering. At the end of 2014, the Company recorded 314 thousand IPTV users.

At the end of 2014 the subscription-based number of Web TV service users amounted to 26 thousand.

Mtel

In 2014, the related legal entity Mtel thrived in the sphere of the integrated services and mobile Internet. 2014 was marked by the introduction of *m:net* services within the integrated services. The Mtel's activities, relating to the market research, were focused on customers' needs, the development of products and services, as well as technological improvement of the network infrastructure.

The number of customers in 2014 showed the following trend:

- In 2014, the number of fixed telephony customers slightly decreased as compared to 2013, as a consequence of the migration of fixed telephony customers from ordinary telephone connections (POTS, ISDN and CLL) to the integrated services.
- The number of mobile telephony customers decreased by 3.6% as compared to 2013. From the aspect of the traffic generated, a total volume of mobile telephony traffic increased by 5%, as a result of using tariff models with higher monthly fees, within which the customers were granted a higher bonus.
- The portfolio expansion in the segment of integrated services combining smart solutions in one package led to an increase in the number of the integrated service customers in 2014.
- ADSL customer base has continuously increased whereby in 2014 there was a significant migration of ADSL customers to the packages of integrated services.

Fixed Telephony

The total number of **fixed telephony** customers of the related legal entity Mtel, as at 31 December 2014, amounted to 281 thousand.

in thousands	2014	Growth rate	2013
Residential customers	249	-4.3%	260
Business customers	32	2.1%	31
Total	281	-3.7%	291

Total number of fixed telephony customers

Within the fixed telephony structure, the residential customers accounted for 88.6%, whereas business customers accounted for 11.4%. There are two categories within the residential and business customers of fixed telephony: the customers of non-integrated services and the customers of integrated services. The customers of non-integrated services in fixed telephony are the customers of basic voice services (*POTS, ISDN, CLL*), whereas the customers of integrated services are the customers of *bundle* packages (the customers of at least two services). In the last few years there has been a trend of integration and convergence of certain telecommunications services both globally and on the market of Bosnia and Herzegovina with the unique aim of reducing the outflow and retaining the fixed network customers.

In 2014, a 3.7% decline in the number of customers was recorded as compared to 2013, which conforms to the feature of fixed telephony market that has entered a declining stage from the aspect of its life cycle, primarily due to substitution of fixed and mobile telephony.

The strategic guidelines in the fixed telephony segment are to preserve revenues. To achieve the above, the Company is focused on slowing the downward trend in the number of customers in this segment, i.e. stabilization of the average traffic and revenue per user indicator. Considering the tactical level, the key instruments are integrated service packages, in the context of providing top-quality value to end users and on that basis building loyalty and retention of „good customers“.

By revising the prices of basic voice services, which entered into force on 1 January 2014, all residential customers of fixed telephony were granted a bonus of 80 free minutes in Mtel's fixed network within the monthly subscription fee.

The prices and conditions for using the prepaid services in Mtel's fixed telephony were changed during the period 2013-2014. The validity period of an initial top-up was shortened, and electronic top-up of prepaid accounts was introduced.

Mobile Telephony

The total number of **mobile telephony** customers, as at 31 December 2014, amounted to 1.4 million, of which 79% referred to prepaid customers, 10.8% referred to postpaid customers, 6.1% referred to VPN customers, 3.1% referred to M2M customers, 0.7% referred to M.net customers and 0.3% referred to Quadro customers.

in thousands	2014	Growth rate	2013
Prepaid	1,092	-8.0%	1,187
Postpaid	149	27.4%	117
M2M	42	-3.5%	44
M.net	10	-6.2%	11
VPN	85	13.3%	75
Quadro	4	135.4%	2
Total	1,382	-3.6%	1,435

Total number of mobile telephony customers

Mtel has a 42.6% B&H market share in mobile telephony. The mobile telephony market in Bosnia and Herzegovina is characterized by the operation of three dominant operators and four MVNOs (service providers). Three MVNOs (Haloo, IZI mobile and Happy) are involved in the segment of prepaid services and are characterized by low prices of prepaid services, thus affecting the business of dominant operators. Blic net started its operations on 1 December 2013 as the only alternative operator which, in addition to fixed telephony service and Internet access, began to provide postpaid mobile telephony services.

M2M (Machine-to-Machine) customers refer to GPRS data, POiU and cash register users. The number of M2M customers decreased by 3.5% compared to the realization in 2013. The macroeconomic image of the market in Bosnia and Herzegovina has a large impact on the number of M2M customers, especially cash register users. The fiscalization process in the B&H Federation did

not significantly increase the profits, and therefore the projected values were not fulfilled. Apart from regular monthly disconnection for unpaid bills, as well as due to the closure of business facilities, there was a significant outflow of cash register users due to the process of removing the cash registers of small-size entrepreneurs from the records.

M.net customers include m:net, Homenet, Office net and Prepaid net customers. In 2014, the mobile telephony customer database was expanded with 2.5 thousand customers of Open quadro services. The total number of Open quadro service customers is 4,394 customers.

As for the number portability service provision in mobile telephony, there are 4,940 port-in subscribers in Mtel's network and 5,091 port-out subscribers, which is finally 151 customers less.

As at 31 December 2014, the number of **ADSL** customers (independent and as part of integrated service packages) totalled 124 thousand, that is 4.5% more as compared to the previous year. In 2014, a trend of migration of customers from ADSL packages to *Open* services was recorded.

As at 31 December 2014, the number of registered Dial up customers totalled 42 thousand.

in thousands	2014	Growth rate	2013
ADSL residential customers	112	4.1%	108
ADSL business customers	12	8.1%	11
Total	124	4.5%	119

Total number of ADSL customers

The Mtel B&H market share still grew in the segment of fixed **broadband access to the Internet** and it was estimated at 23.7% in 2014.

Mtel offered to all its 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).

Within Open duo, Open trio and Open quadro packages, Mtel has offered an **integrated service**

of fixed telephony, ADSL, IPTV and mobile telephony as a prerequisite for maintaining the fixed and mobile telephony customer base, an increase in ADSL customers and marketing of the new IPTV service. At the same time, the Open packages have 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 for the service package, offering free telephone traffic within Mtel's fixed network, free international traffic based on Flat fare-use principle, ADSL package with different access flow rates compared to independent ADSL, differentiated IPTV packages and mobile telephony service offering.

The Open duo service package is designed as a package that includes an integrated offer of fixed telephony and IPTV services, an integrated offer of fixed telephony and broadband Internet access via ADSL or an integrated offer of ADSL and IPTV services.

The Open trio service package is designed as a package that includes an integrated offer of fixed telephony, broadband Internet access and IPTV.

The Open quadro service package combines fixed and mobile telephony services, internet access and IPTV services. Integration of *postpaid* services and all charges in one bill has been made available to customers.

As at 31 December 2014, the number of customers of integrated service packages totalled 67 thousand.

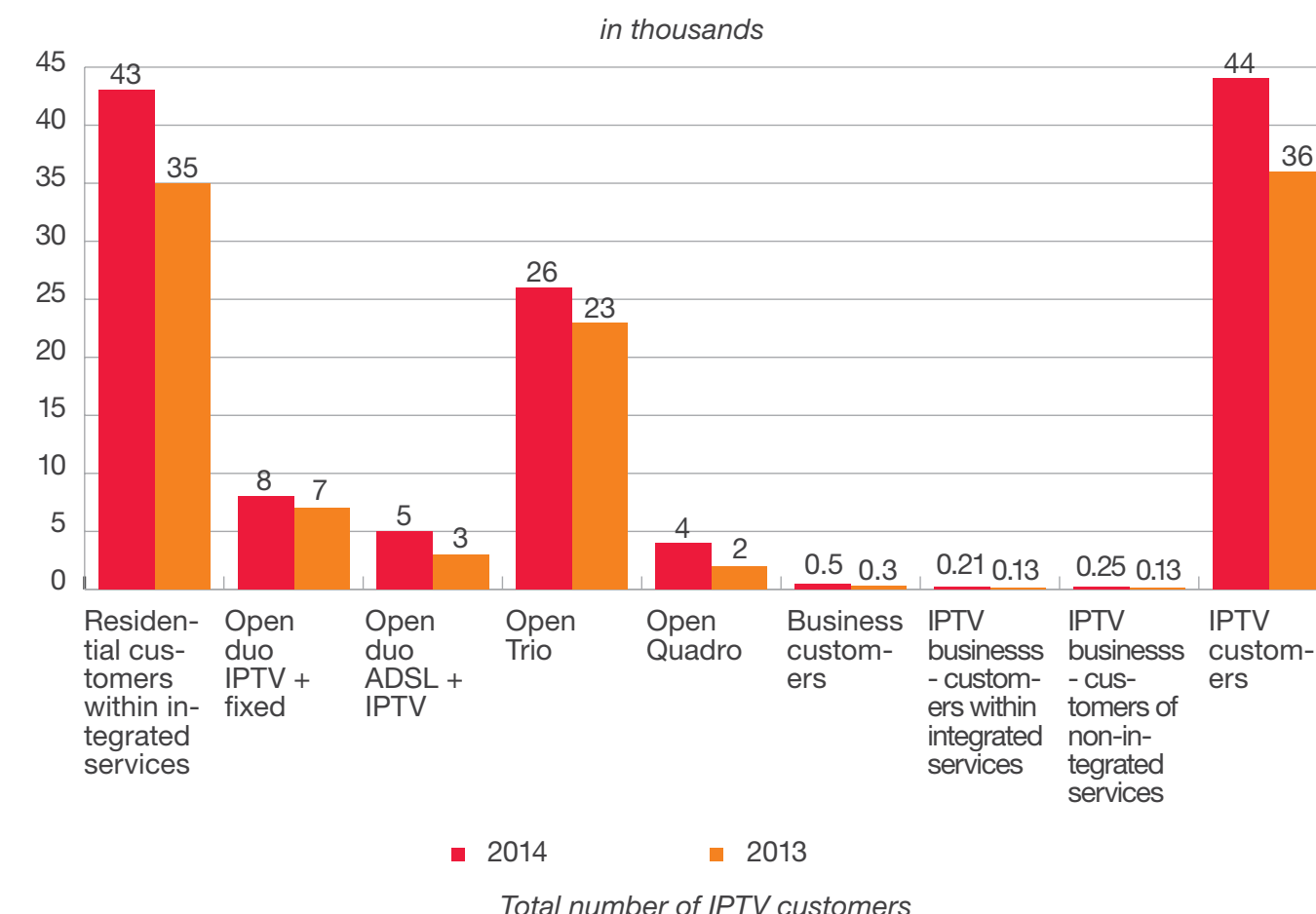
in thousands	2014	Growth rate	2013
Residential customers	67	18.6%	57
Business customers	0.22	73.0%	0.13
Total	67	18.8%	57

Total number of customers of integrated services

The total number of IPTV users (independent and as part of integrated service packages) as at 31 December 2014 amounted to 44 thousand.

in thousands	2014	Growth rate	2013
Residential customers within integrated services	43	23%	35
Open duo IPTV+fixed	8	12%	7
Open duo ADSL+IPTV	5	64%	3
Open Trio	26	11%	23
Open Quadro	4	135%	2
Business customers	0.5	78%	0.3
IPTV businesss - customers within integrated services	0.21	70%	0.13
IPTV businesss - customers of non-integrated services	0.25	86%	0.13
IPTV customers	44	23.1%	36

Total number of IPTV customers



mtel

The market share recorded at the end of December 2014 amounted to 28.14%, with a 163.43% 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 2014 was 6.3% higher compared to 2013.

The number of mtel's customers, at the end of 2014, amounted to 282 thousand, whereof *prepaid* customers accounted for 67% and *postpaid* customers accounted for 33% in the total number of mobile telephony customers.

in thousands	2014	Growth rate	2013
Prepaid	189	-0.6%	190
Postpaid	93	23.8%	75
Total	282	6.3%	265

Total number of mobile telephony customers

The customers of Biznet services account for more than half of the total number of postpaid customers (55.5%). The customers of Biznet services have special importance, above all because they are big companies, foreign representative offices and prosperous companies, which also stand as a recommendation for good business cooperation. Within this segment, there is a fierce competition, given that mtel is the third operator and that the competition in the market has already won the largest number of major customers. The growing number of Biznet customers in 2014 was achieved by virtue of a wide variety of add-on services (Autotrack, Observer, Internet access, GPRS packages, My View, WEB SMS, etc.) which serve to attract the major customers to migrate to mtel's network.

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	2014	Growth rate	2013
Customers using only fixed telephony services	0.48	14.8%	0.42
Customers using only Internet services	4.8	-8.3%	5.3
Combined customers (fixed and internet)	1.5	-15.2%	1.7
Total	6.8	-8.6%	7.4

Total number of Wimax customers

At the end of 2014, the total number of WiMax customers amounted to 6.8 thousand, which is 8.6% less compared to 2013.

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.

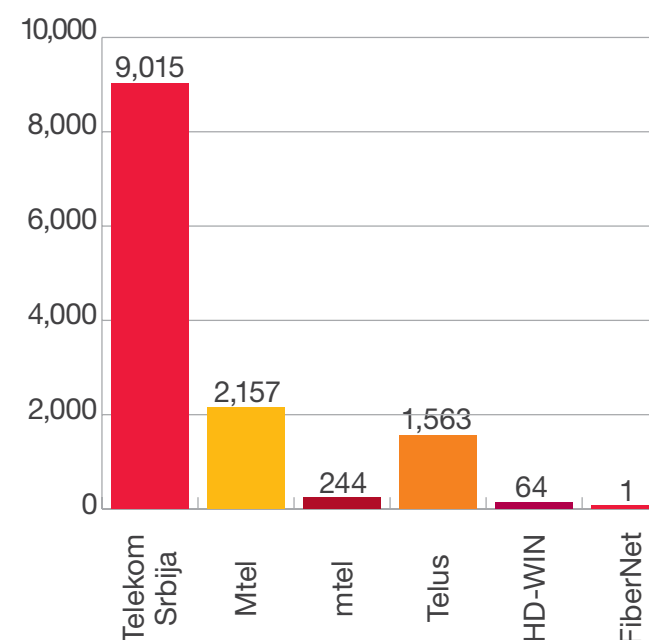
EMPLOYEES

PARENT COMPANY AND THE RELATED LEGAL ENTITIES

Employees

The total number of employees in the Parent Company and the related legal entities amounts to 13,044 including the employees that have a dormant employment status (21 in the Parent Company and the related legal entities), whereof the largest portion relates to Telekom Srbija a.d. Beograd (69.11%), 16.54% to Telekom Srpske a.d. Banja Luka, 1.87% to Telecommunications Company M:tel d.o.o. Podgorica, 11.98% to Telus a.d. Beograd, 0.49% to Telecommunications Company HD-WIN d.o.o. Beograd, whereas 0.008% to FiberNet d.o.o. Podgorica.

Owing to the nature of jobs, 6 employees of Telekom Srbija a.d. have been referred to work in the related legal entities, therefore they are presented both in the Parent Company and the related legal entities. The total number of employees in the Parent Company and the related legal entities as at 31 December 2014 is shown in the following graph:

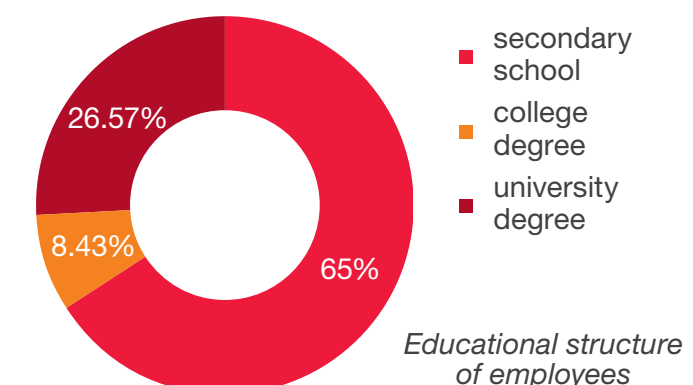


Besides the permanent and temporary employees in the Parent Company and the related legal entities, there is a total of 1,736 workers hired based

on various employment contracts (temporary and casual jobs, agency and mediation), whereof 51.04% in Telekom Srbija, 32.95% is hired in Telus, 10.08% in Telekom Srpske, 5.76% in HD-WIN, 0.12% in mtel, whereas 0.06% is hired in FiberNet.

By analyzing the educational structure of employees on the level of the Parent Company and the related legal entities, it can be noticed that the largest share belongs to the employees with secondary school education (65%), followed by university education (26.57%) where the total number includes specialists, master and PhD degrees.

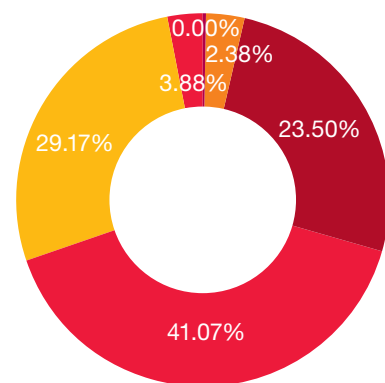
The smallest share belongs to the employees with two-year college education (8.43%).



As for the employees' age structure in the Parent Company and the related legal entities the largest share belongs to the employees aged between 40 and 49 (41.08%), followed by 50 - 59 aged employees (29.17%), 30-39 age group (23.5%), 60 and over 60 (3.88%), 20 - 29 age group (2.38%), whereas there are no employees up to 20 years of age.



Age structure of employees

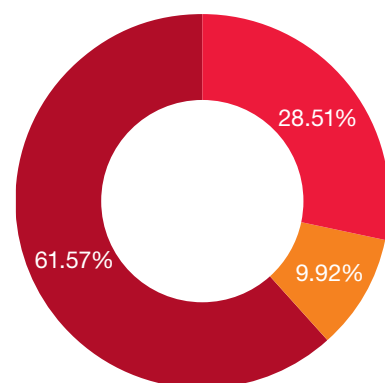


Age structure of employees

TELEKOM SRBIJA

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.

The total number of employees in the Company amounts to 9,015. In addition to the above number, as at 31 December 2014, 886 persons were engaged outside of employment contract for temporary and casual jobs. Out of the above number, owing to the nature of jobs, 4 employees have been referred to work in the related legal entities on a temporary basis.



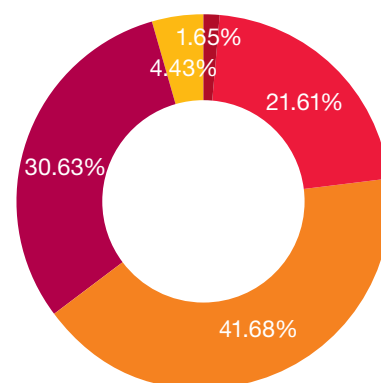
■ university degree ■ college degree ■ secondary school

Educational structure of employees

By analyzing the educational structure of employees on the Company level, it can be noticed that the largest share belongs to the employees with secondary school education (61.58%), followed by university education employees (28.51%), whereas the smallest share belongs to the employees with two-year college education (9.92%).

As for the employees' age structure, the largest share belongs to the employees aged between 40 and 49 (41.69%), followed by 50 - 59 aged employees (30.63%), 30-39 age group (21.61%), 60 and over 60 (4.43%), and the smallest share belongs to the employees aged between 20 - 29 (1.65%).

■ 20 - 29 years of age	1.65%
■ 30 - 39 years of age	21.61%
■ 40 - 49 years of age	41.68%
■ 50 - 59 years of age	30.63%
■ over 60 years of age	4.43%



Age structure of employees

EDUCATION

External education in the country and abroad

In 2014, a total of 2,162 employees were referred to external education in the country and abroad, who had 7,108 training days that accounts for approximately 3.29 days per attendee.

The external educational events in the country were attended by 967 beneficiaries, whereof 130 employees were sent to referential seminars, 274

to training and seminars, 125 to law-mandatory training, 75 to business skills training, 132 to *teambuilding* and 231 employees to managerial skills courses. The attendees spent 2,441 training days in the country, which accounts for 2.52 per attendee.

In accordance with the agreements on teaching English concluded with external language schools - Zadužbina Ilije M. Kolarca for Belgrade and NS PRO for Novi Sad, Niš and Kragujevac, in 2014 the English language course was held for 229 employees attending group lessons and 41 employees attending individual lessons, who had 1,053 training days, which accounts for 3.9 days per attendee.

Educational events abroad were attended by a total of 286 employees, whereof 177 attended conferences, congresses and seminars, 61 attended the training in operating the equipment according to the contracts concluded with suppliers, 32 attended forums, 10 attended vocational training and workshops and 6 employees visited fairs. The attendees spent 1,490 days abroad, which accounts for 5.21 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 14 or 24 months. The number of employees having the contractual obligation as at 31/12/2014 amounts to 1,004 (936 for training in the country and 68 for training abroad under the contract concluded with suppliers), whereof, in 2014, there were 656 beneficiaries with active contracts, i.e. 597 for training in the country and 59 for training abroad.

In 2014, 639 training beneficiaries under the contract concluded with suppliers (with/without contractual obligation) spent 2,124 training days in the country, which accounts for 3.32 days per attendee, whereas 61 training beneficiaries under the same contract spent 286 training days abroad, which accounts for 4.69 days per attendee. The training beneficiaries under the contract concluded with suppliers spent a total of 2,410 training days, which accounts for 3.44 days per attendee.

In-house training

In 2014, the Training Centre in the Human Resources Division organized in-house training attended by a total of 969 employees, whereas vocational education was attended by 618 participants, 287 employees attended professional skills training, 64 employees attended the English course (39 - group lessons, 25 - individual lessons with department managers), and 52 employees had *e-learning* training programs. The attendees spent 3,077.54 days on in-house training, which accounts for 3.18 days per attendee (excluding the attendees of *e-learning* training programs because it was not possible to calculate the number of days).

The number of internal and external education beneficiaries in the country and abroad totals to 3,131 who spent 10,185.54 days on training, which accounts for approximately 3.25 days per beneficiary.

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 31/12/2014 there were 44 active contracts (7 for the 1st grade vocational studies, 6 for the 1st grade academic studies, 9 for master studies, 4 for the 2nd grade vocational studies, 10 for MBA studies and 5 for postgraduate, PhD and specialist academic studies). In 2014, 20 new schooling contracts were approved, as follows: 4 for the 1st grade vocational studies, 6 for the 1st grade academic studies, 3 for specialist vocational studies, 2 for master studies, 2 for PhD studies, 3 for EMBA studies, whereas 3 contracts were terminated and 27 approved studies were completed.

Licences, certificates, membership

In 2014, the Company financed different types of licences, certificates, professional exams and

membership fees for total of 686 employees, as follows: the Engineer Chamber membership renewal for responsible designer and contractor licenses for 515 employees, acquiring of new licenses for 18 employees, vocational exams for 8 employees, acquiring of CISCO and other vocational certificates for 49 employees, bar examination for 1 employee, GIAC membership for 3 employees, PMI membership for 37 employees, PMP re-certification for 21 employees, ICV membership (Controlling Association of Serbia) for 1 employee, the Association of Accountants and Auditors membership for 20 employees, the Chamber of Certified Auditors membership for 1 employee and vocational exam in the sphere of health and safety at work or risk assessment for 6 employees.

Practical training

In 2014, practical training in the Company was done by 95 university students and 426 high school students. In accordance with an Agreement on Cooperation signed with the Ministry of Youth and Sports, the Company provided summer practical training for 5 beneficiaries of the Fund for Young Talents and organized a workshop for the beneficiaries of the Fund for Young Talents. For the purpose of organizing practical training in the Regions, an Agreement on Cooperation was signed with the University of Kragujevac.

Assessment of the employees' work performance - AWP for the period from 1 July 2013 to 30 June 2014

The procedure of Assessment of Work Performance for the period from 1 July 2013 to 30 June 2014 was conducted on a sample of a total of 9,707 employees of all organizational units. As an exception, due to the specifics of the previous business year marked by the implementation of the new organization of the Company, the procedure was carried out in mid-2014, in accordance with the new Decision on adoption of AWP methodology.

Assessment of the managers' development potentials and managers' development planning

In cooperation with an external consultant, a project was created and implemented relating to the assessment of the development potentials of 88 managers with special powers and responsibilities (function and department managers) and preparation of individual development plans for the assessed managers of all management levels. The assessed managers were provided with verbal feedback, reports on assessment and a catalogue of basic and specific (per business function) managerial competencies were created, as well as individual development plans for all assessed managers were prepared.

Recruitment and selection

In 2014, the Company engaged 50 external candidates of the total of 321 external candidates involved in the selection procedure (the highest percentage of engagement refers to jobs with a high rate of fluctuation - operator and sales jobs).

Pursuant to internal advertisements, 27 employees were assigned to new positions – based on internal selections performed with 190 employees. Pursuant to the analysis, it can be concluded that the number of advertised positions in 2014 was 60% higher compared with the previous year, whereas the percentage of new assignments was 44.26%.

In cooperation with the Residential Customers Division, a pilot project was conducted with the aim of making a desirable set of competencies for the sales agent position. As a result of the research, basic criteria were defined as a basis for the assessment of external candidates for the recruitment and selection process for the aforementioned jobs.

Employees' benefits

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 in 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. ½ of the average gross salary for 10 years, 2 average gross salaries for 30 years and 3 average gross salaries for 35 years. In 2014 the jubilee awards were granted to 1,088 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 2014 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. In 2014, a total of 302 applications were filed and the insurance companies reimbursed the insured sums for 186 employees and members of their close families, whereas 116 applications were rejected.

Voluntary Retirement Insurance Program

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

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 514 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 39 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 1,817 employees, health rehabilitation for 419 employees and recreation for a total of 111 employees.

Gifts for 8th March

In 2014, on the occasion of 8th March, 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 2014, 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 2015.

Implementation of the policy of harmonization of relations with employees

All employees in the Company have at their disposal expert teams of lawyers, psychologists and social workers in terms of labour, legal and psychological counselling. In 2013, texts were published on the company website – short professional topics and the latest news in the domain of labour law, and responses to the requests and questions were continuously e-mailed to the employees and they were also informed by phone within the Labour and Legal Counselling section. In 2014, within the psychological counselling, 37 employees' requests were fulfilled and 24 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 2014, a total of 2,155,069 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 10 corporate bulletins were issued.

Mtel

As at 31 December 2014, Mtel had 2,157 employees, which is 6 employees less compared to the end of 2013. Out of the total number of employees, two employees with dormant employment status in the Parent Company have been referred to work in Mtel on a temporary basis.

As for the educational structure of Mtel's employees, the largest share belongs to the employees with secondary school education, i.e. 38.52% or 830 employees, whereas university education accounts for 34.48% or 743 employees.

According to the age structure, the largest share of the total number of employees belongs to employees between 41 and 50 years of age who account for 37.17%, and employees between 31 and 40 years of age who make up 30.26%.

In 2014, a total of 74 individuals were engaged in Mtel on an employment contract, while a total of 80 employees had their employment contracts terminated, of which 30 contracts were cancelled according to the agreement between the Company and employees with the severance pay - stimulating severance payment.

In the sphere of education, the development of the management competencies has continued, in accordance with the previously held training programs and activities set forth in the Strategic guidelines. Putting the focus on the importance of adequate employee management, as the most important company value, training was also organized in the process of implementing a new payroll system, aimed at: raising awareness of the importance of high quality management

in achieving the organization's goals and greater satisfaction, motivation and loyalty of employees, understanding the importance of management functions, becoming aware of the importance of the assessor's role and the importance of compliance of the most important activities with strategic objectives, as well as adequate determination of key performance indicators (KPI). By developing these competencies, the Company shows its consistency in order to be a leader in the region when it comes to monitoring and implementing the contemporary trends of the positive business practice.

The Company's orientation towards customers is reflected in the constant effort to improve the skills of employees working in a direct contact with customers. Bearing in mind that in the complex contemporary demands it is possible to retain customers and develop a long-term relationship, primarily (and maybe only) through high quality services, training was aimed at: learning how to develop service provision as a competitive advantage, understanding the importance of the successful salesman image and what it means, understanding and accepting the importance of harmonizing the job requirements with personal values, recognizing personal characteristics and possibilities of using personal resources to the greatest extent, learning which sales strategies are applicable in relation to the type of customer and providing the efficient collection through the structural approach.

A project was initiated in November: Organizational structure diagnostics and defining of corporate values, as part of an initiative for enhancing the employees' commitment and motivation. The defined corporate values that the employees follow are a basic prerequisite for a unified team and a clear position of each of the employees in the company.

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 project for the introduction of a new payroll system has been almost completed and

approved by the Company executive board, and it will be applied from 1 January 2015.

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 an agreement on takeover. 33 public announcements were published, 39 agreements on takeover were concluded and a total of 158 persons entered into employment contracts. A personnel data base was created along with the personal files of employees. In addition to the above said, the procedure of registering all employees in the Funds for healthcare and retirement and disability insurance was made and input of data into the HR database through Navision application was ensured. 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 above said, a Collective Agreement was signed between the employer and the representative Trade Union in 2011.

The number of employees has constantly changed, to reach 244 employees at the end of 2014.

As for the educational structure of mtel's employees, the largest share belongs to the employees with university education (46.31%) or 113 employees, whereas secondary school education accounts for 45.49% or 111 employees.

As for the employees' age structure, the largest share belongs to the employees aged between 30

and 39 (57.79%), i.e. 141 employees, followed by 40 - 49 aged employees (21.31%), i.e. 52 employees.

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

In addition, the activity related to Manage services was initiated and implemented, whereby 34 employees of the Technical Affairs Department and 2 employees of the Marketing, Sales and Customer Care Department will be referred to work in Ericsson from 1 February 2015.

The number of mtel's employees as at 31 December 2014 was 244 and two persons were engaged outside of employment contract.

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 23 July 2009 whose validity was extended by agreement no. 4426 of 29 June 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 2014, Telus had 1,563 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.

After Telekom Srbija had joined the Telecommunications Company HD-WIN, the reorganization and systematization of the entire production process within the company was performed and business standards were established. 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 2014, HD-WIN Belgrade had 52 persons engaged on an employment contract and 85 outside of employment contract (technical staff, reporters and production), while HD-WIN Arenasport – Zagreb had 12 persons engaged on an employment contract and 15 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 with Delta Generali.

REPORT ON CORPORATE AND SOCIAL RESPONSIBILITY

Our Common Goal - Change for the Better!

Since their establishment, Telekom Srbija and its subsidiaries have been trying to act as responsible and reliable partners of the communities wherein they operate. When socially responsible operation represents a part of the main corporate strategy, when the goal is to improve the entire society and have positive changes at all levels, both for our employees and other citizens, then the operational guidelines are very clear: responsible approach to business, welfare of our employees and long-term projects aimed at community engagement and well-being of the society as a whole.

As a reliable corporate stakeholder, Telekom Srbija strives to deal with its partners by strictly adhering to the principle of transparency and respect for the fundamental ethical principles, to achieve mutual success. The cooperation with business partners continually expands the customers' network, notwithstanding the profit gained, while the Company invests efforts in sharing with them the corporate values deeply rooted into its business. Above all, those are goal-orientation, innovativeness and enthusiasm when seeking solutions.

Presence in the regional markets in the field of telecommunications helps to strengthen the ties with all the Company stakeholders. As a company with a Functional Strategy of Corporate Social Responsibility, Code of Corporate Management and the Code of Ethics, in addition to the legally prescribed disclosure of financial statements, the Company has clearly set guidelines in order to improve the adoption of "green initiatives", consumer protection, to observe anti-corruption principles and be committed to social changes. Telekom Srbija is a member of the UN Global Compact and the Responsible Business Forum, bringing together companies with a prominent strategy in the domain of social responsibility.

Results of such efforts were crowned by a series of awards, in particular the *Business Partner Plus 2014*

award, for the highest level of social responsibility and care for the local community, as well as the acknowledgments such as *Best Business Partner 2014* for the first rate business associate and *Danube Flower* for contribution to the development of telecommunications in the region, positioning the Company among the most successful companies in all aspects.

By applying globally recognized business standards, **Mtel** has demonstrated that it is side by side with the world's best companies, and it was granted the prestigious *Hall of Fame* award in Boston, for exceptional achievements in the implementation of business strategies according to the Balanced Scorecard (BSC) methodology. The international regional *Best Manager* and *Best Company* award in 2014 was presented to the director general Goran Vlaović and Mtel at a traditional event organized by the Agency to select the best managers of Bosnia and Herzegovina, Southeastern and Central Europe.

Help in Need

In May 2014, the entire region in which the Company and its related legal entities operate was hit by massive floods causing damage to the infrastructure, as well as to private and public property. The Company immediately engaged in reestablishing operation of the discontinued telecommunications traffic in order to enable communication during crisis. The Company teams worked in the field around the clock and they collaborated constantly with the crisis staff with the aim to re-establish telephone traffic in the affected areas as soon as possible.

The requirement to provide communication, in order to coordinate rescuing people and defending vulnerable areas, proved to be the primary task for the Company employees. Mobile power units were engaged to allow operation of the Company's base stations and, where possible, the base stations of other two mobile operators were also connected to these power units, to improve performance of all three networks. Crisis staffs in Serbia were granted the use of satellite phones and a large quantity of cell phone chargers, SIM cards and cell phone handsets was given to them. The calls from all three networks to the number 112 were redirected to the numbers of the Crisis Staff. In addition, free use of

the Internet for social networks Facebook and Twitter via cell phones was enabled during the emergency situation because it was shown that communication via social networks could contribute to the prompt and adequate reaction of citizens and relevant authorities. The Office for Flood Affected Areas Assistance and Recovery was donated 10 laptops, and a humanitarian SMS number 1003 was activated to collect funds to help those in need, through which mt:s network users donated 79,724,500 dinars until 31 December 2014.

As first aid, the Company paid five million dinars to a dedicated account of the Government of the Republic of Serbia for assistance to the affected population. In addition to individual donations of money and food, the Company employees collected more than 16.7 million dinars, paid to a dedicated account of the Government of Serbia for assistance to the areas affected by floods. In cooperation with the Ministry of Health, number 0800-222-333 was activated, through which people could be receive instructions on how to act in an emergency situation during and after a flood, as well as information on the cleaning, instructions on how to deal with food items, food preparation and personal hygiene, along with instructions related to professional and medical help.

To help its customers who faced the consequences of the devastating floods, the Company reduced subscription fees for the telecommunications services it provided, and users of the above services in Obrenovac, Krupanj and Jamena were exempt from paying the subscription fee for May.

Mtel was also engaged in assisting the flooded areas, first by awarding funds to the Government of the Republic of Serbia for the most vulnerable, followed by a donation for the purchase of mattresses, blankets and pillows. In addition, the humanitarian number 1458 was activated to collect aid for the flooded, and short numbers were assigned to hold donor dinners and raise funds for the same purpose. Mtel also allocated funds to aid the employees whose households were damaged in the floods, and employees likewise collected funds to help their colleagues. In addition, Mtel was the golden donor of funds to restart small businesses affected by the floods.

The **mtel** company donated as well funds to cover the consequences of a difficult situation for those threatened by floods in the area of Serbia and Bosnia and Herzegovina. Furthermore, it opened a donor line

14543 for all mtel prepaid and postpaid customers, to collect aid for the flooded.

Park Your Phone When Driving!

The *Park Your Phone When Driving!* campaign, launched by the Company in 2013, in cooperation with partners - the Traffic Police Department of the Serbian Interior Ministry and the Serbian Traffic Safety Committee, continued in 2014 with a series of lectures – held in Belgrade, Kragujevac, Požarevac and Novi Sad – related to the responsible use of cell phones while driving, for the purpose of demonstrating to high school students the dangers of driving while using a cell phone in any way.

The *Park Your Phone When Driving!* campaign encountered general public support, winning a number of awards: three awards of the Serbian Association for Market Communications for the best non-profit campaign, best video clip and best digital communications in a campaign, the *Power of Creativity* award presented by the *Taboo* magazine for the best CSR project, the award for the best non-profit campaign and the *World Tour* prize at the *AdEaters* event, two awards of the Serbian Society for Public Relations for the best PR in integrated communications and the best socially responsible campaign, the *My Choice* prize for the best CSR by the *My Serbia* Association, as well as an award from the *Auto Bild* magazine in the same category. It was evident that the campaign had crossed Serbian borders from the fact that, at the invitation of the Science and Industry Museum from Paris, the TV video clip for the *Park Your Phone When Driving!* campaign was presented at their exhibition on risk taking.

The public opinion poll showed that the campaign *Park Your Phone When Driving!* was evaluated quite positively. Of the total number of respondents, 70 percent were familiar with the campaign, and 40 percent of that number had changed their habits behind the wheel, whether by starting to use a hands-free device or by not using a cell phone while driving at all.

City Talking

By launching the *City Talking* project, through innovative use of digital media the Company primarily sought to achieve wider acceptance of the

modern communication forms that offer a variety of opportunities in different fields. The project envisages development of mobile applications for the major cities in Serbia and accompanying environmental entities, in order to present in a modern and easy manner their most significant cultural and historical sites. Application development included involvement of partners in the local communities, in particular the tourist organizations that naturally tend to present city sites in a way that is accessible to today's guests, visitors. After Belgrade and Novi Sad, with the accompanying contents related to Avala and Petrovaradin, the *Niš Talking* application was developed in 2014, while the Novi Sad guide was extended to include a special route - *Sremiski Karlovci*. This added 65 new locations to the map of the *City Talking* project in those two cities.

Through the innovative application *Montenegro Talking*, **mtel** continued affirmation of Montenegro's tourist offer, leading users in a simple, fast, fun and educational way to the most important tourist sites in Montenegro and bringing a whole new perception of the offer, of its cities, historical and cultural sites. The application was translated into English and Russian, and it was particularly promoted during the summer tourist season through a *Facebook* photo contest.

Health is the Greatest Wealth

The strategy of the Company is to aid healthcare institutions, in an effort to spread the benefits from corporate philanthropy throughout the population. Thus, in 2014 four operating tables were acquired for the Clinic for Cardiac Surgery and Transplantation in Niš, while funds were donated to the Niš Clinical Center for a computer system that improves work with patients of the Clinic for Children's Internal Diseases. During 2014, the financial support of the Company was granted to the Special Hospital *Sveti Vračevi* from Novi Kneževac, Pančevo General Hospital, Valjevo General Hospital, Vranje Health Center, where the maternity ward was updated, and Leskovac General Hospital, which acquired a new bronchoscope and the necessary equipment for ECG. The Company had also previously provided free IPTV in the public areas of the Clinical Center of Serbia, *Zvezdara* Clinical and Hospital Center, University Children's Clinic in Tiršova St., *Dr Vukan Čupić* Institute for the Health Care of Mother and Child and Special Hospital for Cerebral Palsy and Developmental Neurology in Sokobanjska St.,

thus ensuring better quality and more comfortable accommodation of patients as their health condition improves.

In 2014, **Mtel** as well allocated funds to support health care by donating to the Srbac Health Center funds for the purchase of a biochemical analyzer for hormonal tests, by buying a new power unit and providing funds for reconstruction of premises in the surgical building at the University Hospital of the Banja Luka Clinical Center. On St. Nicholas Day, gifts were handed out to the children residing at *Dr Miroslav Zotović* Institute for Physical Medicine and Rehabilitation, to the inmates of *Rada Vranješević* Home for Children and Youth without Parental Care in Banja Luka, as well as to the children at the *Venerable Eugenia, Empress Milica* preschool institution in Trebinje. By helping to mark the World Down Syndrome Day, Mtel extended the hand of friendship to the *Svetlice* Children's Educational Center in Banja Luka.

Humanitarian Organizations of Employees

Within the Company operates the *From the Heart* humanitarian association, which gathers voluntary blood donors among employees and former employees of Telekom Srbija. As the number of the association members has been growing, the scope of its operations has been increasing too: in addition to massification of the voluntary blood donation, the association promotes organ donation, environmental protection, assistance to orphans and the disabled, as well as a commitment to change habits regarding preservation and use of natural resources.

On the occasion of the Telekom Srbija Day, June 1, the *From the Heart* Association traditionally organized a voluntary blood donation, entitled 1,000 Blood Donors, all over Serbia, collecting over 1,300 units of blood. Members of this association were engaged in helping people affected by the floods. They delivered large quantities of bottled water and food in the area of Obrenovac and Užice, and representatives of the Association delivered water to the *Poletarac* kindergarten, as well as to their colleagues in Užice, wishing to give their contribution in the time of need.

Within **Mtel** company there is likewise the Voluntary Blood Donors Association, a corporate association promoting humanity through personal example,

which the Mtel company supports and strives to assist in its work.

Communication without Borders

In an effort to provide equal access to the company services for all its customers, throughout 2014 the Company continued the project related to the sign language training for employees in outlets, which began in 2013. The completion of training in Niš simultaneously represented the completion of the entire project, which was participated by a total of 85 employees in outlets throughout Serbia.

The Company decided to treat the schools for hearing-impaired children with interactive boards and the equipment required for lectures given in the applicable manner, thus facilitating adoption of knowledge by hearing-impaired persons.

The project related to sign language training for employees in outlets was launched in cooperation with the Serbian Association of Interpreters for Hearing-Impaired Persons (UTLOSS). There are more than 50,000 persons with impaired hearing in Serbia, who use the sign language in everyday communication. They will be able to obtain the necessary information independently and without intermediaries at all the most frequented Company outlets in the country.

Following the project in Serbia, at its sales points in ten cities of Bosnia and Herzegovina, **Mtel** enabled the hearing-impaired persons to obtain all the service-related information without a third party's assistance, by communicating in sign language.

Since the company's motto is *Mtel - You've got Friends*, a whole month of 2014 was dedicated to friendship. Thus August became the Friendship Month, when all customers were invited to declare the greatest wish of their friends that they are unable to fulfill themselves, and they know it would improve their life. During that month 13 of the most beautiful wishes were fulfilled.

Professional Practice for Scholars

A professional workshop on the activities and services of Telekom Srbija marked the beginning of professional practice in the Company for the beneficiaries of the Young Talents Fund.

During the summer, professional practice was done by 6 beneficiaries of the Fund, two of whom are engaged in the Company. This project is a result of the Cooperation Agreement that the Company had signed with the Ministry of Youth and Sports of the Republic of Serbia in July 2013. Based on the Agreement, in the next four years ten eligible students of the Young Talents Fund will have the opportunity to do professional practice in the Company under the supervision of their mentors for a two-month period.

In 2014, **Mtel** launched a competition for the fifth generation of *m:scholars*. Scholars of the Company are the best students of the Faculty of Electrical Engineering and Information Technology from six BiH faculties, and just like in the previous four generations, in the current year 25 new scholars have the opportunity to gain a month of professional practice in the company in addition to the monthly amount of the scholarship.

mt:s Android™ Competition

In June 2014 Telekom Srbija opened the fourth mt:s Android competition for development of mobile applications for students of the specialized high school classes that are thought according to the program for mathematical grammar schools. In addition to the Mathematical Grammar School in Belgrade and the *Jovan Jovanović Zmaj* Grammar School in Novi Sad, whose students had previous experience with the competition, this year the competition has been expanded to include the First Kragujevac Grammar School, the Bolyai Grammar School of Senta and the Valjevo Grammar School. Presentations of the competition were held in these schools during September, and the finalized works were before the Telekom Srbija jury in December.

A visit to the World Mobile Congress in Barcelona was planned for the winning team, while tablets and smartphones were the second and third prizes. Furthermore, Telekom Srbija provided placement of all the functional applications on the Google's application market for mobile devices, Google Play.

In the fourth mt:s Android competition, an additional category and innovation award was added to the existing awards, entitled *Power of Innovation - Igor Osmokrović*, as a tribute to the late colleague who had made a great contribution to the development of this competition.

Mtel successfully completed the *App Builder League* project during 2014, a competition in developing applications for mobile devices aimed at promoting and rewarding unique and fresh ideas, as well as expanding the base of useful applications for all users of the new generation phones in BiH.

Support to Young Talents and Education

On the way to new discoveries, support has traditionally been given to the young mathematicians, physicists, computer scientists - participants of numerous international competitions in several scientific disciplines. Long-term cooperation with the Mathematical Grammar School in Belgrade continued in the school year 2014/2015. This time as well Telekom Srbija enabled students' participation in the *Archimedes* International Competition in Bucharest, Mathematical All-round Competition in Moscow, International Competition in Mathematics, Physics and Information Science in Kazakhstan and Euler's Olympiad in St. Petersburg, wherefrom they returned with remarkable results. Supported by the Company, students of the *Svetozar Marković* Mathematical Grammar School from Niš traveled to the International Mathematics Tournament of Towns. The Company's support was not lacking either when it came to organization of the Mathematics and Computer Science Camp in Šabac, and Mathematics Camp in Tulba near Požarevac, which were also attended by the employees' talented children.

In the course of 2014, the Company continued its participation in the *Business Challenge* project, organized by the Junior Achievement Serbia NGO, by endorsing the *Western Balkans Business Challenge* competition held in Sarajevo and implemented in cooperation with the colleagues from Mtel. On the basis of cooperation with Junior Achievement, the Company received the Virtus Award in the category of long-term partnership of the business and non-profit sector in 2013.

Thanks to a donation received from the Company and an open Competition for the preliminary architectural design of the library interior, won by a team of students, the library of the Institute of Molecular Genetics and Genetic Engineering, University of Belgrade, was completely remodeled and turned into a modern multimedia reading-room for employees and students.

For several years the Company has successfully cooperated with student organizations ESTIEM and AIESEC through their local offices in Belgrade. This cooperation is maintained during the scheduled annual

events staged by these student organizations, *Case Study Show*, the *Academy of Modern Management* and *Open IT*, in which the Company employees participate voluntarily in an effort to transfer to students the knowledge and experience gained in the business environment through lectures.

Mtel is always present where knowledge is to be supported, and thus, by donating valuable equipment for the computer center, it continued its traditional cooperation with the Faculty of Electrical Engineering in Banja Luka. The project with the motto *Every School Needs a Piece of the Web* enabled students of all the elementary schools in BiH to design and launch an official school site free of charge. Mtel has also provided assistance to the *Mathematics Days* event, dedicated to one of the oldest natural sciences and its relation to other related sciences.

The **mtel** company actively contributes to the better quality of education in Montenegro through numerous activities and cooperation with elementary and high schools and higher education institutions. The best of all Montenegrin high school graduates, a total of 143, were awarded limitless Internet access for a period of one year, while 53 torchbearers of the Nikšić Grammar School received a phone as a gift. In 2014, mtel continued supporting the *Knowledge Factory* project, which takes during the *Open Science Days* and represents the central event of the manifestation traditionally organized by the Ministry of Science of Montenegro.

The Legacy of Mihajlo Pupin and Nikola Tesla

In 2013, Telekom Srbija was among the first to join the celebration of the 160th anniversary of the birth of Mihajlo Idvorski Pupin, a brilliant scientist and a great patriot, as well as to mark 90 years since he won the Pulitzer Prize for his autobiography, *From Immigrant to Inventor*.

The jubilee celebration began by a presentation of the *Mihajlo Pupin Virtual Museum* and a virtual 3D presentation of his hometown complex in Idvor. This way, together with the *Mihajlo Pupin* Educational Research Society, it was possible to introduce the rich heritage of the famous scientist to the entire national and international public.

In addition, the Company awarded the best works in the literary competition held in cooperation with the *Mihajlo Pupin* Educational Research Society and the Ministry of Education, Science and Technological Development, launched in the elementary and high schools in Serbia.

All works are to be found in the permanent exhibition of the *Mihajlo Pupin Virtual Museum* on the site www.mihajlopupin.rs.

Wishing to contribute to preserving the memories of another great scientist, the Company supported the *Nikola Tesla Secret Connection Summit*, organized on the occasion of the Nikola Tesla's birth anniversary. That event, which brought together a number of distinguished lecturers from all over the world, along with talented students from the country and abroad, dealt with topics that shed light on Tesla's contribution to the advancement of modern civilization in the areas of communications, telecommunications, energy, innovation, culture, art and philosophy of creativity, in step with development of environmental awareness and responsibility as an integral part of the industrial development of the global society.

Support for Projects in the Field of Culture

Telekom Srbija strategically assists culture and art projects, based on the fact that a broad institutional and continuous support is required for superior achievements in those fields. For years, the Company has been cooperating with the Kolarac endowment, a cultural institution of national importance, on the *Great Music Performs program*, within which they represented the most important performers of classical music from around the world. In 2014, the cooperation was expanded by the joint project entitled *From a Child to a Great Artist*. Within this cooperation a program was successfully related to music workshops for children aged 5-12, entitled *Knock Knock Kolarac*. The workshop was attended by youngsters temporarily housed in the Obrenovac barracks, students of the Vuk Karadžić elementary school from Belgrade, children from the *Dragutin Filipović Jusa* Home for Children and Youth, children of the Telekom Srbija employees, youngsters from Lazarevac, and other preschool and elementary students who had the opportunity, using construction tools, to create tones that later grew into a piece of music and a regular little concert.

Within the project entitled *From a Child to a Great Artist*, during the autumn there was a competition opened for the creation of scientific papers and a series of lectures was organized for high school students and young academics.

The company traditionally supports the *Nušić Days* cultural event in Smederevo, and last year it was

among the first to be involved in the renovation project of the Boško Buha children's theater, providing funds for the purchase of new chairs for the Great Hall. It also supported the exhibition entitled *Hidden Treasure of Jevrem Grujić's House*, which shows the restored art collection from the legacy of this great man.

Along with support given to the traditional values, the Company strives to follow the modern trends too. Among the supported projects were the *Belgrade International Architecture Week - BINA 2014*, *Children's October Salon*, *EyE of Serbia*, an exhibition dedicated to Olga Jevrić at the Museum of Contemporary Art in Novi Sad and the *American Pop Art* exhibition, where the audience had an opportunity to view the graphics collection of the most famous American pop art representatives.

Telekom Srbija facilitated the Belgrade Philharmonic Orchestra's grand tour of America. This visit was evidenced by the exhibition *Belgrade Philharmonic Orchestra: American story*, presented in the new building of the Yugoslav Film Archive.

Mtel also invests in the development of culture by collaborating with the national institutions at the highest level. Thus one of the oldest institutions and major tourist destinations of Banja Luka - Museum of Republika Srpska, in 2014 received a friendly assistance by Mtel, giving free entrance to all those interested. In addition, Mtel traditionally supports cultural events such as *Vlada S. Milošević Days*, *Petar Kočić* theater fest, as well as institutions of national importance: the National Theatre of Republika Srpska, Theater Puppets Museum, Children's Theatre of Republika Srpska in Banja Luka, as well as the Kozara Museum in Prijedor where an exhibition was opened within the regional project entitled *Mines of Culture - from the Industrial to the Artistic Revolution*. In 2014, Mtel supported the allocation of the *Srdjan Aleksić* journalistic award, for professional reporting about marginalized groups in BiH.

As a friend of the *St. George Day Festival* (Đurđevdanski festival), participated by children from Bosnia and Herzegovina, Serbia, Croatia, Hungary, Bulgaria, Russia and Italy, Mtel invited on that occasion the most creative visitors of the festival's Facebook page to upload short video clips involving youngsters who sing or dance, and the most interesting video clip was awarded a phone.

The **mtel** company likewise follows a strategy of investing into culture. The company celebrated its

seventh birthday by donating musical instruments to the orchestra of the Union of the Blind of Montenegro, which held a concert on the Day of Persons with Disabilities. In addition to culture, Mtel assists institutions of importance for cultural heritage such as Matica Srpska, which implements numerous cultural and scientific projects.

A Sound Mind In a Sound Body

Through cooperation of Telekom Srbija with the *Holy Serbia Orthodox Sports Society*, successful results were achieved in the development of children in different sports disciplines. Holy Serbia currently gathers three hundred children and has teams for basketball, football, volleyball and hiking. Through free mentoring and influencing the physical and spiritual development of children its founders want to create a strong alternative to increasing challenges faced by the children in the modern age.

With the aim to develop in young people a feeling of fair play, sportsmanship and teamwork, within the promotion of the *Teren* (Terrain) social network the Company organized sports days in Belgrade, Kraljevo and Niš, where young people had the opportunity to practice various sports activities throughout the day. In addition, the Company employees used the visit to Kraljevo and Niš to provide additional contribution to the development of recreational and amateur sports - renovation of the gymnasium at the *IV kraljevački bataljon* elementary school in Kraljevo and purchase of sports equipment for the 14 October special school in Niš, would create conditions for better quality sports practice among the children who may be harboring new champions.

By building an atmosphere of affirmation of positive values during 2014, **Mtel** supported many sporting activities and events in BiH, including the Wildwater Canoeing Junior European Championship, entitled *Banjaluka-Vrbas 2014*.

Environmental Protection

The strategy of socially responsible operations is a relevant part of the corporate strategy of Telekom Srbija, aimed at establishing a balance between achieving economic interests, social development, environmental protection and the preservation of natural resources. The Company 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 to use resources in a responsible, conscientious and wise manner, to invest in sustainable development and thus repay their debt to society and the community. Accordingly, 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 condemns illegal and unbecoming behavior applied to achieve business goals, which it pursues exclusively with the quality of its products and services. The Company keeps the market, suppliers and the public informed about the activities of the Company, observing fair competition, because it believes this to be in its own interest and in the interest of its users and capital owners.

The Company undertakes measures to protect the environment by adopting environmentally-oriented technologies and methods with the aim of reducing negative impacts on the environment. While conducting its activities, it takes into account environmental aspects, such as the rational energy consumption, prevention of waste generation, proper waste disposal and recycling. By investing and applying state-of-the-art telecommunications technology the Company contributes to the implementation of clean technologies and technologies consuming less energy as compared to those used over the past decades. The Company invests in the projected urban and rural development, takes part in the construction of health care wards, service facilities and other forms of infrastructure and supports sustainable development in order to improve the citizen's quality of life and increase the number of donation beneficiaries.

The Company generates various kinds of waste, which is properly removed according to legal regulations. The Company has concluded contracts on the purchase of hazardous and non-hazardous waste with companies authorized for such activities. During 2014, 240t of waste were handed over, of which 80t of hazardous and 160t of non-hazardous waste. 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 kind of waste. In 2014, 246 radioactive ionization smoke detectors were handed over for permanent storage.

The noise emitted into the environment mainly originates from the chillers of air-conditioners. In the course of 2014, the permitted noise level was not exceeded.

The emissions of air pollutants (smoke gases produced by combustion in the boiler rooms) were measured regularly and the allowed values were not exceeded.

The electromagnetic radiation emitted into the environment mainly originates from the radio base stations of mobile telephony. Before installing a base station, a Study of the Environmental Impact Assessment is prepared, listing all technical data and protection measures for that base station. Upon approval of the Study of Environmental Impact Assessment, the base station is put into operation. According to the Law on Non-Ionizing Radiation Protection, measurements of the electromagnetic radiation level of the radio base stations are conducted every two years. So far, the permitted radiation levels have not been exceeded. During 2014, measurements of the levels of non-ionizing radiation were conducted at 750 base stations, of which 23 base stations were declared radiation sources of special interest (depending on the site where they are located), and for them the measurements are prescribed every 2 years.

The supply of 200 boxes for the disposal of waste office paper was completed and currently under way is the mounting of those boxes inside buildings housing offices. In this manner, the waste paper will be collected and it will not end up as communal waste.

In the domain of environment and people protection, in 2014 **Mtel** devoted most attention to the operation of base stations and electromagnetic radiation and registration of the company with the Environmental Protection Fund of the Federation of BiH.

In 2014, the Company was registered with the Environmental Protection Fund of the Federation of BiH. In accordance with its obligations to the Fund, an agreement was concluded on the transfer of obligations related to management and disposal of the waste electrical and electronic equipment with a firm that collects and recycles waste electrical and electronic products placed in the market of the Federation of BiH through the Company's points of sale or otherwise.

During the year, public debates were organized where citizens were presented information and legal regulations on base stations radiation, i.e. the fact that the construction of these facilities is in accordance with the norms prescribed by the Law on Non-Ionizing Radiation Protection.

With a view to protecting the environment, Mtel also continuously conducts internal and external campaigns for paper saving i.e. using electronic bills instead of paper ones.

The **mtel** company in Montenegro supports environmental projects in accordance with the strategy of socially responsible operation. It supported the project *Let's Do It Montenegro*. This is an example of a project wherewith the economic sector, by providing support to the NGO sector, makes an effort to draw public attention to the importance of preserving the environment. The main objective was to clean the Montenegro coastline as well as parts of the sea along the coast, but also to draw the general public's attention to the amount of pollution in that part of the country. An even bigger goal was, certainly, to raise public awareness of the importance of preserving this area. On May 10, volunteers were removing waste from the beaches in Ulcinj, Bar, Budva, Tivat, Kotor and Herceg Novi. The financial support of the mtel company provided funds for the buses that transported volunteers from various cities of Montenegro to the Seaside.

The **mtel** company also supported programs promoting Montenegro as an ecological state and projects promoting the common ecological area of Serbia and Montenegro.

RISK MANAGEMENT

In its regular operations, the Parent Company and its related legal entities 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 related legal entities is directed at minimizing potential negative effects on the financial position 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 2014, 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 related legal entities 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 related legal entities 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, 2014 and 2013, liabilities against loans were mostly expressed in euros with a variable interest rate related to Euribor.

The Parent Company and its related legal entities 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 compensate for by introducing versatile services.

The Parent Company and its related legal entities 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 related legal entities 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 against 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 related legal entity, 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 amounts of liabilities towards the company.

CAPITAL RISK MANAGEMENT

The policy of the Parent company and each of its related legal entities 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. related legal entity 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 related legal entities 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.

05

Financial results



FINANCIAL RESULTS

CONSOLIDATED STATEMENT

in million RSD	2013	2014
Operating revenues	119,477	122,413
Operating expenditures	(99,341)	(101,309)
EBIT	20,136	21,104
EBIT rate	16.9%	17.2%
EBITDA	45,232	46,539
EBITDA rate	37.9%	38.0%
Financial expenditures, net	(2,029)	(3,559)
Profit tax, net	(2,408)	259
Net profit	15,700	17,804
Net profit rate	13.1%	14.5%

Consolidated Income Statement

In 2014, the total operating revenues amounted to 122.4 billion dinars and are by 2.5% higher compared to 2013. In the relevant period, operating expenses increased by 2.0% equalling 101.3 billion dinars.

Financial expenditure, net, increased by 1.5 billion dinars. Foreign exchange losses, net, increased by 2.4 billion dinars, while the interest expenses, net, fell by 836 million dinars.

In 2014, the net profit generated amounted to 17.8 billion dinars and it has seen a 13.4% growth compared to the previous year. In 2014, EBIT amounted to 21.1 billion dinars (48% growth), and EBITDA amounted to 46.5 billion dinars (2.9% growth).

Operating revenues increased by 2.9 billion dinars mostly due to the growth of mobile telephony revenues.

Mobile telephony increased by 1.9 billion dinars, mostly due to postpaid revenues. Operating expenditures increased by 2.0 billion dinars mostly due to the growth of costs of mobile handsets

sold within packages, expenditures against broadcasting TV content and other operating expenditures.

in million RSD	31.12. 2013	31.12. 2014
NON-CURRENT ASSETS	199,703	204,607
Intangible assets	61,784	62,966
Real estate, plants and equipment	131,640	131,178
Other	6,279	10,463
REVOLVING ASSETS	39,729	57,361
Inventories	8,046	7,275
Receivables and other revolving assets	17,588	21,240
Cash and cash equivalents	8,334	21,503
Other	5,761	7,343
TOTAL ASSETS	239,432	261,968
Owner's capital	123,657	133,449
Share capital	100,000	100,000
Other	23,657	33,449
Shareholding without controlling rights	19,437	20,723
TOTAL CAPITAL	143,093	154,172
LONG-TERM LIABILITIES	34,618	39,304
Loans	27,362	32,321
Other	7,256	6,983
CURRENT LIABILITIES	61,721	68,492
Loans	31,313	28,178
Liabilities from business activities	13,092	12,167
Other	17,316	28,147
TOTAL LIABILITIES	239,432	261,968

Consolidated Balance Sheet

in million RSD	2013	2014
Profit before taxation	18,107	17,545
Profit adjustment	27,615	25,501
Net cash-in from business activities	45,722	43,046
Net cash-out from investments activities	(17,725)	(19,198)
Net cash-out from financing activities	(35,542)	(10,679)
Net cash-in / (cash-out) of cash and cash equivalents	(7,545)	13,169
Cash and cash equivalents at the beginning of the year	15,879	8,334
Cash and cash equivalents at the end of the year	8,334	21,503

Consolidated Cash Flows

in million RSD	2013	2014
Total debt	58,675	60,498
Net debt	50,341	38,995
Net debt / EBITDA	1.11	0.84
Total liabilities / EBITDA	2.13	2.32
Debt ratio	26.0%	20.2%
Quick ratio	0.89	0.80

Ratio analysis of consolidated business results

In the course of 2014, indebtedness on consolidated level decreased, predominantly due to loan repayment.

FINANCIAL STATEMENTS OF THE PARENT COMPANY AND ITS RELATED LEGAL ENTITIES

BASIC FINANCIAL INDICATORS

Telekom Srbija

in million RSD	2013	2014
Operating revenues	89,049	89,588
Operating expenditures	(73,870)	(73,920)
EBIT	15,179	15,668
EBIT rate	17.0%	17.5%
EBITDA	31,575	32,194
EBITDA rate	35.5%	35.9%
Financial revenues, net	2,037	379
Profit tax, net	(1,887)	830
Net profit	15,329	16,877
Net profit rate	17.2%	18.8%

Income Statement

In 2014, total operating revenues were generated in the amount of 89.6 billion dinars and they reflect a mild growth compared to 2013 (0.6%). In the relevant period, operating expenditures were approximately on the same level (0.1% growth) and they amount to 73.9 billion dinars.

Financial revenues, net, declined by 1.7 billion dinars and they were mostly influenced by higher foreign exchange losses, net, (2.3 billion dinar growth). On the other hand, interest expenses, net, fell by 822 million dinars.

Net profit amounted to 16.9 billion dinars and it increased by 10.1% versus 2013. In 2014, EBIT amounted to 15.7 billion dinars (3.2% growth), and EBITDA 32.2 billion dinars (2.0% growth).

One of the factors that influenced net profit in 2014 was recognition of deferred tax assets against non-utilised tax credits.

Operating revenues increased by 539 million dinars compared to 2013.

Mobile telephony revenues increased by 400 million dinars. The largest effect was effected by *postpaid* and other services which increased by 1.8 billion dinars, while *prepaid* declined by 1.1 billion dinars. Interconnection revenues were lower compared to previous year by 122 million dinars. The revenues from fixed telephony, Internet and multimedia declined. Other operating revenues increased by 1.1 billion dinars, due to collection of previously devaluated receivables.

in million RSD	31.12. 2013	31.12. 2014
NON-CURRENT ASSETS	161,990	161,781
Intangible assets	5,568	3,768
Real estate, plants, equipment and advances	90,972	88,418
Shareholdings in subsidiaries and affiliates	60,703	61,878
Other	4,747	7,717
REVOLVING ASSETS	25,935	37,552
Inventories	6,663	5,666
Receivables and other revolving assets	13,522	13,937
Cash and cash equivalents	2,012	12,745
Other	3,738	5,204
TOTAL ASSETS	187,925	199,333

CAPITAL	107,763	114,176
LONG-TERM LIABILITIES	27,807	32,178
Long-term loans	23,845	28,395
Other	3,962	3,783
CURRENT LIABILITIES	52,355	52,979
Current payables against long-term loans	29,870	22,256
Liabilities from business activities	8,412	7,416
Other short-term liabilities	14,073	23,307
TOTAL LIABILITIES	187,925	199,333

Balance Sheet

Long-term liabilities in 2014 increased by 4.4 billion dinars due to restructuring of syndicated bank loan in January 2014. At the same time, current payables of long-term loans is lower than the comparative period.

Other short-term liabilities as at 31 December 2014 amounted to 23.3 billion dinars and they increased by 9.2 billion dinars compared to 2013.

In December 2014, a decision was passed on the allocation of interim dividend to shareholders in the amount of 10.5 billion dinars, which was disbursed in January 2015.

in million RSD	2013	2014
Profit before taxation	17,216	16,048
Profit adjustment	13,119	13,150
Net cash-in from business activities	30,335	29,198
Net cash-out from investments activities	(8,290)	(9,331)
Net cash-out from financing activities	(30,895)	(9,134)
Net cash-in / (cash-out) of cash and cash equivalents	(8,850)	10,733
Cash and cash equivalents at the beginning of the year	10,862	2,012
Cash and cash equivalents at the end of the year	2,012	12,745

Cash flows

in million RSD	2013	2014
Total debt	53,715	50,651
Net debt	51,702	37,906
Net debt/EBITDA	1.64	1.18
Total liabilities/EBITDA	2.54	2.65
Debt ratio	32.4%	24.9%
Quick ratio	0.68	0.65

Ratio analysis

A significant decrease in the debt ratio as at 31 December 2014 was caused, to largest extent, by repayment of long-term credit liabilities and increase in cash.

Mtel

in million RSD	2013	2014
Operating revenues	27,399	29,305
Operating expenditures	(21,160)	(22,430)
EBIT	6,239	6,875
EBIT rate	22.8%	23.5%
EBITDA	12,397	12,831
EBITDA rate	45.2%	43.8%
Financial revenues, net	238	217
Net profit	5,841	6,384
Net profit rate	21.3%	21.8%

Income Statement

Total generated revenues in 2014 amounted to 29.3 billion dinars and they were 7.0% higher compared to the previous year. Operating expenditures amounted to 22.4 billion dinars and they increased by 6.0% compared to 2013.

Net profit in 2014 amounted to 6.4 billion dinars and it increased by 9.3% versus 2013. *EBIT* amounted to 6.9 billion dinars (10.2% growth). *EBITDA* amounted to 12.8 billion dinars (3.5% growth).

Operating revenues increased by 1.9 billion dinars mostly due to an increase in mobile telephony revenues (by 1.4 billion dinars) and multimedia (by 711 million dinars).

In 2014, operating expenditures increased by 1.3 billion dinars mostly due to damages on the equipment and inventories inflicted during the floods in May (increase of 389 million dinars), personnel costs (increase of 239 million dinars) and marketing (increase of 232 million dinars).

in million RSD	31.12. 2013	31.12. 2014
NON-CURRENT ASSETS	38,793	42,624
Intangible assets	4,151	4,956
Real estate, plants, equipment and advances	29,625	31,837
Shareholdings in affiliates	3,488	3,709
Other	1,529	2,122
REVOLVING ASSETS	11,272	11,562
Inventories	1,085	1,317
Receivables and other revolving assets	3,734	3,489
Cash and cash equivalents	5,714	5,483
Other	737	1,273
TOTAL ASSETS	50,065	54,186
CAPITAL	40,681	43,223
LONG-TERM LIABILITIES	1,944	2,390
Loans	1,455	1,840
Other	489	550
CURRENT LIABILITIES	7,440	8,573
Loans	1,090	713
Liabilities from business activities	3,993	3,868
Other	2,357	3,992
TOTAL LIABILITIES	50,065	54,186

Balance Sheet

in million RSD	2013	2014
Profit before taxation	6,477	7,092
Profit adjustment	4,574	6,009
Net cash-in from business activities	11,051	13,101
Net cash-out from investments activities	(2,381)	(5,936)
Net cash-out from financing activities	(7,413)	(7,396)
Net cash-in / (cash-out) of cash and cash equivalents	1,257	(231)
Cash and cash equivalents at the beginning of the year	4,457	5,714
Cash and cash equivalents at the end of the year	5,714	5,483

Cash Flows

In 2014, total of 5.7 billion dinars was disbursed against dividends to shareholders, of which the Parent Company received 4.0 billion dinars.

mtel

in million RSD	2013	2014
Operating revenues	4,753	4,804
Operating expenditures	(4,555)	(4,659)
EBIT	198	145
EBIT rate	4.2%	3.0%
EBITDA	1,293	1,248
EBITDA rate	27.2%	26.0%
Financial revenues, net	(62)	(71)
Net profit	118	57
Net profit rate	2.5%	1.2%

Income Statement

In 2014, operating revenues amounted to 4.8 billion dinars and they increased by 1.1%. Operating expenditures amounted to 4.7 billion dinars and they increased by 2.3%.

Net profit in 2014 amounted to 57 million dinars and it declined by 51.7% compared to the previous year. *EBIT* amounted to 145 million dinars (26.8% decrease), and *EBITDA* 1.2 billion dinars (3.5% decrease).

Operating revenues grew by 51 million dinars. The growth was influenced by mobile telephony revenues, primarily the revenues from sale of mobile handsets.

Operating expenditures in 2014 grew by 104 million dinars, predominantly as a result of higher costs of the mobile handsets sold within packages.

in million RSD	31.12. 2013	31.12. 2014
NON-CURRENT ASSETS	5,449	6,171
Intangible assets	1,692	2,156
Real estate, plants, equipment and advances	3,691	3,960
Other	66	55
REVOLVING ASSETS	1,344	1,616
Inventories	260	263
Receivables and other revolving assets	717	1,024
Cash and cash equivalents	208	13
Other	159	316
TOTAL ASSETS	6,793	7,787
CAPITAL	2,914	3,133
LONG-TERM LIABILITIES	1,984	1,584
Loans	1,810	1,429
Other	174	155
CURRENT LIABILITIES	1,895	3,070
Loans	476	1,256
Liabilities from business activities	944	1,164
Other	475	650
TOTAL LIABILITIES	6,793	7,787

Balance Sheet

in million RSD	2013	2014
Profit before taxation	136	73
Profit adjustment	1,079	864
Net cash-in from business activities	1,215	937
Net cash-out from investments activities	(160)	(830)
Net cash-out from financing activities	(906)	(302)
Net cash-in / (cash-out) of cash and cash equivalents	149	(195)
Cash and cash equivalents at the beginning of the year	59	208
Cash and cash equivalents at the end of the year	208	13

Cash Flows

in million RSD	2013	2014
Total debt	2,286	2,685
Net debt	2,078	2,672
Net debt / EBITDA	1.61	2.14
Total liabilities / EBITDA	3.00	3.73
Debt ratio	41.6%	46.0%
Interest expenses/ operating revenues	1.65%	1.73%
Quick ratio	0.63	0.42

Ratio analysis

The increase in debt ratio was influenced by new loans in 2014.

TELUS

in million RSD	2013	2014
Operating revenues	1,705	1,511
Operating expenditures	(1,506)	(1,423)
EBIT	199	88
EBIT rate	11.7%	5.8%
EBITDA	206	93
EBITDA rate	12.1%	6.2%
Financial revenues, net	34	38
Net profit	197	103
Net profit rate	11.6%	6.8%

Income Statement

Operating revenues amounted to 1.5 billion dinars and they were 11.4% lower compared to the previous year.

A faster decline of operating revenues compared to operating expenditures led to a decrease in business results, as well as the relevant rate.

in million RSD	31.12. 2013	31.12. 2014
NON-CURRENT ASSETS	26	19
CURRENT ASSETS	842	921
Receivables and other revolving assets	694	875
Cash and cash equivalents	139	28
Other	9	18
TOTAL ASSETS	868	940
CAPITAL	676	779
LONG-TERM PROVISIONS	64	59
CURRENT LIABILITIES	128	102
TOTAL LIABILITIES	868	940

Balance Sheet

FiberNet

in million RSD	2013	2014
Operating revenues	49	148
Operating expenditures	(112)	(118)
(Operating loss) / EBIT	(63)	30
EBIT rate	/	20.3%
EBITDA	(18)	77
EBITDA rate	/	52.0%
Financial revenues, net	7	/
Net profit	(56)	30
Net profit rate	/	20.3%

Income Statement

Operating revenues at the end of 2014 amounted to 148 million dinars (increase of 99 million dinars). These revenues resulted from a court dispute won in 2014. The sales revenues generated from business activities with mtel and the Parent Company accounted for more than 50% of the sales revenues.

in million RSD	31.12. 2013	31.12. 2014
NON-CURRENT ASSETS	781	776
Intangible assets	427	425
Real estate and equipment	354	351
CURRENT ASSETS	188	191
Receivables and other revolving assets	88	108
Cash and cash equivalents	68	49
Other	32	34
TOTAL ASSETS	969	967
CAPITAL	831	908
LONG-TERM PROVISIONS	82	
CURRENT LIABILITIES	56	59
TOTAL LIABILITIES	969	967

Balance Sheet

TS:NET

in million RSD	2013	2014
Operating revenues	70	51
Operating expenditures	(38)	(44)
EBIT	32	7
EBIT rate	45.7%	13.7%
EBITDA	63	39
EBITDA rate	90.0%	76.5%
Net profit	25	6
Net profit rate	35.7%	11.8%

Income statement

Operating revenues entirely reflect the revenues from leasing the equipment to the Parent Company.

in million RSD	31.12. 2013	31.12. 2014
NON-CURRENT ASSETS	211	184
CURRENT ASSETS	60	108
Cash and cash equivalents	45	93
Other	15	15
TOTAL ASSETS	271	292
CAPITAL	270	291
CURRENT LIABILITIES	1	1
TOTAL LIABILITIES	271	292

Balance Sheet

HD-WIN

in million RSD	2013	2014
Operating revenues	1,709	2,064
Operating expenditures	(1,936)	(2,024)
(Operating loss) / EBIT	(227)	40
EBIT rate	/	1.9%
EBITDA	(191)	81
EBITDA rate	/	3.9%
Financial expenditures, net	(121)	(213)
Net loss	(348)	(173)

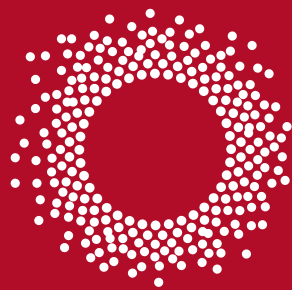
Income Statement

Operating revenues increased by 355 million dinars due to the growth of revenues from the sale of TV rights and licences.

The said trends resulted in significant decrease in operating losses compared to 2013 and positive operating results.

in million RSD	31.12. 2013	31.12. 2014
NON-CURRENT ASSETS	202	192
REVOLVING ASSETS	2,097	1,866
TOTAL ASSETS	2,299	2,058
TOTAL LIABILITIES	2,299	2,058

Balance Sheet



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