

# CONSOLIDATED ANNUAL BUSINESS REPORT FOR 2017



Telekom Srbija

Consolidated annual business  
report “Telekom Srbija“ a.d.  
Beograd for 2017

Telekom Srbija

## INTRODUCTORY NOTE BY THE CHIEF EXECUTIVE OFFICER

*Dear Sirs and Madams,*

*in 2017 Telekom Srbija a.d. Beograd celebrated a jubilee, 20th anniversary of its operations, and it continued with successful operations and development along with its subsidiaries ("Telekom Srbija Group" or "Group") in the regional markets where it operates, reaching ten million customers (residential and businesses) from the initial number of two million customers in 1997, the year of its establishment. In the telecommunications market of Serbia in the past year, as well as in the previous four, Telekom Srbija a.d. Beograd ("Parent Company") has retained a stable 46% market share in the mobile telephony, and at the regional level it is one of the leading telecom corporations, with its 14 subsidiaries and business activities in 6 countries. It continuously launches new advanced services.*



*Last year, Telekom Srbija Group had significant positive performance, the most important being over 120 million euros of net profit for the Parent Company in increasingly competitive conditions, meeting the customers' expectations and needs and the shareholders' and employees' interests, with persistent socially responsible behaviour and corporate consciousness regarding the wider community. It continued improving business performance by increasing efficiency, effectiveness and optimization of business processes, as well as a strong cycle of developmental investment activities of Telekom Srbija Group.*

*In 2017, the Parent Company accelerated the processes of digital transformation, primarily through capital projects of modernization, expansion and transformation of the company's digital infrastructure, as preconditions and drivers of a comprehensive digital transformation of its operations in increasingly competitive conditions and with enhanced regulatory requirements.*

*In the mobile telephony segment, Telekom Srbija Group had a slight stagnation in the number of customers in 2017, i.e. 5.8 million customers with increased network quality and expanded portfolio of services. In all the markets with Telekom Srbija Group presence, the ever increasing use of OTT services (Skype, Viber, etc.) has rapidly saturated revenues, primarily those from SMSs.*

*In the almost completely liberalized fixed telephony market, a steady trend of switching to digital telephony has been observed, as well as a reduced volume of traffic over fixed networks due to the "cannibalization" of traffic by mobile telephony. In 2017, with a portfolio of over half a million users of integrated services, through various forms of unique BOX package bundled services (fixed, mobile, Internet, IPTV), the Parent Company significantly neutralized the decline in fixed telephony revenues, achieving a market share of about 85%. In general, the number of users of Telekom Srbija Group fixed telephony amounted to 2.4 million users at the end of 2017.*

*The Telekom Srbija Group continued its positive trends in the multimedia market and achieved in 2017, dynamically in relation to the previous year, almost a double-digit customer growth rate (9.4%), while in the Internet segment it realized a customer growth rate of 0.5%.*

*In mid-2017, Telekom Srbija Group defined its prevailing strategy with the new Strategic Business Plan of the Parent Company for the forthcoming three-year period, giving the main directions of the strategic development in order to provide advanced user experience at the highest standards of the 21st century global information society. In 2017, the Parent Company strategically started a digital transformation of its operations through the priority implementation of a set of strategic initiatives based on the following:*

- *"All IP" project and implementation of the commercialization of the initiated All IP transformation project and migration of users to the enhanced optical IP network;*
- *expand and upgrade its WiFi network and services to allow for the differentiation and enhancement of value and market attractiveness of the service offer;*
- *repositioning on the residential customers market by launching a unique sales offer based on the analytical approach and segmentation of the customer base;*
- *the strategy of developing a commercial offer of advanced connectivity for business customers, which is better than the competition inside and outside the All IP transformation area*
- *expanding the qualitative and quantitative portfolio of its services to the ICT market, by entering the individual vertical market segments;*
- *an offer of specific IoTi/or IoE solutions will create higher contribution to the total revenue growth; and*
- *encouraging strategic partnerships with providers of the relevant IoT solutions in order to timely launch a wide range of new advanced services on the market, both in the core business segment and in market segments outside of the core business (financial insurance, etc.)*

*In 2017, the Parent Company continued implementation of the accelerated development of fiber optic networks based on 24,000 km of fibre optic cables, with the ultimate goal in the coming long-term period to connect most apartments, houses, business entities and state institutions with optical access, thus creating technical prerequisites to enable innovative ICT services for customers, primarily through IP protocol and high-speed Internet.*

*In 2017, Telekom Srbija concluded a strategically important contract worth 150 million euros with the Huawei company and created a strategic partnership with the aforementioned company to support the implementation of ALL IP transformation of its network infrastructure towards optical solutions, which will enable the highest bitrates, unique user experience and increase in the Parent Company revenues along with the restructuring and overall transformation of the operations of business entities and state institutions.*

*With the continuation of the construction of optical, 4G/LTE network, WiFi network, increase of capacity in the Data Centres, wide use of Cloud solutions, as well as rapid development and launching of new Cloud projects, Managed Data services and IoT network, in 2017 Telekom Srbija has realized some significant stages in the implementation of its strategic commitment to digital transformation.*

*The project mts bank - digital bank, was completed during 2017, transforming the mts bank into a digital bank, while providing attractive financial products through online channels. As a result of continuous evaluation of the synergistic potential of Telekom Srbija and mts bank, an additional set of services and functionalities has been defined, to be implemented until mid-2018 through the project Portfolio Development and Continued Digital Transformation of mts bank in Synergy with Telekom Srbija.*

*During 2017, a new subsidiary mts sistemi i integracije d.o.o. was established in order to use the synergy of the know-how and technical resources of the Group to provide services of implementation and maintenance of system integrations, software solutions, business solutions, network integrations and education in the ICT market. Establishment of a daughter company mts d.o.o. in Kosovo and Metohija enabled high quality telecommunications services in the northern part of the southern Serbian province.*

*In order to increase efficiency of operations and improve business performance, a new organization of the Parent Company was implemented, resulting in greater centralization of management, elimination of one management level and significant reduction of the number of departments. Identification of the potential for further optimization of the Parent Company has been carried out.*

*In all its management segments, Telekom Srbija Group continuously increases and optimizes the quality of applied management by improving the level of knowledge and managerial skills, in each member of the Group as well as through the identification, initialization and implementation of joint synergetic projects at the Group level, first of all in the areas that would enable reduction of total operating costs of the Group's business entities, preservation, revenue growth and success of operations, which is in the best interests of all shareholders of Telekom Srbija Group.*

*The employees of Telekom Srbija Group are the most valuable resource that the Group has at its disposal. Through their dedicated professional work activities, they play a key role in the implementation of the Group's digital transformation through a new development cycle based on the Strategic Business Plan of the Parent Company that was initiated not only to retain, but also to strengthen its leading position among the regional telecom operators.*

*Preserving continuity of the corporate social responsibility of Telekom Srbija Group remains a permanent commitment. Even more so, the Group's social responsibility has been increased and raised to a higher standard, since in 2017 the Parent Company has won the regional Business Partner 2017 award for the highest level of social responsibility and concern for the local community.*

*Primarily dedicated to our customers and bound by a consistent tradition, we strive to realize our mission to provide our customers with a unique digital experience, making their life more beautiful, easier and more fun through modern ICT services, with gratitude and respect for the trust they gave us.*

*My special gratitude goes to all employees, shareholders and business partners who support us in realization of our vision, so we are a step ahead of others and the first choice of users in the digital world of services.*

*Sincerely,*

*Predrag Ćulibrk*

*Chief Executive Officer of Telekom Srbija a.d.*

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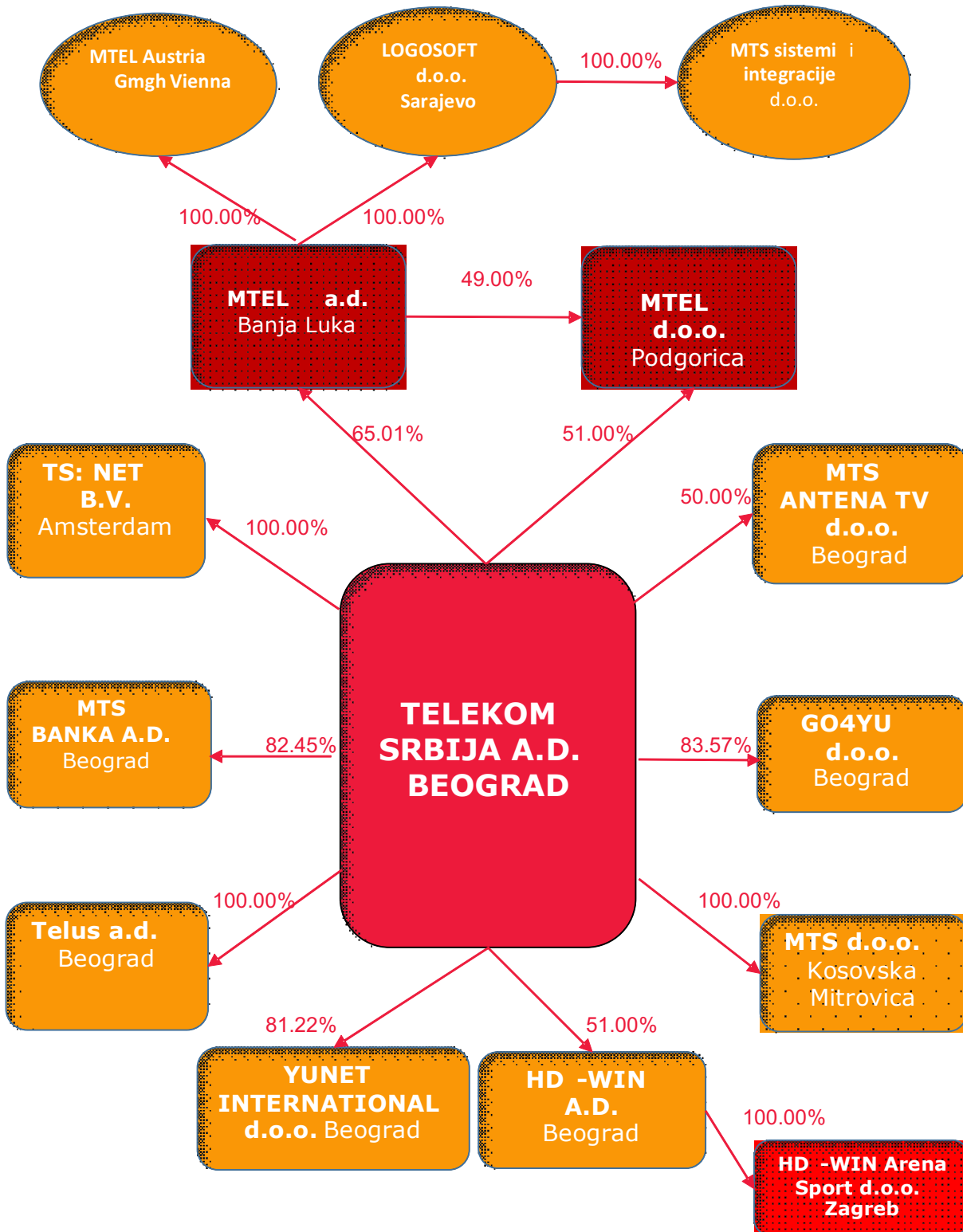
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# 01

## PARENT COMPANY, SUBSIDIARIES AND AFFILIATES



## 1. PARENT COMPANY, SUBSIDIARIES AND AFFILIATES AS AT 31 DECEMBER 2017





# 02

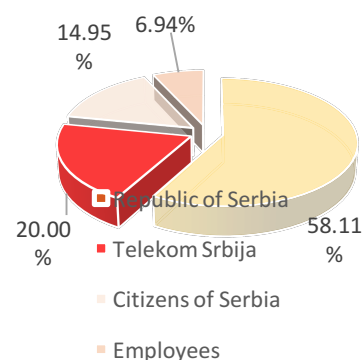
## PARENT COMPANY – BASIC INFO



## 2. PARENT COMPANY – BASIC INFO

### Telekom Srbija a.d. Beograd (hereinafter: Telekom Srbija)

Business name	Telekom Srbija a.d.
Seat	Takovska 2, Belgrade
Date of incorporation	23 May 1997
Share capital value	100,000 million din.
No. and type of issued shares	1,000,000,000 ordinary shares
Web site	mts.rs
Core activity	Cable telecommunications
Shareholders (stake in capital)	Republic of Serbia 58.11%
	Telekom Srbija - treasury shares 20.00%
	Citizens of Serbia 14.95%
	Employees and former employees 6.94%

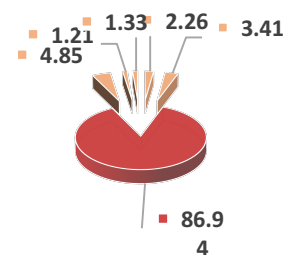


#### Overview

May 1997	JP PTT Srbija (PE PTT Srbija) established the Company as a single-member joint-stock company.
June 1997	29.00% of shares sold to Stet International Netherlands N.V. and 20.00% to Hellenic Telecommunications Organization S.A. (OTE)
February 2003	JP PTT purchased the entire package of shares owned by Telecom Italy
September 2010	Concluded Contract on the transfer of Telekom Srbija shares free of charge (gift) between JP PTT and the Government of the Republic of Serbia
December 2011	The General Meeting of Telekom Srbija passed the Decision on the Acquisition of Treasury Shares, whereunder the General Meeting concluded the Share Sale Agreement between Telekom Srbija and OTE, Greece
January 2012	Fully paid funds against the share of the minority shareholder OTE in the Company capital, and Telekom Srbija became the owner of 20.00% of the Company's shares (treasury shares)
May 2012	After the distribution of free shares, the ownership structure of the Company's equity was changed, so the Republic of Serbia has 58.11% of shares, Telekom Srbija has 20.00%, the citizens of Serbia 14.95%, and the employees and former employees of Telekom Srbija 6.94% of shares

#### Placements - equity share of subsidiaries

Name	Equity share (%)	Amount of share (in 000 din.)	Struct. of placements (%)
mts d.o.o. Kosovska Mitrovica	100,00%	1.479.293	2,26
mts banka a.d. Beograd	82,45%	2.234.569	3,41
Mtel a.d. Banja Luka	65,01%	56.933.380	86,94
mtel d.o.o. Podgorica	51,00%	3.176.711	4,85
HD-WIN d.o.o. Beograd	51,00%	790.476	1,21
other subsidiaries*		869.820	1,33
<b>Balance as at 31 December 2017</b>		<b>65.484.249</b>	<b>100,00</b>
Correction of the value of share of mts banka a.d.		<b>-486.360</b>	
<b>Balance as at 31 Dec 2017 with correction</b>		<b>64.997.889</b>	



- mts d.o.o. Kosovska Mitrovica
- mts banka a.d. Beograd
- Mtel a.d. Banja Luka

\*The item "other subsidiaries" includes:

Name	Equity share (%)	Amount of share (in 000 din.)	Struct. of placements (%)
Telus a.d. Beograd	100,00%	9.030	0,01
TS:NET B.V. Amsterdam	100,00%	122.487	0,19
GO4YU d.o.o. Beograd	83,57%	250.359	0,38
Yunet International d.o.o. Beograd	81,22%	486.710	0,74
mts AntenaTV d.o.o. Beograd	50,00%	1.234	0,00
<b>Total</b>		<b>869.820</b>	<b>1,33</b>

# 03

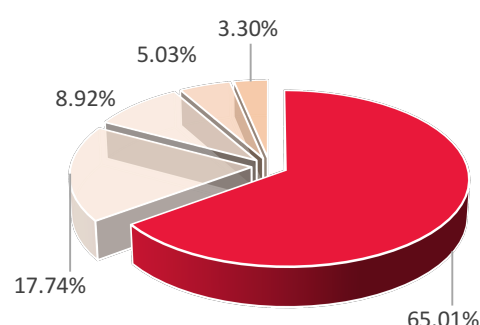
## SUBSIDIARIES AND AFFILIATES – BASIC INFO



### 3. SUBSIDIARIES AND AFFILIATES (hereinafter: subsidiaries) - BASIC INFO

#### Telekomunikacije Republike Srpske a.d. Banja Luka (hereinafter: Mtel a.d. Banja Luka)

Business name	Telekomunikacije Republike Srpske a.d.
Seat	Vuka Karadžića 2, Banja Luka
Date of incorporation	20 December 1996
Date of acquisition of ownership	28 June 2007
Share capital value	KM 491 million
Number and type of issued shares	491,383,755 ordinary shares
Web site	mtel.ba
Core activity	provision of telecommunications services
Shareholders (stake in capital)	Telekom Srbija - 65.01%
	Other shareholders - 17.74%
	Penzijski rezervni fond (Pension and Disability Fund) a.d. Banja Luka - 8.92%
	Fond za restituciju Republike Srpske (Restitution Fund of Republika Srpska) a.d.-5.03%
	DUIF Krist.Invest a.d. - OMIF Future fund - 3.30%
Related legal entities (stake in capital):	Mtel Austria Gmbh Vienna - 100.00%
	Logosoft d.o.o. Sarajevo - 100.00%
	Društvo za telekomunikacije (Telecommunications Company) mtel d.o.o. Podgorica - 49.00%



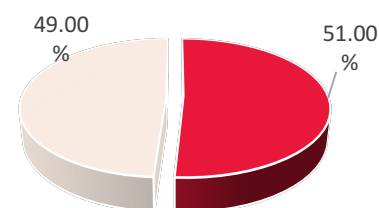
- Telekom Srbija
- Other shareholders
- Penzijski rezervni fond a.d. B.Luka

#### Overview

20 December 1996	Incorporation of Javno državno preduzeće za telekomunikacije Republike Srpske (Public State-Owned Telecommunications Company of Republika Srpska)
28 June 2007	After several transformations, based on the Law on Privatization in Republika Srpska and the Resolution of the Basic Court in Banja Luka, the status change was registered - ownership transformation by way of sale of the full portion of the state-owned capital (65.01%) to Telekom Srbija
31 December 2017	Share of Mtel Banja Luka in the ownership of three subsidiaries: - Mtel Gmbh, with its seat in Vienna, 100% ownership stake, - Logosoft d.o.o. Sarajevo, 100.00% ownership stake and mts sistemi i integracije d.o.o. Beograd (Logosoft is 100.00% founder), - Mtel d.o.o. Podgorica, 49.00% stake in the ownership

**Telecommunications Company mtel d.o.o. Podgorica**  
(hereinafter: mtel d.o.o. Podgorica)

Business name	Telecommunications Company mtel d.o.o.
Seat	Kralja Nikole 27A, Podgorica
Date of incorporation	4 April 2007
Date of acquisition of ownership	4 April 2007
Share capital value	€ 62.4 million
Web site	mtel.me
Core activity	provision of telecommunications services in the field of mobile and fixed telephony, Internet and multimedia
Shareholders (stake in capital)	Telekom Srbija - 51.00% Mtel a.d. Banja Luka - 49.00%



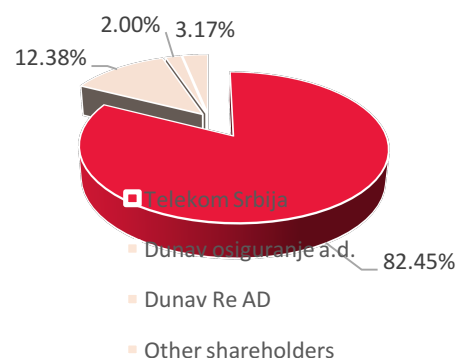
■ Telekom Srbija  
■ Mtel a.d. Banja Luka

**Overview**

4 April 2007	The company mtel d.o.o. Podgorica was founded by Telekom Srbija with 51% of the ownership stake and Ogalar B.V., with the seat in Amsterdam, the Netherlands, with 49% of the ownership stake.
1 February 2010	Sale of ownership stake by the minority founder Ogalar B.V. Amsterdam to Mtel a.d. Banja Luka.
March 2010	Capital increase in the amount of € 40 million (Telekom Srbija: € 20.4 million, Mtel Banja Luka: € 19.6 million)
June 2015	Capital increase (Telekom Srbija: cash contribution of € 1.3 million + Fibernet; TRS - Cabling)
30 September 2015	Based on the Agreement on Merger by Absorption, mtel d.o.o. absorbed the following companies: Cabling d.o.o. Budva, FiberNet d.o.o. Podgorica, Elta Mont d.o.o. Nikšić and Media Net d.o.o. Podgorica

**mts banka a.d. Beograd (hereinafter: mts banka)**

Business name	mts banka a.d.
Seat	Franša D Eperea 88, Belgrade
Date of incorporation	28 December 1990
Date of acquisition of ownership	26 December 2014
Share capital value	2,125 million dinars
Web site	mtsbanka.rs
Core activity	banking transactions
Shareholders (stake in capital)	Telekom Srbija - 82.45% Dunav osiguranje a.d.- 12.38% Dunav Re AD - 2.00% Other shareholders - 3.17%

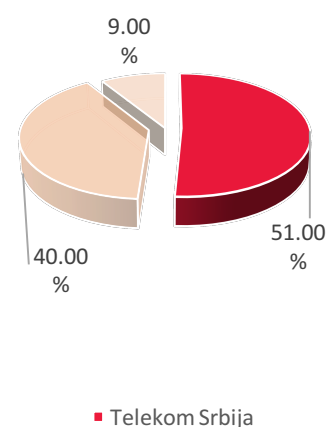


**Overview**

28 December 1990	Date of incorporation of mts Banka (Kosovsko-Metohijska banka) a.d. Zvečan
June 2010	Change in the ownership structure in the process of increasing the Bank's share capital when Dunav osiguranje became the majority shareholder. Since 2010, the bank has operated under the name of Dunav banka a.d., with its seat in Zvečan, and as of December 2012 with the seat in Belgrade
26 December 2014	The parent company effected payment in the process of increasing the share capital, thus acquiring ownership over 56% of shares of mts banka
18 May 2015	The name was changed into "mts banka"
29 October 2015	The General Meeting of mts banka passed the Decision on withdrawing the shares from the Belgrade Stock Exchange.
December 2015 to October 2017	In this period, more capital increases were made by the Parent Company, so today the ownership structure is as follows: Telekom Srbija 82.45%, Dunav osiguranje 12.38%, Dunav RE AD 2.00% and Other shareholders 3.17%

**Društvo za telekomunikacije (Telecommunications Company)  
HD-WIN d.o.o. Beograd (hereinafter: HD-WIN)**

Business name	Telecommunications Company HD-WIN d.o.o.
Seat	Visokog Stevana 38, Beograd
Date of incorporation	13 March 2009
Date of acquisition of ownership	2 August 2011
Share capital value	1,538 million dinars
Web site	tvarenasport.com
Core activity	production, broadcasting of TV channels and production of programs
Shareholders (stake in capital)	Telekom Srbija - 51.00%
	Goran Đaković - 40.00%
	Eiberman Investments LTD - 9.00%
Related legal entities (stake in capital):	HD-WIN Arena sport Zagreb - 100.00%

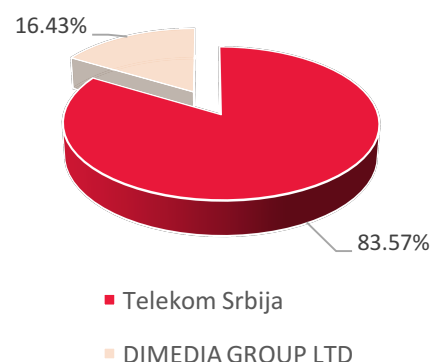


**Overview**

13 March 2009	Date of incorporation
3 September 2010	Acquired 100.00% of ownership over HD-WIN Arena sport in Croatia, which has a broadcasting license in the territory of Croatia.
2 August 2011	Telekom Srbija completed the increase in the capital of HD-WIN and acquired 51.00% of the ownership stake
4 July 2014	The agreement on the share sale and purchase agreement, the acquisition of the agency Sports ADD Limited, Nicosia, Cyprus (a minority shareholder of HD-WIN) was carried out by the agency MYD Sports SA, Geneva, Switzerland, whereby a 9.00% share in the company HD-WIN d.o.o. was transferred to Myd Sports SA.
20 July 2017	A HD-Win member was changed, so Eiberman Investments LTD, Cyprus, was registered instead of Myd Sports SA. Thus the current ownership structure is: Telekom Srbija 51.00%, Goran Đaković 40.00% and Eiberman Investments LTD, Cyprus 9.00%

**GO4YU d.o.o. Beograd (hereinafter: GO4YU)**

Business name	GO4YU d.o.o. Beograd
Seat	Franša D Eperea 88, Belgrade
Date of incorporation	30 May 2014
Date of acquisition of ownership	August 2015
Share capital value	300 million dinars
Web site	go4yu.com
Core activity	wireless communications
Shareholders (stake in capital)	Telekom Srbija - 83.57%
	DIMEDIA GROUP H.KONG LTD- 16.43%



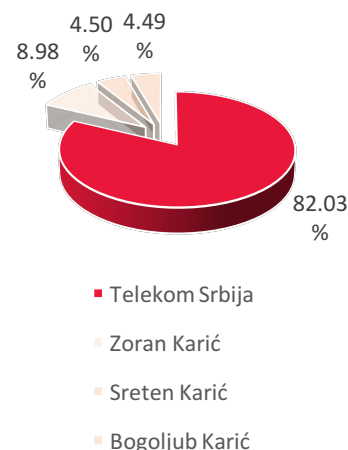
**Overview**

30 May 2014	The company was founded by Dimedia Group SA Geneva, Switzerland
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August 2015	In August 2015 Telekom Srbija acquired 50.00% of the share capital of GO4YU. Dimedia Group Limited Hong Kong became the second owner with 50.00% ownership stake
April 2017	An increase in the percentage of ownership of Telekom Srbija was registered at 72.25%
April 2017	Telekom increased its stake in the capital of GO4YU to 83.57%

**YUNET INTERNATIONAL d.o.o. Beograd (hereinafter: YUNET)**

Business name	YUNET INTERNATIONAL d.o.o.
Seat	Dubrovačka 35, Beograd
Date of incorporation	January 1992
Share capital value	May 2017
No. and type of issued shares	185 million dinars
Web site	yu.net
Core activity	Cable telecommunications
Shareholders (stake in capital)	Telekom Srbija - 82.03%
	Zoran Karić - 8.98%
	Sreten Karić - 4.50%
	Bogoljub Karić - 4.49%

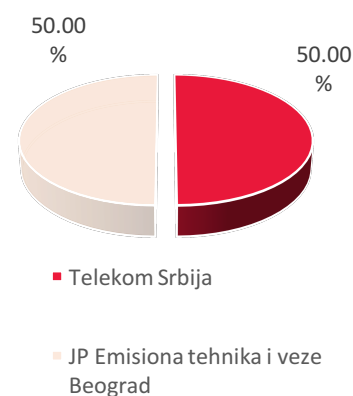


**Overview**

January 1992	The company was established under the name "MR Systems".
31 December 1998	The Company was registered under the name YUNET INTERNATIONAL d.o.o.
May 2017	Telekom Srbija became the majority owner of YUNET with 62.22% ownership stake
December 2017	Based on the stake transfer agreement, Telekom Srbija became the owner of 81.22% of YUNET
January 2018	Increase of Telekom Srbija a.d. stake in the ownership of YUNET to 82.03%

**mts AntenaTV d.o.o. Beograd (hereinafter: mts AntenaTV)**

Business name	mts AntenaTV d.o.o. Beograd
Seat	Bulevar umetnosti 16, Belgrade
Date of incorporation	21 March 2016
Date of acquisition of ownership	21 March 2016
Share capital value	2.4 million dinars
web site	mtsantenatv.rs
Core activity	wireless telecommunications
Shareholders (stake in capital)	Telekom Srbija - 50.00%
	JP Emisiona tehnika i veze Beograd - 50.00%



### Overview

2016	The company mts Antena TV d.o.o. Beograd was founded, by a joint venture of Telekom Srbija and JP Emisiona tehnika i veze Beograd for the purpose of distributing media content by DTT, with Telekom Srbija stake of 50.00% and JP Emisiona tehnika i veze stake of 50.00 %
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### Subsidiaries are 100% owned by Telekom Srbija a.d. Beograd

#### Telus a.d. Beograd (hereinafter: Telus)

Business name	Company for Maintenance and Security of Facilities, Property and Other Services TELUS a.d.
Seat	Palmoćićeva 2, Belgrade
Date of incorporation	19 April 2005
Date of acquisition of ownership	19 April 2005
Share capital value	9 million dinars
Web site	telus.rs
Core activity	private security

### Overview

19 May 2005	Incorporation of Telus, a company for maintenance and security of facilities, property and other services, as a closed joint-stock company owned 100% by Telekom Srbija
1 June 2010	Since 1 June 2010, Telus has entered with Telekom Srbija into annual agreements on the provision of services. After expiration of the five-year business arrangement, JP PTT conducted open procedures for public procurement of FTO and hygiene maintenance services, concluding new three-year contracts with Telus.

#### TS:NET B.V. (hereinafter: TS:NET)

Business name	TS:NET B.V.
Seat	Bloemgracht 45, Amsterdam
Date of incorporation	February 2010
Date of acquisition of ownership	February 2010
Share capital value	€ 1.4 million
Core activity	rental of telecommunications equipment



### Overview

February 2010	February 2010 - TS:NET B.V. was registered as a closed joint stock company with limited liability.
23 May 2013	The Supervisory Board of the Parent Company passed a decision on decreasing the share capital of TS Net B.V. for the purpose of drawing the available funds in favour of the Parent Company.
19 September 2013	The Supervisory Board of the Parent Company passed a decision granting preliminary consent to the Decision of the Executive Board of 28.08.2013. On Amendments to the Decision of the Executive Board dated 14 May 2013 with respect to the amount of the approved decrease in capital of TS:NET B.V.
March 2015	The Supervisory Board of the Parent Company passed a decision on reduction of the share capital of TS: NET in the amount of EUR 712 thousand.

### **mts d.o.o. Kosovska Mitrovica (hereinafter: mts d.o.o.)**

Business name	mts d.o.o.
Seat	Kosovska Mitrovica
Date of incorporation	October 2015
Date of acquisition of ownership	October 2015
Share capital value	€ 12 million
Web site	mtsdo.com
Core activity	wired telecommunications

### Overview

October 2015	For the purpose of performing telecommunications activity in the territory of Kosovo and Metohija, the company was founded by Telekom Srbija, which is its sole member with a 100% stake.
December 2016	In December 2016, the capital of mts d.o.o. was increased twice. The first time it was paid in assets and rights, and the second time in cash.
28 December 2017	A cash capital increase was made in the amount of 236.903.000 dinars.

# 04

## CHANGES IN 2017 AND AFTER THE END OF THE BUSINESS YEAR



## 4. CHANGES IN 2017 AND AFTER THE END OF THE BUSINESS YEAR

### Changes in equity share of subsidiaries:

- In April 2017, change of GO4YU d.o.o. share from 50.00% to 75.25%;
- In April 2017, change of GO4YU d.o.o. share from 75.25% to 83.57%;
- In June and October 2017, change of mts banka a.d. share from 81.86% to 82.45%;
- In July 2017, change of HD-WIN d.o.o. ownership structure where EIBERMAN INVESTMENTS LIMITED, Cyprus, was registered instead of Myd Sports S.A.;
- In December 2017, increase of mts d.o.o. capital by a monetary contribution of RSD 236,903,000;
- In December 2017, change of YUNET INTERNATIONAL d.o.o. share from 62.222% to 81.22%; and
- In January 2018, change of YUNET INTERNATIONAL d.o.o. share from 81.22% to 82.03%.

### New companies subject to consolidation:

- YUNET INTERNATIONAL d.o.o. in May 2017, 62.222% owned by Telekom Srbija a.d.
- MTS sistemi i integracije d.o.o. in August 2017, 100.00% owned by Logosoft d.o.o. Sarajevo.

# 05

## MACROECONOMIC ENVIRONMENT



## 5. MACROECONOMIC ENVIRONMENT

The countries in the region recorded positive economic trends in 2017. The following table shows the basic macroeconomic indicators of Serbia, Bosnia and Herzegovina and Montenegro for 2017.

Table no. 1. Regional macroeconomic data for 2017

Parameters	Serbia	BiH	Montenegro
GDP growth rate	2.5 (4Q)	2,9	4,0
growth of industrial production	3,5	4,3	1,5
growth in retail turnover	3,7	4.5*	5,2
increase in tourist visits	7,6	18,7	32,7
rate of overnight stays	8,3	22,1	33,2
average annual inflation rate	3,0	1.3*	2,4
unemployment rate	12,9	25.0*	22,1
average net salary	348 €	426 €	512 €
external debt/GDP	73,0	33,0	59,0
increase in loans	7,4	7,0	11,8
growth of deposits at the annual level	6,6	10,7	13,8
export growth	12,0	17.4*	13,9
growth of imports	13,8	12.2*	11,7
growth of foreign direct investments	27,1	60,6	13,4

Note: all data represent the growth rate in relation to 2016 unless specifically indicated otherwise in the description

\*site: [www.fipa.gov.ba](http://www.fipa.gov.ba) (I-IX 2017)

Serbia's GDP growth rate of 2.5% in 2017 was positively influenced by investment activity and personal consumption, while net export and agricultural production had a negative impact. Real growth in earnings and employment in the private sector has been achieved, as well as growth in newly approved retail loans, growth in retail trade turnover, growth of public investments and foreign direct investments. External debt to GDP is stabilized, with a downward trend.<sup>1</sup>

In 2017, BiH achieved GDP growth of 2.9%, with a significant growth of foreign direct investments. It is projected that the unblocked funds from international credit institutions will have a positive impact on BiH economic trends in 2018, despite the still high unemployment rate.

In Montenegro GDP grew by 4% in 2017, but the real sector's insolvency growth was 5.1% in relation to 2016. Likewise, foreign trade in 2017 was characterized by an increase in exports as well as coverage of imports by exports, with a still high import dependency.

Based on macroeconomic and other parameters that are relevant for comparison of the business and investment environment at the international level, Serbia and Montenegro have advanced on business lists (Table no. 2) and achieved a better credit rating in relation to 2016.

Table no. 2 Credit rating of countries in the region according to international lists

Parameters	Serbia	BiH	Montenegro
DOING list	from 47th to 43rd place	from 79th to 86th place	42nd place
Moody's Investors Service	from ("positive" to "stable")	confirmed ("stable")	from ("negative" to "stable")
Standard&Poor's	from BB- to BB	confirmed (B)	confirmed (B+)

<sup>1</sup> Ministry of Finance of the Republic of Serbia: Current Macroeconomic Trends

# 06

## REGULATORY FRAMEWORK



## 6. REGULATORY FRAMEWORK

The markets in which Telekom Srbija and its subsidiaries operate are regulated by the competent regulatory bodies.

The regulatory framework is of great importance, since only the establishment of regulatory bodies completes all regulatory and institutional prerequisites for undertaking activities related to accelerated regulation of the sector and liberalization of the telecommunications market, which were quite chaotic before the establishment of regulatory bodies, without clearly defined rules of the game and without open competitive bidding.

In accordance with the Law on Electronic Communications and Licenses/Approvals issued by the regulatory body, Telekom Srbija performs the activity of electronic communications, which includes: construction or installation, maintenance, use and provision of public communications networks and relevant facilities, as well as the provision of electronic communications services.

The current regulatory framework in Bosnia and Herzegovina is based on the regulatory framework of the EU and is characterized by continued monitoring and analysing 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 and technical innovations.

In Montenegro, the application regime is in effect: according to the Law on Electronic Communications, a written application is the basis to become an operator in Montenegro.

Table no. 3 Comparative data of the regulatory framework in the region

general info	Serbia	BiH	Montenegro
competent regulatory body	RATEL Regulatory Agency for Electronic Communications and Postal Services	CRA Communications Regulatory Agency of Bosnia and Herzegovina	EKIP Agency for Electronic Communications and Postal Services
web site	<a href="http://www.ratel.rs/">http://www.ratel.rs/</a>	<a href="https://www.rak.ba/">https://www.rak.ba/</a>	<a href="http://www.ekip.me/">http://www.ekip.me/</a>
most important laws	Law on Amendments to the Law on Information Security	Law on Communications - amendments	Law on Amendments to the Law on Electronic Communications
	Law on Information Security	Law on Communications - amendments	Law on Electronic Communications
	Law on Amendments to the Law on Electronic Communications	Law on Communications - amendments	Law on Amendments to the Digital Broadcasting Law
	Law on Electronic Communications	Law on Communications	Law on Digital Broadcasting
	Law on Telecommunications		

Among the activities related to the regulatory framework with implications on the Group's operations in 2017, the table presents the following most important activities:

Table no. 4 Activities related to the regulatory framework in 2017

Serbia	BiH	Montenegro
<p>* analysis of the wholesale market of broadband access (market 5) Solution - TS is an SMP operator</p> <p>* analysis of retail market of access to the public telephone network at a fixed location (market 1) Solution - TS relinquishes the obligations it had as an SMP operator</p> <p>* analysis of the wholesale market of calls originating in the public telephone network at a fixed location (market 2) Solution - TS relinquishes the obligations it had as an SMP operator</p> <p>* analysis of the wholesale market of calls terminating in the public telephone network at a fixed location (market 3) Solution - TS becomes again an SMP operator</p> <p>* analysis of the wholesale market of calls terminating in the mobile network (market 7) Solution - TS becomes again an SMP operator</p>	<p>* analysis of the market of calls terminating in individual mobile networks (market 7)</p> <p>* adopted a decision on adopting the Policy of BiH Electronic Communications Sector for the period 2017-2021 and the Action Plan for Implementation of the Policy</p> <p>* adopted the Rule on amending the Rules on the provision of fixed public telephone services, in the part of the definition of the nomadic telephony service</p> <p>* reporting data on networks, exchanges, interconnection and interoperator agreements</p> <p>* decision was adopted on the calculation rate of the annual fee for the license to perform telecommunications activity and the value of points to calculate the license fee in telecommunications for 2018</p> <p>* the following rules have been adopted in the field of radio-communications: - the rule on using 900/1800/2100 MHz radio frequencies for LTE - the rule on radio equipment that can be used without issuing individual licenses in radio-communications - the rule on amending the Rule on application for radio-communications licence</p> <p>* the following drafts Rules were sent to the public consultations procedure: - rules on the use of radio frequency bands 3400-3600 MHz; 3600-3800 MHz; 800 MHz; 2600MHz for MFCN (mobile/fixed communication networks) - the rule on the Plan of the purpose and use of radio frequency spectrum in Bosnia and Herzegovina - telecommunications (ITU)</p> <p>* intensified activities on implementation of accounting separation and cost accounting</p> <p>- radio frequency spectrum in Bosnia and Herzegovina - telecommunications (ITU )</p> <p>* activities were launched in relation to reporting data on networks, exchanges, interconnection and interoperator agreements by the holders of License to perform activities of the operators of public electronic telecommunications networks</p>	<p>* adopted decision on the Radio-frequency Spectrum Purpose Plan - the decision determines the Radio-frequency Spectrum Purpose Plan, which is an integral part of this decision</p> <p>* adopted the radio frequency assignment plan for the bandwidth 440-470 MHz for PMR/PAMR systems</p> <p>* adopted the radio frequency assignment plan for the bandwidth 150.00-162.05 MHz for maritime communications</p> <p>* adopted decision on initiating a public tender to grant the authorization for the use of radio frequencies in the bandwidth 3400-3600 MHz for the implementation of a public fixed/mobile electronic communications network</p> <p>* adopted decision on accepting analyses of the relevant markets: - the wholesale market of call termination in the own telephone network provided at a fixed location - the wholesale market of call termination in the own mobile telephone network - the wholesale local access at a fixed location - the wholesale central access provided at a fixed location for the mass market products - the wholesale high-quality access provided at a fixed location</p> <p>mtel is defined as the SMP operator in the mobile and fixed termination and origination markets: - termination of calls in the mobile network - both Telenor and Crnogorski Telekom are marked as SMPOs - termination of calls in the fixed network - Crnogorski Telekom is designated as an SMPO as well - the wholesale origination from the mobile network</p>



# 07

## TELECOMMUNICATIONS MARKET



## 7. TELECOMMUNICATIONS MARKET

Telecommunications, as the main activity of the Parent Company and a majority of its subsidiaries, represents an economic sector which sees stable revenues despite the unfavourable market conditions. The telecommunications market is still dynamic and capital intensive, with strong competition, primarily in the domain of telephony and the Internet.

The common characteristic of the markets of Serbia, Bosnia and Herzegovina and Montenegro in the field of mobile telephony is firmly established competition with at least three operators, as well as full liberalization of operations based on 3G technology, with the introduction of a new, more advanced LTE i.e. 4G technology.

### 7.1. THE MARKET OF SERBIA

The telecommunications market in the Republic of Serbia is regulated and liberalized. It was estimated that the overall share of telecommunications in the Serbian GDP in 2017 was about 5%. The total revenue in the electronic communications market is about 1 billion euros a year, of which about 60% for mobile telephony services. The value of investments in Serbia in 2017 was over 250 million euros, which brings us closer to the European average in this segment, which amounts to about 300 million euros a year.

The information and communication technology sector has been recognized as a strategic one and is considered crucial for a sustainable economic development of the country, in accordance with the Strategy for the Development of the Information Society in Serbia until 2020.

Revenues, number of subscribers and generated traffic have been reduced in the domain of fixed telephony.

#### 7.1.1. Fixed Telephony Market

As is the case with other fixed telephony markets, the trend of migration to digital telephony is evident, as well as a reduced volume of traffic over fixed networks, due to the increasing share of mobile telephony. This trend is largely compensated by the provision of integrated (bundle) services. Telekom Srbija has over half a million users of bundled services. In the total fixed telephony market in Serbia, the Parent Company has a market share of 85%.

The license for a public fixed telecommunications network and the provision of services in Serbia was granted to:

- Telekom Srbija a.d.;
- Telenor d.o.o.; and
- Orion Telekom d.o.o.

In addition, the companies operating in the fixed telephony market are Serbia Broadband - Srpske kablovske mreže d.o.o. (SBB), Invest Inženjering d.o.o., Kopernikus Technology d.o.o., Sat-trakt d.o.o., Beotelnet-ISP, Radijus Vektor d.o.o., Telemark Systems d.o.o., Masko d.o.o., ABA TEL d.o.o., ASG NET d.o.o., BPP Ing d.o.o. and JP Pošta Srbije.

#### 7.1.2. Mobile Telephony Market

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. In the mobile telephony market, in addition to the three following operators:

- Telekom Srbija a.d.;
- Telenor d.o.o.; and
- VIP Mobile d.o.o.

There are also two virtual mobile operators, Globaltel (using the VIP network) and Mundio Mobile (using the VIP network), which are yet to start offering services under the commercial brand Vectone Mobile.

As regards penetration and access to the most advanced services, the mobile telephony market in Serbia is at a developed market level.

With 4.2 million customers, regarding the number of users of mobile telephony services Telekom Srbija is the largest mobile operator in Serbia, with a market share of around 46%.

The number of active users subscribing to mobile broadband Internet access in Serbia in the third quarter of 2017 is about 5.4 million, with an increase in the amount of data transmitted over the mobile network.

The mobile telephony segment is characterized by the increasing use of OTT Internet-based services, such as Skype, Viber and Whats App, due to significant savings and ease of use, which has led to a decline in use of the SMS service. The total revenues generated by mobile operators in Serbia in 2017 amount to about EUR 900 million.

### **7.1.3. Internet Services Market**

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 introduction of the e-governance program in a number of state institutions.

The Internet market in the Republic of Serbia, where a large number of internet providers operate, in 2017 maintained the increase trend from the previous years. Nevertheless, it is evident that the market is slowly reduced to two main players:

- Telekom Srbija a.d., with about 44% of the market and
- SBB d.o.o., with a share of about 28%.

The number of subscribers of fixed broadband Internet access is stable and amounts to about 1.5 million. The most widespread method of Internet access is still ADSL.

In the domain of ICT services, the offer of cloud services has been improved, with extremely high requirements for safety and data security.

There was additional improvement of services for the business segment, including bundled service packages, the possibility of linking locations into one network system, introduction of WiFi services, a complete IT security solution and the StaaS (Storage as a Service) solution that provides a certain storage space and maximum number of its users.

### **7.1.4. Multimedia Market**

During 2017 the operators provided their services through the following public telecommunications networks:

- cable distribution network – KDS, which include analogue and digital cable distribution system;
- public fixed telephone network– IPTV; and
- satellite distribution network (Direct to Home) – DTH.

Nearly 100% of the Serbian population is covered by digital television signal.

Telekom Srbija with its IPTV platform is the second largest media content operator in Serbia with around 25% of the market, and also the largest IPTV operator on the market.

The number of subscribers for the media content distribution has been growing and at the end of 2017 it amounted to 1.73 million. The largest number of subscribers have a connection to cable television, either analog or digital (almost 60%). The number of package subscribers recorded a slight increase and at the end of 2017 it exceeded 1.2 million.

## 7.2. THE MARKET OF BOSNIA AND HERZEGOVINA

Bosnia and Herzegovina assumed the international obligation to complete the transition from analogue to digital terrestrial broadcasting by 17 July 2015, but the transition has not yet been completed. The Economic Reform Program (ERP BiH 2018-2020) puts an emphasis on intensifying the terrestrial broadcasting digitalization.

### 7.2.1. Fixed Telephony Market

At the end of 2017 the public telephony service through the fixed telecommunications network was provided by 15 operators in BiH, 3 of which have a Licence for a public fixed telephony operator, with significant market share, sales volume and generated revenue, as well as number of employees<sup>2</sup>:

- BH Telecom d.d. Sarajevo,
- Mtel a.d. Banja Luka and
- Hrvatske telekomunikacije d.d. Mostar

while 12 operators have Licences for provision of public fixed telephony services.

The fixed telephony voice market has continued with activities aimed at improving supply and creating demand for integrated services, ability to create a single account, protection of users from excessive consumption, and a clearer definition of the service provision terms.

In June 2016, the CRA Council adopted the Rule on Amendments to Rule 67/2012 on the model for the price rebalance of voice telephone services in BiH. The amendment refers to the cancellation of several different zones within the national traffic. This Rule applies as of 1 January 2017.

The downward trend in the number of fixed lines in 2017 in relation to 2016 continued, due to the increasing use of mobile telephony services and broadband services, and it amounts to 5.47%<sup>3</sup>. The trend of decreasing number of fixed telephony users is most evident with the SMP operators. The decline in the number of fixed telephony users is mitigated by the transition of users to integrated services delivered through the fixed network.

Other services worth mentioning are the Cloud services that a number of operators provide for legal entities and individuals.

Liberalization of the telecommunications market in BiH, especially the portability of telephone numbers for users of public fixed telephony services, has increased competitiveness in the fixed telephony market. At the end of 2017, the penetration rate in the fixed telephony in BiH was around 21%<sup>4</sup>.

### 7.2.2. Mobile Telephony Market

In Bosnia and Herzegovina, three operators have the License for the provision of GSM and UMTS services:

- JP BH Telecom d.d. Sarajevo;
- Telekomunikacije Republike Srpske a.d. Banja Luka
- JP Hrvatske Telekomunikacije d.o.o. Mostar.

Operators registered as providers of mobile public telephone services, which provide mobile telephony services on the basis of commercial agreements concluded with holders of the License for the provision of GSM and UMTS services, are the following: Blic.Net d.o.o. Banja Luka, Logosoft d.o.o. Sarajevo, ELTA-KABEL d.o.o. Dobož and TELRAD NET d.o.o. Bijeljina.

Bosnia and Herzegovina ranks third among the countries in the region, after Serbia and Croatia, when it comes to the number of mobile telephony users. The number of prepaid subscribers is still much higher than the number of postpaid subscribers. The share of postpaid users is still lower than the average for the countries in the region and the EU, which is about 50%. The penetration rate at the end of 2017 (102%<sup>5</sup>) is still below current values for the countries in the region (Montenegro 180%, Serbia

<sup>2</sup> Telecom indicators for BiH in 2016; [www.rak.ba](http://www.rak.ba)

<sup>3</sup> Internal estimation obtained by using SAS Visual Analytisc forecast tool based on the official CRA data for Q2 2017

<sup>4</sup> Internal estimation obtained by using SAS Visual Analytisc forecast tool based on the official CRA data for Q2 2017

<sup>5</sup> Internal estimation obtained using SAS Visual Analytisc forecast tool based on the official CRA data for Q2 2017

128%, Croatia 105%<sup>6</sup>) and in Europe, which is about 125%. The number of ported numbers was increasing in 2017 as well.

A vast use of applications as a substitute for voice calls (such as Viber, Skype, Gtalk, WhatsApp) and a substitute for SMS and MMS (such as WhatsApp, Google Talk, Facebook Messenger, Viber, Skype) has led to the decline in the international outgoing voice traffic and the number of SMS and MMS messages.

### 7.2.3. Internet Services Market

The market of Internet access services is marked by the following activities: introduction of new access technologies, introduction of flat traffic packages, services that protect Internet users by controlling access to the Internet content, increased access speeds for all users.

The rate of Internet usage through the fixed network at the end of the 2nd quarter of 2017 was 83.48%<sup>7</sup>, and it was estimated that at the end of 2017 it was 86.6%<sup>8</sup>. The estimate was that the penetration rate of the broadband Internet access in fixed networks at the end of 2017 amounted to 19.81%<sup>9</sup>. Bosnia and Herzegovina ranks among less developed countries in the region and is significantly below the EU average.

The number of broadband subscribers reached 99% of the total number of Internet subscribers. The dominant type of Internet access is xDSL. The development of the broadband Internet, along with the liberalization of the telecommunications market, had an impact on the increase in the number of users of service packages that integrate several telecommunications services: Internet, fixed telephony, mobile telephony and television.

During 2017, the trend of improving the provision of data transfer services continued, primarily in the provision of ADSL services, by increasing access speeds with the introduction of VDSL2+ vectoring technology and construction of FTTH.

### 7.2.4. Multimedia Market

The multimedia services market in B&H is characterized by a constant increase in the number of service package users, by acquisition of new customers or retention of the existing ones (switching from xDSL to 2P, 3P or 4P service packages). The offer related to delivery of multimedia content has been improved by enabling new services in this segment and upgrading access to the service (multiscreen).

## 7.3. MARKET OF MONTENEGRO

### 7.3.1. Mobile Telephony Market

There are three operators on the Montenegrin market: mtel Podgorica, Telenor and Crnogorski Telekom, who implemented LTE technology in their mobile networks.

Montenegro has high population coverage by mobile networks. The market saturation is evident from the penetration rate that has exceeded 160% over the last years. The number of prepaid customers has been decreasing in the entire market, whereas the number of postpaid customers increased by 13% (to 520,080) in 2017, as compared to the previous year. The economic and market environment in which mtel operated was very dynamic, but compared to 2016 the market share of mtel increased in 2017 by 1.4%, mostly in postpaid segment (which grew by 3.35%), while the market share for the prepaid segment remained almost the same.

### 7.3.2. Fixed Telephony Market

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<sup>6</sup> [Ekip, Ratel, Hakom](#)

<sup>7</sup> [Quarterly comparative data of the electronic communications market Q2 2017; www.rak.ba](#)

<sup>8</sup> Internal estimation obtained using SAS Visual Analytisc forecast tool based on the official CRA data for Q2 2017

<sup>9</sup> Internal estimation obtained using SAS Visual Analytisc forecast tool based on the official CRA data for Q2 2017

The fixed telephony market is evidently dominated by the company Crnogorski Telekom, while mtel Podgorica started providing fiber optics services in July 2015. With the development of cable infrastructure, mtel Podgorica recorded a significant growth in the number of fixed telephony users, as well as users of the Internet and television. The process of portability of numbers enabled Mtel Podgorica to acquire new customers in the part of fixed telephony. The total number of fixed telephony connections at the end of December 2017 was 152,155, while at the end of 2016 this number was 148,015.

### **7.3.3. TV Content Distribution Market**

The media distribution market in Montenegro has changed significantly over the previous two years, as the market participants have merged, so the market is divided between three SMP operators: T-Com, SBB and mtel Podgorica. 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; and
- satellite distribution network (Direct to Home) – DTH.

According to the Electronic Media Agency, viewing only the share of extra-terrestrial platforms, on 31 December 2017 KDS (38.67%) is also the market leader in the distribution of radio and TV programs to the end users. It is followed by DTH distribution with 29.69%, and by IPTV with 28.26%.

### **7.4. OTHER MARKETS OUTSIDE THE REGION**

In addition to the main above-mentioned markets where the Parent Company and its subsidiaries operate, HD-WIN also operates in the territory of Croatia, Macedonia and Slovenia, and Mtel Austria operates in the territory of Austria. In Austria, which has 8.5 million inhabitants, users may choose between three SMP mobile telephony operators. They are all part of large telecommunications groups:

- T-Mobile;
- Telecom Austria Group; and
- Hutchison Whampoa Limited.

Besides these operators, there is a total of 19 currently active MVNOs operating in the market. The penetration rate of mobile telephony is 156% and is among the largest in Europe. TS:Net B.V., with its headquarters in Amsterdam, and GO4YU Beograd represent support for the planned expansion of the Parent Company and its subsidiaries into markets outside of their home and regional markets. GO4YU operates primarily in the US and Canada. It provides VoIP services for fixed telephones and TV worldwide, except in the former Yugoslav countries, and VoIP application worldwide, except in Europe.

# 08

## CORPORATE GOVERNANCE



## 8. CORPORATE GOVERNANCE

### 8.1. CORPORATE GOVERNANCE IN TELEKOM SRBIJA

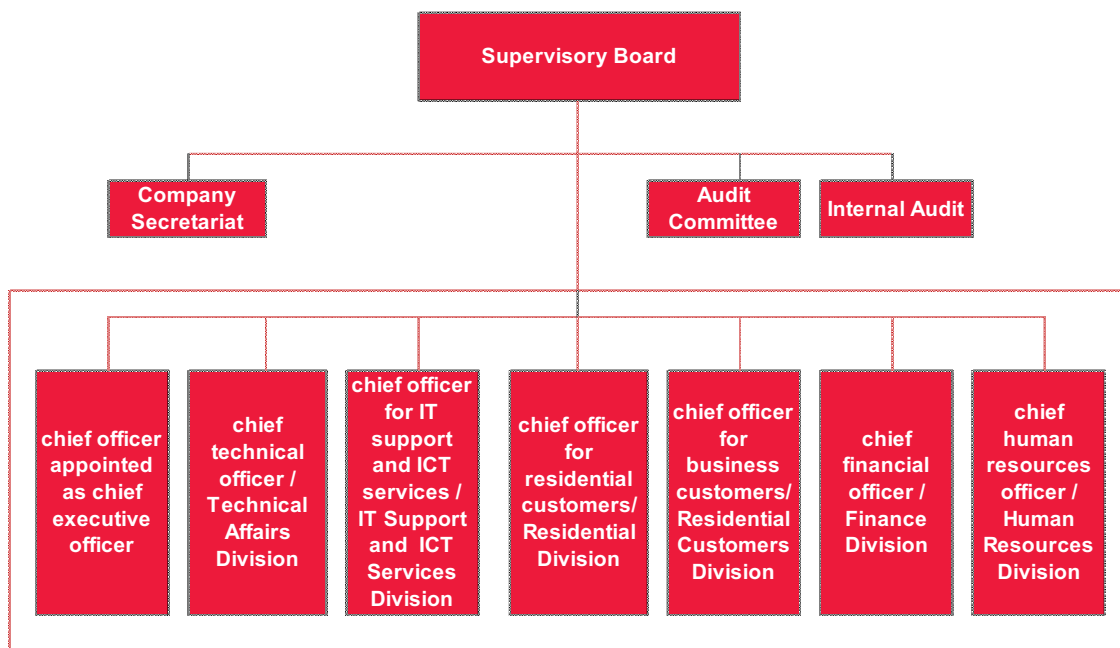
Corporate governance in the Parent Company is organized as two-tier. The corporate governance bodies are shown and explained in detail in Table 5:

Table 5 Corporate governance bodies of Telekom Srbija

Corporate Governance Bodies	Note
<b>General Meeting</b>	The General Meeting includes all shareholders of the Company that, through its operations, are exercising their ownership rights. In 2016, the 52nd regular session and an extraordinary session were held.
<b>Supervisory Board</b>	<p>The Supervisory Board conducts the tasks falling within its scope of responsibility in accordance with the applicable legal regulations. In line with the bylaws, the Supervisory Board includes:</p> <p>Audit Commission, Secretary to the Company and Internal Audit.</p> <p>The <b>Audit Commission</b> was set up by the Supervisory Board with the competences and responsibilities in accordance with the Law.</p> <p>Telekom Srbija has a Secretary to the Company who is appointed by the Supervisory Board and its competences are laid down by the Company Articles of Association.</p> <p><b>Internal audit</b> is set up as a separate organizational unit, responsible to the Supervisory Board for its work, which adopted the Charter of Internal Audit and the Rules of Internal Audit. These bylaws regulate the manner of implementation and organization of the activities of the internal audit.</p>
<b>Executive Board</b>	<p>Members of the Executive Board, including the chief executive officer, are elected by the Supervisory Board. Executive directors are members of the Executive Board.</p> <p>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.</p>

The chart attached hereto features the organizational structure of the Parent Company:





## 8.2. CORPORATE GOVERNANCE IN SUBSIDIARIES

The table below features the subsidiaries' corporate governance bodies.

Table 6 Corporate governance bodies of subsidiaries

Company	Corporate governance bodies	Note
Mtel Banja Luka	General Meeting	A joint stock company, defined by the provisions of the Law on Business Companies and the Standards adopted by the Securities' Commission. The Mtel company adopted its own Code of Conduct and Corporate Management, whereby it secured the implementation of the corporate management principles: the transparency of operations, equal treatment and rights of the shareholders, avoiding conflicts of interest and efficient internal control. Mtel's statement on the harmonization of organization and operations with the code of conduct.
	Managing Board	
	CEO	
	Executive Board	
	Audit Committee	
	Internal Auditor	
Logosoft d.o.o. Sarajevo	Company Management	Since 2014, the related legal entity of Mtel B.Luka (100%) has operated in accordance with the standards of the corporate management principles, 100% ownership of mts sistemi i integracije d.o.o. Beograd (August 2017)
	Supervisory Board	
m:tel Austrija	CEO	The related legal entity of Mtel B.Luka (100%) operates in accordance with the standards of the corporate management principles; the General Meeting of m:tel consists of five executive directors of Mtel B.Luka
	General Meeting	

<b>mtel Podgorica</b>	Board of Directors	The Board of Directors consists of a chairman and four members. The executive director appoints directors responsible for the specific areas of business activities - eight departments. Mtel has 16 retail stores in 14 towns of Montenegro
	Executive Director	
<b>Telus</b>	General Meeting	A closed joint stock company, organized in one-tier. The organizational structure consists of head office (four sections) and territorial (regional) centres.
	Director	
<b>TS:NET</b>	General Meeting	The tasks from the competence of the General Meeting are performed by the chief executive officer of the Parent Company. The company is managed by the Royprop Amsterdam B.V. legal entity in behalf of the Board of Executive Directors.
	Board of Executive Directors	
<b>mts d.o.o.</b>	General Meeting	The management of mts d.o.o. is organized as one-tier. The company has a license for fixed and mobile communications and operates in four retail stores: S.Mitrovica, Gračanica, Ranilug, Štrpce.
	Director	
<b>HD-WIN</b>	General Meeting	The sole corporate body of the company is General Meeting, through which all shareholders - Telekom, Goran Đaković and Eiberman investments exercise their ownership rights. The company is organized in five departments. The company has a related legal entity HD-WIN Arena sport Zagreb with 100% ownership.
	CEO	
<b>mts banka</b>	General Meeting of the Bank	In addition to the Articles of Association, which establishes the Bank's organization, the mts banka adopted the Code of Corporate Management in accordance with the principles and corporate practice principles and rules, particularly with the shareholders' rights, the public and transparency of operations. The Managing Board supervises the work of the Executive Board in cooperation with the Committee for monitoring bank's operations. Besides these management bodies, with the General Meeting as well, other boards are also established. There are 5 representative offices and 12 branch offices.
	Managing Board	
	Executive Board	
	Committee for monitoring bank's operations	
	Credit Committee	
	Assets and Liabilities Management Committee	
<b>GO4YU</b>	General Meeting	The management of the company is organized as one-tier. The General Meeting consists of the shareholders of Telekom and DIMEDIA group.
	Director	
<b>Mts Antena TV</b>	General Meeting	The management of mts ArenaTV d.o.o. Beograd is organized as two-tier with the General Meeting (Telekom and JP Emisiona tehnika i veze), Supervisory Board (three members) and director
	Supervisory Board	
	Director	
<b>YUNET</b>	General Meeting	The management of YUNET is organized as two-tier. In addition to the Supervisory Board (five members), the General Meeting consists of the following members: - shareholders - three natural persons and majority shareholder Telekom (82%).
	Supervisory Board	
	Director	

## **8.3. STATEMENTS OF CORPORATE RESPONSIBILITY**

### **8.3.1. Representation on the application of the code of corporate governance of Telekom Srbija a.d.**

Telekom Srbija has applied the Code of Corporate Governance (hereafter: Code), which was adopted at the 1<sup>st</sup> session of the Company Supervisory Board held on 26 June 2012 and published on the corporate website at [www.telekom.rs](http://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 session are available at the web page of the Company [www.mts.rs/otelekomu](http://www.mts.rs/otelekomu), 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 corporate governance 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 the 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 2017.

### **8.3.2. Representation on the application of the corporate governance standards of Mtel Banja Luka**

The company Mtel Banja Luka adopted its own Code of Conduct and Corporate Governance, which establishes the mechanisms of functioning of the Company's bodies and the protection of interests in the mutual relationships of different stakeholders in the Company.

The established corporate principles provide mechanisms for determining the goals of the Company, the means for their achievement and monitoring of the effects, thus creating a permanent and consistent system of control over the work of the Company's bodies and the protection of interests in the mutual relationships of different stakeholders.

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 favourable environment for investment.

In 2017, applying the Corporate Governance Code and its own Code of Conduct and Corporate Governance, the Company adhered to the principles related to business transparency, clearly elaborated procedures for the work of bodies that make important decisions, avoiding conflicts of interest, effective internal control and an effective system of accountability.

In order to establish high standards and achieve good corporate governance and transparency of operations as a basis for protecting shareholders, investors and other stakeholders, the Company will continue to act responsibly, respecting the interests and position of other stakeholders towards the Company and actively cooperate with all stakeholders.

In 2018, as a socially responsible and market-oriented company, Mtel Banja Luka will apply the basic rules of conduct, which ensure efficient application of the corporate governance principles, relating to the rights of shareholders, equal treatment of shareholders, the role of stakeholders, publication and disclosure of information and the role and responsibility of the boards, whereby it will endeavour to ensure a long-term prosperity of the company and its shareholders.

Mtel's statement on the harmonization of organization and operations with the code of conduct, 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>.

The subsidiaries of Mtel Banja Luka, Logosoft d.o.o. Sarajevo and Mtel Austria, also observe the highest standards of corporate governance which are a precondition for high quality and long-term relations with our customers, partners and different stakeholders.

# 09

## STRATEGY



## 9. STRATEGY

In the last two decades, the Telekom Srbija Group (Telekom Srbija a.d. as the Parent Company and its subsidiaries) has a tradition of successful development and continuity in maintaining the market position of a leader or a significant player in the telecommunications market of Serbia and the region, which includes Bosnia and Herzegovina and Montenegro.

In 2017, Telekom Srbija acquired a share in the subsidiary YUNET and founded a new company mts sistemi i integracije d.o.o. within the Mtel subgroup Banja Luka, owned by Logosoft, headquartered in Belgrade, in order to strategically exploit the synergy of the knowledge and technical resources of the Group to provide services for the implementation and maintenance of system integration, software solutions, business solutions, network integration and education in the ICT market, primarily in Serbia. Business growth and development of the youngest members of the Telekom Srbija Group successfully continued: m: tel Austria, as an MVNO operator and mts AntenaTV, as an operator of media content distribution on the DTT platform, in order to further accelerate growth and increase the number of multimedia users in the areas where access to TV content is disabled by the application of other technological solutions.

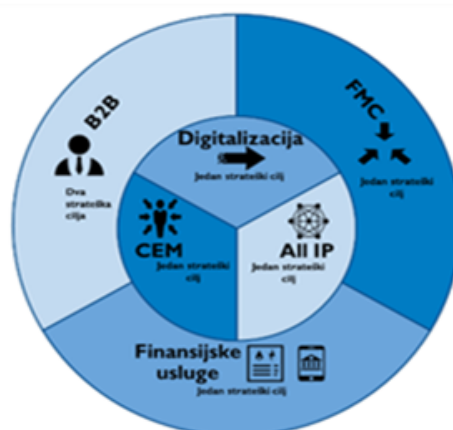
The strategic management in the information and communication (ICT) sector is necessary for the successful operation of telecom operators. The Telekom Srbija Group continuously identifies internal opportunities (strengths and weaknesses) and analyzes the national and international global market (identifies chances and risks) to recognize and define the appropriate strategic goals for the implementation of which it constitutes an optimal development strategy (strategic initiatives and actions) in the coming multi-year development period, which will ensure long-term development, revenue growth and sustainable profitability.

The Parent Company continues to improve the strategic management process through the continuity of the strategic business planning process, due to its key contribution to the sustainability and growth of operating revenues from the successfully formulated and implemented business strategy, as well as achieving synergy and ensuring the coordination of the activities of the whole Telekom Srbija Group aimed at reaching the previously accepted set of strategic goals.

In 2017, the Group's strategy was predominantly based on the new Strategic Business Plan of Telekom Srbija a.d. for 2017-2019, defining the main directions of the strategic development in order to provide advanced user experience according to the highest standards of the global information society of the 21st century.

In order to keep its leading position in the Serbian telecommunications market and maximize the satisfaction of its users, the Parent Company identified a set of strategic goals based on **five strategic pillars**: Core Business for Residential Customers, Core Business for Business Customers, Non-Core, Infrastructure and Efficiency.

For the implementation of the strategic goals in the coming three-year period, an optimal business development strategy is defined and structured in **six areas** for successful implementation in the 2017-2019 period:



- fixed-mobile convergence (FMC);
- B2B;
- digital transformation;
- user experience;
- All IP transformation; and
- financial services.

The new strategy of the Parent Company is a timely and market-adjusted business response, a basis and framework for further implementation of planned actions, programs and projects in order to adjust the organizational resources for the development and placement of customized products and services to the users' future needs in an increasingly competitive ICT market.

In the last decade of the world economy globalization, especially in the ICT market, the Parent Company and its subsidiaries faced a completely changed macro environment, which initiated the necessity of defining a new business strategy for the 2017-2019 period, based on a set of strategic initiatives that will enable:

- development of „internal change culture“;
- development of business management flexibility and transfer to all levels of managers more responsibility and authority for changes;
- development of the ability to timely and quickly respond to opportunities and threats in the market, while respecting the market imperative of achieving and maintaining a high quality of the market product (service), but also simultaneously optimizing business costs and growth of efficiency; and
- development of the organizational capabilities to control all costs in order to strategically prioritize investments that will enable sustainable long-term economic growth.

With the new Strategic Business Plan, the Parent Company will increase the level of strategic goal achievement through a higher degree of the correlative integration of the corporate strategy, budget and action plans (projects/programs) for their implementation.

In the process of implementing the Strategic Business Plan of the Parent Company for the 2017-2019 period, 10 coordinated strategic initiatives are planned for implementation by several organizational units of the Parent Company, which include: implementation timetable, set of activities/programs/projects, responsible organizational units, quantities, time check points (annual KPI values), and the necessary resources of the strategic budget (STRATEX), i.e. planned revenues, capital, operational and financial costs.

The timely adjustment of the Parent Company's business strategy to the external changes is of crucial importance for the defence of the market position, further growth and development of the Company in the global competitive market at the end of the second decade of the 21st century.

In accordance with its complex organizational structure and a large number of business processes, the 2017-2019 Strategic Business Plan of the Parent Company defines a new corporate strategy as the highest hierarchical level of the Parent Company's strategy, which establishes and balances the appropriate strategic framework necessary for coordination, harmonization and optimization of all strategic resources and processes that will be used for the implementation of the Strategic Business Plan.

In the current three-year strategic development cycle, the Telekom Srbija Group will continue to be strategically oriented to the exploitation of the existing synergistic effects, identification, initialization and the development of the new potential of the synergistic effects of Telekom Srbija Group in the joint use of network infrastructure, logistic or procurement optimization, commercial actions in the markets where Telekom Srbija Group operates and optimization of the allocation of human resources potential at the level of Telekom Srbija Group.

One of the priorities of the strategic development of the new Strategic Plan of Telekom Serbia is digital transformation. There are two perspectives of Telekom Srbija in the digital transformation approach. The one refers to the internal aspect, i.e. the chance to save and improve the processes and operations, while the other is focused on the opportunity for new services that Telekom Srbija should offer to its customers in all sectors/segments (state administration, government, economy, private sector, etc.). In doing so, Telekom Srbija takes into account and uses favourable general factors and the overall synergetic effect of digital transformation in the country that understands and encourages the leading ICT companies involved in accelerating the digital transformation of Serbia through their business activities.

In the 2017-2019 period, as a strategic priority, Telekom will implement the All IP Project through which it will improve the network, migrate users to the upgraded network and commercialize the All IP transformation project itself.

Through the implementation of the network development strategy, the Parent Company expands and improves the WiFi network and services to enable the differentiation and increase in value and market attractiveness of services and convergence packages.

The commercial strategy on the residential customer market is focused on the repositioning of Telekom Srbija by launching a unique sales offer (USP).

In the business customer market, Telekom Srbija strategically develops the commercial offer of advanced connectivity, which is better than the competitors' inside and outside the area of ALL IP transformation, with the coverage of large and medium-sized enterprises by optical network in the next few years.

Implementing the new Strategic Business Plan for the 2017-2019 period, the Parent Company strategically improves the user experience in accordance with best practice standards in order to proactively meet the needs of its customers and achieve an additional competitive advantage.

By implementing its strategy in the 2017-2019 period, Telekom Srbija significantly expand the portfolio of its services on the ICT market by entering certain vertical markets. By offering specific IoT solutions, it will largely contribute to the growth of its total revenues.

Telekom Srbija will further encourage strategic partnerships in order to launch a wide range of new advanced services on the market, both in the core business and in areas outside the core business, for which it strategically estimates that they can significantly contribute to an increase in revenues over a longer period of time.

In the current three-year strategic development cycle, Telekom Srbija Group continues its strategic orientation towards the exploitation of the existing synergistic effects, identification, initialization and development of new options of the synergistic effects of Telekom Srbija Group in the joint use of: network infrastructure, logistic or purchasing optimization, commercial campaigns in the markets where Telekom Srbija Group operates and optimization of the allocation of human resources potential at the level of Telekom Srbija Group.



# 10

## SERVICES



## 10. SERVICES

### 10.1. TELECOMMUNICATIONS SERVICES

A comparative overview of services in the regional telecommunications market is given below:

Table 7 Comparative overview of services in the regional telecommunications market

Serbia	B&H	Montenegro
<b>FIXED TELEPHONY</b>		
Fixed telephony services	Fixed telephony services	Fixed telephony services
Number portability	(Fixed:S, Fixed:M, Fixed:L)	Number portability
IN services (Televoting, Humanitarian)	IN services (Televoting, Humanitarian)	
Business trunking		
<b>MOBILE TELEPHONY</b>		
Mobile telephony services	Mobile telephony services	Mobile telephony services
Number portability	Number portability	
Blackberry	Blackberry	
IN services	Mobile internet	Mobile internet
<b>INTERNET AND DATA SERVICES</b>		
Access to the Internet	Access to the Internet	Access to the Internet (wimax)
Data transfer (through mobile and fixed network)	Data transfer (IPMPLS, leased lines)	Data transfer (leased lines and optical fibers)
Smart services (mts web mail, mts disk, mits wifi)		
<b>ICT SERVICES</b>		
ICT services and structured cabling	ICT services	
Cloud services (veeam backup, veeam Draas, M2M)	Cloud services (MS office 365, Virtual Data Centar)	
Hosting	Hosting	
Telehousing, printing centre services	Printing centre services	
Wifi	Wifi	
Customized IT solutions		
Security	Security (DDoS protection)	
<b>INTEGRATED SERVICES</b>		
Box packages (BOX2, BOX 3)	S, M, L packages	m:box packages
Biz packages	Biz TV NET TEL packages	
<b>TELEVISION</b>		
IPTV	IPTV	
mts TV GO	TV to GO	
mts hotel TV	BIZ hotel TV	
mts biz TV	OTT pay TV	
<b>SALE OF TV SETS, TELEPHONES AND COMPUTERS</b>		

In addition to telecommunications services, the regional telecommunications operators provide financial products and services (QR payment, eBanking, mBanking).

Through its subsidiaries, Telekom Srbija also provides the following services:

- TV channel broadcasting (HD-WIN);
- Banking operations (mts banka); and
- Physical and technical security and maintenance of hygiene (Telus).

## 10.2. CHANGES IN SERVICES OFFERED BY TELEKOM SRBIJA IN 2017

Telekom Srbija offers its business customers a complete communication/IT solution - according to the turnkey system, which includes:

- telecommunications services;
- managed ICT services including structured cabling;
- IT services (virtual services, hosting services – web, DNS and mail hosting);
- cloud services;
- customized IT solutions (dedicated services, disaster recovery solutions, e.g. DR location with data replication);
- accommodation of equipment in the telehousing facilities of Telekom Srbija;

and permanently works on improving the user experience and the existing services, as well as expanding the service portfolio to various spheres.

### Mobile Telephony Services

- The development of notifications for postpaid and postpaid mobile net customers was completed in February. SMS notifications will be delivered in case of activation, deactivation and advertising of tariff add-ons.
- A new channel for activation of prepaid tariff add-ons was launched in February, which enables a direct reply to sms bulk. Promotional offers are sent to prepaid customers through the sms channel on a daily basis.
- The way of creation of My mts Account was modified and implemented in February, so that our mobile telephony customers will create the account easily. It has been noticed that the mobile applications which are used by logging in to My mts accounts are more and more used.
- The following Biz tariff profiles: BizMix / BizMixNet / BizMax / BizMaxPlus were upgraded in May 2017.
- The sale of the roaming add-ons for postpaid residential customers, applicable in 26 European countries and in Egypt, started in July.

### Internet Services

- The FibeBiz service over GPON infrastructure was experimentally launched in August. The user is offered an unlimited access to the Internet with 50/5 Mb/s, 100/10 Mb/s; 200/20 Mb/s and 400/40 Mb/s bitrate including: 1 static IP address, 1 e-mail account and an SLA package related to restore services.
- mts Disk is a space rental service offered to customers wishing to lease space on Telekom's infrastructure in order to store electronic or digital documents. As of December 2017, customers are granted a different amount of free space depending on the postpaid tariff. Customers are also allowed to pay if they want additional space or to buy the service if they are not entitled (prepaid customers, cost control profile, old postpaid tariffs).
- The existing internet add-on for prepaid customers was modified and launched in December.

### ICT Services

- In the sphere of ICT services and solutions, a new service of remote measurement of natural gas supply was launched for commercial use at the end of March. The gas distributors are offered a complete cloud-based M2M solution for controlling and monitoring gas meters.

- After successfully completed pilot project, a new service within the SaaS service was launched for commercial use in August. The AgroLIFE Government software solution developed by Greensoft enables the land analysis, planning and management, designed for public sector.
- New cloud services/solutions were also launched in October for commercial use within SaaS: Veeam Backup solution, which allows users to transfer data copied from the databases, files and images of virtual machines to the storage systems of the Telekom Srbija cloud platform.
- At the beginning of November, Web2Print portal was released as a new sales channel for the Printing Centre services. At the same time, the price list was changed and the offer was expanded.
- In November, the new application mtsBizCentar intended for business customers using Biz tariff profiles and Biznet in the segment of small and medium-sized enterprises was put into operation.

### BOX Services

- With the launch of the All IP project, the fiber Net and Box packages were introduced. In May 2017, three additional Net packages intended for customers using optical infrastructure with 150/20, 250/30 and 1000/100 Mbps bitrate were introduced. Box optical packages were also created. Two optical Box2 packages with 150/20 and 250/30 Mbps bitrate and three optical Box3 packages with 150/20, 250/30 and 1000/100 Mbps bitrate were launched.
- In January 2017, the users of Box packages were given free traffic for the mts fixed network again. After using up 150 minutes included in the fee for calls to fixed networks from a fixed line, traffic generated in the mts fixed network is free of charge.
- In August 2017, Box packages were changed. By adding a postpaid number to the Box package, the customer is entitled to an additional 10% discount on the subscription fee.

### TV Services

- On 1 April 2017, the local Star TV channel was included in the mtsTV offer. The channel broadcasts TV series of the most famous production houses.
- The mts TV GO service provides video, audio and other multimedia content over the Internet (unmanaged network). The offer includes Live TV channels and the following add-on services: VoD, catch-up TV, 72-hour rewind, content recording in the territory of Serbia. It is designed for residential customers of Telekom Srbija, as well as for those who do not use Telekom Srbija services (non-Telekom customers).

### Financial and Digital Products and Services

- As of 1 February 2017, customers have the opportunity to pay the mts bills for telecommunication services at the Merkator, Roda or Idea cash registers by reading the QR code on the bill. Starting from the February bills, payments are made by reading the QR code, in the territory of Serbia.
- In order to simplify and make the work process automated, the blocking/unblocking parameters of the SSO accounts was restored within the TIS application in March. The customer service agents having appropriate access rights can independently modify the account, i.e. block/unblock them, depending on the justification of customer complaints.
- *Top Up My Credit* using USSD code was launched in March. This service allows customers to ask friends using mts network to top up their credits.
- A new upgraded version of the mobile payment application – *mplati* for android phones was launched in May. The *mplati* application enables customers to pay mts bills free of charge via mobile phones, as well as to top up prepaid credit for any mts prepaid number.
- The *mts Banka* project was launched in May 2017 aimed at entering the banking and financial market. The project implies the creation of a digital bank and the multi-channel sale of the most attractive financial products. Its implementation is done in several phases and Phase 1 includes various banking services (opening of a multi-currency account and cash loans) through different channels (eBanking, mBanking, Light Branch applications for mts sales outlets, Contact Centre, mts Express, mts Banka Branch Office and the Bank's website) and development of a new mts Banka portal, eBanking and mBanking application.
- The second phase of the project is underway with the introduction of new products and services (allowed overdrafts, authorizations, credit products, credit cards, etc.) as well as automation of the process of contracting, modification and cancellation of services within the existing channels.
- In June, the postpaid mobile Internet users were enabled to view the listing on the mts portal.

- In order to promote the *eRačun* service, all customers, who chose to receive mts bills to their e-mail (*eRačun*) and home address (paper bill), were transferred to *eRačun* in December.

### 10.3. CHANGES IN SERVICES OFFERED BY MTEL BANJA LUKA IN 2017

In addition to the improvement of traditional services in the segment of fixed and mobile telephony, internet and IPTV, Mtel has introduced and improved additional services intended for business customers, which include:

- Printing Centre services;
- ICT services;
- Microsoft Office 365 - enables the use of Microsoft Cloud-based service packages (Skype for business, Exchange, One Drive, Office package...);
- Virtual Data Center service – enables the use of the Cloud server (VPS as a Service) and network security services (Network as a Service). The Cloud Server allows the user to rent, use, and manage virtual servers located in the georedundant m:tel Data Centre, whereas Network as a Service allows the use of the Firewall and Load Balancer services in accordance with user needs;
- Protection against DDoS attacks - which includes the detection, prevention and reporting on DDoS attacks; and
- In 2017, Mtel services were upgraded and improved in order to attract new users, retain and increase the satisfaction of existing users and which relate to the development of multimedia services and advanced TV functionalities, the improvement of IPTV content, the improvement of ADSL services, as well as fixed and mobile telephony services.

Promotional tariff models were introduced in the mobile telephony segment, within which users are granted considerably larger amount of free traffic, a discount on subscription fee for postpaid customers and the most attractive models of mobile phones, allowing payment by instalments.

In 2017, it was decided to increase the speed of ADSL services, both autonomous and bundled. Services with high access speeds up to 100/50 Mb/s are provided based on GPON and VDSL technology.

During 2017, the OTT pay TV service is included in the offer, which is primarily intended for users outside Mtel's xDSL network, which allows access to Live TV and other TV services (multiscreen, Facebook, Tweeter, You Tube, VoD) over then unmanaged IP network (public Internet), using the OTT STB Internet.

The improvement of IPTV content is reflected in the introduction of six Sport Club channels and five Arena Sport channels in the basic TV package in April 2017. Users are enabled to purchase TV packages online through IPTV.

The activities related to the implementation of the second phase of the Mpayment project were performed in 2017, in which new functionalities were implemented, such as displaying PDF accounts, transfer money to a friend, immediate reconnection, QR payment at the location/merchant's location and topping up fixed prepaid accounts.

#### Logosoft

Logosoft strengthened its position and set high standards for the provision of business information and communication services. Logosoft's business platform integrates the services of permanent Internet links, connection of remote sites – VPN, fixed and mobile services, mobile Internet lease services, Office365 server and office application solutions, and local, global and hybrid cloud solutions and as such, it is an excellent business, information and communications solution.

2017 was marked by investments in the development of a reliable, secure and affordable Data Centre, officially opened in March 2017. Partnership with global cloud vendors, Microsoft and Cisco, direct links with the world's largest Tier 1 superprovider, has enabled the company to plan and work on the joint implementation of cloud-based services, as well as a high level of availability, reliability of services at

the local and regional level. By developing the Logosoft Data Centre, the state-of-the-art facility of this type in B&H, by establishing Backup as a Service, as well as quickly responding to user needs, the company is positioned as a perfect partner in the sphere of modern security cloud-based technologies and collocation services.

### **Mtel Austria**

The activities of Mtel Austria in 2017 were characterized by:

- the software upgrade of the existing MVNO platform, creating the conditions for the VPN services provision;
- TV service was implemented in cooperation with the company GO4YU, as part of a new offer;
- launching of a two-component package – mobile telephony plus TV, as well as sale of various bundled services, so that the Mtel Austria services can be used in a more flexible way;
- the most significant and most intensive campaigns were: the upgrade of postpaid tariffs and promotion of mobile phones, Starter (prepaid) value added package, the introduction of roaming tariff add-ons for Serbia, B&H and Montenegro, the introduction of TV services (Naša TV and Naša TV + SERVUS), the cancellation of roaming charges in Serbia, B&H and Montenegro, the introduction of the student package, the promotion of Hartlauer, a renowned sales channel, and the New Year prepaid and postpaid campaigns.

## **10.4. CHANGES IN SERVICES OFFERED BY MTEL PODGORICA IN 2017**

### **Mobile telephony services**

- At the beginning of January, the company MTEL launched the Universal Service which comprises the provision of Universal Information Service and Universal Directory.
- The mPAY mobile payment service was launched in February, which makes it possible for all MTEL customer to make payments via a mobile handset, as well as access to other advanced services, such as: selecting the method of payment, gifts, topping up prepaid accounts, etc.
- At the beginning of summer, a new m:go tourist package was launched. The package costs € 5 with with an initial credit of € 1, including benefits for the Internet use.
- On the Company anniversary, Urban postpaid packages were launched (Urban S, Urban M, Urban L, Urban XL), which include fixed resources and the largest amounts of megabytes included in the subscription fee, the option of transferring unused resources to the following month and the possibility of accessing digital services. A new promotional campaign for postpaid customers, intended for students, was launched in August.
- A new prepaid package Moj klub was launched in the prepaid segment in October in cooperation with the football club Buducnost, intended for the club supporters.
- In December, MTEL prepared new m:roaming tickets for postpaid and prepaid customers during their stay in Serbia, Slovenia and Kosovo and Metohija.

### **Fixed telephony, Internet and TV services**

Bearing in mind that MTEL, besides Montenegro Telekom, is the only operator offering all four telecommunication services in one place, the priority is to inform the public about this corporate advantage, primarily through the BOX packages.

In April, new cable packages were introduced that combine Internet and fixed telephony services, with the possibility of changing the bitrate in BOX packages in order to be more competitive in the market.

## **10.5. SERVICES OF OTHER SUBSIDIARIES**

### **Telus**

Within its registered activity, Telus provides the following services:

- Security of facilities and property (FTO, PPZ and money escort)- 50% of the total scope of services;

- Hygiene maintenance of business premises and facilities –48% of the total scope of services; and
- Auxiliary services (non-qualified workers' services) – 2% of the total scope of services.

### **HD-WIN**

At the end of 2017, Arenasport channels were introduced in the distribution networks of 40 operators in the territory of Serbia, 19 in the territory of Bosnia-Herzegovina, 2 in Montenegro and 1 in Macedonia and Croatia each – a total of 63 operators. On all of the aforementioned markets, Arenasport channels are presented on the platforms of all major telecommunications operators (Telekom Srbija, T-Com Crna Gora, BH Telecom, m:tel RS, T-Com Makedonija, HT Eronet and T-Com Hrvatska).

From the very beginning of broadcasting, Arenasport TV has been based on the exclusive premium content from the world of sports. With the operation of the studio, the programme is expanded to include studio shows covering the UEFA Champions' League and the European League, as well as the events linked to the Serbian Super League, French League and Italian League. Also broadcast is a show following the developments in the world of basketball and the daily news bulletin Arena News.

Arenasport 1 channel is distributed at all operators within the basic offer and the remaining channels form part of the payTV package, whether as an independent package of Arenasport or part of some other payTV package.

### **mts banka**

As part of its operations, the bank offers the following services:

- credit operations (approval of retail and corporate short-term and long-term loans and approval of other investments (factoring, discounted bill, etc.);
- deposit operations (opening and managing the transaction and time deposit accounts); and
- other services (dinar and foreign exchange payment operations, guarantee operations, documentary operations, card operations, exchange transactions, renting safe deposit boxes for legal and natural persons, etc.).

Services provided by mts banka were upgraded and improved in 2017. Aimed at attracting new customers, retaining and increasing the satisfaction of existing customers, mts banka introduced new corporate and retail product packages. The retail product packages include the most favourable conditions on the banking market, such as the most favourable interest rates, longer terms of use, cancellation of fees and opening the accounts with receiving a card, which enables the user to withdraw cash at ATMs of all banks at no cost, as well as the most favourable rates at the Web Currency Exchange.

# 11

## CUSTOMERS OF PARENT COMPANY AND SUBSIDIARIES





## 11. CUSTOMERS OF PARENT COMPANY AND SUBSIDIARIES

### 11.1. USERS OF TELECOMMUNICATIONS SERVICES

At the end of 2017, the Parent Company (Telekom Srbija) and its subsidiaries has a total of 9.7 million customers. In 2017, there was an increase in the number of Internet and multimedia service users and a decrease in the total number of users in fixed and mobile telephony (Table 8).

The Parent Company is focused on creating good user experience through customer-oriented sales management and improvement of sales effectiveness. There is a decrease in the number of fixed users, which is mostly due to the existence of alternative communications forms, such as mobile telephony and the Internet and the number portability service.

Table 8 Customers of telecommunications services per type of service (in 000)

Customers	Year	Telekom Srbija	Mtel Banja Luka	mtel Podgorica	mts d.o.o.	Total
Fixed telephony	2016	2.282	256	12	0	2.550
	2017	2.116	239	21	17	2.393
	growth rate	-7,3%	-6,6%	75,0%	-	-6,2%
Mobile telephony	2016	4.334	1.317	280	0	5.931
	2017	4.194	1.335	288	31	5.848
	growth rate	-3,2%	1,4%	3,2%	-	-1,4%
Internet	2016	760	137	30	0	927
	2017	739	141	47	5	932
	growth rate	-2,8%	2,9%	56,7%		0,5%
Multimedia	2016	415	63	35	0	513
	2017	426	80	53	2	561
	growth rate	2,7%	27,0%	51,4%		9,4%
Total:	2016	7.791	1.773	357	0	9.921
	2017	7.475	1.795	409	55	9.734
	growth rate	-4,1%	1,2%	14,9%		-1,9%

#### 11.1.1. Fixed Telephony Users

The fixed telephony services of the Telekom Srbija Group are used by 2.4 million customers. At the Parent Company Telekom Srbija and its subsidiary Telekom Srpske, the number of fixed telephony users in 2017 is lower as compared to the number of customers in 2016 (decreased by some -7%), whereas at the subsidiary Mtel Podgorica, that number is higher, but the number of customers is low (1% of total customers) and it cannot affect the overall trend of fixed telephony users. The fixed telephony services of Telekom Srbija are used by 2.1 million customers at the end of 2017.

The subsidiary mts d.o.o., which started its operations in 2017, has 17 thousand fixed telephony users at the end of 2017.

With the development of IP technology, there is a decrease in the number of ISDN users, but also greater interest in IP Centrex and Business trunking services because of their advantages. The number of IP Centrex and Business trunking service users is higher by 16.3% as compared to the number of customers in 2016.

A growing trend in the number of users of convergent packages continued. The share of convergent packages in the operating revenues for 2017 amounts to 21%, which is by 2% more as compared to 2016.

The number of residential customers of fixed telephony considerably decreased in Serbia and Republika Srpska (7-9%), as well as the number of business customers in Serbia slightly decreased by 2%, whereas it increased by 6% in Republika Srpska. There are positive trends in Montenegro, but the share of fixed telephony users in the total number is less than 1%.

Table 9 Fixed telephony users – residential and business (in 000)

Customers	Year	Telekom Srbija	Mtel Banja Luka	mtel Podgorica	Total
Residential	2016.	2.027	222	10	2.259
	2017.	1.866	203	19	2.088
	growth rate	-7,94%	-8,56%	90,00%	-7,57%
Business	2016.	255	34	2	291
	2017.	250	36	2	288
	growth rate	-1,96%	5,88%	0,00%	-1,03%
Total:	2016.	2.282	256	12	2.550
	2017.	2.116	239	21	2.376
	growth rate	-7,27%	-6,64%	75,00%	-6,82%

Note: Data on mts.d.o.o. are not structured.

### 11.1.2. Mobile Telephony Users

The total number of mobile telephony users at the Group level amounts to 5.8 million at the end of 2017. The number of users of mobile telephony and the Internet is slightly declining in Serbia (2.8%), whereas in Republika Srpska there is a growing trend in the approximate amount (1,4 -2,8%).

In all the companies of Telekom Srbija Group there is a decrease in the number of prepaid customers and an increase in the number of postpaid customers as compared to the preceding year.

In 2017, there is an increase in the number of postpaid customers of Telekom Srbija with the largest share in the mobile telephony market, whereas the number of prepaid customers decreased by 9.8% as compared to 2016. One of the reasons for the decreased number of prepaid customers is the migration of a certain number of customers to postpaid services.

The benefits of numerous campaigns and new tariff profiles launched with the intention to satisfy the needs of various groups of customers had a positive impact on the total number of postpaid mobile telephony users.

The number of prepaid mobile telephony users decreased, especially in Montenegro. The number of postpaid customers increased in all markets, with the lowest growth in Serbia - 3%, Republika Srpska - 6%, and Montenegro 28%.

Table 10 Mobile telephony users - prepaid and postpaid (in 000)

Customers	Year	Telekom Srbija	Mtel Banja Luka	mtel Podgorica	Total
Prepaid	2016.	2.030	970	157	3.156
	2017.	1.831	968	131	2.939
	growth rate	-9,80%	-0,21%	-16,56%	-6,88%
Postpaid	2016.	2304	347	123	2774
	2017.	2363	367	157	2910
	growth rate	2,56%	5,76%	27,64%	4,90%
<b>Total:</b>	<b>2016.</b>	<b>4.334</b>	<b>1.317</b>	<b>280</b>	<b>5.931</b>
	<b>2017.</b>	<b>4.194</b>	<b>1.335</b>	<b>288</b>	<b>5.817</b>
	<b>growth rate</b>	<b>-3,23%</b>	<b>1,37%</b>	<b>2,86%</b>	<b>-1,92%</b>

Note: Data on mts.d.o.o. are not structured

### 11.1.3. Internet and Multimedia Users

At the end of 2017, the total number of Internet users at the Group level amounts to 932 thousand and includes the ADSL users of the Parent Company and the subsidiaries Telekom Srpske and mts.d.o.o. and also the users of the subsidiary Mtel Podgorica, which use the Internet via cable and wimax technologies.

At the end of 2017, there are 562 thousand users of multimedia services. The users of the multimedia services of the Group include IPTV users of the Parent Company and the subsidiaries Telekom Srpske and mts d.o.o., and cable users of the subsidiary Mtel Podgorica.

In 2017, the number of IPTV users increased by 2.7% due to the offer of convergent packages. In 2017, the number of IPTV users amounts to 426 thousand.

The IPTV users are provided with the multiscreen functionality that allows them to watch the multimedia content on TV, computers and mobile devices. The users also receive the mts TV GO service (OTT), which includes video, audio and other multimedia content over the Internet (unmanaged network), which are accessed through mobile and web applications.

There is a growth of multimedia users in all markets, with a slower growth in Serbia (2.7%) and considerably higher in Republika Srpska (27%). The highest growth of Internet and multimedia users is in Montenegro - above 50%.

## 11.2. STRUCTURE AND CHANGE IN THE NUMBER OF CUSTOMERS OF THE PARENT COMPANY AND SUBSIDIARIES

### 11.2.1. Structure of customers of certain members per type of service

Mobile telephony customers account for the largest share in the structure of customers or over 55 percent in Serbia and between 74 and 78 percent in Republika Srpska and Montenegro. The share of mobile telephony customers is stable in both Serbia and Republika Srpska, while an 8 percent decline is recorded in Montenegro.

Fixed telephony users in Serbia still account for a pretty large share or 28 percent, and some 13 percent in Republika Srpska; which reflects a slight decline in both cases, and 5% in Montenegro, which shows a slight growth.

The share of Internet and multimedia has been stable over the last two years in Serbia and Republika Srpska, and slightly increased in Montenegro – 3 percent.

### Customer structure per type of service

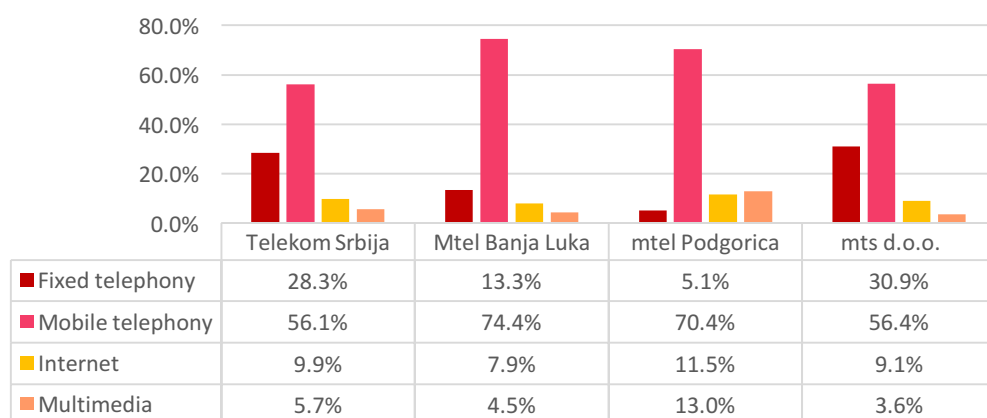


Table no. 11. Customer structure of certain members per type of service –

Type of customer	Year	Telekom Srbija	Mtel Banja Luka	mtel Podgorica	mts d.o.o.
Fixed telephony	2016	29,3	14,4	3,4	0
	2017	28,3	13,3	5,1	30,9
	change	-1,0	-1,1	1,8	30,9
Mobile telephony	2016	55,6	74,3	78,4	0,0
	2017	56,1	74,4	70,4	56,4
	change	0,5	0,1	-8,0	0,6
Internet	2016	9,8	7,7	8,4	0,0
	2017	9,9	7,9	11,5	9,1
	change	0,1	0,1	3,1	0,1
Multimedia	2016	5,3	3,6	9,8	0,0
	2017	5,7	4,5	13,0	3,6
	change	0,4	0,9	3,1	0,0
Total:	2016	100,0	100,0	100,0	0
	2017	100,0	100,0	100,0	100,0

### 11.2.2. Customer structure of certain types of services per member

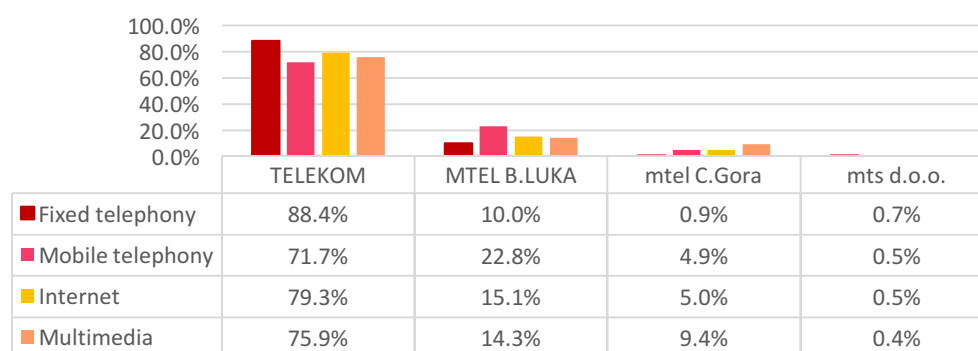
Telekom Srbija has the largest share of the total number of telecom customers: 72 percent of mobile telephony customers, 76 percent of multimedia service customers, 79 percent of Internet customers, and 88 percent of fixed telephony customers.

Table no. 12. Customer structure of certain types of services per member

Type of customer	Year	Telekom Srbija	Mtel Banja Luka	mtel Podgorica	mts d.o.o.	Total
Fixed telephony	2016	89,5	10,0	0,5	0,0	100,0
	2017	88,4	10,0	0,9	0,7	100,0
	change	-1,1	0,0	0,4	0,0	
Mobile telephony	2016	73,1	22,2	4,7	0,0	100,0
	2017	71,7	22,8	4,9	0,5	100,0
	change	-1,4	0,6	0,2	0,5	
Internet	2016	82,0	14,8	3,2	0,0	100,0
	2017	79,3	15,1	5,0	0,5	100,0
	change	-2,7	0,3	1,8	0,5	
Multimedia	2016	80,9	12,3	6,8	0,0	100,0
	2017	75,9	14,3	9,4	0,4	100,0
	change	-5,0	2,0	2,6	0,4	

Mtel Banja Luka is second according to its share primarily in mobile telephony – 23 percent, followed by Internet and multimedia – 15 percent. The share of mtel Podgorica in the segment of mobile telephony and Internet accounts for 5 percent of the total customers, and 9 percent in the sphere of multimedia services.

Customer structure per member



### 11.3. USERS OF MTS BANK SERVICES

In 2017, the services offered by the mts Bank were improved and enhanced. With the aim of attracting new customers, retaining and increasing the satisfaction of the existing customers, the mts bank introduced new product packages for businesses and citizens. The most significant growth of clients was recorded in cash credits and open transaction accounts of natural persons.

Product packages were defined for operations with citizens which involve the most favourable conditions currently available on the banking market reflected in the most favourable interest rates, longer periods of use, abolition of fees and allowing the users to open an account and get a card which allows the user to draw cash at the ATMs of all banks without a commission, and the most favourable foreign exchange rate on the Web exchange.

The mts bank services are divided into:

- credit operations (approving short-term and long-term credits to companies and citizens, approving other investments (factoring, bill discounting and other);
- deposit operations (opening and maintaining transaction and term deposit accounts); and
- other services (dinar and foreign currency payment transactions, guarantee operations, document operations, payment card operations, foreign exchange operations, leasing safes for legal and natural persons, other).

Table no. 13. Number of mts bank clients per type of service

Type of product	Number of clients		increase/ decrease in %
	2016	2017	
Transaction accounts of natural persons	5.210	18.605	257,1
Transaction accounts of legal persons	879	1.048	19,2
Deposits of natural persons	625	794	27,0
Deposits of legal persons	15	9	-40,0
WEB credits	76.215	80.831	6,1
Consumer credits	6	4	-33,3
Investment credits	14	20	42,9
Housing loans	94	128	36,2
Cash credits	751	4.923	555,5
Other investments	449	739	64,6
Guarantees	32	22	-31,3
Dinar cash account for share trading	7	6	-14,3
<b>Total:</b>	<b>84.297</b>	<b>107.129</b>	<b>27,1</b>

On the whole, the number of mts bank clients increased by 27.1 percent in 2017 as compared with the previous year.

# 12

## INVESTMENTS



## 12. INVESTMENTS

### 12.1. INVESTMENTS ON THE LEVEL OF THE PARENT COMPANY AND SUBSIDIARIES IN 2017

Total capital investments in 2017, on the level of the Telekom Srbija Group equalled RSD 26.7 billion dinars, which is 6.2 percent lower than the capital investments in 2016. A comparative overview of capital investments made by individual companies in the Group in 2017 and 2016 are shown in the table below:

Table no. 14. Growth rate of investments per group member (in 000 RSD)

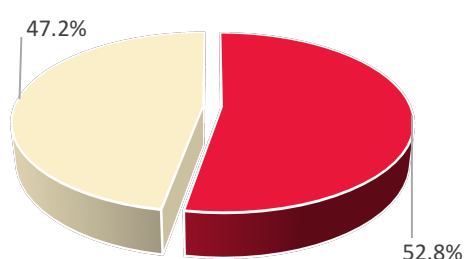
Members	2016	2017	Growth rate (u%)
Telekom Srbija a.d.	15.065	14.566	-3,3
Mtel Banja Luka	6.760	4.736	-29,9
mtel Podgorica	6.628	7.054	6,4
Telus	5	9	80,0
HD WIN	16	28	75,0
mts bank	10	12	20,0
TS Net	25	146	484,0
GO4YU	0	7	-
mts d.o.o	0	186	-
<b>Total:</b>	<b>28.509</b>	<b>26.744</b>	<b>-6,2</b>

Telekom Srbija's share in the total investments of the group in 2017 is 54.5 percent.

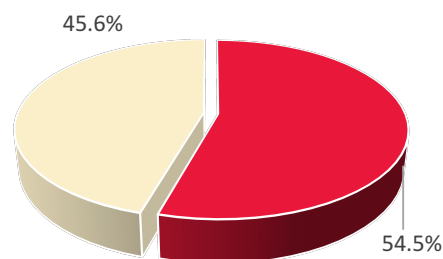
Table no. 15. Share of Telekom Srbija a.d. investments in the total investments of the Group (in 000 RSD)

	2016	Share in 2016	2017	Share in 2017	Growth rate
Telekom Srbija a.d.	15.065	52,8%	14.566	54,5%	-3,3%
Subsidiaries	13.444	47,2%	12.178	45,5%	-9,5%
<b>Total</b>	<b>28.509</b>	<b>100,0%</b>	<b>26.744</b>	<b>100,0%</b>	<b>-6,2%</b>

Share in investments in 2016



Share in investments in 2017



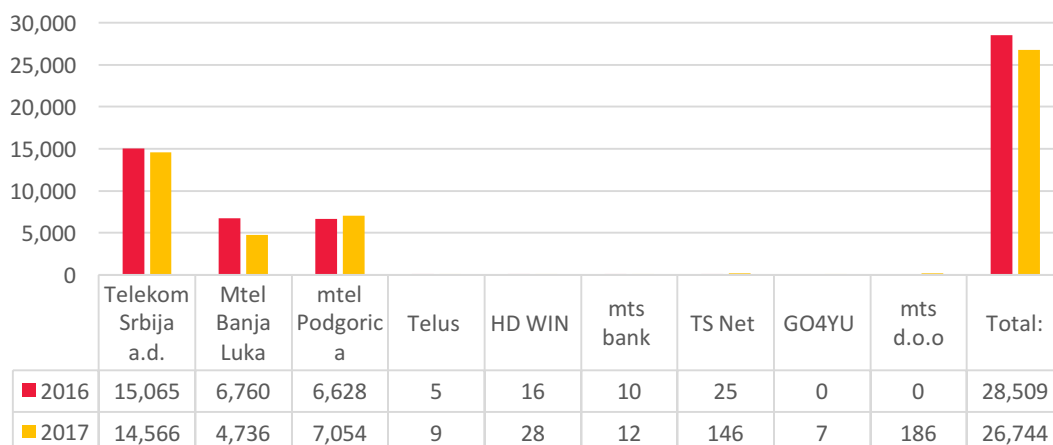
■ Telekom Srbija a.d.    ■ Subsidiaries

■ Telekom Srbija a.d.    ■ Subsidiaries

Viewed per member of the Group, the largest investments in 2017 were made by the Parent Company (14.6 billion dinars), and the lowest investments were made by the GO4YU subsidiary (7 million dinars).



## INVESTMENTS ON THE LEVEL OF THE PARENT COMPANY AND SUBSIDIARIES



### 12.2. INVESTMENTS OF TELEKOM SRBIJA

Significant investments of Telekom Srbija were made with the aim of ensuring business continuity in all segments of the company's operations, through the introduction of new and the improvement of the existing services. The implementation of the cutting edge technological solutions is recognized as a way to offer customers new services in the most quality manner.

The total capital investments in 2017 were executed in the amount of RSD 14.6 billion, which is 3.3 percent lower as compared with 2016, and accounts for 54.5 percent of the total investments of the Group in 2017. (Table no. 15).

In 2017, the Company started an Internet revolution, i.e. an All IP transformation and modernization of the fixed network. This is the largest investment in the information and communication infrastructure ever since the Company's establishment. At the same time, the Company continued investments in the expansion of the capacity of the access network, which allowed the customers broadband access services of higher speeds. The Company also performed an upgrade and expansion of the IMS system, which represents the central switching node for the fixed and mobile networks of the new generation.

In the part of mobile telephony, Telekom Srbija continues to allow its customers a quality signal and fast mobile Internet in all parts of the country, which is primarily reflected through an accelerated expansion of coverage by the 4G network, where the percentage of population coverage is over 85 percent. In 2017, significant investments were also made in expanding the coverage of the UMTS network, where the percentage of coverage of the population is over 97 percent. Namely, for the purpose of expansion, modernization, optimization and expanding the coverage zone and network capacity, investments were made in continued development of the RAN network in 2017.

In the sphere of Internet, investments are directed at the development of the IP/MPLS network and the expansion of the OTN/DWDM transport network with the aim of supporting the growth of Internet traffic and increasing the number of access network elements, through the implementation of the best solutions on the market and for the purpose of providing capacities for all future network and customer needs.

In the sphere of multimedia services, the Company performed the migration of customers from the old to the new multimedia platform. Capital investments were aimed at further expansion of capacities of the IPTV multimedia platform and additional services with the aim of increasing the number of customers to whom quality multimedia services are available.

The most important IT project in the previous year refers to continued implementation of the IT transformation program with the aim of maintaining an appropriate level of operations, with simultaneous growth and transformation.

Investments which marked 2017 refer to the projects of managing customer experience and customer requests, with the aim of supporting new sources of revenues. On the other hand, the implemented investments were directed at continued projects related to the standardization of the ERP system, projects of development of Big Data technologies and digital platforms, and investments in the private cloud infrastructure, the existing data centres and the transformation of the digital work place.

## 12.3. SUBSIDIARY INVESTMENTS

### 12.3.1. Investments within the Mtel Group

The total investments of the Mtel Group (the Telekom Srpske company with the subsidiaries Mtel Austria and Logosoft) in 2017 equalled RSD 4.7 billion (KM 76.4 million), which is 30 percent lower compared to investments made in 2016. These investments account for 17.7 percent of the total investments of the Group in 2017.

#### Mtel Banja Luka

In order to meet the customers' requests, an improvement of the degree of modularity and flexibility of the wireless transport network is continually performed, in terms of improving the possibilities for upgrading the capacities and/or functionalities (QoS, bandwidth on demand, Multiband and/or Carrier-Aggregation, etc.). With the aim of further expansion and modernization of the existing mobile network, it is important to secure the delivery of the necessary RAN equipment, and the construction of facilities of a wireless access network, along with increasing the coverage, capacities and quality of the services, through the introduction of 3G at 900 MHz, and the introduction of F2 and F3 at 2100 MHz.

In the domain of the core mobile network, a modernization of the PS Core system was performed, and a project of the AntiFraud platform ViberCut for preventing the illegal forwarding of interconnection calls to Viber for users of mobile, ADSL and Wi-Fi Internet and routing these calls by regular interconnection lines was implemented. The mGo application was expanded by new functionalities, while the mPay services enabled the money transfer services between the customers, Bill Payment and Presentment, and the function of payment at points of sale by using the QR code.

Important investments were made in the cable transport and access network, i.e. shortening the subscriber loop according to the existing cable infrastructure, which, along with the construction of the FTTx optical access network, allows the customers bit rates of 30 Mbps,

In 2017, the Company continued the preparation and execution of works for the expansion of the OTN/DWDM network. Additional capacities were implemented for the interconnection of IP/MPLS switches and edge routers with supercore IP/MPLS routers, for the purpose of the Firewall, connection of elements of the mobile network, implementation of links for the purpose of distribution of multimedia services and the provision of links to be leased to other operators.

Also important is the procurement of terminal equipment for business and residential customers (IAD, STB, ONT, VoIP gateway equipment, routers and other customer equipment), and the testing of new types of terminal equipment for installation at the end users. Following the trends in the sphere of telecommunications, through a number of projects for improving the Integral System for the Distribution of IPTV Content, the capacities of the system of IPTV STB devices were expanded and new functionalities which enable the diversification of the service offer of Telekom Srpske were implemented.

Continuous support to operations with an aim of increasing efficiency through the automatization of corporate business processes, was provided through several projects, by which the time required for resolving the requests of internal customers was significantly reduced. The presentation part of the

portal was improved in line with the trends and an online purchase of services was implemented, by which Telekom Srpske introduced the web as a sales channel. The management of the product catalog on mtel.ba was optimized, along with the management of purchase orders coming from the web shop, the Contact Centre and telesale.

For the purpose of a faster, simpler and more efficient service implementation, new solutions were introduced for the provision of the Open Biz Hotel TV service, a new converter for IP Centrex was implemented and free calls within the group were enabled, regardless of whether the customers used short or long numbers, which increased customer satisfaction.

In 2017, the Company worked on the creation and implementation of an ICT solution for the purpose of a growing ICT market, so that a Virtual Data Centre was implemented, along with network security services: Firewall and Load Balancer. A direct sale of Microsoft Cloud services to Mtel customers was enabled, primarily in the domain of business collaboration, infrastructure and security.

### **Logosoft**

The most important capital investments of the subsidiary Logosoft d.o.o Sarajevo, in 2017, refer to the modernization and development of an access and transport network infrastructure, which creates conditions for expanding the scope of business of Logosoft to local regional markets of business, information and communication solutions. Apart from this, the year 2017 was marked by investment in the development of a reliable, secure and available Data Centre, which officially opened in March 2017. By the development of the Logosoft Data Centre, the most modern facility of this kind in BiH, the establishment of the service called Backup as a Service, and a fast response to customer needs, Logosoft positioned itself as a perfect partner in the sphere of modern security cloud based technologies and collocation services.

### **Mtel Austria**

The most important capital investments of the Mtel Austria subsidiary in 2017 refer to upgrade of the software on the existing MVNO platform, and enable the provision of the VPN service to end users.

## **12.3.2. Investments of other subsidiaries**

### **mtel Podgorica**

The total investments of the mtel subsidiary in 2017 equalled RSD 7 billion (EUR 58.2 million), which is 6 percent higher than the investments made in 2016 (which were 165 percent higher as compared with the investments in 2015).

Mtel's investments account for 26.4 percent of the total investments of the Group in 2017.

In 2017, investments were aimed at the development of cable infrastructure. This is the largest project in mtel whose time schedule depends on conditions in the field. The development of the HFC network started in 2015, so that construction continued in 2016 and 2017 in order to cover all municipalities in Montenegro.

- In 2017, the network was developed underground, in the cable ducts of mtel and Montenegrin Telekom, and above the ground on poles owned by the Montenegrin Power Utility and public lighting poles owned by the Utility Company. These investments allowed mtel a comparative advantage over the competition, so that consequently, emphasis was placed on the development of the HFC infrastructure, especially in the suburban zones.
- In 2017, the company worked on the expansion of the existing cable infrastructure in the following cities: Herceg Novi, Tivat, Ulcinj and Bijelo Polje, and the implementation of the GPON network in the existing and new cities. Special attention was paid to the development of the technical models for the implementation of services for SOHO customers which include small enterprises and hotel capacities.
- Continued investments were made in the mobile network through a significant expansion of the 4G network which matches competitor operators, and 42 new locations of the 2G/3G network. Also, the company invested in increasing the capacities in the Core and RAN part of the network,

in accordance with the expected growth in traffic, and an additional hardware and software upgrade of the system for package traffic of the PS Core.

- Investments were made in the mobile access network, due to earlier achieved results in preparing the construction of the mobile network. This refers to projects, taxes, permits, construction, ecological studies, etc. Investments were also made in managing switching systems of the mobile and fixed networks, due to an upgrade of a part of the HLR system and MGW, the mobile positioning system (MPS), and a significant increase of licenses for fixed telephony due to an increase in the number of customers.
- After two years of work on implementation, it was planned to put into operation a new Ericsson CBiO billing system at the beginning of 2018. Thus, the first modification of the billing system will be completed 10 years after the beginning of mtel's work.
- In 2017, the company started work on two large investments in platforms for support to business processes, which will continue in 2018. Namely, the first investment refers to the replacement of the Microsoft Navision ERP platform with SAP, and the other is investment in the introduction of the IBM Netezza DWH platform. The introduction of new Billing, ERP and DWH platforms will allow a better quality process of reporting and a more flexible creation of new tariff packages, which will result in increasing mtel's revenues.

### **HD-WIN**

The total capital investments of the HD-WIN subsidiary in 2017 equalled RSD 27.8 million and referred to the procurement of the computer equipment, receivers and encoders, replacement of a part of the antenna system, procurement of studio equipment and additional computer equipment. The implemented capital investments are RSD 11.6 million higher compared with the previous year.

### **Telus**

The total capital investments of the Telus subsidiary in 2017 equalled RSD 8.8 million and referred to the procurement of five work vehicles.

The implemented capital investments are RSD 4 million higher compared with the previous year.

### **mts bank**

The implemented capital investments of the mts bank subsidiary in 2017 equalled RSD 11.7 million and largely referred to investments in Licenses (Microsoft software and core licenses, in the amount of RSD 10.4 million dinars) and fixed assets, of which information and communication equipment in the amount of RSD 1.1 million, office furniture and air conditioning in the amount of RSD 196,000. In 2016, investments amounted to some RSD 10 million.

### **TS NET**

In 2017, the TS:NET subsidiary made capital investments in the amount of RSD 146.4 million, which referred to the procurement of router and OTN/DWDM equipment. In the previous year, 2016, investments amounted to RSD 25 million for equipment.

### **mts d.o.o.**

In 2017, the mts d.o.o. subsidiary made investments in the amount of RSD 186 million, which referred to investments in software, licenses, base stations, IT equipment and the procurement of vehicles.

### **GO4YU**

The total capital investments made by the GO4YU subsidiary in 2017 amounted to RSD 6.8 million and referred to the procurement of vehicles (for the purpose of performing sales activities and visiting dealers and representatives on the territory of Europe), procurement of smart TVs, switches (for the purpose of testing the TV service), computers and encoder elements.

# 13

## EMPLOYEES



## 13. EMPLOYEES

### 13.1. NUMBER AND STRUCTURE OF EMPLOYEES

#### 13.1.1. Number and structure of employees on the level of the Parent Company and subsidiaries

The management and development of human resources are some of the priority objectives and tasks of Telekom Srbija and its subsidiaries. Care of employees means care of the overall satisfaction of employees, strengthening their motivation and loyalty to the company in which they work. Telekom Srbija and its subsidiaries always try to provide adequate working conditions for their employees, equal treatment, health and safety at work and a possibility of further improvement and education.

A comparative overview of the number of employees on the level of the parent Company and subsidiaries for 2016 and 2017 is provided in the tables below.

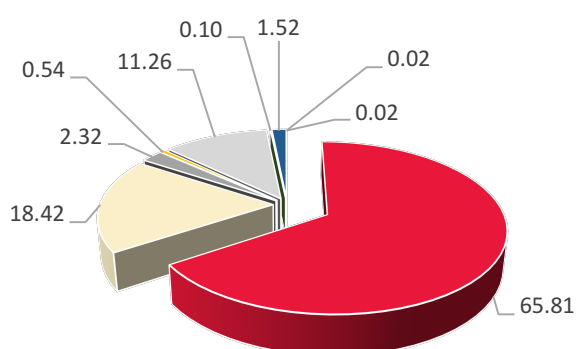
Table no. 16. Number of employees per member at year's end

Year	Telekom Srbija	Mtel Banja Luka	mtel Podgorica	HD-WIN	Telus	GO4YU	Mts Banka	Mts d.o.o.	Mts Antena TV	YUNET	Total
2016	8059	2255	284	66	1379	12	186	2	2	0	12.245
2017	7688	2253	293	70	1225	12	180	137	2	80	11.940
difference	-371	-2	9	4	-154	0	-6	135	0	80	-305
rate (%)	-4,60	-0,09	3,17	6,06	11,17	0,00	-3,23	0,00	0,00	0,00	-2,49

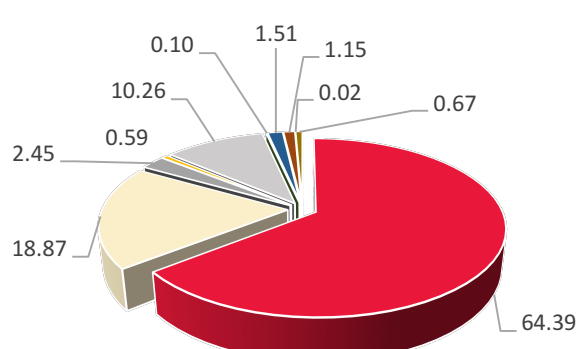
Table no. 17. Structure of employees per member at year's end

Year	Telekom Srbija	Mtel Banja Luka	mtel Podgorica	HD-WIN	Telus	GO4YU	Mts Banka	Mts d.o.o.	Mts Antena TV	YUNET	Total
2016	65,81	18,42	2,32	0,54	11,26	0,10	1,52	0,02	0,02	0,00	100,00
2017	64,39	18,87	2,45	0,59	10,26	0,10	1,51	1,15	0,02	0,67	100,00
change	-1,43	0,45	0,13	0,05	-1,00	0,00	-0,01	1,13	0,00	0,67	0,00

Structure of employees 2016



Structure of employees 2017

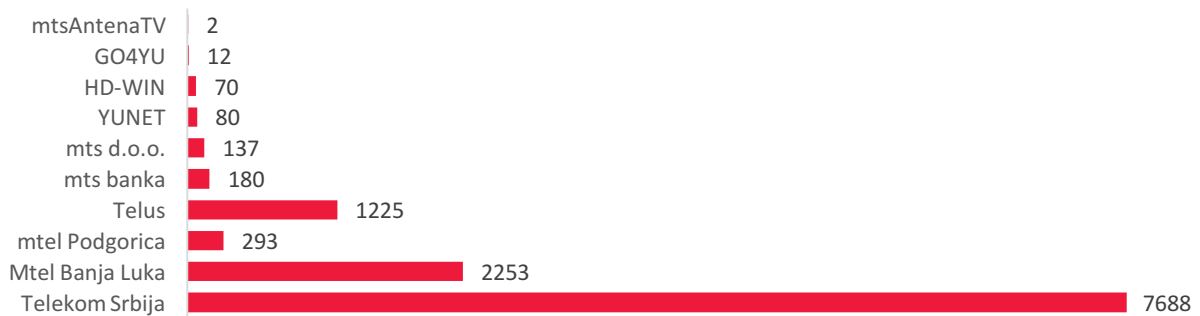


■ Telekom Srbija ■ Mtel Banja Luka ■ mtel Podgorica  
 ■ HD-WIN ■ Telus ■ GO4YU  
 ■ Mts Banka ■ Mts d.o.o. ■ Mts Antena TV

■ Telekom Srbija ■ Mtel Banja Luka  
 ■ mtel Podgorica ■ HD-WIN  
 ■ Telus ■ GO4YU  
 ■ Mts Banka ■ Mts d.o.o.  
 ■ Mts Antena TV ■ YUNET

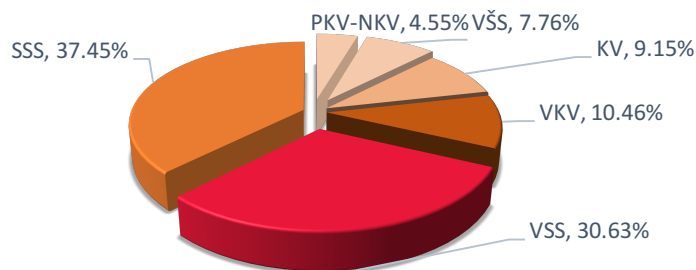
Due to the nature of their work, 141 employees from Telekom Srbija were seconded to subsidiaries and in the analysis of the number of employees, these employees are shown in the subsidiaries.

### Total number of employees in the Parent Company and subsidiaries as at 31 December 2017



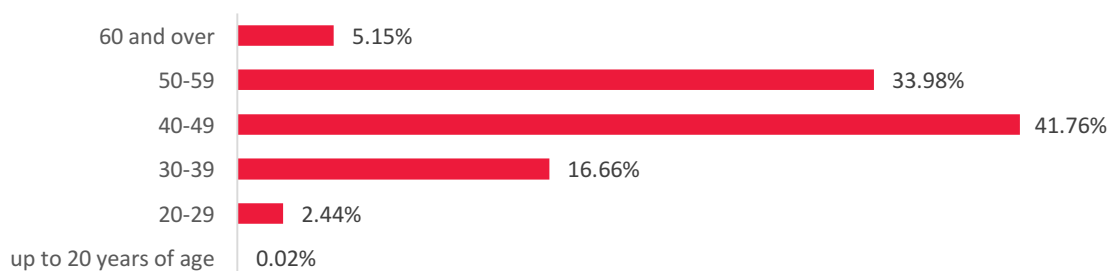
Apart from those employed for a definite and an indefinite period of time in the Parent Company and subsidiaries, a total of 2,669 persons were engaged on various contracts on engagement outside employment (leased workers – leasing, contracts on temporary and occasional jobs, engagement through the youth employment agency), of which the largest share belongs to Telekom Srbija with 55.34 percent, followed by Telus with 35.11 percent, mtel Podgorica with 4.01 percent, HD-WIN 2.88 percent, Mtel Banja Luka 2.36 percent, mts bank 0.22 percent, GO4YU 0.04 percent and Yunet 0.04 percent (in accordance with the Agreement on Business Cooperation between Telekom Srbija and the mts bank, 677 employees were engaged in the mts bank on contract on part-time work in December 2017). The educational structure of employees on the level of the Group is shown in the graph below. The largest share belongs to employees with high school education or 37.45 percent, followed by employees with university education or 30.63 percent.

Educational structure of employees on the level of the parent company and subsidiaries



When it comes to the age structure of employees in the Parent Company and subsidiaries, the largest share belongs to employees between 40 and 49 years of age (41.76%), followed by those between 50 and 59 years of age (33.98%).

### Age structure in the Parent Company and subsidiaries

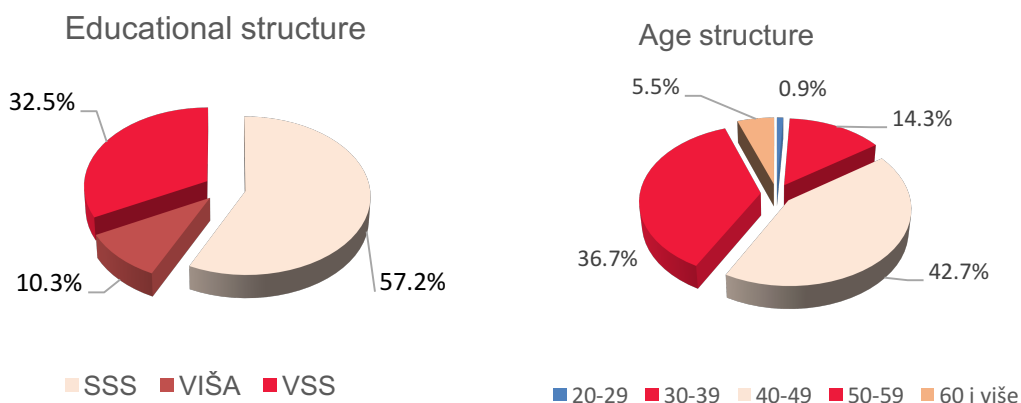


### 13.1.2. Number and structure of employees in Telekom Srbija

The management and development of human resources are some of the priority objectives and tasks of Telekom Srbija. Care of employees includes care of the overall satisfaction of employees, strengthening their motivation and feeling of loyalty to the Company. Telekom Srbija has always tried to provide a better future for its employees, adequate working conditions, an equal treatment of employees, health and safety at work and a possibility of further improvement and education.

As at 31 December 2017, there was a total of 7,829 employees in the Parent Company. Of the said number, and due to the nature of operations, 141 employees were temporarily seconded to other subsidiaries. Apart from the said number, a total of 1,477 persons were engaged outside employment through the employment agency (labour leasing) as at 31 December 2017.

Based on the following graphs presenting the educational and age structure of employees with an employment contract (excluding the employees with a dormant work status), the largest share belongs to employees with high school education (57.2%), i.e. the largest percentage of employees are between 40 and 49 years of age (42.7%), followed by employees between 50 and 59 years of age (36.7%).



### 13.1.3. Number and structure of employees in the subsidiaries

#### Mtel Banja Luka

The total number and structure of employees at the end of 2017 remained at approximately the same level compared with 2016. The number of employees does not include one employee with a dormant work status and three persons seconded from Telekom Srbija. Logosoft's employees include three persons employed in "mts sistemi integracije" d.o.o.

A comparative overview of the number of employees on the level of the Mtel Group for 2016 and 2017 is provided in the tables below.



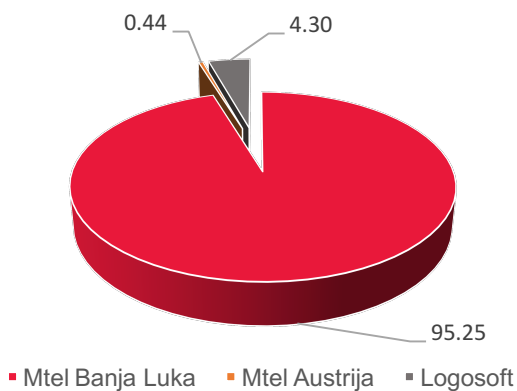
Table no. 18. Number of employees per member at year's end

YEAR	Mtel Banja Luka	Mtel Austria	Logosoft	Total
2016	2148	10	97	2.255
2017	2137	12	104	2.253
difference	-11	2	7	-2
rate (%)	-0,51	20,00	7,22	-0,09

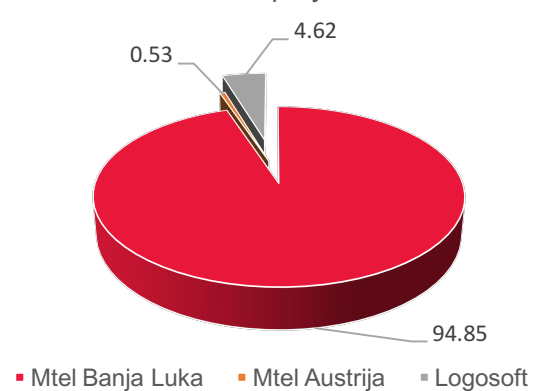
Table no. 19. Structure of employees per member at year's end

YEAR	Mtel Banja Luka	Mtel Austria	Logosoft	Total
2016	95,25	0,44	4,30	100,00
2017	94,85	0,53	4,62	100,00
change	-0,40	0,09	0,31	0,00

Structure of employees 2016



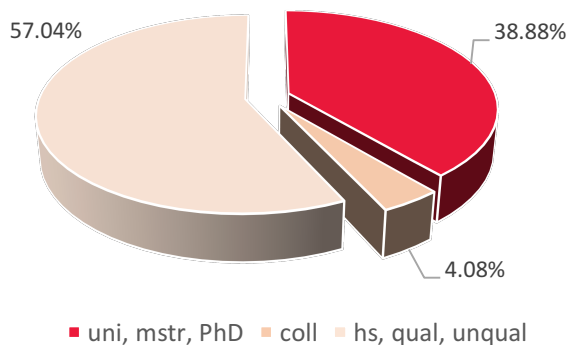
Structure of employees 2017



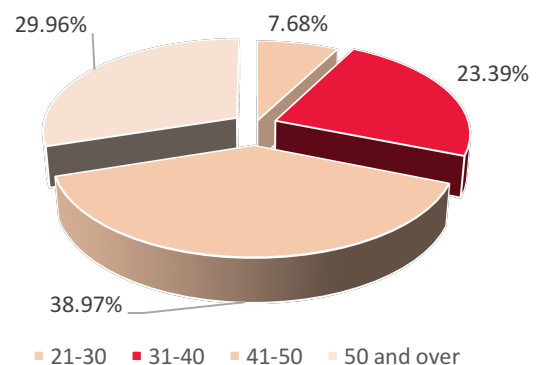
Employees with high school education account for the largest share in the total number of employees or 57.04 percent, while the largest number of employees are between 40 and 50 years of age (38.97 percent).

More detailed information on the structure of employees is shown in the graphs below:

Educational structure



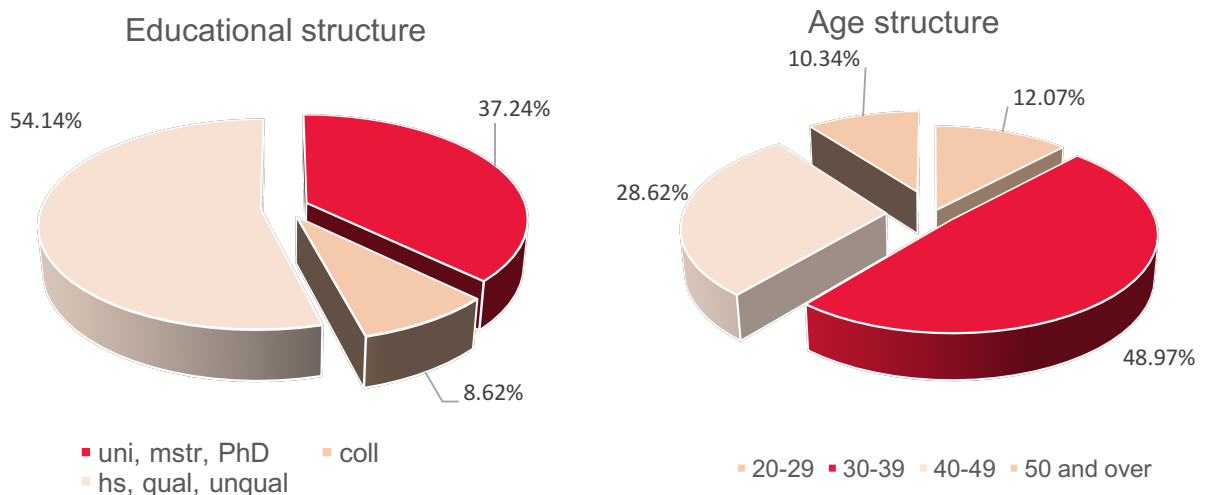
Age structure



### Mtel Podgorica

As at 31 December 2017, mtel Podgorica had 290 permanently employed workers and 107 workers engaged outside of employment through the “Gi Group” and “Gi Group Outsourcing” and on temporary service contracts.

Employees with high school education account for the largest share in the total number of those permanently employed or 54.14 percent, while the share of employees with university education is 37.24 percent. The largest number of those permanently employed are between 30 and 49 years of age (48.97 percent).



### mts bank

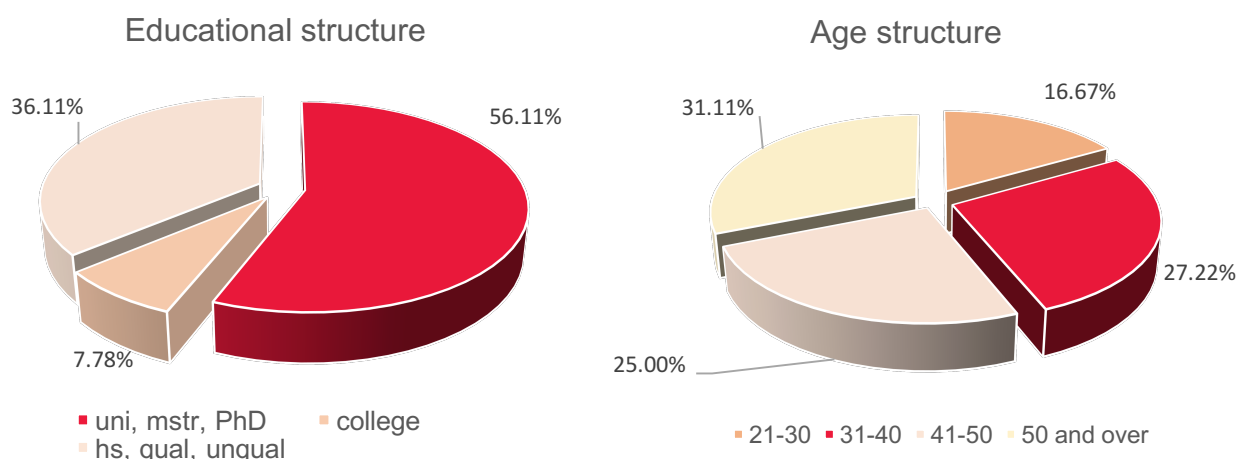
As at 31 December 2017, the mts bank had 180 employed workers and 6 workers engaged outside employment. The number of those employed for an indefinite period of time was 156, while 24 employees were engaged on a labour contract for a definite period of time.

A total of 6 employees of the mts bank are engaged for the provision of consulting services based on engagement outside employment – on a temporary service contract: 1 from the sphere of procurement and general affairs, 1 from the sphere of operations with citizens, 1 from the sphere of collection of problematic receivables and 2 consultants from Telekom Srbija on the Project of Business and IT Transformation of the mts bank.

In January 2017, Telekom Srbija and the mts bank concluded an Agreement on Business Cooperation, based on which the mts bank concluded individual contracts on part-time work with the employees and workers engaged from Telekom Srbija. As at 31 December 2017, there was a total of 677 workers engaged on the contract on part-time work in the mts bank as at 31 December 2017.

Of the total number of employees, the largest share belongs to employees with university education (56.11 percent), while the largest number of employees are between 31 and 40 years of age (27.22 percent) and 41 and 50 years of age (25 percent). The number of employees engaged on all grounds was reduced by seven employees (3.63 percent) at the end of 2017 as compared with the end of 2016.

More detailed information on the structure of employees is shown in the graphs below:



### Telus

The number of employees who entered into an employment contract at the end of 2017 equalled 1,191 (which is 13.63 percent less than in 2016), while the number of those engaged on contracts on temporary jobs was 328 (which is 53.08 percent less compared with 2016). The total number of employees at the end of 2017 decreased by 27 percent.

In December 2017, some 400 workers were engaged through employment agencies, while the company engaged some 30 workers through employment agencies in December 2016.

### HD-WIN

At the end of 2017, HD-WIN d.o.o. Beograd had 56 employees and 62 persons engaged outside employment (technical staff, commentators and production), while HD-WIN ARENA SPORT d.o.o. Zagreb had 14 employees and 15 persons engaged outside employment.

## 13.2. MANAGEMENT OF ORGANIZATIONAL STRUCTURE AND EMPLOYEE DEVELOPMENT

### 13.2.1. Employee development in Telekom Srbija

During 2017, the project named “Transformation of Telekom Srbija a.d.” was implemented in cooperation with the BCG consulting firm mostly with the aim of optimizing the overall Company’s performance. In accordance with the Company Transformation Project, the new internal organization and job classification were adopted, which helped us optimize and centralize the business processes and significantly reduce the number of organizational units, work posts and positions in the Company.

### Talent Management

The implementation of Talent Management Strategies, in keeping with the strategic goals in the field of human resources development, commenced in 2017 as a consulting project named “Recognition, Development and Management of Key Employees—Talents of Telekom Srbija a.d., which encompassed managers and employees in all business functions of the company.

Within this project, with the support of the team of HR Division, we initially recognized a Talent Pool – a group of managers and employees who are in charge of the key business processes and drew up their individual development plans.

## Employee Performance Appraisal for 2017

During 2017, the second employee performance appraisal was made according to the new model of Performance Management which served as a basis for the assessment of employee performance, in two segments of appraisal:

- **Key goals /performance indicators (KPI)**, which were defined and cascaded through hierarchical levels to the lowest-ranking employee; and
- **Competencies**, assigned, based on the relevant methodology, to all employee groups, per organizational unit.

## Transformation of corporate culture in 2017

As regards the implementation of the project of transformation of the corporate culture in the Parent Company, a series of activities were taken during 2017 with the aim of promoting and providing support to the adoption of a new corporate culture, the values defined and the leadership behaviours through education of 205 managers, internal communication via Newsletter and corporate culture banners on the front page of the new internal portal.

## External and internal education in 2017

- A total of 1,882 employees applied for advanced external education in the country and abroad, and they spent a total of 5,964 days in training sessions and classes.
- A total of 319 employees attended various international education events – conferences, congresses and seminars.
- A total of 275 employees attended training courses arranged under contracts with the suppliers signed in 2017.
- A total of 367 employees improved their skills through internal education programs organized by the Training Centre of HR Division, during 2017.
- A total of 49 employees attended in-house English classes.
- The internal team building programs continued in 2017 and comprised 87 employees in the Parent Company.

## Advanced education in 2017

The employees who qualified for advanced education signed the contracts with the company to regulate their mutual rights and obligations during the studies over the contractual period:

- Number of active contracts on further education and training as at 31 December 2017 was 27;
- Only 11 employees signed a contract on further education and training in 2017; and
- A total of 5 such contracts were terminated before expiration, but 15 contracts for the previously approved studied regularly expired.

## Licenses, certificates, membership fees

In 2017, the Company provided funds for various types of licenses, certificates, professional licensing exams and membership fees for 616 applicants. They mostly cover the renewal of membership fees, obtaining new licenses and professional exams in the Serbian Chamber of Engineers for the license of responsible designer and license of responsible contracting engineer (501 applicants), and the remaining items refer to the obtaining of CISCO and other professional certificates for 36 employees, membership fee for 21 employees paid to the Association of Accountants and Auditors, PMI membership fee for 22 members, recertification of PMP certificates for 13 employees, membership fees for 8 members of the Associations of Internal Auditors and 1 membership fee for the Chamber of Chartered Auditors, recertification of GIAC certificates for 1 employee and membership fees for the International Institute of Business Analysis for 3 employees.

## Recruitment and selection

- During 2017, the Company hired 187 persons outside employment contract (external engagement).
- Internally, 4 employees were reassigned to other jobs.

### Professional practice

During 2017, 113 students completed their professional practice in the Company. In cooperation with the Carrier Development Centre of the Belgrade University, professional practice in the Company was arranged for 53 students (Faculty of Economics, Faculty of Organizational Sciences, Faculty of Electrical Engineering, Faculty of Transport and Traffic Engineering, Faculty of Mathematics and Sciences, Faculty of Philosophy).

### Other employee benefits

During 2017, the following activities were taken within the policy for material protection, social protection and health care of employees:

- Jubilee awards – In keeping with the Collective Agreement of the Parent Company, the payment of jubilee awards is made to the employees for 10, 20, 30, 40 and more years of service in Telekom Srbija i.e. PTT Srbija. In 2017, jubilee awards were paid to 1,068 employees.
- Solidarity aid and other forms of aid – the Parent Company paid a total of 296 solidarity aids to the employees and their close family members on all legal grounds envisaged for such purposes in 2017.
- Loans for addressing employee housing needs. During 2017, a total of 29 employee housing loan agreements were concluded.
- Medical examinations, occupational rehabilitation and recreation of employees – the Parent Company organized specialist medical examinations for 3,027 employees, occupational rehabilitation for 350 employees and recreation for 208 employees.

### 13.2.2. Employee development in subsidiaries

#### Mtel Banja Luka

In 2017, the employees attended the training courses in various fields of operation with the aim of improving business processes by enhancing communication skills, managerial excellence and advancing employee competencies.

Priority was given to the organization of in-house training programs and launching the operation of the In-house Academy– m:Academy. In the initial year of operation of the in-house academy, a total of 69 training programs were implemented for more than 1200 participants. The in-house trainings covered technical fields, sales operations, project management, other business skills and knowledge of software and applications.

In keeping with the adopted Program for a change in organizational culture in Mtel Banja Luka, the following activities were organized in 2017:

- Distribution and promotion of the Code of Conduct leaflet: "Business in Our Way".
- Strengthening the synergy – in-house events with the participation of the representatives of the management and employees aimed at building a team for a more efficient implementation of business goals.
- Processes aimed at building a culture of innovation in the company, employee training with the help of design thinking tools and in line with the leading trends in the method of work and creative, customer-oriented task management.
- A pilot project was launched with the aim of profiling the competencies of the group of company managers that would be in line with the necessary change in organizational culture. Within that project, the employees of HR Department completed the education program for mastering coaching techniques as support to the development of managerial competencies.
- Measurement of corporate culture was introduced by organizing annual surveys.

#### mtel Podgorica

During 2017, the personnel data base was established through the Navision application and employee collective insurance was provided. The employees with employment contracts that envisage work in specific working conditions, as set forth in the Rules on safety-at-work and security, completed their regular medical check-ups necessary for assessing the health condition that is required for performing special work tasks. The procedure for membership application for the Montenegrin Union of Employers was also conducted.

### **mts banka**

Mts banka organized during 2017, *inter alia*, the following external training courses for employees:

- Advisory event "Bank Fining" and the seminar named "Experiences in Application of MSFI 9" organized the Serbian Association of Banks,
- Training: "Optimization of the performances of virtual infrastructure" organized by the Training Centre "Coming"; and
- training courses in cash processing organized by the NBS.

In-house education programs in 2017:

- education in the field of Compliance, testing the skills related to combating money laundry and financing of terrorism and providing compliance of operations, which was conducted by electronic means; all employees were tested;
- education in the field of SPN/ FT and IT security organized by the Compliance Control Centre; and
- training for the job of a junior cashier organized by the Section for Support to Business Network; all employees attended the training.

### **Telus**

Telus's policy towards the employees primarily depends on the market conditions, but is fully devoted to the maintenance of high standards as originally established by the founder.

There are four labour union organizations in Telus, two of which are representative labour unions: Unified Trade Union Telus and Trade Union of Telekom Srbija.

The rights and obligations of the employees are regulated by the Collective Agreement whereunder the employees have guaranteed rights that exceed the rights envisaged by the law (night work allowance, longer annual leave, paid absence from work, higher percentage of salary increase against past labour, severance pay in case of redundancy, and the like).

### **HD-WIN**

Beside the high technical and technological quality of equipment of this TV and the automated broadcasting system, special focus in operation is placed on the overall satisfaction of employees, work motivation and employee professional progress. HD-WIN has invested its best efforts in providing secure and most adequate conditions for work, health and personal protection at work, equality among the employees and the possibility of further educations and training.

Upon its accession to the Group, HD-WIN underwent the reorganization and systematization of the entire production process within the company with new operating standards. All the employees of the Company have been insured against accident risks, serious diseases and surgical interventions at work and outside work (24 hours).

# 14

## INVESTMENT IN ENVIRONMENTAL PROTECTION AND OTHER SOCIAL ACTIVITIES



## 14. INVESTMENT IN ENVIRONMENTAL PROTECTION AND OTHER SOCIAL ACTIVITIES

In 2017, celebrating its 20th anniversary, Telekom Srbija launched a corporate campaign named "20 Years of Passion for Communications". The socially responsible operation, ethical approach to all stakeholders and good will and determination in addressing social issues are the basic principles that the Company has been guided by since the day of its incorporation, to date.

As for the CSR activities, the biggest focus in the previous period was placed on investments in the field of education and, during 2017, Telekom Srbija supported 45 projects related to education. Beside the formal education, Telekom Srbija also supported the development of informal education through competitions, professional practice, personalized training and organization of education camps.

The CSR activities in Mtel Banja Luka represent an important part of its mission. As it used to do in the previous years, Mtel donated some funds in 2017 for various humanity projects, supported the institutions of culture, sports and took care of environmental protection and employees' welfare.

mtel Podgorica applied the high professional and ethical standards and showed responsibility by taking care of the community in general, for which the socially responsible operation is an extremely important segment of its corporate strategy, and it also donated funds in other different spheres and industries significant for the Montenegrin society.

### Environmental Protection Report

The task of all of us, and especially of big corporations, is to use the available resources in a responsible and conscientious manner, to invest in sustainable development and thus make their contribution to the society and community. Telekom Srbija took measures aimed at environmental protection by adopting the eco-friendly technologies and methods in order to reduce the negative effects on the environment. Special care was taken about various aspects of environmental protection, such as rational electricity consumption, prevention of waste material being created, proper way of disposing of the waste material and recycling. By investing in and installation of the state-of-the-art telecommunications technologies, the Company contributed to the application of clean technologies and technologies with lower consumption of electric power and lower noise exposure, as compared to the devices used in the past decades.

Telekom Srbija generated all kinds of waste which is properly disposed of in accordance with the legal regulations. The Company concluded the contracts on the purchase of hazardous and non-hazardous waste with 18 companies licensed for this line of business. During 2017, a total of 475 tons of waste material were disposed of, of which, 86 tons of hazardous and 389 tons of non-hazardous waste, which is 34 % less generated waste than in 2016.

During 2017, the sound output from air conditioning chillers was measured at 3 locations and no excessive noise levels were recorded. The emission of pollutants in the air (smoke gasses as the products of combustion in the boiler rooms) is regularly measured in 16 boiler rooms and only one result that exceeds the prescribed values was recorded.

Before installing a base station, the Environmental Impact Assessment Study is to be made in order to identify and list all technical data and protection measures for that particular base station. As soon as this Study is approved, the base station is put into operation. Before the first commissioning, it is necessary to measure the levels of electromagnetic, high-frequency radiation. According to the Non-ionizing Radiation Protection Act, the measurements of the levels of electromagnetic radiation of the radio base stations are done once in two years. So far, the Parent Company has not recorded any excessive values of allowed level of radiation. In 2017, the measurements of the level of non-ionizing radiation were conducted on 1.126 base stations, on 438 locations, which included the preparation of a study containing the expert assessment of impacts on the environment. There are 89 base stations which were declared as a source of radiation which should be treated with special concern (depending on the location they were installed) and they should be controlled once in two years.

As for the imported electronic and electric products that are categorized as special types of waste after their useful live, the Company paid the fee in the amount of RSD 4,852,835 and those funds will be used for improving the environmental conditions.



In 2017, Mtel Banja Luka launched and conducted numerous activities in the field of environmental protection. Certainly, in keeping with the practice of responsible approach to the environment, Mtel placed a special focus on ensuring compliance with the law and the specific activities in the domain of environmental protection.

### **Projects in 2017**

**"We Create Knowledge" – an investment in the future.** On occasion of its 20th anniversary, Telekom Srbija launched a project named We Create Knowledge which resulted in providing equipment for 20 IT rooms in 20 elementary schools.

**"Tesla Time Machine" – lighting up of the European cities.** The artistic project "Tesla Time Machine" by which Telekom Srbija, in 2016, marked the 160th anniversary of the birth of Nikola Tesla, one of the most celebrated scientists ever, was presented for the first time in the countries out of the region, in Vienna and Berlin.

**"mts Start-up Acceleration" – an accelerator of development of technological entrepreneurship.** The program is intended for the students of the Start-up Academy and has been organized for five years by SEE ICT, the organization specialized in the promotion of entrepreneurship in IT industry. More than 100 entrepreneurs who graduated from this Academy made 2 million EUR investments. One or maximum three teams may get a pecuniary incentive and free-of-charge mts services for a good business idea – optical Internet access and Cloud Server.

**mts app competition.** Since 2011, Telekom Srbija has organized mts app competitions for the development of application for mobile devices with the aim of encouraging the development of entrepreneurship and cooperation among the youth. Mts app competition, as the example of good practice as far as cooperation and support to the youth is concerned, was selected as one of the most representative projects by the European Corporate Social Responsibility - CSR Europe.

Since 2017, this competition has also been announced on the same conditions in Bosnia and Herzegovina and Montenegro, organized by Mtel Banja Luka and mtel Podgorica under the name "Regional APP Challenge".

### **Support to Education**

Telekom Srbija has been cooperating for several years with the student organizations, such as, ESTIEM from the Faculty of Organizational Sciences on the project named "Academy of Modern Management".

The Parent Company supports the development of young talents in cooperation with the High School of Mathematics by organizing the summer math camps in Šabac and Tulba near Požarevac.

Telekom Srbija participated in big partner projects related to SCR field and improvement of knowledge. One of such projects is "Battle for Knowledge" launched by B92 Fund, where the Parent Company provided funds for equipping the six schools in Serbia with the robots, which will help the pupils develop their abilities.

The Parent Company gave support to the project "In the Footsteps of Our Ancestors", published by the Serbian Orthodox Church with the focus on the historical period of the Great War and the time that the Serbian soldiers spent in Corfu.

This year, Mtel Banja Luka has also promoted the best students in Bosnia and Herzegovina (B&H), i.e. top 25 students of the faculties of electrical engineering in B&H who were awarded m:scholarships in 2017. During the year, a new competition was opened for the next, 8th generation of scholars.

The International Association for the Exchange of Students for Technical Experience (IAESTE) and Mtel have traditionally cooperated in implementing the student exchange programs, so that some foreign students completed their practical work in Mtel in 2017, which means, on a reciprocity basis, that B&H students will have a chance to spend their professional practice abroad.

In 2017, mtel Podgorica continued supporting the project "Factory of Knowledge", which is organized every year within the "Open Days of Science" and offers an opportunity for the students and pupils to get familiarized with the current trends in IT technologies through education and entertainment. Besides,

a Digital Factory was opened in 2017, which is the first ICT incubator in Montenegro, which enables the environment for developing technological entrepreneurship and innovations.

### **Investments in Healthcare Industry and Social Security**

Telekom Srbija donated funds: to the Institute of Oncology and Radiology for the procurement of reagents for examining genetic markers and the accelerator for radiotherapy, to Sveti Luka Community Hospital in Smederevo for the purchase of a set of laparoscopic instruments, to the Community Hospital at Požarevac for the procurement of a laminar flow cabinet, to the Community Hospital at Pančevo for the procurement of a cardiac and orthopaedic ultrasound units; donations for the improvement of work conditions were granted to the Clinical-Hospital Centre "Zvezdara", Community Hospital Dr Aleksa Savić at Prokuplje and the Community Health Centre at Kikinda.

Telekom Srbija also supported: the Association of Women Treated for Breast Cancer "Let Us Be Together" and "Belhospice, the humanitarian organization "Friend in Need" which offers assistance in organizing rehabilitation for the children treated for malignant diseases, and certain funds were also donated to the Sports & Recreation Association for the Disabled "Everything is Possible", for the organization of the International Drina Regatta for the Disabled. Traditionally, financial support was provided to Centre for Protecting Babies, Children and Youth, the Institute for Children and Youth Education, the Home for Children and Youth with Developmental Disabilities "Sremcica", the Milica Rakic Fund of Batajnica and the Association for Helping Mentally Challenged Persons (MNRO) at Ruma. Support was given to the Centre for Better Society for the purpose of maintaining the project of education for the children living in 3 homes for the children without parental care. Cooperation with the Association "Liceulice" providing support to marginal groups was continued through their inclusion in the magazine distribution network.

On occasion of its 10th anniversary, mtel Podgorica donated in 2017 the medical oxygen equipment to the Children Hospital at Podgorica, Department of Neonatology with the value of over 20,000 euros, and the Project for making appointments with specialists through the chosen GP was financed with 30,000 euros.

Also, in 2017, support was provided for the project "True Story"- a specialized educational campaign promoting prevention as the most effective way of fighting breast cancer. The employees in mtel were invited to undergo breast ultrasound examination free of charge. For the New Year's Holiday, mtel gave presents to the children of self-supporting mothers from NGO "Zinak".

### **Supporting the Tradition and Modern Trends in Culture**

Telekom Srbija established cooperation with the Department of New Media at the Faculty of Fine Arts by donating equipment necessary to be used in the classes and supporting the Annual Achievement Award given to the best student's work for the students at this Department.

Telekom Srbija supported the art exhibitions about Petar Lubarda and Paja Jovanović in the Jevrem Grujić's House Museum, and continued the traditional cooperation with the Festival of Arts "Nusic's Days", the International Theatre Festival for Children at Zaječar, the Zmaj's Children's Games and the Children's October Salon.

Under the auspices of the Company, two exhibitions were held: "The Serbian Artistic Heritage in Kosovo and Metohija" in the organization of SANU and "100 Women - 100 Miniatures" and, owing to the long-lasting cooperation with the Ilija M. Kolarac Endowment, Telekom supported the music concert named "Music for Love and Peace in the World" performed by the Serbian Youth Philharmonic Orchestra "Naissus".

In order to find the innovative ways to support the culture and cultural values by using the contemporary channels of communication, Telekom Srbija introduced a special day on its mts Facebook profile "Cultural Wednesday", where it creates some original posts and photos that can remind people of the facts and amusing anecdotes related to the most outstanding achievements of the remarkable individuals, institutions and projects and rewards the followers.

In the field of culture and education, Mtel Banja Luka continued cooperation with many institutions and events that marked the year of 2017 in B&H, such as, with the Academy of Arts at Banjaluka, the National Theater of RS, the Children Theatre of RS, Cultural Centre Banski Dvor at Banjaluka, the Museum of Modern Arts of RS, and many others.

Owing to the support provided by Mtel, the Faculty of Philology at Banjaluka got the bust of Vuk Stefanovic Karadzic, a work of art in bronze and numerous festivals were held: the Festival of Science at Banjaluka and Sarajevo Unlimited at Sarajevo, the International Festival of Student Theatres "Kestenburg", International Festival Dukatfest and Festival of Serbian Folklore.

Mtel Banja Luka supported some other big festivals, such as – St. George's Day Children's Song Festival, Demofest, Fresh Wave, Banjaluka Guitar Festival, OK Fest on Tjentiste and Rok Fest "Kozara at Heart".

The 2017 Sea Dance Festival was financially supported by mtel Podgorica.

### **Sports and Youth**

Telekom Srbija has supported the project of free basketball school for the girls attending primary schools, "The Women's Basketball Society - Marina Maljkovic" since 2015 and in 2017 TS additionally contributed to the publishing of a handbook titled "250 Good Pieces of Advice– A Guide to Growing Up". The 4th "Sports Assembly of the Holy Serbia", the event organized by the Orthodox Sports Society "Holy Serbia" was held with the support of TS.

Numerous sports events in 2017 were held with the financial support of Mtel Banja Luka and mtel Podgorica.

### **Awards and Memberships**

Telekom Srbija is a member of the local office of the UN Global Agreement on the promotion of Goals of Sustainable Development within the 2030 Agenda and also participates in the work of the Responsible Business Forum, which gathers the companies dedicated to integration of corporate social responsibility in daily business practice.

During 2017, Telekom Srbija received a series of recognitions for the activities in CSR field:

- Virtus Award for a long-term partnership with the non-profit sector for cooperation with the National SOS Children's Line (NADEL), under number 116111, which offers telephone advice to the children throughout Serbia to help them address any potential risks.
- Tesla Time Machine, a 4D projection multimedia art project was awarded "Balcannes 2017", the recognition for the best regional project in the 10th Weekend Media Festival at Rovinj.
- "Pupin Memorial Project" as a partnership project of the Educational & Research Society "Mihajlo Pupin" and Telekom Srbija, was ranked among the top five projects in the competition of 349 projects World's Summit on the Information Society.
- Magazine "Diplomacy&Commerce" granted the Award for sustainable development growth and contribution to community in 2016 to Telekom Srbija in recognition of its activities in the CSR field.
- TS was also the winner of the 2017 Biznis Partner Award which has a regional character and has traditionally been given to companies for 23 years in the organization of Mass Media International.

In 2017, Mtel Banja Luka was awarded recognition for the following projects and activities:

- The Letter of Thanks for successful cooperation and contribution to the establishment of a system for protecting and rescuing the people and material property in Bosnia and Herzegovina was given to Mtel by the Federal Department of Civil Protection.
- Being a partner in the campaign: "Be Smarter Than Your Phone. Don't Use the Phone While Driving"! Mtel received the recognition for its contribution to increasing the safety of road traffic and improving the operation of the Road Traffic Safety Agency of Republika Srpska.
- The Letter of Thanks was given to Mtel for the support and assistance in the implementation of activities and projects launched by the Association of Premature Babies' Parents in RS "Mrvice", and for the help in raising awareness about the problem of premature births.

# 15

## FINANCIAL STATEMENTS



## 15. FINANCIAL STATEMENTS

### 15.1. CONSOLIDATED FINANCIAL STATEMENT OF TELEKOM SRBIJA GROUP

#### Consolidated Income Statement of Telekom Srbija Group

In million RSD	2016	2017
<b>Operating revenues</b>	<b>125.845</b>	<b>123.693</b>
(including account groups 62, 67, 68 and 69)		
Fixed telephony	38.890	35.658
Mobile telephony	60.425	60.086
Internet retail	10.678	11.298
Multimedia	9.700	11.088
ICT services	469	548
Other operating revenues	5.683	5.015
<b>Operating expenses</b>	<b>-108.409</b>	<b>-108.595</b>
(including/(excluding) account groups 57, 58 and 59/(62))		
Costs of salaries and allowances	-20.131	-20.193
Operator's costs	-13.852	-11.776
Costs of material and maintenance	-20.914	-21.416
Costs of amortization	-24.904	-26.728
Costs of lease	-6.718	-6.589
Other operating expenses	-21.890	-21.893
<b>EBIT</b>	<b>17.436</b>	<b>15.098</b>
EBIT rate	13,9%	12,2%
<b>EBITDA</b>	<b>42.340</b>	<b>41.826</b>
EBITDA rate	33,6%	33,8%
Financial revenues/(expenses), net	-745	1.432
Share in the losses incurred by subsidiaries	-43	-17
Net profit tax	-1.698	-1.776
<b>Net profits</b>	<b>14.950</b>	<b>14.737</b>
Net profit rate	11,9%	11,9%

In 2017, the total generated operating revenues amounted to 123.7 billion dinars and are lower by 2% as compared to 2016. In the same period, the operating expenses increased by 0.2% and amount to 108.6 billion dinars.

EBIT is 15.1 billion dinars (a 13% decline) with a 12.2% margin and EBITDA in the amount of 41.8 billion dinars (a 1% decrease) with a 33.8% margin.

The net financial revenues amount to 1.4 billion dinars. In 2017, the foreign exchange gains were generated in the net amount of 1.4 billion dinars (in 2016, the foreign exchange losses were generated in the net amount of 0,7 billion dinars).

In 2017, the net profits were generated in the amount of 14.7 billion dinars (a 1% decrease) with a 11.9% rate.

The operating revenues went down by 2.1 billion dinars. The revenues from fixed telephony are lower by 3.2 billion dinars (8%). The decrease is mostly due to the lower revenues from traffic (19%) and monthly fees (8%). The revenues from mobile telephony decreased by 339 million dinars (1%). The revenues from interconnection are lower by 14% and revenues from prepaid by 10%, while postpaid increased by 6%. On the other hand, the revenues from multimedia and Internet retail increased by 1.4 billion dinars (14%) and 0.6 billion dinars (6%), respectively.

### Consolidated Income Statement of Telekom Srbija Group (Continued)

The operating expenses increased by 186 million dinars. The operator costs declined by 2.1 billion dinars (15%) mostly due to the lower costs of interconnection. The amortization was higher by 1.8 billion dinars (7%) mostly due to the increase in the Parent Company. Also, the costs of purchased TV content increased by 550 million dinars (11%), as well as the costs of the hand sets and devices sold as part of service packages, by 500 million dinars (4%).

### Consolidated Balance Sheet of Telekom Srbija Group

In million RSD	31.12.2016.	31.12.2017.
<b>NON-CURRENT ASSETS</b>	<b>214.074</b>	<b>210.181</b>
Intangible assets (excluding account groups 016, part of account groups 014, 015 and 019)	70.239	67.599
Real estate, plants and equipment, and advances (including account group 016, part of account group 014 and 019)	132.084	130.470
Other (including account group 288)	11.751	12.112
<b>CURRENT ASSETS</b>	<b>47.327</b>	<b>49.422</b>
Inventories (excluding account groups 14 and 15)	7.142	6.438
Receivables and other current assets (including account groups 15, 21, 22, 23)	23.407	26.064
Cash and cash equivalents	8.732	9.347
Other	8.046	7.573
<b>TOTAL ASSETS</b>	<b>261.401</b>	<b>259.603</b>
<b>Equity capital</b>	<b>149.667</b>	<b>148.971</b>
Share capital	100.000	100.000
Other	49.667	48.971
<b>Interest without controlling rights</b>	<b>18.542</b>	<b>17.531</b>
<b>TOTAL EQUITY</b>	<b>168.209</b>	<b>166.502</b>
<b>LONG-TERM LIABILITIES</b>	<b>36.360</b>	<b>38.039</b>
Long-term loans (excluding account group 419)	32.210	34.146
Other (including account groups 40, 495 and 498)	4.150	3.893
<b>CURRENT LIABILITIES</b>	<b>56.832</b>	<b>55.062</b>
Long-term loans currently mature due for payment (excluding part of account group 429)	22.096	23.276
Operating liabilities (including account groups 430 and 44)	24.467	21.665
Other short-term liabilities	10.269	10.121
<b>TOTAL LIABILITIES</b>	<b>261.401</b>	<b>259.603</b>

### Consolidated Cash Flows of Telekom Srbija Group

In million RSD	2016.	2017.
<b>Earnings before taxation</b>	<b>16.648</b>	<b>16.512</b>
Profit adjustments	20.866	25.038
<b>Net cash in from operating activities</b>	<b>37.514</b>	<b>41.550</b>
<b>Net cash out from investment activities</b>	<b>-23.755</b>	<b>-29.002</b>
<b>Net cash out from finance activities</b>	<b>-22.154</b>	<b>-11.933</b>
Net flow-ins/(flow-outs) of cash and cash equivalents	-8.395	615
Cash and cash equivalent at the beginning of the year	17.127	8.732
<b>Cash and cash equivalents at the end of the year</b>	<b>8.732</b>	<b>9.347</b>

### Ratio Analysis of Consolidated Business Results

In million RSD	31.12.2016.	31.12.2017.
Total debt	54.306	57.422
Net debt	45.574	48.075
Net debt/EBITDA	1,08	1,15
Total liabilities / EBITDA	2,2	2,23
Debt ratio	21,3%	22,4%
Quick liquidity ratio	0,65	0,74

## 15.2. FINANCIAL STATEMENTS OF THE PARENT COMPANY AND SUBSIDIARIES

### KEY FINANCIAL INDICATORS

#### Telekom Srbija a.d. Beograd

#### Profit and Loss Account

In million RSD	2016	2017
<b>Operating revenues</b>	<b>89.488</b>	<b>88.191</b>
<b>(including account groups 62, 67 and 68)</b>	32.531	29.923
Mobile telephony	41.094	41.375
Internet retail	8.989	9.446
Multimedia	4.024	4.596
ICT services	203	289
Other operating revenues	2.647	2.562
<b>Operating expenses</b>	<b>-74.926</b>	<b>-75.910</b>
<b>(including/(excluding) account groups 57 and 58/(62))</b>	-12.955	-12.874
Operator expenses	-13.107	-11.949
Material and maintenance	-13.982	-14.749
Depreciation and amortization	-14.884	-16.141
Lease expenses	-5.179	-5.049
Other operating expenses	-14.819	-15.148
<b>EBIT</b>	<b>14.562</b>	<b>12.281</b>
EBIT rate	16,3%	13,9%
<b>EBITDA</b>	<b>29.446</b>	<b>28.422</b>
EBITDA rate	32,9%	32,2%
Financial revenues, net	1.961	3.743
Profit tax, net	-1.362	-1.476
<b>Net profit</b>	<b>15.161</b>	<b>14.548</b>
Net profit margin	16,9%	16,5%

Operating revenues in 2017 equalled 88.2 billion dinars and they decreased by 1% compared to 2016. Operating expenses increased by 1% and they account for 75.9 billion dinars.

A decline in operating revenues, along with the growth of operating expenses produced lower EBIT and EBITDA. EBIT amounts to 12.3 billion dinars (16% decline) with a 13.9% margin. EBITDA equals 28.4 billion dinars (4% decline) with a 32.2% margin.

Financial revenues, net, amounts to 3.7 billion dinars mostly due to foreign exchange gains, net, in the amount of 1.2 billion dinars. In 2016, net foreign exchanges losses accounted for 634 million dinars.

Net profit amounts to 14.5 billion dinars (4% lower) with 16.5% margin.

Operating revenues fell by 1.3 billion dinars.



**Telekom Srbija a.d. Beograd (Continued)**

Fixed telephony revenues fell by 2.6 billion dinars and equal 29.9 billion dinars. The decline was predominantly caused by lower revenues from national traffic and monthly fees by 1.3 billion dinars respectively.

Multimedia revenues increased by 572 million dinars and reached the level of 4.6 billion dinars. Internet retail increased by 457 million dinars and equalling 9.4 billion dinars. Mobile telephony revenues grew by 281 million dinars and equal 41.4 billion dinars. Postpaid revenues are 1.5 billion dinars higher, whereas prepaid declined by 703 million dinars. Interconnection fell by 1.2 billion dinars due to continuous decline in mobile termination fee. The revenues from ICT services increased by 86 million dinars and equal 289 million dinars.

Operating expenses increased by 1.0 billion dinars.

Depreciation increased by 1.3 billion dinars which was largely affected by procedural restrictions in reporting completed investments from the previous period and computation of cumulative depreciation in 2017. The costs of materials and maintenance increased by 767 million dinars due to recognition of purchase value costs of re-exported handsets and equipment to subsidiaries, as well as increased costs of sold handsets and devices by 262 million dinars. The costs of purchased TV content are 478 million dinars higher partly due to higher number of IPTV users. The operator costs fell by 1.2 billion dinars largely due to lower costs of mobile interconnection by 1.4 billion dinars (due to the said tariff cuts).

**Telekom Srbija a.d. Beograd (Continued)****Balance Sheet**

<b>In million RSD</b>	<b>31.12.2016</b>	<b>31.12.2017</b>
<b>NON-CURRENT ASSETS</b>	<b>165.808</b>	<b>165.631</b>
Intangible assets	9.064	9.169
Real estate, plants and equipment and advance payments	83.748	82.407
Share in the capital of subsidiaries and affiliates	63.774	64.998
Other	9.222	9.057
<b>CURRENT ASSETS</b>	<b>27.587</b>	<b>27.827</b>
Inventories	3.905	3.422
Receivables and other current assets	14.599	14.253
Cash and cash equivalents	4.739	5.078
Other	4.344	5.074
<b>TOTAL ASSETS</b>	<b>193.395</b>	<b>193.458</b>
<b>CAPITAL</b>	<b>132.435</b>	<b>135.970</b>
<b>LONG-TERM LIABILITIES</b>	<b>23.781</b>	<b>22.318</b>
Long-term loans	21.661	20.220
Other	2.120	2.098
<b>CURRENT LIABILITIES</b>	<b>37.179</b>	<b>35.170</b>
Current payables under long-term loans	16.861	16.738
Liabilities from business operations	13.703	11.927
Other short-term liabilities	6.615	6.505
<b>TOTAL LIABILITIES</b>	<b>193.395</b>	<b>193.458</b>

**Cash Flows**

<b>In million RSD</b>	<b>2016.</b>	<b>2017.</b>
<b>Profit before taxation</b>	<b>16.523</b>	<b>16.024</b>
Profit adjustment	13.178	11.561
<b>Net cash-in from business activities</b>	<b>29.701</b>	<b>27.585</b>
<b>Net cash-out from investment activities</b>	<b>-13.744</b>	<b>-13.814</b>
<b>Net cash-out from financing activities</b>	<b>-24.048</b>	<b>-13.432</b>
Net inflow/(outflow) of cash and cash equivalents	-8.091	339
Cash and cash equivalents at the beginning of the year	12.830	4.739
<b>Cash and cash equivalents at the end of the year</b>	<b>4.739</b>	<b>5.078</b>

In July 2017, dividends to shareholders were disbursed from 2016 profits in gross amount of 11.0 billion dinars.

Dividends from subsidiaries Mtel and Telus equal 2.6 billion dinars and 25 million dinars, respectively.

## Telekom Srbija a.d. Beograd (Continued)

### Ratio Analysis

In million RSD	2016.	2017.
Total debt	38.522	36.959
Net debt	33.783	31.881
Net debt/EBITDA	1,15	1,12
Total liabilities/EBITDA	2,07	2,02
Debt ratio	20,3%	19,0%
Quick ratio	0,6	0,64

A decline in debt ratio as at 31 December 2017 was caused by reduced net debt as a result of loan repayment.

## Mtel a.d. Banja Luka

### Profit and Loss Account

In million RSD	2016	2017
<b>Operating revenues</b>	<b>29.021</b>	<b>27.417</b>
Fixed telephony	6.973	5.734
Mobile telephony	16.702	16.060
Internet retail	1.407	1.374
Multimedia	3.086	3.319
<b>ICT services and equipment</b>	<b>289</b>	<b>306</b>
Other operating revenues	564	624
Operating expenses	<b>-24.574</b>	<b>-23.668</b>
Salaries and remunerations	-4.853	-4.801
Operator expenses	-2.489	-2.240
Material and maintenance	-5.405	-5.254
Depreciation and amortization	-6.506	-6.492
<b>Lease expenses</b>	<b>-1.099</b>	<b>-1.098</b>
Other operating expenses	-4.222	-3.783
<b>EBIT</b>	<b>4.447</b>	<b>3.749</b>
EBIT rate	15,3%	13,7%
<b>EBITDA</b>	<b>10.953</b>	<b>10.241</b>
EBITDA rate	37,7%	37,3%
Financial revenues, net	148	160
Profit tax, net	-470	-419
<b>Net profit</b>	<b>4.125</b>	<b>3.490</b>
Net profit margin	14,2%	12,7%

### Mtel a.d. Banja Luka (Continued)

Operating revenues in 2017 equalled 27.4 billion dinars and they fell by 6% compared to the last year. Operating expenses amount to 23.7 billion dinars and they are 4% lower compared to 2016.

EBIT equals 3.7 billion dinars with 13/7% margin which is 16% lower. EBITDA equals 10.2 billion dinars with 37.3% margin which is 7% lower.

Net profit declined by 15% and equals 3.5 billion dinars with 12.7% margin.

Operating revenues decreased by 1.6 billion dinars.

Fixed telephony revenues decreased by 1.2 billion dinars (18%). Mobile telephony revenues decreased by 642 million dinars (4%), largely due to lower prepaid revenues (12%). On the other hand, multimedia revenues increased by 233 million dinars.

Operating expenses are 906 million dinars lower.

Operator costs decreased by 249 million dinars (10%), largely due to lower fixed interconnection. Marketing costs are 190 million dinars lower (18%), just as well as intermediary expenses – by 122 million dinars (17%).

### Balance Sheet

In million RSD	31.12.2016.	31.12.2017.
<b>NON-CURRENT ASSETS</b>	<b>45.256</b>	<b>42.312</b>
Intangible assets	5.826	4.637
Real estate, plants and equipment and advance payments	32.878	30.834
Share in the capital of subsidiaries and affiliates	5.037	5.157
Other	1.515	1.684
<b>CURRENT ASSETS</b>	<b>9.310</b>	<b>8.658</b>
<b>Inventories</b>	<b>1.259</b>	<b>958</b>
Receivables and other current assets	4.512	4.795
Cash and cash equivalents	1.969	1.517
Other	1.570	1.388
<b>TOTAL ASSETS</b>	<b>54.566</b>	<b>50.970</b>
<b>CAPITAL</b>	<b>42.228</b>	<b>40.029</b>
<b>LONG-TERM LIABILITIES</b>	<b>3.036</b>	<b>2.527</b>
Long-term loans	2.574	2.106
Other	462	421
<b>CURRENT LIABILITIES</b>	<b>9.302</b>	<b>8.414</b>
Current payables under long-term loans	1.015	1.558
Liabilities from business operations	5.142	3.750
Other short-term liabilities	3.145	3.106
<b>TOTAL LIABILITIES</b>	<b>54.566</b>	<b>50.970</b>

## Mtel a.d. Banja Luka (Continued)

### Cash Flows

In million RSD	2016	2017
<b>Profit before taxation</b>	<b>4.595</b>	<b>3.909</b>
Profit adjustment	4.791	5.153
<b>Net cash-in from business activities</b>	<b>9.386</b>	<b>9.062</b>
<b>Net cash-out from investment activities</b>	<b>-5.084</b>	<b>-4.649</b>
<b>Net cash-out from financing activities</b>	<b>-5.265</b>	<b>-4.865</b>
Net outflow of cash and cash equivalents	-963	-452
Cash and cash equivalents at the beginning of the year	2.932	1.969
<b>Cash and cash equivalents at the end of the year</b>	<b>1.969</b>	<b>1.517</b>

In 2017, shareholders were paid 3.9 billion dinars against dividends (exclusive of tax).

## Mtel d.o.o. Podgorica

### Profit and Loss Account

In million RSD	2016	2017
<b>Operating revenues</b>	<b>6.890</b>	<b>8.361</b>
Fixed telephony	762	1.830
Mobile telephony	4.070	4.362
Internet retail	283	486
Multimedia	910	1.029
Other operating revenues	865	654
<b>Operating expenses</b>	<b>-6.320</b>	<b>-7.407</b>
Salaries and remunerations	-743	-859
Operator expenses	-1.150	-1.110
Material and maintenance	-1.332	-1.654
Depreciation and amortization	-1.576	-2.138
Lease expenses	-369	-371
Other operating expenses	-1.150	-1.275
<b>EBIT</b>	<b>570</b>	<b>954</b>
EBIT rate	8,3%	11,4%
<b>EBITDA</b>	<b>2.146</b>	<b>3.092</b>
EBITDA rate	31,1%	37,0%
Financial revenues, net	-166	-255
Profit tax, net	-13	-22
<b>Net profit</b>	<b>391</b>	<b>677</b>
Net profit margin	5,7%	8,1%

In 2017, operating revenues amounted to 8.4 billion dinars and they increased by 21%. Operating expenses amount to 7.4 billion dinars and they are 17% higher.

EBIT amounts to 1.0 billion dinars, with 11.4% margin which increased by 67%. EBITDA increased by 44% and equals 3.1 billion dinars with 37.0% margin.

### Mtel d.o.o. Podgorica (Continued)

Net profit amounts to 677 million dinars with 8.1% margin (2016: 391 million dinars with 5.7% margin).

Operating revenues increased by 1.5 billion dinars.

The revenues from fixed telephony and other services are 1.1 billion dinars higher, owing entirely to higher revenues from the sale of fibre optics in 2017. Mobile telephony revenues increased by 292 million dinars (7%), mostly due to higher revenues from roaming and sale of mobile handsets and devices. Internet retail increased by 203 million dinars (72%), as well as multimedia revenues which grew by 119 million dinars (13%).

Operating expenses increased by 1.1 billion dinars.

Depreciation costs are 562 million dinars higher (36%) due to increased volume of activation of cable infrastructure, purchased licences for 4G frequencies at the end of last year and capitalised TV rights in 2017. The costs of sold mobile handsets and devices within packages increased by 257 million dinars (30%).

### Balance Sheet

In million RSD	31.12.2016.	31.12.2017.
<b>NON-CURRENT ASSETS</b>	<b>13.661</b>	<b>17.440</b>
Intangible assets	4.749	6.092
Real estate, plants and equipment and advance payments	8.863	11.307
Other	49	41
<b>CURRENT ASSETS</b>	<b>7.045</b>	<b>8.405</b>
Inventories	1.953	2.026
Receivables and other current assets	3.824	5.000
Cash and cash equivalents	48	209
Other	1.220	1.170
<b>TOTAL ASSETS</b>	<b>20.706</b>	<b>25.845</b>
<b>CAPITAL</b>	<b>4.976</b>	<b>5.436</b>
<b>LONG-TERM LIABILITIES</b>	<b>7.365</b>	<b>11.438</b>
Long-term loans	7.161	11.237
Other	204	201
<b>CURRENT LIABILITIES</b>	<b>8.365</b>	<b>8.971</b>
Current payables under long-term loans	1.166	992
Liabilities from business operations	6.217	6.986
Other short-term liabilities	982	993
<b>TOTAL LIABILITIES</b>	<b>20.706</b>	<b>25.845</b>

Total liabilities against loans as at 31 December 2017 equal 12.2 billion dinars and they increased by 3.9 billion dinars due to new commercial bank loans raised for the needs of servicing the loans utilised for fixed assets, and for settling liabilities.

## Mtel d.o.o. Podgorica (Continued)

### Cash Flows

In million RSD	2016	2017
<b>Profit before taxation</b>	<b>404</b>	<b>699</b>
Profit adjustment	-1.186	634
<b>Net cash-in/(out) from business activities</b>	<b>-782</b>	<b>1.333</b>
<b>Net cash-out from investment activities</b>	<b>-3.070</b>	<b>-4.278</b>
<b>Net cash-in from financing activities</b>	<b>3.887</b>	<b>3.106</b>
Net inflow of cash and cash equivalents	35	161
Cash and cash equivalents at the beginning of the year	13	48
<b>Cash and cash equivalents at the end of the year</b>	<b>48</b>	<b>209</b>

### Ratio Analysis

In million RSD	31.12.2016.	31.12.2017.
Total debt	8.327	12.229
Net debt	8.279	12.020
Net debt/EBITDA	3,86	3,89
Total liabilities/EBITDA	7,33	6,6
Debt ratio	62,5%	68,9%
Expenses against interest/operating revenues	2,6%	3,2%
Quick ratio	0,55	0,64

The growth of debt ratio to 68.9% as at 31 December 2017 was mostly influenced by new borrowings during the year.

## Telus a.d. Beograd

### Profit and Loss Account

In million RSD	2016	2017
Operating revenues (including account groups 62, 67, 68 and 69)	1.550	1.476
Operating expenses (including/(excluding) account groups 57, 58 and 59/(62))	-1.491	-1.418
<b>EBIT</b>	<b>59</b>	<b>58</b>
EBIT rate	3,8%	3,9%
<b>EBITDA</b>	<b>61</b>	<b>61</b>
EBITDA rate	3,9%	4,1%
Financial revenues, net	18	19
<b>Net profit</b>	<b>63</b>	<b>64</b>
Net profit margin	4,1%	4,3%

Operating revenues in 2017 amount to 1.5 billion dinars and they are 5% lower compared to the previous year. The decline in revenues is mostly caused by lower revenues from physical and technical security with the Parent Company.

Operating expenses amount to 1.4 billion dinars and they fell by 5%.

**TS:NET B.V. Amsterdam****Profit and Loss Account**

In million RSD	2016	2017
Operating revenues	51	51
Operating expenses	-40	-107
<b>Operating loss/EBIT</b>	<b>11</b>	<b>-56</b>
EBIT rate	21,6%	-
<b>EBITDA</b>	<b>44</b>	<b>-33</b>
EBITDA rate	86,3%	-
<b>Net loss/profit</b>	<b>9</b>	<b>-46</b>
Net profit margin	17,6%	-

Operating revenues are fully related to the revenues from equipment lease to the Parent Company. In 2017, operating revenues amounted to 51 million dinars and they were at the same level as last year.

Operating expenses in 2017 grew by 67 million dinars, largely due to recognized loss from equipment sold.

**HD-WIN d.o.o. Beograd****Profit and Loss Account**

In million RSD	2016	2017
<b>Operating revenues</b>	<b>3.322</b>	<b>3.963</b>
(including account groups 62, 67, 68 and 69)		
Sale of licences and TV rights	3.087	3.619
Other operating revenues	235	344
<b>Operating expenses</b>	<b>-3.035</b>	<b>-3.340</b>
(including/(excluding) account groups 57, 58 and 59/(62))		
Purchased licences and TV rights	-2.158	-2.366
Other operating expenses	-877	-974
<b>EBIT</b>	<b>287</b>	<b>623</b>
EBIT rate	8,6%	15,7%
<b>EBITDA</b>	<b>329</b>	<b>663</b>
EBITDA rate	9,9%	16,7%
Financial expenses, net	-77	-83
<b>Net profit</b>	<b>210</b>	<b>696</b>
Net profit margin	6,3%	17,6%

Operating revenues in 2017 amounted to 4.0 billion dinars and they grew by 19% mostly due to distribution of Arena Sport channels with Telemach operator in the Bosnia-Herzegovina market.

Operating expenses increased by 10% and they reach the level of 3.3 billion dinars. Operating expenses are mostly related to purchased TV rights and licences and they account for 71% of total operating expenses.



**mts banka a.d, Beograd**

**Profit and Loss Account**

In million RSD	2016	2017
Revenues from interest, fees, charges and foreign exchange losses/gains, net	381	432
Other operating revenues	160	155
Expenses against impairment of investments, net	-239	-36
Other operating expenses	-579	-543
<b>Net profit/(loss)</b>	<b>-271</b>	<b>7</b>

**mts d.o.o. Kosovska Mitrovica**

**Profit and Loss Account**

In million RSD	2016	2017
Operating revenues	-	461
Operating expenses	-15	-492
Operating loss	-15	-31
EBITDA	-5	116
<b>Net loss</b>	<b>-15</b>	<b>-31</b>

**GO4YU d.o.o. Beograd**

**Profit and Loss Account**

In million RSD	2016.	2017.
Operating revenues	12	20
(including account groups 62, 67, 68 and 69)		
Operating expenses	-95	-181
(including/(excluding) account groups 57, 58 and 59/(62))		
<b>Operating loss</b>	<b>-83</b>	<b>-161</b>
<b>Net loss</b>	<b>-84</b>	<b>-162</b>

**Yunet International d.o.o. Beograd**

**Profit and Loss Account**

In million RSD	2016	2017
Operating revenues	521	453
(including account groups 62, 67, 68 and 69)		
Operating expenditures	-506	-464
(including/(excluding) account groups 57, 58 and 59/(62))		
<b>Operating loss/EBIT</b>	<b>15</b>	<b>-11</b>
<b>EBITDA</b>	<b>38</b>	<b>28</b>
<b>Net loss/profit</b>	<b>9</b>	<b>-10</b>

**mts AntenaTV d.o.o. Beograd**

**Profit and Loss Account**

<b>In million RSD</b>	<b>2016</b>	<b>2017</b>
Operating revenues	5	58
(including account groups 62, 67, 68 i 69)		
Operating expenses	-23	-87
(including/(excluding) account groups 57, 58 and 59/(62))		
<b>Operating loss</b>	<b>-18</b>	<b>-29</b>
<b>Net loss</b>	<b>-18</b>	<b>-24</b>

# 16

## RISK MANAGEMENT



## 16. RISK MANAGEMENT

In its regular operations, the Group is exposed, to different extent, to certain financial risks: market risk, liquidity risk, credit risk and capital risk.

Table 20. Types of financial risks with detailed descriptions

Types of financial risks	Risk description	Risk management
<b>Market risk</b>	Market risk is a risk of changes in market prices, such as FX rates, interest rates and the price of capital vehicles, which may have adverse effect upon the company revenues or the value of its financial instruments. The purpose of managing market risk is a control of exposure to market risk within the acceptable parameters along with reaching an optimal yield.	The purpose of managing market risk is a control of exposure to market risk within the acceptable parameters along with reaching an optimal yield.
<b>Exchange rate change</b>	The Group is exposed to the risk of changes in foreign currency exchange rates, predominantly that of Euro.	A risk management policy has been set up relative to its functional currency through hedging transactions. It does not involve derivatives, which is why the hedging accounting is not applied in these circumstances.
<b>Interest rate change</b>	The Group is exposed to risks which affect its financial position, operating results and cash flows through the effects of changes in the level of market interest rates. The risk of changes in interest rates is mostly derived from long-term bank loans and supplier loans with variable interest rate, pegged to Euribor and increased by the margin, whereas deposits are mostly subject to fixed interest rate, which exposes the Group to the risk of change in the fair value of interest rates.	An analysis is performed with regard to the exposure to interest rate risk on a dynamic basis, taking into account alternative financing and re-financing sources, primarily for long-term liabilities given that they account for the most significant interest-bearing position. The Group also takes relevant activities for the purpose of obtaining bank loans under favourable conditions.
<b>Price change</b>	The Group is exposed to price change risks as there is the obligation to control the prices in the markets where the Company has been declared an SMP operator. The Group is faced with fierce competition in the area of mobile telephony, the Internet and multimedia, as well as with the emergence of fixed telephony operators.	The Group intends to reduce the exposure to this risk by introducing various services and enhancement of the quality of the services rendered. Besides, the Group's services are diversified, as it consists of members operating in other business sectors (Telus and mts bank).

Types of financial risks	Risk description	Risk management
<b>Liquidity risk</b>	<p>Liquidity risk is a risk that the Group will not be able to settle its liabilities as they become due, in money or in other financial means. The access to the liquidity risk management is intended to always ensure, to the extent possible, an adequate liquidity for settling liabilities as they become due and payable, under ordinary and extraordinary circumstances alike, with no unacceptable losses or risks of harming the company's reputation.</p>	<p>For the purpose of managing liquidity risk, financial policy have been adopted whereby payment terms are defined, maximum amount of advance payment to equipment suppliers and contractors, grade period and the length of repayment of a portion of procurement repaid through loan, subject to the value and type of contractual obligation. The Group monitors the expected cash-ins from the collection of trade and other receivables, together with the expected cash-outs against payment of liabilities towards suppliers and other liabilities. Consolidated financial statements show that the group continuously operates with net profit, i.e. that sufficient cash-ins from business activities are achieved on a consolidated basis and that liabilities are timely settled. Should a need arise, the Group also has external financing at its disposal</p>
<b>Credit risk</b>	<p>Credit risk is a risk of financial loss for the Group in case the customer or other party in a financial instrument fails to fulfil its obligations. The credit risk exposure is primarily established by individual characteristics of each customer. There is no significant risk concentration given that there is an extensive base of unrelated customers with small respective liabilities.</p>	<p>The credit risk is managed by taking relevant measures and activities, such as the assessment of customer risk, monitoring the client's operations and its financial standing, as well as the management of receivables and bad debts. In case of a default, the provision of services to the client is suspended, and other measures are taken as well: rescheduling debts, launching court proceedings, out-of-court settlement and the like.</p>
<b>Capital risk</b>	<p>The purpose of capital risk management is to maintain the capacity to continue business activities for an indefinite period of time in foreseeable future, in order to retain the optimal capital structure so that the costs of capital can be reduced, and shareholders could be provided with dividends.</p>	<p>The Group considers the following options: adjustment to the payment of shareholder dividends, return of capital to shareholders, issuance of new shares or the sale of assets in order to cut down debts. The capital management strategy remains unaltered compared to the previous year.</p>



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