

# “TELECOM MONTENEGRO”AD, Podgorica



## Information Memorandum

# TABLE OF CONTENTS

<b>1</b>	<b>EXECUTIVE SUMMARY</b> .....	<b>1</b>
1.1	INTRODUCTION TO THE TRANSACTION .....	1
1.2	TIMETABLE .....	1
1.3	KEY INVESTMENT CONSIDERATIONS .....	1
1.4	COUNTRY PROFILE.....	5
1.5	TELECOMMUNICATION MARKET .....	5
1.6	COMPANY OPERATIONS.....	6
1.7	SUMMARY OF FINANCIAL INFORMATION .....	6
<b>2</b>	<b>BACKGROUND INFORMATION</b> .....	<b>8</b>
2.1	COUNTRY PROFILE.....	8
2.1.1	<i>General</i> .....	8
2.1.2	<i>Political situation</i> .....	9
2.1.3	<i>Macroeconomic outlook</i> .....	10
2.2	TELECOMMUNICATION MARKET .....	13
2.2.1	<i>Regional outlook – Market comparison – Potential for growth</i> .....	13
2.2.2	<i>Local telecommunications market</i> .....	15
<b>3</b>	<b>REGULATORY AND LEGAL OVERVIEW - MONTENEGRO</b> .....	<b>19</b>
3.1	REGULATORY FRAMEWORK IN THE TELECOMMUNICATION SECTOR .....	19
3.1.1	<i>Montenegrin Law on Telecommunications</i> .....	19
3.1.2	<i>Telecommunication Licenses – Operators and Service Providers</i> .....	19
3.1.3	<i>Telecommunication Agency of Montenegro</i> .....	20
3.2	LEGAL OVERVIEW.....	20
3.2.1	<i>Privatization Legal Regime</i> .....	20
3.2.2	<i>Foreign Investment Legal Regime</i> .....	21
3.2.3	<i>Labor Regime</i> .....	23
3.2.4	<i>The Enterprise Law Regime</i> .....	25
3.2.5	<i>Independent Auditor of the Company</i> .....	26
3.2.6	<i>Property Rights</i> .....	26
<b>4</b>	<b>TELECOM MONTENEGRO</b> .....	<b>28</b>
4.1	HISTORY AND OWNERSHIP STRUCTURE .....	28
4.2	ORGANIZATIONAL STRUCTURE.....	29
4.3	CORPORATE GOVERNANCE .....	31
4.3.1	<i>General Meeting</i> .....	31
4.3.2	<i>Board of Directors</i> .....	32
4.3.3	<i>Executive Manager</i> .....	32
4.3.4	<i>Corporate Secretary</i> .....	33
4.3.5	<i>Representing the Company</i> .....	33
4.4	HUMAN RESOURCES .....	33
4.4.1	<i>Management</i> .....	33
4.4.2	<i>Employees</i> .....	33
4.4.3	<i>Training</i> .....	34
4.4.4	<i>Remuneration</i> .....	35
4.4.5	<i>Housing policy</i> .....	35
4.5	BUSINESS OPERATIONS.....	35
4.5.1	<i>Services</i> .....	35
4.6	SUBSCRIBERS .....	36
4.6.1	<i>Residential/business subscribers</i> .....	36
4.6.2	<i>Leased capacities</i> .....	38
4.6.3	<i>Voice machines</i> .....	38
4.6.4	<i>Users of Telegraph, JUPAK and TELEX</i> .....	39
4.7	TRAFFIC VOLUME .....	39
4.7.1	<i>Traffic volume – Montenegro mobile networks</i> .....	41
4.7.2	<i>International traffic</i> .....	42

4.7.3	<i>Routing of International traffic</i> .....	43
4.8	REVENUES .....	47
4.9	TARIFFS .....	48
4.9.1	<i>Domestic traffic</i> .....	49
4.9.2	<i>International traffic</i> .....	49
4.9.3	<i>Tariffs for other services</i> .....	51
4.10	MARKETING AND DISTRIBUTION .....	51
4.11	PROCUREMENT.....	51
4.12	TELECOM MONTENEGRO FIXED LINE NETWORK .....	52
4.12.1	<i>Switching</i> .....	52
4.12.2	<i>Access</i> .....	53
4.12.3	<i>Digitalization</i> .....	54
4.12.4	<i>Transmission Network</i> .....	55
4.12.5	<i>International Network Connections</i> .....	57
4.13	IT SYSTEM .....	59
4.14	CAPITAL EXPENDITURES IN RECENT YEARS .....	64
4.15	STRATEGY.....	65
4.16	FINANCIAL INFORMATION.....	65
<b>5</b>	<b>MONET D.O.O.....</b>	<b>68</b>
5.1	GENERAL INFORMATION .....	68
5.2	CORPORATE GOVERNANCE.....	68
5.2.1	<i>Executive Manager</i> .....	68
5.2.2	<i>Corporate Secretary</i> .....	68
5.2.3	<i>Representing the company</i> .....	69
5.3	ORGANIZATIONAL STRUCTURE.....	69
5.4	HUMAN RESOURCES AND REMUNERATION .....	71
5.4.1	<i>Management</i> .....	71
5.4.2	<i>Employees</i> .....	71
5.4.3	<i>Remuneration</i> .....	72
5.4.4	<i>Training</i> .....	72
5.5	MONET'S SUBSCRIBERS.....	73
5.5.1	<i>Subscriber Base</i> .....	73
5.5.2	<i>Market Share</i> .....	74
5.5.3	<i>Churn Rates</i> .....	75
5.5.4	<i>Average Revenue per User (ARPU)</i> .....	75
5.6	TRAFFIC.....	76
5.6.1	<i>Traffic Carried on Monet Network</i> .....	76
5.6.2	<i>Outgoing Traffic</i> .....	76
5.6.3	<i>Incoming Traffic</i> .....	78
5.7	OVERVIEW OF SERVICES PROVIDED .....	80
5.7.1	<i>Basic Services</i> .....	80
5.7.2	<i>Additional Services</i> .....	81
5.7.3	<i>Roaming</i> .....	82
5.8	TARIFFS .....	83
5.8.1	<i>Tariff Policy</i> .....	83
5.8.2	<i>Pre-paid Tariffs</i> .....	83
5.8.3	<i>Post-paid Tariffs</i> .....	84
5.8.4	<i>International and Special Number (SN) Tariffs</i> .....	85
5.8.5	<i>Comparison between Monet and ProMonte Tariffs</i> .....	85
5.8.6	<i>Interconnection Tariffs</i> .....	87
5.9	DISTRIBUTION CHANNELS.....	89
5.10	PROMOTION ACTIVITIES .....	90
5.11	SALES.....	91
5.11.1	<i>Sale of Subscriptions (SIM cards)</i> .....	91
5.11.2	<i>Sales of Pre-paid Vouchers</i> .....	91
5.11.3	<i>Operating Revenues</i> .....	91
5.12	OVERVIEW OF MONET'S NETWORK.....	93
5.12.1	<i>Network Performance</i> .....	94
5.12.2	<i>Information Technology Department</i> .....	94

5.12.3	<i>Billing &amp; Customer Care</i> .....	96
5.12.4	<i>Financial System</i> .....	96
5.13	CAPEX .....	97
5.14	PROCUREMENT/SUPPLIERS.....	97
5.15	FINANCIAL INFORMATION.....	98
<b>6</b>	<b>INTERNET MONTENEGRO .....</b>	<b>101</b>
6.1	HISTORY AND OWNERSHIP STRUCTURE.....	101
6.1.1	<i>Foundation Agreement with Telecom Montenegro</i> .....	102
6.2	CORPORATE GOVERNANCE.....	102
6.2.1	<i>Members of the Company</i> .....	102
6.2.2	<i>Board of Directors</i> .....	103
6.2.3	<i>Executive Manager</i> .....	103
6.3	ORGANIZATIONAL STRUCTURE.....	103
6.4	HUMAN RESOURCES .....	104
6.4.1	<i>Management</i> .....	104
6.4.2	<i>Employees</i> .....	104
6.5	COMPANY OPERATIONS.....	105
6.5.1	<i>Internet market</i> .....	105
6.5.2	<i>Internet providers in Serbia and Montenegro</i> .....	105
6.6	SERVICES PROVIDED.....	107
6.6.1	<i>Internet Provision</i> .....	107
6.6.2	<i>Sale of Computer Equipment</i> .....	113
6.6.3	<i>Other Services</i> .....	113
6.6.4	<i>New services and technologies</i> .....	115
6.7	TARIFFS .....	116
6.7.1	<i>Tariff Policy</i> .....	116
6.7.2	<i>Applicable Tariffs</i> .....	117
6.8	DISTRIBUTION CHANNELS .....	120
6.8.1	<i>Pre-paid</i> .....	120
6.8.2	<i>Post-paid</i> .....	121
6.9	PROMOTION .....	121
6.10	FACILITIES AND INFRASTRUCTURE .....	122
6.10.1	<i>Premises</i> .....	122
6.11	INTERNET MONTENEGRO INFRASTRUCTURE AND CAPACITY .....	122
6.11.1	<i>Network</i> .....	122
6.11.2	<i>Hardware</i> .....	125
6.11.3	<i>Software</i> .....	126
6.12	CAPITAL INVESTMENTS (CAPEX).....	126
6.12.1	<i>Short review of capital investments in the last three years</i> .....	126
6.12.2	<i>Planned CAPEX for 2004</i> .....	127
6.13	FINANCIAL INFORMATION.....	127
<b>7</b>	<b>MONTENEGRO CARD D.O.O.....</b>	<b>130</b>
7.1	HISTORY AND OWNERSHIP STRUCTURE.....	130
7.2	CORPORATE GOVERNANCE .....	130
7.2.1	<i>Board of Directors</i> .....	130
7.2.2	<i>Executive Manager</i> .....	131
7.2.3	<i>Minority Members Special Rights</i> .....	131
7.2.4	<i>Representation and Signing on Behalf of the Company</i> .....	131
7.3	BUSINESS ACTIVITIES .....	132
7.4	TRAFFIC VOLUME .....	133
7.5	PHONE CARDS DISTRIBUTION.....	134
7.6	BASIC FINANCIALS .....	134
<b>8</b>	<b>BENCHMARK ANALYSIS.....</b>	<b>136</b>
8.1	SUMMARY OF RESULTS.....	136
8.2	COMPARISON METHODOLOGY .....	136
8.3	RESULTS OF BENCHMARK ANALYSIS.....	137
<b>9</b>	<b>FINANCIAL INFORMATION.....</b>	<b>141</b>

9.1	INTRODUCTION .....	141
9.2	OPERATING PERFORMANCE.....	142
9.2.1	<i>Assessment of Income Statement</i> .....	143
9.3	BALANCE SHEET ANALYSIS .....	149
9.3.1	<i>Assessment of Balance Sheet</i> .....	150
	<b>APPENDIX I – TELECOM MONTENEGRO.....</b>	<b>161</b>
	<b>APPENDIX II – MONET.....</b>	<b>167</b>
	<b>APPENDIX III – BENCHMARK ANALYSIS.....</b>	<b>176</b>

## CHARTS

Chart 1: Traffic volume in thousands of pulses*, 1999 - 2003.....	2
Chart 2: International traffic volume: Jan 2003 - July 2004, in thousand of minutes (seasonal influence) .....	2
Chart 3: Ownership structure of Telecom Montenegro.....	28
Chart 4: Telecom Group.....	28
Chart 5: Subscriber segmentation in the period 2001 – IIQ 2004 .....	36
Chart 6: Trend in average number of pulses per residential and business subscribers Jan 03 – June 04... 37	37
Chart 7: Structure of traffic volume per outgoing traffic destination in 2003.....	40
Chart 8: Monthly traffic volume in thousand of pulses per outgoing traffic destination, 2003.....	40
Chart 9: Incoming monthly traffic from Montenegro mobile networks in minutes, Jan 2003 - April 2004 .....	41
Chart 10: Outgoing monthly traffic to Montenegro mobile networks in minutes, Jan 2003 - April 2004.....	41
Chart 11: International monthly outgoing traffic of Montenegro in minutes, Jan 2003-June 2004.....	42
Chart 12: International monthly incoming traffic of Montenegro in minutes.....	43
Chart 13: International incoming traffic routed directly or via Belgrade in minutes, Jan – Dec 2003.....	46
Chart 14: International outgoing traffic by outgoing routes in minutes, Jan – June 2004.....	46
Chart 15: Movements in the number of sold ISDN connections in 2003.....	55
Chart 16: Map of SDH network .....	56
Chart 17: Metropolitan area network.....	63
Chart 18: Organizational chart, "Monet".....	70
Chart 19: Growth in Monet's active subscribers as of 31 December 2001-2003 and 31 July 2004 .....	73
Chart 20: Monthly number of subscribers, Jan. 2003-July 2004 .....	74
Chart 21: Pre-paid and post-paid ARPU in the period January 2003-June 2004.....	75
Chart 22: Traffic in Erlangs .....	76
Chart 23: Structure of total outgoing traffic in first six months of 2004 .....	76
Chart 24: Monthly Outgoing traffic by call destinations in the period January 2003-June 2004 .....	77
Chart 25: Structure of total incoming traffic in the period Jan-June 2004.....	78
Chart 26: Incoming traffic to Monet in the period January 2003-June 2004.....	79
Chart 27: Structure of vouchers sold (no. of vouchers) in 2003.....	91
Chart 28: Operating revenues growth (in EUR 000), 2001-2003 .....	92
Chart 29: Organizational structure of Internet Montenegro .....	103
Chart 30: Growth in revenues from Internet providing, January 2001 – June 2004 .....	107
Chart 31: Growth in dial-up subscribers, October 2001 – June 2004.....	108
Chart 32: Minutes use of active subscribers .....	109
Chart 33: Age structure of Internet users .....	110
Chart 34: Revenue from and number of dial-up subscribers, January 2002 – March 2004 .....	110
Chart 35: Breakdown of leased-line subscribers by capacity.....	111
Chart 36: Distribution channels .....	120
Chart 37: Network Infrastructure of Internet Montenegro .....	123
Chart 38: Ownership structure Montenegro Card.....	130
Chart 39: Number of installed phone boots per months, 2003.....	132
Chart 40 : Number of installed phone boots per months, 2003.....	134
Chart 41: Profitability Margins, 2003.....	137
Chart 42: Du Pont Analysis, 2003.....	138
Chart 43: Productivity Analysis, 2003.....	139
Chart 44: Leverage analysis .....	140

## TABLES

Table 1: Monet subscribers (active), 2001 - 2003 .....	4
Table 2: Company statistics – Telecom Montenegro .....	6
Table 3: Audited consolidated income statements for the years ended 2003 and 2002 presented in accordance with IAS* .....	6
Table 4: Audited consolidated balance sheets as at 31 December 2003 and 2002 presented in accordance with IAS* .....	7
Table 5: Key macroeconomic indicators – Montenegro .....	11
Table 6: Telecom Privatization transactions in the countries of Former Yugoslavia.....	13
Table 7: Basic market statistics, fixed telephony.....	17
Table 8: Basic market statistics, Internet.....	18
Table 9: General licenses .....	20
Table 10: Specific licenses.....	20
Table 11: Members of the Board of Directors .....	32
Table 12: Senior management of Telecom Montenegro .....	33
Table 13: Employee qualification structure, 31 December 2003.....	34
Table 14: Employee structure according to years of service, 31 December 2003 .....	34
Table 15: Employee salaries in the period 2001 – 1H 2004 in EUR .....	35
Table 16: Market penetration in fixed telephony in the period 2001 – 1H 2004: .....	37
Table 17: Average monthly number of pulses per subscriber 2002 – June 2004:.....	37
Table 18: Average monthly revenue per user 2002 – IIQ 2004: In EUR.....	38
Table 19: Traffic volume 2002- 1H 2004: in thousand pulses.....	39
Table 20: Traffic volume per outgoing destination in thousand pulses 2002-2003* .....	40
Table 21: International monthly outgoing traffic (fixed and mobile) per zones in minutes .....	42
Table 22: Direct connections of Telecom Montenegro with international carriers: .....	44
Table 23: Termination interconnection fees, July 2004 in SDR (Special Draw Rights)* .....	45
Table 24: Hubbing price in SDR.....	46
Table 25: Revenue structure in 2002 and 2003 In EUR.....	47
Table 26: General .....	49
Table 27: Tariffs for fixed telephone services in peak and off-peak hours in EUR, 2004 .....	49
Table 28: Tariffs for international zones for residential and business customers .....	49
Table 29: Countries by areas (zones) .....	49
Table 30: Comparative analysis of tariffs for mobile traffic in the region .....	50
Table 31: Switching Summary by Area as of June 2004.....	52
Table 32: Installed and connected lines, 2001 - 2003.....	52
Table 33: Capacity utilization rates in 2003 per Telecom Centers (TC) .....	53
Table 34: The level of digitalization per TC as of 31 December 2003.....	54
Table 35: Radio relay network .....	57
Table 36: Telecom Montenegro's voice and IP links.....	58
Table 37: Installed and licensed SAP functionalities .....	59
Table 38: An overview of the new Tytan billing system's hardware and software .....	61
Table 39: The major elements the CGT MIPNET are as follows:.....	62
Table 40: Capital investments made in 2002 and 2003: .....	64
Table 41: Audited Income Statement for 2002 and 2003 (in EUR) .....	65
Table 42: Audited Balance Sheet as of 31 December 2002 and 31 December 2003 (in EUR).....	66
Table 43: Top management of Monet .....	71
Table 44: Employee qualification structure as of 1 July 2004 .....	71
Table 45: Employee structure per department, 1 July 2004.....	71
Table 46: Age structure of employees, 1 July 2004 .....	72
Table 47: Breakdown of salaries for the period 2001 – 1H 2004 In EUR .....	72
Table 48: Estimated market share of two mobile operators .....	74
Table 49: Pre-paid and Post-paid Churn Rates.....	75
Table 50: Breakdown of outgoing calls 2002 – 1H 2004 in thousands of minutes.....	77
Table 51: International outgoing traffic according to zones in minutes.....	78
Table 52: Breakdown of incoming calls 2002 – 1H 2004 in thousands of minutes .....	78
Table 53: An overview of basic GSM services .....	80
Table 54: Free activating services.....	80
Table 55: An overview of additional services .....	82
Table 56: An overview of pre-paid tariffs (excluding 17% VAT) .....	83
Table 57: An overview of post-paid tariffs .....	84
Table 58: Charges for services at request .....	84
Table 59: An overview of international and special number tariffs for pre-paid and post-paid users.....	85
Table 60: Comparison of typical pre-paid tariffs between Monet and ProMonte .....	86
Table 61: Comparison of typical post-paid tariffs between Monet and ProMonte .....	86

Table 62: Interconnection Fees for International Calls .....	87
Table 63: Charges for Interconnection links in EUR .....	88
Table 64: List of Monet's major dealers as of 31 December 2003 .....	89
Table 66: Breakdown of operating revenues in EUR 000 .....	92
Table 67: Development of Monet network since its foundation in 2000 .....	93
Table 68: Installed capacity of the core network components .....	94
Table 69: Dropped call statistics by BSC .....	94
Table 70: Blocked call statistics by BSC .....	94
Table 71: DMZ Internet Servers .....	95
Table 72: DMZ Intranet Servers .....	95
Table 73: Network management servers .....	95
Table 74: GPRS Servers .....	96
Table 75: Monet's capital investments in 2003 .....	97
Table 76: Audited Income Statement for 2002 and 2003 (in EUR) .....	98
Table 77: Audited Balance Sheet as of 31 December 2002 and 31 December 2003 (in EUR) .....	99
Table 78: Initial ownership structure in Internet Montenegro .....	101
Table 79: Current ownership structure .....	101
Table 80: Characteristics of new potential ISPs in Montenegro .....	106
Table 81: Internet usage in minutes in January and June 2002, 2003 and 2004 .....	109
Table 82: Global Internet Access customers .....	112
Table 83: Tariffs for dial-up connections (17% VAT included) .....	117
Table 84: Tariffs for e-mail packages (17% VAT not included) .....	118
Table 85: Tariffs for leased lines (17% VAT not included) .....	118
Table 86: Tariffs for web hosting packages (17% VAT included) .....	119
Table 87: Tariffs for server hosting – server co-location (17% VAT not included) .....	119
Table 88: Tariffs for Internet Marketing (17% VAT not included) .....	120
Table 89: Dial-up Revenues Breakdown by Distribution Channel .....	121
Table 90: Access servers .....	123
Table 91: A detailed list of leased line capacities from Telecom Montenegro .....	124
Table 92: Internet Montenegro Communication Equipment .....	125
Table 93: Historical CAPEX (EUR) .....	126
Table 94: Income Statement for 2002, 2003, and first half of 2004 (in EUR) .....	127
Table 95: Structure of operating revenues in the 2002, 2003, and first half of 2004 (EUR) .....	128
Table 96: Balance Sheet as of 31 December 2002, 31 December 2003, and 30 June 2004 .....	128
Table 97: Installed public phone booths per cities in Montenegro, 2002 - 2003 .....	132
Table 98: Montenegro Card Income Statement in EUR .....	135
Table 99: Montenegro Card Balance Sheet in EUR .....	135
Table 100: Assessment of ROE Potential .....	139
Table 101: Income statements for 2002, 2003 and the first half of 2004 (in EUR) .....	142
Table 102: Revenues for the years 2002, 2003 and the first half of 2004 in EUR .....	143
Table 103: Foreign exchange rates as of 31 December 2002, 31 December 2003 and 30 June 2004, in EUR .....	147
Table 104: Income taxes as of 31 December 2002, 31 December 2003 and 30 June 2004 in EUR .....	147
Table 105: Balance Sheet as of 31 December 2002, 31 December 2003 and 30 June 2004 in EUR .....	149
Table 106: Long term investments as of 31 December 2002, 31 December 2003 and 30 June 2004 in EUR .....	151
Table 107: Receivables as of 31 December 2002, 31 December 2003, and 30 June 2004, in EUR .....	153
Table 108: Debtors as of 30 June 2004 in EUR .....	154
Table 109: Cash and cash equivalents as of 31 December 2002, 31 December 2003 and 30 June 2004, in EUR .....	154
Table 110: Ownership structure as of 31 December 2002, 31 December 2003 and 30 June 2004 in EUR .....	156
Table 111: Reserves as of 31 December 2002, 31 December 2003 and 30 June 2004, in EUR .....	157
Table 112: Long term liabilities as of 31 December 2002, 31 December 2003 and 30 June 2004, in EUR .....	158
Table 113: Long term liabilities to Montenegro Post Office as of 31 December 2003. in EUR .....	159
Table 114: Liabilities from operations as of 31 December 2002, 31 December 2003 and 30 June 2004, in EUR .....	159



## DEFINITIONS

“Advisers”	Raiffeisen Investment AG, Jankovic, Popovic & Mitic Law Office
ADSL	Asymmetric Digital Subscriber Line
“Agency”	Telecommunications Agency of the Republic of Montenegro
“AMA”	Automatic Message Accounting
“ATM”	Asynchronous Transfer Mode
“BIC”	Belgrade International Switch
“CCS 7”	Common Channel Signaling 7
the “Company”	Telekom Crne Gore a.d.
“DEM”	German Mark, the official currency of the Republic of Montenegro until 31 March 2002
EBIT	Earnings Before Interest and Tax
EBT	Earnings Before Tax
“EBITDA”	Earnings Before Interest, Tax, Depreciation and Amortization
“EUR”	EURO, the official currency of the Republic of Montenegro, since 31 March 2002
“GIA”	Global Internet Access
“GOM”	Government of Montenegro
“IAS”	International Accounting Standards
“Internet Montenegro”	Internet Crna Gora d.o.o. Podgorica
“IP”	Internet Protocol
“ISDN”	Integrated Services Digital Network
“ISP”	Internet Service Provider
“IT”	Information Technology
“Memorandum”	This Information Memorandum
“Monet”	Monet d.o.o. Podgorica
“TC”	Telecommunication Centers
“Telecom Montenegro”	Telekom Crne Gore a.d.
“PCM”	Pulse Code Modulation
“PC”	Personal Computer
“PDH”	Plesiochronous Digital Hierarchy
“Pension Fund”	Republic Fund for Social and Pension Security
“PIS”	Podgorica International Switch
“PoP”	Point of Presence
“Post Office”	Posta Crne Gore (Postal Services of Montenegro)
“PPM”	Periodic Pulse Metering
“Proposed Transaction”	The potential divestment of an interest in Telecom Montenegro by way of a sale of existing shares in the Company
“PSK” or “QPSK”	Phase Shift Keying
“PTC”	Podgorica Telecommunication Centre
“PTT Montenegro”	PTT Services Public Enterprise of Montenegro
“PTT”	Postal, Telegraph and Telephone
RIAG	Raiffeisen Investment AG
“RTV”	Radio Television
“Montenegro”	Republic of Montenegro
“Serbia”	Republic of Serbia
“SCG”	Serbia and Montenegro
“SDH”	Synchronous Digital Hierarchy
“SPA”	Share Purchase Agreement
“SPC”	Stored Program Control
“Telecom Serbia”	Telekom Srbije a.d.
“PTT Union”	Union of PTT Services

"VAT"	Value Added Tax
"VPN"	Virtual Private Networks
"VoIP"	Voice over Internet Protocol
"USD"	United States Dollar
"RBC"	Radio Broadcasting Center
"CSD"	The new 1994 Yugoslav Dinar which until November 1999 was the sole official currency of the Republic of Montenegro.

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## 1 EXECUTIVE SUMMARY

### 1.1 Introduction to the transaction

The investment opportunity consists of acquiring a majority interest of 51.12% in the equity of Telecom Montenegro, the principal provider of telecommunication services in the Republic of Montenegro, the 100% owner of Monet d.o.o., the second Montenegrin mobile operator and 85% owner of Internet Montenegro d.o.o. through sale on international tender.

Potential investors must be telecommunications operators with the experience and expertise required to manage and operate fixed and mobile telephone networks and to provide related services.

### 1.2 Timetable

The indicative key dates (subject to change during the process) in the sales process are expected to be as follows:

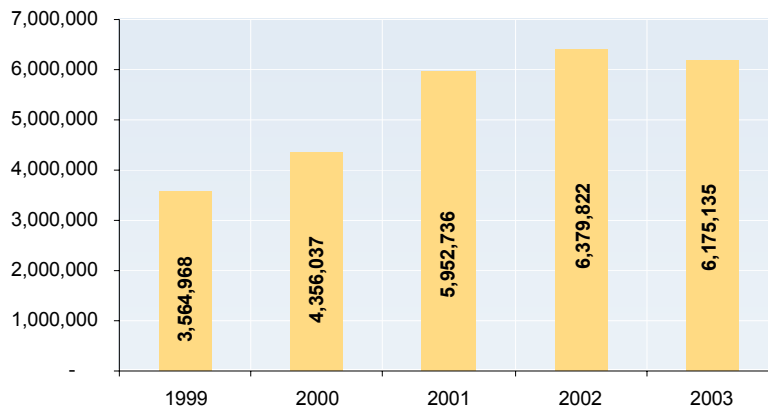
Tender Announcement	Time
Public invitation	19 October 2004
Deadline to submit Bidder Registration Application	5 November 2004
Due Diligence and Visits to the Company	From 8 November to 3 December 2004
Bid submission deadline	22 December 2004 until 5PM, Podgorica time
Selection of the first ranked bidder	Within 15 days from opening the Offers
Negotiations to conclude the SPA	One month from the start of negotiations
Closing of transaction	As defined during negotiations

### 1.3 Key Investment Considerations

- High traffic growth

Telecom Montenegro has recorded high traffic growth in recent years, both in residential and business segments with the highest portion coming from mobile operators in Montenegro. However, traffic volume with mobile networks declined slightly at the end of 2003 due to market liberalization which allowed Montenegrin mobile operators to establish direct links between themselves, avoiding Telecom Montenegro as an intermediate for traffic between the two mobile networks.

**Chart 1: Traffic volume in thousands of pulses\*, 1999 - 2003**

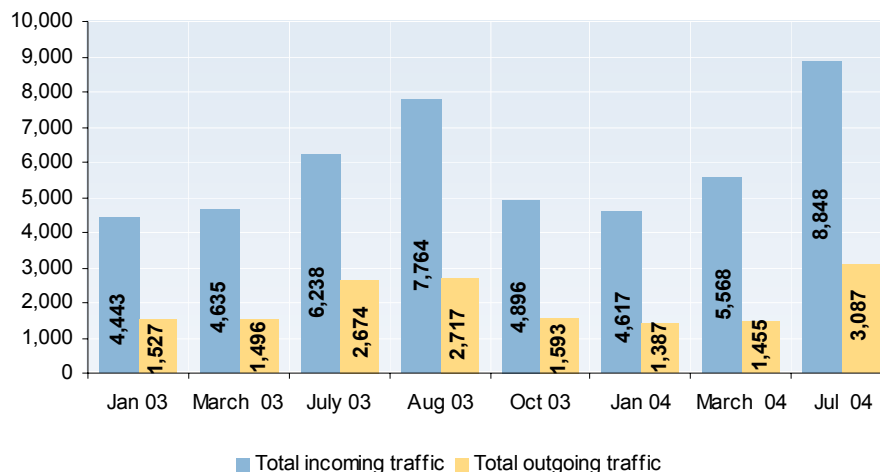


Source: International carriers department, Telecom Montenegro

\* Note: Not entirely comparable due to changes in tariffs over the years (not normalized)

Nevertheless, the traffic volume has reached a high level considering the size of the market, especially during the summer months when it peaks due to the summer tourist season at the Montenegrin coast. In particular, this peak relates to international and mobile traffic. Since Montenegro is seen as one of the fastest growing tourist markets in the world (as per The World Travel and Tourism Council's 2004 research), it is expected that the growth in the tourism will be positively reflected to other industries, telecommunications included.

**Chart 2: International traffic volume: Jan 2003 - July 2004, in thousand of minutes (seasonal influence)**



Source: International carriers department, Telecom Montenegro

- Developed fixed line network

Telecom Montenegro has invested considerable funds and efforts in upgrading and modernizing its infrastructure and technological basis, thus creating conditions for further development and provision of a wide range of services with the emphasis on IP services. The Company invested in establishing a high capacity national fibre optic network including: SDH technology, Siemens

equipment and the Bar-Corfu marine cable. Additionally, it has developed a modern switching capacity supplied from Ericsson and an IP MPLS data network supplied from CISCO systems.

Serious investments in its infrastructure and technology have put the Company's access network in line with developed telecoms turning it into a modern state-of-the-art company capable of delivering advanced services.

Also, Telecom Montenegro has nearly completed the digitalization of the network's switching capacity, achieving over 99% of digitalization as of June 2004.

- Highly profitable company with strong cash generation

Telecom Montenegro has demonstrated strong profitability in the recent years, accompanied by maintaining a stable financial position. In addition, the Company demonstrates strong cash generation and was able to finance the majority of its extensive capital investments made in previous years from own sources. The Company's creditworthiness is notably high and it has good capacity to be additionally leveraged.

Although not achieving high growth rates, fixed telephony is the main revenue and cash generator compared to its fast growing subsidiary mobile operator Monet.

- Alternative Telecommunication operator in the region

As Telecom Montenegro slowly reaches its saturation point in fixed line telephony at the Montenegrin market, potential for further development lies in the upcoming liberalization of markets in the neighboring countries, in particular, Albania, Serbia and Bosnia and Herzegovina where Telecom Montenegro can possibly act as an alternative operator especially having in mind its highly developed infrastructure and technical capacities. Telecom Montenegro has already established cooperation with ISP in Kosovo and Metohija and in Albania.

- Tariff rebalancing

Telecom Montenegro, used to be a monopoly fixed line operator with exclusivity rights over basic voice telephony at the territory of Montenegro until the end of 2003 and has only started to experience the effects of liberalization starting from January 2004. With the liberalization in force, Telecom Montenegro is changing its approach towards a more market oriented economy and is currently in the process of tariff rebalancing in order to bring its tariffs closer to the levels of telecommunication operators in the region, thus preparing for the possible appearance of a potential alternative telecommunications operator in the fixed telephony market.

- Developed Legal framework

As of December 2000, the Montenegrin telecommunications sector is governed by a new Telecommunication Law, setting the basic prerequisites for creating more stability within the industry. This Law is harmonized with EU standards and ITU principles.

The Telecommunication Agency, an independent regulatory body, was responsible for promoting competition and access to networks, issuing licenses to operators and regulating tariffs, and is created in February 2001.

In this way, the institutional framework was set up providing more clarity in regulations and rules within the Montenegrin telecommunication industry.

- Stable legal and political situation

Over the recent years, Montenegro has put considerable efforts into stabilization of political and economic conditions as pre-condition for continuous market reforms. Montenegro is steering towards a liberal and open economy, its macroeconomic parameters already showing stability.

Overall economic developments in Montenegro improved in 2003, especially in the following areas: GDP growth was positive, industrial production and revenues generated from tourism increased as well as savings and approved loans; the inflation showed further decline and the level of foreign deficit was reduced also.

- Fast Growing Mobile Subsidiary - Monet

Telecom Montenegro's 100% owned subsidiary Monet, Montenegro's second mobile operator is recording high growth figures in the recent years and is rapidly increasing its market share and approaching its competitor Pro Monte, compensating Monet's late start into the market (Pro Monte started its operations in 1996, Monet in 2000). Current estimated market share is Monet 43% and Pro Monte 57% (in 2001: Monet 27% and Pro Monte 73%).

**Table 1: Monet subscribers (active), 2001 - 2003**

	2001	2002	2003
Pre-paid subscribers	73,136	112,884	134,289
Post-paid subscribers	10,663	21,317	29,096
<b>Total</b>	<b>83,799</b>	<b>134,201</b>	<b>163,385</b>

Source: Monet

Monet has an extensive network covering 98% of the population and 69% of the total territory of Montenegro (considering the extremely mountainous terrain in Montenegro, the total network coverage is exceptionally high).

Monet is a market driven and innovative company that is constantly introducing new services, contributing to its continuous growth. In May 2003, Monet introduced GPRS and MMS services. Additionally, Monet is attracting new customers with competitive pricing (tariffs lower than Pro Monte), customer care, wide service range and high quality of services.

- Internet Montenegro

Internet Montenegro, 85% owned by Telecom Montenegro, is the first Montenegrin Internet Service Provider ("ISP"), and maintains a dominant market position ISP in Montenegro, facing no serious competition on the market. Its subscriber base is constantly growing, reaching 43,416 in June 2004. The only competitor, Montsky started its operations in October 2003 and has a marginal market of 1,300 dial-up subscribers as of April 2004.



Internet Montenegro has established itself as a provider of high quality service, closely following global trends of Internet media and technology. To maintain its leadership position, Internet Montenegro is strengthening its marketing activities, striving to provide a full range of high quality and reliable services to its subscribers.

Internet Montenegro has a network of 12 PoP points in throughout Montenegro, with approximately 1,620 dial-up access Internet lines. This number of lines enables first dial and corresponds to world standards (30 users per access line). ISDN technology is used in all cities where the infrastructure of Telecom Montenegro supports it.

## 1.4 Country profile

The Republic of Montenegro is a republic within the loose federal union of Serbia and Montenegro covering a territory of 13,812 square km and an estimated population of 670,000 (years 2003 estimate). It is located on the Balkan Peninsula on the Adriatic Sea and is bordered by Albania, Bosnia & Herzegovina, Croatia and Serbia.

Although Montenegro is not a part of the Euro zone, the official currency in the Republic is Euro. It was introduced on the basis of the Law on the Central Bank, as the replacement for the Deutsche Mark that previously substituted the Yugoslav Dinar in 2000.

Montenegro enjoys a large degree of autonomy and has direct responsibility for almost all of the key state functions (except defense and air traffic control). It is taking active steps to open up the economy to strategic investors and to establish a business-friendly environment.

As a Mediterranean country with exquisite natural beauties and a pleasant climate, tourism is one of the most important sectors playing one of key roles in the development of the Montenegrin economy. As per WTTC (The World Travel and Tourism Council), Montenegro is seen as one of the fastest growing tourist markets in the world.

## 1.5 Telecommunication market

The Montenegrin telecommunication market is characterized by the existence of one fixed line operator – Telecom Montenegro, two mobile operators – Monet and Pro Monte and two internet providers – Internet Montenegro and MontSky.

Telecom Montenegro is the only fixed line operator, with approximately 190,000 subscribers in June 2004, achieving a penetration rate of almost 29%.

Regarding the mobile operators, Pro Monte was the first mobile operator to start operations in 1996, while Monet was established in 2000. Pro Monte is still the market leader with 57% of market share. However, Monet is achieving exceptionally high growth rates and approaching Pro Monte. The growth was fuelled by aggressive marketing and the early introduction of pre-paid services by Monet.

The market of internet providers is led by Internet Montenegro, with approximate 43,000 dial-up subscribers as of June 2004. The only competitor, Montsky started its operations in October 2003 and covers a marginal market of 1,300 dial-up subscribers as of April 2004.

## 1.6 Company operations

Over the past years Telecom Montenegro has experienced rapid growth in its activities on almost all operational measures. The Company has made substantial capital investments (approximately EUR 52 million in the period 2001 – 2003), both increasing switching capacity, line penetration and improving service quality. Between 2000 and 2004 the number of telephone lines increased rapidly and the digital proportion of the switching capacity increased from 80% to nearly 100%.

**Table 2: Company statistics – Telecom Montenegro**

	1999	2000	2001	2002	2003
Subscribers	153,568	160,767	183,209	189,265	190,885
Pulses per subscriber	21,886	25,150	32,491	33,708	32,305
Switching capacity	222,355	235,481	239,114	240,420	244,200
Lines connected	169,846	177,600	185,833	189,865	188,012

Source: Telecom Montenegro

## 1.7 Summary of Financial information

**Table 3: Audited consolidated income statements for the years ended 2003 and 2002 presented in accordance with IAS\***

<i>in EUR</i>	2002	2003
<b>Revenues</b>	<b>89,892,784</b>	<b>92,396,591</b>
Cost of sales	(26,148,122)	(21,606,533)
<b>Gross Profit</b>	<b>63,744,662</b>	<b>70,790,058</b>
Gross salaries	(18,824,759)	(22,203,697)
Other expenses	(12,023,297)	(14,281,870)
Depreciation and amortization	(23,648,354)	(11,471,710)
Net financial income/(expenses)	255,799	(1,319,456)
<b>Profit before tax</b>	<b>9,504,051</b>	<b>21,513,325</b>
Income tax	(3,787,414)	(1,136,973)
<b>Net profit</b>	<b>5,716,637</b>	<b>20,376,352</b>

Source: Auditor's report

**Table 4: Audited consolidated balance sheets as at 31 December 2003 and 2002 presented in accordance with IAS\***

<i>in EUR</i>	<b>31. Dec 2002</b>	<b>31. Dec 2003</b>
<b>Assets</b>		
Fixed and intangible assets	201,229,561	145,152,929
Long-term investments	4,553,973	4,583,491
Current assets	25,069,923	29,378,863
<b>Total assets</b>	<b>230,853,457</b>	<b>179,115,283</b>
<b>Equity &amp; liabilities</b>		
Equity	208,615,655	140,142,210
Long-term liabilities	3,570,259	13,899,547
Short-term liabilities	18,667,543	25,073,526
<b>Total equity &amp; liabilities</b>	<b>230,853,457</b>	<b>179,115,283</b>

*Source: Auditor's report*

*\*Note: The above consolidated financial statements do not include financial figures for Internet Montenegro as it is in majority ownership of Telecom Montenegro starting from the year 2004. In addition, there were changes in accounting policies related to full implementation of IAS in Montenegro between 2002 and 2003 (please refer to Heading 9 – Financial Information)*

## 2 BACKGROUND INFORMATION

### 2.1 Country profile

#### 2.1.1 General

The Republic of Montenegro is one of two federal units comprising the State Union of Serbia and Montenegro that was formed in February 2003. This is a loose union with only limited joint functions.

Montenegro is located in the Mediterranean part of Europe, on the Adriatic Sea and covers area of 13,812 square kilometers. The population is estimated at around 670,000. Montenegro is a multi-ethnic community, in which Montenegrins make the majority of population (62%).

The administrative seat and the largest city of Montenegro is Podgorica and the state capital is Cetinje representing the historical and cultural centre of the country.



Due to its favorable geographic position and abundance of natural beauties, including 293 kms of Adriatic coast, mountains and natural parks, Montenegro is a well-known tourist destination and its economy relies strongly on tourism.

## 2.1.2 Political situation

### *State Union of Serbia and Montenegro*

The state union of Serbia and Montenegro is based on the equality of the two member states, the state of Montenegro and the state of Serbia and was proclaimed on 4 February 2003.

The state union's highest legal act is the Constitutional Charter. Under the Constitutional Charter, the Assembly of SCG exercises legislative power. The Assembly is mono-cameral and is made up of 126 Members of Parliament, 91 of which are from Serbia and 35 from Montenegro. The MPs of the Serbia and Montenegro Assembly are elected from either member state in accordance with European and democratic standards on the basis of the laws of the member states. For the first two years after the adoption of the Constitutional Charter, the MPs have been elected indirectly in proportion to their representation in the National Assembly of the Republic of Serbia and the Assembly of the Republic of Montenegro. After this initial period, the MPs will be elected at direct elections for a four year term of office. The Assembly of Serbia and Montenegro elects from among its MPs the President and the Vice-President of the Assembly and they may not come from the same member state. The Assembly was constituted on 3 March 2003.

The President of Serbia and Montenegro is elected by the SCG Assembly. The President of the Assembly and the President of the State Union may not come from the same member state. The State Union President's term of office is four years. The member states take over the office of President alternately. The executive power is vested with the President of SCG and the Council of Ministers that he chairs and runs.

The Council of Ministers was formed on 17 March 2003 and has five Ministries: Foreign Affairs; Defense; International Economic Relations; Internal Economic Relations; and Protection of Human and Minority Rights. The President and two candidates for Ministers come from one member state and the remaining three candidates for Ministers from the other member state. The President of SCG proposes candidates to the Assembly for the Council of Ministers; whereby the Assembly approves the membership of the Council as a the whole. The Ministers have a four-year term of office. The seat of the Assembly and the Council of Ministers is in Belgrade.

Judicial power is vested with the Court of Serbia and Montenegro with decisions final and binding. The Court is authorized to invalidate laws, other regulations of the institutions of Serbia and Montenegro that are contrary to the Constitutional Charter and the laws of Serbia and Montenegro. The judges from both member states have equal representation on the Court. The judges are appointed by the Assembly of SCG at the proposal of the Council of Ministers for a six-year term of office. The seat of the Court is in Podgorica.

In addition to the joint Parliament, Council of Ministers, President and the Court, every member state has its own Parliament, President and Government.

### Union Jurisdiction

The Union has jurisdiction over: Foreign Affairs; Defense; International Economic Relations; Internal Economic Relations; and Protection of Human and Minority Rights.

## Republic Jurisdiction

With the exception of the jurisdiction vested with the State Union of Serbia and Montenegro, the State of Montenegro has full jurisdiction over its political, economical and legal affairs in accordance with its Constitution.

### *Montenegro*

Montenegro was established as a democratic sovereign state and its Constitution was adopted on 12 October 1992. Montenegro's judicial, legislative and executive systems of power are independent of each other i.e. Montenegro follows the principle of division of powers. The rulings of the courts must be in accordance with the Constitution and the laws of Montenegro.

A single-chamber parliament – the Republican Assembly serves as the republic's legislative body. Assembly members are elected by direct popular vote. The Assembly passes all laws, ratifies international treaties, appoints the Prime Minister, ministers, and judges of all courts, adopts the budget and performs other duties as established by the Constitution. The Parliament can pass a vote of no-confidence on the Government by a majority of the members.

Nine parties are currently represented in the Montenegrin Parliament. The Democratic Party of Socialists (DPS) holds 31 seats, Social Democratic Party (SDP) 7, Socialist People's Party (SNP) 19, Liberal Alliance of Montenegro 4, Democratic League of Albanians 1, Serbian People's Party 6, People's Party 7, Democratic Alliance of Montenegro 1, and Citizens' party 1.

The President of the Republic is elected for a period of five years through direct and secret ballots. The President represents the Republic in the country and abroad; promulgates laws; calls for Parliamentary elections; proposes to the Parliament a candidate for the Prime Minister, as well as for the president and justices of the Constitutional Court; proposes the holding of a referendum; grants pardons; and confers honors and decorations.

The Government formulates and conducts foreign policy; adopts decrees and other regulations; implements laws; concludes international treaties; establishes the organization and the mode of operation of the government administration; and performs other duties as laid down in the Constitution. The present Government is comprised of members of the Coalition "For Better Life", thus Democratic Party of Socialists (DPS), People's Party, and Social Democratic Party (SDP).

The Prime Minister directs the work of the Government, and submits to the Parliament the Government's Program including a list of proposed ministers.

### **2.1.3 Macroeconomic outlook**

In recent years, the Republic of Montenegro has put considerable efforts into stabilizing political and economic conditions as a backdrop for further market reforms. Montenegro is steering towards a liberal and open economy and its economic parameters are already showing stability.

Overall economic developments improved in Montenegro in 2003: GDP growth was positive, industrial production and revenues generated from tourism increased as did savings and approved loans; inflation declined further and the level of the trade deficit was reduced too.

**Table 5: Key macroeconomic indicators – Montenegro**

	2002	2003e
Population	660,051	670,000 E
GDP (EUR million)	1,221	1,375
Growth of real GDP (%)	0.84	2.53
Inflation rate (measured by RPI)	9.4	6.7
Balance of payments current account (EUR million)	-154	-114
Foreign direct investments	86.9	43.8
Savings (EUR million)	22	44
M1 (EUR million)	402	377

Source: The Central Bank of Montenegro, Annual report for 2003

**GDP** - According to the Republic's Secretariat for Development estimations, GDP in 2003 was EUR 1,375 million, which represents a real growth of 2.53%, compared to 2002. Growth was recorded in the fields of tourism, agriculture and industry, while a fall was recorded in the construction, trade and transportation sectors.

**Industrial production** in 2003 increased by 2.4% compared to 2002. Production in the *processing industry* in 2003 was 2.1% lower compared to the previous year, while production of the *electricity, gas and water* sector increased by 17.5% in the same period. The third sector – *mining and stone extraction*, registered a production increase of 1.4% in 2003.

**Tourism** - One of the most important sectors of the Montenegrin economy is tourism, which is considered to be a strategic industry for further development. Tourism is the sector with the strongest growth prospects, and the industry segment with a high potential to attract investment in the upcoming years.

In 2002, approximately 3.7 million overnights were recorded in Montenegro, out of which domestic tourists accounted for 2.8 million. During 2003, the number of recorded overnights has further increased and total turnover from tourism in 2003 is estimated at over EUR 151 million, which is 5% more than in 2002. Due to the privatization of numerous Montenegrin hotels that were completed in the previous period, significant capital investments in tourism are ongoing, or are expected to be undertaken, resulting in further expansion and renovation of the Republic's tourism infrastructure.

Therefore, with the gradual improvement of tourist services, more foreign tourists' visits could be expected in the upcoming years. Additionally, spending by inbound international visitors, is expected to total 173.3 million EUR, or 201.1 million US\$ in 2004, a gain of almost 10% on 2003 results. This level represents 28.9% of total Montenegro exports.

#### *The World Travel and Tourism Council projections*

According to the economic projections for the growth of Travel & Tourism in Montenegro made by WTTC (The World Travel and Tourism Council), tourism will become leading export sector of Montenegro generating the greatest revenue from abroad and having the potential to diversify its economy, stimulate entrepreneurship, stimulate investments, create new jobs and help the social development of local municipalities.

The ten-year annualized growth (2005-2014) forecast is 10.3% per annum, ranking Montenegro as the fastest growing Travel & Tourism market in the world out of 174 countries covered by WTTC's 2004 research.

#### *Tourism impact on GDP, Employment and Investments*

WTTC estimations for the year 2004 show that the tourism industry generates 14.8 % of GDP, and according to WTTC forecasts, the contribution of tourism to GDP will increase to 21.1% by the year 2014. The tourism sector, directly and indirectly accounts for 14.9% (22,700) of total employment, and, according to WTTC forecasts, this will increase to 21.3% in 2014. WTTC estimates that capital investments in tourism will amount to EUR 42.8 million or 14.8% of total investment in 2004. By 2014, the investments in tourism are expected to increase to EUR 121.2 million, or 20.4%.

**The inflation rate** in Montenegro (measured by Retail Price Index) was 6.7 in 2003, and was lower by 2.7% than in 2002. The major inflationary factors in 2003 were: unstable oil prices, the VAT introduction, an increase in electricity prices and the increase in custom duties as a result of harmonization with Serbia. The strongest effect on prices came from the introduction of VAT and the electricity price increase. The cost of living index registered a similar trend. The annual inflation rate reached 6.2% in December, which is a significant decrease compared to December 2002 (9.2%). The Producer Price Index registered significant growth in 2003. As a result of electricity price increase, PPI grew to 4% in April, reached 8% in August and 10% in December.

In the first quarter of 2004, inflation amounted to only 0.8%, and if this downward trend continues throughout the year, annual inflation in 2004 is estimated to be less than projected 4.5%.

**Employment** - According to data from Monstat<sup>1</sup>, there were 111,856 persons employed in Montenegro in 2003. According to the Employment Bureau, the average number of unemployed in 2003 amounted to 71,678 and was 11.4% lower than in 2002. What's more, even if not reflected in the official employment figure, 24,500 new employees have been registered in the period April – December 2003 as a result of the Decree on Tax Relief for New Employees implementation.

**Earnings** - Average gross monthly earnings in Montenegro amounted to EUR 271.2 in 2003, while net earnings came to EUR 174. Disposable income is expected to increase in 2004 due to changes in the taxable income level that were made in January and a significant increase in wage coefficients introduced by the new collective agreement.

**Budget** - The Government conducted a restrictive budgetary policy in 2003. Both revenues and expenditures were below the planned level. Despite the fact that VAT revenues were much higher than planned, total budgetary revenues came to EUR 337.5 million (excluding grants), which represents 93.4% of the plan. A restrictive budget policy forced the Government to cut expenditures which is why cash budget expenditures, together with net lending, at the end of 2003 reached 85% of the plan (EUR 381.5 million). Thus, the overall budget balance in 2003

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<sup>1</sup> Republic Statistical Office



(excluding grants), calculated as the difference between total revenues and total expenditures and net lending, was - EUR 44 million on a cash basis. Besides foreign aid, the cash budget deficit was financed by privatization revenues, increased lending and deposits transferred from the previous year. Including grants, the budget balance would amount to - EUR 31.4 million.

Budgeted revenues of EUR 402.6 million are planned for 2004 (excluding grants, privatization revenues, and loans and credits) which is an increase of 11% as compared to the plan for 2003. Total budgeted expenditures are nominally at the level of the previous year's rebalance (EUR 450.7 million). The overall budget deficit is therefore planned at around EUR 48.1 million which is approximately 4 million higher than the cash deficit for 2003. Most of the deficit is projected to be financed by domestic and foreign credits.

**Official currency in Montenegro** - Although Montenegro is not a part of the Euro zone, the official legal tender in the Republic is the Euro since January 2002. The German Mark was the former currency replacing the Yugoslav dinar in November 1999. As there is no exchange rate fluctuation risk, the main objective of Montenegrin Central Bank is to maintain price stability, a stable and solvent banking system, as well as efficient payment operations.

## 2.2 Telecommunication market

### 2.2.1 Regional outlook – Market comparison – Potential for growth

Telecom privatization in the countries of Former Yugoslavia has developed more slowly than in other regions of Central and Eastern Europe. Since the transformation of these countries into democratic, market oriented economies in the 1990's, only Serbian Telecom, Croatian Telecom and Macedonian Telecom have been partially privatized.

**Table 6: Telecom Privatization transactions in the countries of Former Yugoslavia**

Country	Year	Company	Seller	Method	Buyer	Stake
Serbia	1997	Serbian Telecom	Government	Trade Sale	OTE & Telecom Italia	49
Croatia	1999	HT	Government	Trade Sale	DT	35
Macedonia	2001	Maktel	Government	Trade Sale	DT	51
Serbia	2003	Serbian Telecom	Telecom Italia	Negotiated Deal	Gov't	29

Out of the above privatizations, only Croatian Telecom has made strategic moves outside its domestic market by acquiring a 49% shareholding in Eronet, the mobile phone operator in Bosnia in mid 2003.

The situation of Serbian Telecom has been uncertain since Telecom Italia sold back its 29% shareholding to the Serbian Government in 2003. Domestic issues have been the priority for Serbian Telecom and its remaining strategic investor OTE which have precluded Serbian Telecom to launch a large international offensive into neighboring markets.

The remaining telecommunications markets in this region have not yet been privatized and the timelines for future privatizations are not as advanced as the process in Montenegro which offers expansion possibilities to enter these markets as an alternative operator. The Albanian Government attempted to privatize the state-owned telecommunications company, Albtelecom, in 2000 but international interest was deemed too low in light of the poor state of the global telecommunications sector and the tender was cancelled. The Government of Albania has announced that it plans to re-launch the privatization of Albtelecom. The stake to be sold will be between 51% and 76%. The timing of these tenders is uncertain at the time.

Recently, the Government of the Republic of Srpska, Bosnia and Herzegovina, announced that it will seek to privatize its state owned telecommunications carrier Telekom Srpske.

#### *Effects of liberalization in the region*

As the markets of Serbia, Kosovo, and Albania strive to become more aligned with the EU, the topic of telecommunications liberalization will become more prominent in the regulatory and legal framework of these countries.

With borders to the markets of Albania; Serbia; and Kosovo, Montenegro can serve as a springboard into these expansion markets for a potential investor. A strong partner can leverage the modernization and investment programmes that have been carried out by Telecom Montenegro in the past few years and use its high technical standard and in depth local knowledge of the region to enter the individual telecom segments of neighboring countries as they become liberalized.

Some of the major strategic advantages offered by Telecom Montenegro to a potential investor interested in expanding throughout the region of former Yugoslavia are as follows:

- Geographic proximity to these markets
- Telecom Montenegro's high technical standard (99% digitalization)
- Serbia, Kosovo, and Albania markets are not yet liberalized and have virtually no alternative telecommunications services providers competing with the incumbents.
- Modern, high capacity fibre optic transmission backbone with international voice and IP links to these countries (except for Kosovo for which negotiations are taking place).
- Highly trained and motivated workforce supported by state of the art telecommunications and IT infrastructure.
- Already established good relations to existing operators in neighboring countries.

## 2.2.2 Local telecommunications market

The market for telecommunication services in Serbia & Montenegro operates as two entirely separate markets with no operator active in both republics.

The overall telecommunications market in Montenegro recorded dynamic development in recent years. The average annual growth rate of the telecommunication sector was 77% from 2000 to 2002 and the telecommunications sector accounts for approximately 10% of Montenegro's GDP.

The principal service providers in the Montenegrin telecommunication market are:

- Telecom Montenegro, the only fixed line operator,
- ProMonte, the first GSM mobile service provider (100% owned by Telenor),
- Monet, the second GSM mobile service provider (100% owned by Telecom Montenegro),
- Internet providers: Internet Montenegro and MontSky.

The Government of Montenegro passed a new Telecommunications Law in December 2000 ("Telecom Law") in order to provide a clear regulatory framework for the Montenegrin telecommunications sector complying with EU standards and ITU principles. The Telecom Law's objectives include introducing and supporting competition and the efficient use of services in the telecommunications industry. The Telecom Law prescribed establishing an independent regulatory agency which is responsible for promoting competition, access to networks, issuing licenses to operators, and approving tariffs.

The Agency issues individual or class licenses in accordance with pre-set criteria and procedures and is also responsible for the interconnection of networks. The Agency also supervises compliance with the Telecom Law and licenses. In February 2002, the Agency issued licenses for fixed-line and mobile services in Montenegro. Telecom Montenegro was granted a fixed-line license for 25 years, while Monet and ProMonte were each awarded 15-year licenses for operation of mobile services in the 900 and 1,800 MHz frequencies.

In the future, all licenses for new telecom operators entering the Montenegrin market will be awarded through a tender procedure. For existing operators that have already been granted a license, new licenses will be issued at the request of the operator without a tender procedure, as defined in the text of the previously issued license, for the period of at least 10 years.

### Liberalization

Telecom Montenegro had exclusivity over the provision of basic voice telephony services (fixed, interconnection and voice over IP), until the end of 2003. Despite the liberalization, the telecommunications market in Montenegro is still characterized by a monopoly in the field of fixed telephony and limited competition in the mobile telephony market.

Taking into account that the market is limited, future competition is only expected in certain segments. Even before liberalization, competition was affecting the profitability of Telecom Montenegro by illegally directing the international traffic through Serbia by Internet protocol. In addition, fixed-mobile substitution is the most obvious threat to fixed telephony.

Monet and Promonte establishing direct connection with foreign operators is expected to decrease interconnection revenues and international traffic for Telecom Montenegro. ProMonte has already established a direct link with Mobtel GSM in Serbia.

As a consequence of liberalization, it is expected that Telecom Montenegro will have to face increased competition coming from different directions:

- Operators from neighboring countries expanding their presence through direct links for international traffic and the sale of global Internet access and other services in association with local market participants.
- Local companies that expand their service portfolio into telecommunications.
- Mobile operators.
- Potential competition for VoIP services from Internet providers.

### Fixed telephony

Telecom Montenegro is the only fixed line operator in Montenegro and also provides Internet access to end customers through dial-up and leased lines. The fixed line penetration is close to 29% and there are approximately 190,000 subscribers in fixed telephony.

The Montenegrin fixed telephony market potential is limited by size, but, on the other hand, this also presents a limitation for new local entrants. Traffic volumes, especially in the international fixed and generally in mobile telephony, reach their peaks in the summer months during the tourist season. Therefore, a significant potential for expansion lies in the further development of tourism and general recovery of the economy.

However, as fixed telephony is reaching its saturation point, a large potential lies in development of other services such as: data transmission, leasing optical capacities, and transmitting TV signals via telecom infrastructure.

Business users are showing increased demand for virtual private networks and data transmission services. It is necessary to develop customer care services to meet the requirements of users as well as the shared transfer of information.

The services offered to business users will have to be specialized and tailor made in order to meet the specific needs of business segments such as: banks, insurance companies, public companies and large state institutions.

Residential users include households and “weekend” users i.e. residents and non-residents of Montenegro who only use their phones occasionally (in holiday resorts). Households will be interested in more comfortable communications (ISDN, ADSL, VAS) while “weekend” users are interested in reducing tariffs in the periods when they are not visiting the holiday resorts.

Neighboring countries - As there are announcements for future liberalizations in neighboring countries, there are possibilities for Telecom Montenegro to act as an alternative operator at these markets once liberalization is in force.

Table 7: Basic market statistics, fixed telephony

	2001	2002	2003
Subscribers	183,209	189,865	190,885
Penetration	27.9%	28.8%	28.6%
Total revenues as % of GDP	6.10%	6.14%	5.23%

### Mobile telephony

The Mobile telecommunications market in Montenegro shows fast growth and penetration rates comparable to the European Union. Approximately 2.4% of total household income in Montenegro is allocated for telecommunication services. Compared to the low purchasing power of the population, this percentage is considerably high and relates mostly to mobile telephony.

The first mobile service provider in Montenegro was ProMonte and received its GSM license in January 1996. Monet started its operations in July 2000 and is rapidly growing, reaching its current market share of approximately 43% while ProMonte holds 57% of the market.

The effects of introducing competition in the mobile market by issuing another GSM license were immediately dramatic, especially related to tariffs that were significantly reduced, consequently increasing the number of subscribers. Currently, both Monet and ProMonte hold 15-year licenses for the operation of mobile services in the 900 and 1,800 MHz frequencies. The introduction of pre-paid SIM cards by Monet was another reason for the huge growth of subscribers.

The total number of subscribers is constantly growing making up the estimated total of 420,000 subscribers in 2003 (both pre-paid and post-paid). Compared to 1999, when there was total of approximately 38,000 subscribers, the total number of users has increased over 11 times. However, there is a strong cyclical influence of the tourist season in Montenegro impacting the number of active users i.e. the number of users reaches its peak in July and August while throughout the year it decreases due to a significant number of users that are passive (tourists only using their SIM cards for a couple of months). Therefore, a more reliable indicator is the number of active users i.e. users active throughout the year that is estimated at around 385,000 in 2003. The penetration rate calculated for active users is 57%.

Although there is a larger number of pre-paid users than post-paid users in Montenegro (post-paid approximately 65,000 and pre-paid around 320,000) the levels of ARPU (average revenue per user) achieved are higher in the post-paid segment of users. This confirms the general rule that higher levels of purchasing power are reflected by a higher portion of post-paid users (20 – 35% in Western Europe, while in Montenegro this is currently around 16%). With an expected future growth in the economy and improved living standards, there is a significant potential to increase the percentage of post-paid users.

Monet's subscriber structure is currently dominated by pre-paid users, but the structure is changing towards a higher portion of post-paid users (13% post-paid users in 2001 compared to 18% in 2003) and has rapidly come into line with ProMonte (16% of post-paid and 84% of pre-paid in 2003), having in mind that Monet had a late start compared to ProMonte.

## Internet providers

There are two Internet providers currently active in Montenegro: Internet Montenegro and MontSky. Internet Montenegro started its operations in 1997 and has been the only Internet provider in Montenegro until the end of 2003 when MontSky started operations. Internet Montenegro is the dominant provider with 43,416 dial-up subscribers as of June 2004. MontSky had approximately 1,300 dial-up subscribers in April 2004.

The total market for Internet users is estimated at 77,000 (including dial-up users, leased line users and estimated additional users who use the same dial-up account i.e. family members) and the penetration rate at the end of 2003 was 12.5%. A limit on Internet penetration in Montenegro is the availability of PC's, as a personal computer still presents a significant investment for a large number of people.

Market potential lays in the future improvement of the economy, a stronger emphasis on computer awareness, education and the introduction of more Information technologies in business processes. It is estimated that, in such circumstances, the Montenegrin Internet market would increase up to 150,000 users within the next 5 – 10 years.

**Table 8: Basic market statistics, Internet**

	2001	2002	2003
Subscribers	17,000	27,000	37,600
Penetration	4.5%	6.8%	12.5%
Revenues in EUR	1,249,078	1,345,004	2,359,431

*Source: Internet Montenegro*

### **3 Regulatory and Legal Overview - Montenegro**

#### **3.1 Regulatory framework in the Telecommunication Sector**

Since the enactment of a telecom regulatory framework in 2000, the telecom sector is regulated by the Telecommunication Law (the Law) that is implemented and enforced by the Agency for Telecommunications (the Agency) in accordance with this law and its procedures.

##### **3.1.1 Montenegrin Law on Telecommunications**

The Law regulates: telecommunication activities; establishment of the Agency for Telecommunications; requirements for construction, maintenance, safety, usage and telecommunication networks supervision; relations between providers and end users; universal services provision; granting licenses; management, usage and radio frequency spectrum supervision; as well as other telecommunication issues.

The competencies for the application of the law are divided between the Government of Montenegro, the competent Ministry for telecommunications, and the Agency. All of their competencies are regulated in detail where the government and ministry have more planning, coordinating and regulatory roles, while the Agency has a practical, regulatory and supervisory role over the telecommunication sector.

Carrying out telecommunication activities is conditional upon the issuance of appropriate general or specific licenses. General licenses are issued through a registration procedure with the Telecommunication Agency and require a single payment. Specific licenses are issued for a validity period up to 25 years and can be renewed. They are issued through public tender when required by the law. Besides a single payment for the issuance of specific licenses, additional compensation is proposed by the Agency and specified by the Ministry. Specific licenses can be transferred only with the approval of the Agency for Telecommunications.

Telecommunication tariffs provided on a competitive basis are determined by the providers of telecommunication services. All public telecommunication providers have the right and obligation to negotiate interconnection agreements that have to be in line with the law and are supervised by the Agency. Interconnection agreements are registered with the Agency. Interconnection has to be provided within 90 days from the request or within the term arranged with the Agency.

##### **3.1.2 Telecommunication Licenses – Operators and Service Providers**

Until now, the Agency has issued 68 licenses, of which 6 are general and 62 are specific. The tables below show the major holders of licenses:

Table 9: General licenses

No.	Licensee	License
1.	Internet Crna Gora,	Internet
2.	Transintercom	Internet
3.	PTT Inzenjering	Building communications networks
4.	Informatika Montenegro	Internet
5.	G NET	Building communications networks
6.	Network Communications	Building networks

Out of 62 specific licenses, most relate to radio and TV broadcasters and functional systems of different companies, with the exception of the following:

Table 10: Specific licenses

No.	Licensee	License
1.	Telecom Montenegro	operator of fixed telecommunications network
2.	ProMonte GSM	operator of mobile telecommunications network
3.	Monet	operator of mobile telecommunications network
4.	Posta Crne Gore	public pay phones
5.	Montenegro Card	public pay phones

### 3.1.3 Telecommunication Agency of Montenegro

The Agency for Telecommunications (the Agency) is the regulatory body of the telecommunications industry in Montenegro and is organized in three sectors: Legislative-administrative, Economic, and Technical.

The Agency was established in the year 2001 as an independent regulatory body, functionally independent of all participants who exploit telecommunications networks and provide equipment and services. The Agency is an independent legal entity whose primary purpose is to establish the necessary regulatory framework and lead the process of transition towards a new international telecommunications society by an ongoing review of liberalization in the telecommunications market and encouragement of private investments, taking into account national interests and the goals of the economic development of the country.

## 3.2 Legal overview

### 3.2.1 Privatization Legal Regime

Montenegro enacted legislation pertaining to the privatization of formerly stated-owned/socially-owned companies that were transformed into joint stock companies or limited liability companies as a result of the previously enacted Ownership and Management Transformation Act of Montenegro.



### *The Privatization Act – Highlights of Major Provisions*

The interests of the Republic of Montenegro, (hereinafter: Republic) in the privatization process are represented by the Privatization Council which has executive empowerment, and is accountable to the Government. Privatization is performed in conformity with the Annual Privatization Plan which is prescribed by the Government and is published in the Official Gazette at the proposal of the Council.

### *Privatization Methods*

Methods of privatization are: sale of shares; sale of business assets of a company; issue of shares to the employees of a company; exchange of shares for privatization vouchers; subscription of new shares by capital increase; debt for equity conversion; joint venture in which the company under privatization invests its business assets; combination of methods, or other modes established by the Privatization Law and Privatization Plan.

Privatization can be performed by public auction, public tender or public offer in conformity with the Law and Privatization Plan or other regulations enacted by the Government at the proposal of the Privatization Council. Privatization of companies by public tender must be implemented through an open and competitive procedure. The Public Tender Regulation sets forth the methods and procedures for the sale of shares by public tender and specifies that a public tender for the privatization of a company shall be organized and implemented by a “Tender Commission” (as appointed by the Council).

### *Legal Capacity to Engage in Privatization Transactions*

The entity entrusted and empowered to consummate privatization transactions on behalf of the Government of Montenegro is the Montenegro Agency for Economic Restructuring and Foreign Investment. Pursuant to Article 18 of the Privatization Act, it has been expressly mandated with control over the methods and procedures to be applied when transferring ownership interests in shares via privatization.

## **3.2.2 Foreign Investment Legal Regime**

Montenegro has enacted legislation pertaining to investments in Montenegro by foreign natural or legal persons.

The Montenegrin Foreign Investment Law expressly prohibits investments in certain fields by foreigners, unless such investments are made in partnership with a domestic citizen/entity. The limitations are mainly established in areas related to defense.

### *Foreign Investors Rights and Protection*

Foreign investors can establish a company and invest in a company under procedures and conditions under which local nationals can establish companies or invest assets in companies (National Treatment). Foreign investors, on the basis of their investment, have the right to:

- manage, or participate in management of the company;

- transfer rights and obligations resulting from the contract on investment or contract, or decision on establishing a company, to other foreign investors or local nationals;
- return certain invested objects, in accordance with the contract on investment or contract, or decision on establishing/founding;
- return investment, or remaining funds which are invested in a company, in case of a breach of contract, or end of contract on investment or contract, or decision on establishing or end of operations of that company;
- part of net-assets and return of a part, or property, after an end of operations of that company, if these assets were invested when establishing that company;
- other rights set out in the Foreign Investment and other laws.

Foreign investors have the right to access the corporate records and daily operations of the company in which he/she invested, to independently, or through an authorized representative, conduct auditing on a periodical or annual basis, as well as to participate in profit distributions and to freely transfer and reinvest profit, including the exchange of currency.

#### *Guarantees and Incentives to Attract Foreign Investment*

When investing in Montenegro foreign investors are provided with public and private law guarantees including:

- Right of property: The property of a foreign investor cannot be expropriated, except for a compelling public purpose established by law or on the basis of the law and accompanied by compensation to the foreign investor that may not be less than the market value of the expropriated assets;
- Changes of law: in case of changes in the law on which an investment was based, the provisions of the agreement, decision or statute and the law applicable at the time of the actual investment agreement or decision is prevailing should this be more favorable for the investor;
- Government as a party: when the Government of Montenegro is a party to the foreign investment agreement, or in case it is a partial owner of the investment, it has no greater rights than the other contractual party;
- War or state of emergency: foreign investors are entitled to equal reimbursement for damages caused by war or state of emergency in an amount to that of local nationals;
- Illegal conduct: foreign investors are entitled to reimbursement for damages caused by the illegal or irregular conduct of government officials or agencies.

#### *Taxation*

Foreign investments shall be taxed no less favorably than domestic business organizations. Tax exemptions and concessions include:

- corporate tax exemption for the first three years for newly established legal entities conducting business in underdeveloped municipalities;

- reduction of profit tax in proportion to such profit for a period of three years for the taxpayer making profit from newly established business unit conducting production activity in an underdeveloped municipality;
- reduction of computed profit tax by 25% of the amount invested in own fixed assets.

#### *Foreign Investment Contract*

The Montenegrin Foreign Investment Law set forth certain provisions which a foreign investment contract must include (e.g., a share sale purchase agreement, a subscription agreement, a joint venture agreement, etc.).

Disputes arising from foreign investors are dealt with by the relevant court in Montenegro, if it is not provided that such disputes are settled through domestic or foreign arbitration in compliance with the international conventions.

If a contracting party is the Government of Montenegro, then until the Convention for the Settlement of Investment Disputes is signed, the disputes arising from foreign investments shall be resolved in accordance with the ICSID Additional Facility through domestic or foreign arbitration.

If the contracting parties are domestic or foreign individuals or business organizations, disputes arising from foreign investments shall be resolved through domestic or international arbitration using the UNCITRAL (United Nations Commission on International Trade Law) Rules.

Any damage awards arising from the settlement of foreign investment disputes shall be binding, final and enforceable in a tribunal possessing jurisdiction.

### **3.2.3 Labor Regime**

The legal framework governing human resources is set forth in the Employment Law of Montenegro, the General Collective Bargaining Agreement, the Special Collective Bargaining Agreement, and the individual labor agreements, as well as the Constitutional Charter and the Constitution of Montenegro.

#### *The Constitutional Provision and the Labor Laws*

The Montenegrin Constitution confers certain unalienable rights to employees in the Republic, such as:

- adequate remuneration for their work
- limited working hours (40 hours per week except in situations from Art 42, 43, 44 of the Employment Law of Montenegro) & paid vacation (minimum 18 days a year)
- protection at work
- special protection at work for the young, women and disabled
- right to strike in order to protect their professional and economic interests

Under the Employment Law, every employee, based on the employment relationship, has the right to a guaranteed personal income in the amount equivalent to the lowest cost of work,

determined by the following factors: the needs of the employee and his family, general level of income in the Republic, living expenses, economic factors and productivity levels. Guaranteed personal income may also be determined by the General Collective Agreement.

The Law regulates protection at work and prescribes conduct and measures required for establishing a safe work environment as well as the penalties for non-compliance. The Employment Law stipulates the general criteria for establishing staff redundancy due to technological and other developments, as well as the criteria for determining the rights of redundant employees. Mandatory retirement occurs when the employee turns 65 years of age and has at least 15 years of work experience with paid benefits.

### *Labor Unions*

The work of the Labor Unions is regulated by the Employment Law of Montenegro and the General Collective Agreement.

### *Collective Bargaining Agreements*

Some elements of Labor Law have been delegated by the legislature to negotiations between the trade unions and the employers.

There are three levels of Collective Agreements in Montenegro with the following hierarchy: the General Collective Agreement is concluded between the trade unions and the representatives of employers' organizations at a national level; the Special Collective agreements are concluded between the trade unions and the representatives of employers' organizations on a sectoral basis; the Particular Collective Agreements (e.g. Telekom Montenegro Collective Agreement) are concluded between the trade-union and the management of each individual company.

Collective Agreements may not provide employees with lesser rights and worse conditions for work than the rights and conditions determined by the Employment Law.

A single collective agreement, which was concluded on 02 June 2004, regulates more closely issues of rights, duties and responsibilities of employees and employers based on Employment contract and regulates their mutual relationships (terms and conditions of concluding Employment contract, specifying provisions on working hours, holidays, salaries and bonuses, establishing Employees' Council, defining procedure for determination of redundant employees, right to strike, terms on labor union activities and similar.)

### *Legal Framework Regarding Employee Redundancy*

Companies may terminate an employee in cases prescribed by the Labor law and Collective Agreement.

In accordance with the Program of introducing technological, economic and structural changes, companies are obligated to prepare a Redundancy program and inform the Trade Union and State Employment Agency about the redundancy within one month. They are obligated to inform the State Employment Agency, Trade Union and redundant employees at least 3 months before termination of their employment.

When determining redundant employees, the employer shall take into account the contribution and quality of work.

Redundant employees who are not granted any benefits determined by the Redundancy program are entitled to a redundancy payment in the amount of at least 6 average salaries.

#### *Collective benefits for the employees*

Under the General Collective Agreement, the Employer is obliged to insure the employees from the consequences of accidents at work or out of work and of death caused by illness, in the amount determined by the Trade Union and the employer.

#### *Pension and Retirement Plans*

Montenegrin Law does not provide for Pension and Retirement Plans as such but rather sets out the Social Security Plan comprising of Pension and Disability Insurance, Health Insurance and Unemployment Insurance. Specifically, there are no share option plans, share purchase plans, private health plans, private pension or retirement plans, group life or disability insurance plans or any other programs in which the employees, directors or officers of the Company may participate. The employer is under the obligation to contribute to his employee's social security each month upon payment of salary in the amount expressed as a designated percentage of the sum the employee is earning. The employer can voluntarily provide private Pension and Disability Insurance as well as private Health Insurance for his employees, through an insurance or health company.

### **3.2.4 The Enterprise Law Regime**

Until the year 2002 there was no Montenegrin legislation that directly regulated the corporate formation, governance, maintenance and other relevant corporate-commercial issues applicable to commercial enterprises in Montenegro, hence the Federal Enterprise Law was the only law. In the year 2002 the Montenegrin Commercial Enterprise Law was enacted pertaining to direct regulation of the commercial enterprises in the Republic of Montenegro. Also, the Register of all companies in Montenegro has been moved to the Central Register of the Commercial Court in Podgorica.

According to the law, the forms of performing economic activities shall be business companies and other forms such as the; Entrepreneur; Unlimited partnership ("OD"); Limited partnership ("KD"); Joint stock company ("AD"); Limited liability company ("DOO"), and Representatives of foreign companies.

In light of the purpose of this review, the examination of the legal framework applicable to commercial enterprises in this section focuses entirely on joint stock companies.

A joint stock company shall constitute a company of natural persons or legal entities that is founded with a view to performing an economic activity, the capital of which has been divided in shares. A joint stock company is a legal entity that is, by its property and liabilities, fully separated from the shareholders. A joint stock company shall be liable for its obligations with its entire property and shareholders shall not be liable for the obligations of the joint stock company

with their property. The minimum capital stock of a joint stock company is EUR 25,000 and the founders shall be bound to pay in the capital stock in cash. A joint stock company may not give shares in exchange of future operations or services of a natural person or legal entity.

A company shall acquire the status of a legal entity on the date of entry in the Central Register of the Commercial Court. Evidence of entry shall be the registration certificate. The Central Register of the Commercial Court shall announce the data on the title and head office of the company, the names of the members of administrative bodies, of the executive director, secretary of the company, auditors and the date of concluding the contract on founding, adoption of the statute and registration in the Official Gazette of Montenegro.

### **3.2.5 Independent Auditor of the Company**

Joint Stock Companies are required to select an authorized independent Auditor who is elected at the General Meeting for a term determined by the statutes and not exceeding one year. Shareholders holding 1/10 of voting shares are entitled to propose candidates for Auditor. The task of the Auditor is to carry out the revision of the yearly financial reports according to the international accounting standards and to present a report to the General Meeting of Shareholders. All company books and necessary information must be available to the Auditor and the Auditor's report must be available to all shareholders at the General Meeting.

### **3.2.6 Property Rights**

Immovable property rights in Montenegro are mainly regulated by the former Federal Property Law which is still the prevailing law in Montenegro with regard to immovable property ownership. The Conveyance of Immovable Property Law of Montenegro regulates the transfer of immovable property while the registration procedures are governed by the State Survey, Cadastre and Inscription of rights on Immovable Property Law of Montenegro.

#### *Foreign Ownership of Immovable Property*

Foreign natural and legal persons performing commercial activities in the Federal Republic may, under the condition of "reciprocity", hold certain ownership rights in immovable property. Title to immovable property vests once the legal transaction related to the transfer of such property is duly registered by inscription in the relevant public land registry.

#### *Right of Access*

Certain land in the territory of Montenegro is subject to various types of unregistered rights of access including rights of way, passage and easement over individual parcels, contiguous properties and water courses in favor of the Company (in its capacity as a public utility acting in the public interest). Law also permits easements for the owner of certain immovable property (e.g. the Company) to access such immovable property by crossing the immovable property of another owner.

### *Public Domain*

Real estate and other property utilized by government authorities and organizations, Union or Republic Montenegro, and local authorities and organizations performing public services may be state owned, and the status and rights of these organs and organizations as regards to the disposition of state owned assets and their utilization is then regulated by the statutes of these organs and organizations. In addition some property in the public domain and municipal building sites may be in private and other forms of ownership, in accordance with the law.

### *Grant of Concession of Public Domain Assets*

Granting of concessions on public domain assets is regulated by the Law on Private Sector Participation in Public Domain Services. Besides concessions this law regulates also the leasing and BOT arrangements. Concession is considered to be an agreement offered under license to private investor and/or operator for rightful excavation or exploitation of natural resources or raw materials for determined term; such arrangement may include investment or restoring by private sector in accordance with the transfer agreement between Republic of Montenegro public institution and resident or foreign enterprise or the company operating under such agreement and in consideration provides revenue to the Government of Montenegro or local community, per excavated or exploited unit.

Concession may be considered where among other: natural resources are not exploited appropriately, revenues may be expected and considerable private financial or technical investments are necessary.

Term of concession may not exceed 30 years with exceptional extension where necessary due to return of investment and in accordance with respective agreement.

Procedure for granting concessions includes prequalification, selection of investors, eligible investors' bids, opening of the bids, and the bid evaluation and concession agreement grant.

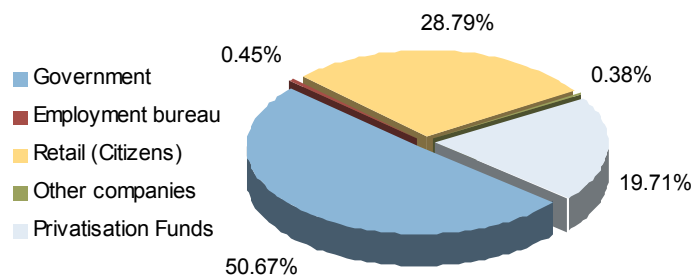
## 4 TELECOM MONTENEGRO

### 4.1 History and Ownership Structure

**Telekom Crna Gora A.D. Podgorica** (Telecom Montenegro) was founded and registered with the Commercial Court in Podgorica as of 31 December 1998. It was established during the process of dividing the state owned JP PTT Crna Gora (Public Enterprise of Post, Telegraph and Telecommunications of the Republic of Montenegro) into two separate companies: PTT Crna Gora (Montenegro Post) and Telecom Montenegro. Telecom Montenegro is a legal successor of the JP PTT Crna Gora in all areas of telecommunication activities.

Upon completion of the Voucher Mass Privatization procedure in 2002, 51% of the capital remained in state ownership while 49% is in private ownership. The Voucher Mass Privatization enabled the citizens of Montenegro to exchange their freely distributed vouchers into shares of companies or privatization funds. Shares in Telecom Montenegro attracted the most interest resulting in the current ownership structure of Telecom Montenegro below:

**Chart 3: Ownership structure of Telecom Montenegro**

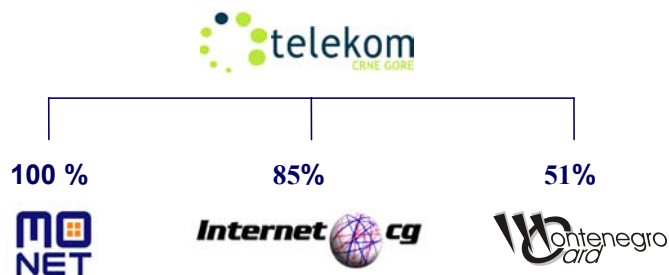


Source: Company data

#### Subsidiaries

As presented below, three majority owned subsidiaries form the Telecom Montenegro Group:

**Chart 4: Telecom Group**



Source: Company data



- **Monet d.o.o.** is the second GSM mobile operator in Montenegro, starting its operations in July 2000, 100% owned by Telecom Montenegro
- **Internet Montenegro d.o.o.** is the first internet service provider in Montenegro, starting its operations in 1997, 85% owned by Telecom Montenegro.
- **Montenegro Card d.o.o.** is a joint venture between Telecom Montenegro and a Greek company Hellascom, operating public phone boots in Montenegro, 51% in the ownership of Telecom Montenegro.

Telecom Montenegro has also a minority interest of 20% in PTT Standard d.o.o. Podgorica.

The Radio and TV broadcasting centre (Radio-difuzni centar) was separated from Telecom Montenegro and established as a new legal entity as of 1 December 2003. The process of transferring ownership stakes from Telecom Montenegro to the Government of the Republic of Montenegro is currently under procedure.

The Company's registered seat is in Podgorica, Republic of Montenegro, Brace Zlaticanina 2.

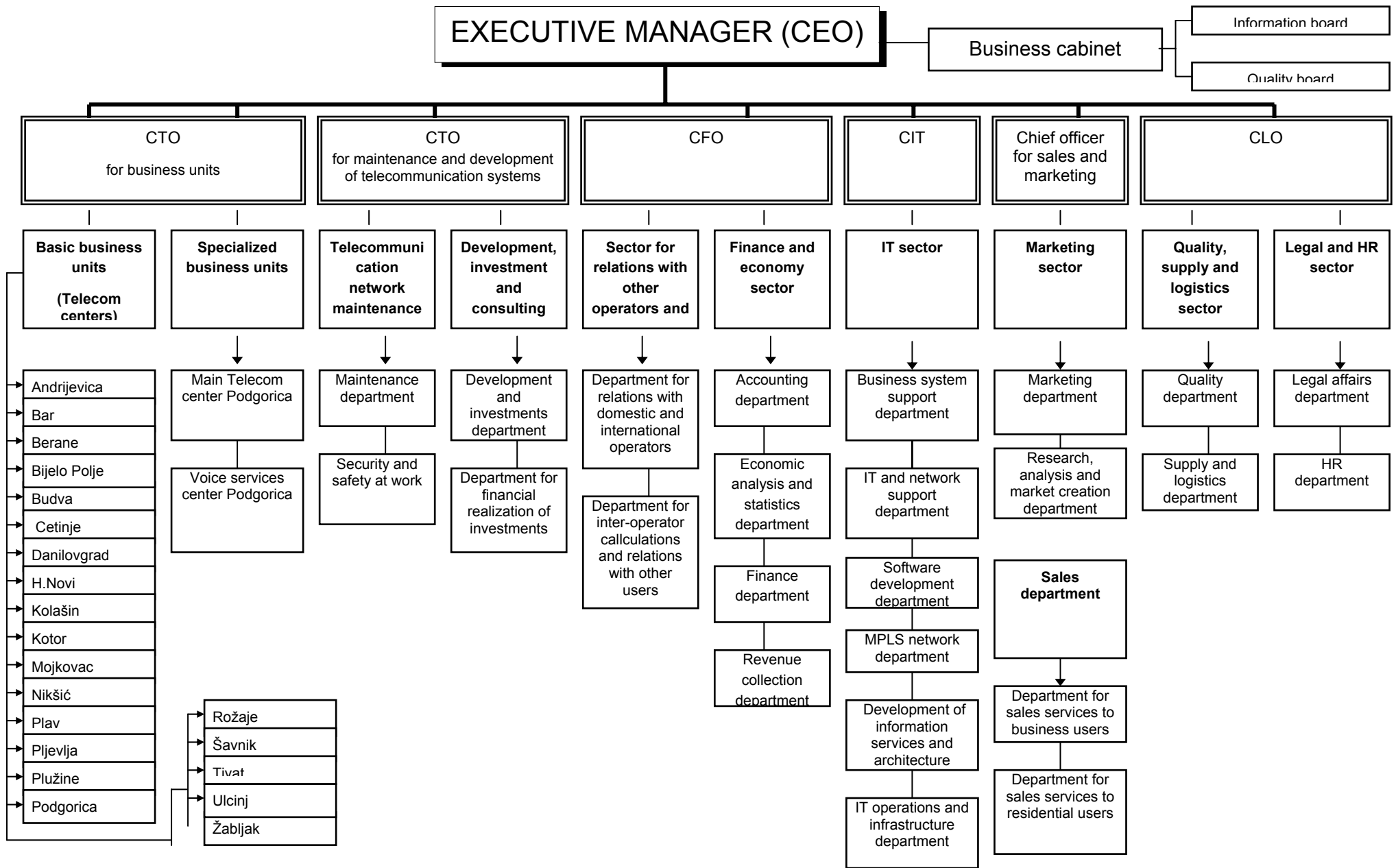
## 4.2 Organizational structure

The Company's main business activities are performed through 21 Telecommunication centers organized geographically and 2 specialized business units: 1) Magistral Telecommunication Centre and 2) Voice Services Centre, Podgorica.

The following departments provide shared overhead functions to all Telecom Centers and Business Units:

- Maintenance of telecommunication networks
- Development, investments and consulting
- Relationships with operators and other users
- Finance and Economics
- IT (Information Technology Services)
- Quality Control, Marketing and Logistics
- Legal affairs and Human resources

The organizational chart of Telecom Montenegro is presented below:



The present organization structure has been deemed inadequate for the future strategy and upcoming reorientation from monopoly to market oriented operations. Therefore, the Company's management plans to reorganize the existing 21 business units – geographically organized telecommunication centers into Telecommunication centers or zones organized based on market requirements, i.e. business units should have more responsibilities in system maintenance, sales and customer care.

Special attention will be paid to strengthening and organizing the Marketing and Sales Department, in order to develop a more customer-oriented organization and place an emphasis on marketing and promoting new technologies and services. The IT department will also be reorganized in accordance with the requirements of the SAP and new billing systems. In addition, the Company is in the process of establishing an internal audit department.

### **4.3 Corporate governance**

Corporate governance of the Company is carried out by:

- the General Meeting,
- the Board of Directors,

Executive Manager and the Corporate Secretary are mandatory elected in joint-stock companies and perform activities assigned by the corporate bodies stated above.

#### **4.3.1 General Meeting**

The General Meeting is the supreme corporate body and consists of all shareholders holding the voting shares of Telekom Crne Gore a.d. or their proxies. All resolutions of all other bodies are to be in compliance with the Articles of Association and resolutions of the General Meeting.

A regular General Meeting session is convened once a year, within three months from close of the financial year. All other General Meeting sessions are extraordinary. The General Meeting is convened upon the Board of Directors' request but it can also be convened by the shareholders holding at least 10% of voting shares. The General Meeting is convened by public notification to the shareholders announced in at least one daily newspaper published in Montenegro, at least two times, 30 days prior to the General Meeting session. Exceptionally, in case of re-convening an extraordinary General Meeting session which has been postponed due to a lack of quorum, the shareholders shall be informed no later than 10 days prior to the General Meeting session.

The General Meeting shall be entitled to render decisions when the shareholders holding at least 50% of voting shares are present in person or by proxy, unless a different quorum is required by the Law or Articles of Association. The Articles of Association provide that the General Meeting shall be entitled to render resolutions on increases or reductions of capital, division, acquisition, merger or conversion into another form of company, provided the shareholders holding 2/3 of the total number of shares vote in favor thereof either in person or by proxy.

### 4.3.2 Board of Directors

The Board of Directors is the governing and managing corporate body and comprises 7 members. Shareholders entitled to propose a candidate for the Board of Directors member must hold 1/10 of voting shares. Members of the Board of Directors are elected for 5-year terms and may be re-elected an unlimited number of times. Decisions of the Board of Directors are carried out by the Executive Manager and Corporate Secretary.

The Board of Directors may delegate certain operations from its scope of activities to its members or to the Executive Manager and shall be entitled to revoke the delegated powers at any time. Members of the Board of Directors and the Executive Manager shall be obliged to submit a report to the Board upon completing entrusted assignments within a term specified by the Board. The Board of Directors shall render resolutions if more than one half of the members are present, and the resolutions shall be rendered by a majority of Board members. Current members of the Board of Directors are presented in the following table:

**Table 11: Members of the Board of Directors**

Name	Current position
Oleg Obradovic, President	President of Board of Directors of Telecom Montenegro
Darko Uskokovic, Member	Minister of Economy in the GOM
Radomir Lakovic, Member	Professor at the Faculty of Electro-technique in Podgorica
Milka Ljumovic, Member	Executive Director of Crnogorska Komercijalna banka a.d.
Ana Radonjic, Member	Chief Legal Officer Telecom Montenegro
Aleksandar Radulovic, Member	Director Montex-elektronika
Veselin Popovic, Member	CEO of the Post of Montenegro

Source: *Telecom Montenegro*

### 4.3.3 Executive Manager

The Executive Manager performs the tasks subject to the powers defined in the Articles of Association, as well as the tasks assigned to him by the Board of Directors and is entitled to delegate certain tasks from his scope of activities to other members of Management. He or she shall follow the orders of the Board of Directors and implement the decisions thereof, relating to the operations of the Company, such as: representing the Company's interests, managing the Company's property, executing contracts, opening of the bank accounts, setting employment policies, giving orders and instructions and carrying out all other tasks and assignments specified by the Articles of Association, or a Board of Directors' resolution.

The Executive Manager is nominated and revoked by the Board of Directors with a five-year mandate, with unlimited number of re-elections. The rights, obligations and liabilities of the Executive Manager are defined by an employment contract executed with the Board.

The function of Executive Manager in Telecom Montenegro is currently performed by Mr Milan Perovic.

#### 4.3.4 Corporate Secretary

The Corporate Secretary may be authorized by the Board of Directors or Executive Manager to execute contracts relating to administrative activities within his/her competence. The position of Corporate Secretary is nominated by the Board of Directors with 5-year mandate and unlimited number of re-elections and is currently performed by Ms Ratka Strugar.

#### 4.3.5 Representing the Company

The Company is represented individually by the President of the Board of Directors and Executive Manager, each within the limits of their powers, specified by the Articles of Association and Board of Directors' Resolution. The Board of Directors, upon delegation by the President of the Board of Directors or Executive Manager, may authorize a Board member or Corporate Secretary to represent the Company. The President of the Board of Directors and Executive Manager may grant general or specific Powers of Attorney in written form. Authorized persons shall sign on behalf of the Company, by attaching their signature and function with the name of the Company. The corporate seal shall be attached to all signatures. A Board of Directors' Resolution shall specify in which cases two signatures are required.

### 4.4 Human resources

#### 4.4.1 Management

Telecom Montenegro's current management is presented in the following table. For more details on management biographies please refer to Appendix I-1 of this report.

**Table 12: Senior management of Telecom Montenegro**

Name	Position
Milan Perović	CEO
Aleksandar Belević	Chief Financial Officer
Ana Radonjić	Chief Legal Officer
Aleksandar Mijač	Chief Technical Officer
Saša Leković	Chief IT Officer
Željko Mirotić	Chief Technical Officer for Maintenance

Source: Telecom Montenegro

#### 4.4.2 Employees

As of 31 December 2003, Telecom Montenegro had 1,173 employees. Below we present information on the structure of the employees of the Company.

**Table 13: Employee qualification structure, 31 December 2003**

Qualification	Number of employees	% of total employees
University degree	262	22.3%
College degree	121	10.3%
Highly qualified	148	12.6%
High school	446	38.0%
Qualified	137	11.7%
Semi qualified	48	4.1%
Unqualified	11	0.9%
<b>Total</b>	<b>1,173</b>	<b>100%</b>

Source: Company data

**Table 14: Employee structure according to years of service, 31 December 2003**

Years of service	Number of employees	% of total employees
up to 10	273	23.3%
10-20	338	28.8%
20-30	416	35.5%
over 30 years	146	12.4%
<b>Total</b>	<b>1,173</b>	<b>100%</b>

Source: Company data

In 2003 the total number of employees decreased by 175 compared to 2002. This was mainly due to the separation of the Radio-broadcasting centre from Telecom Montenegro, that was established as a separate legal entity and 97 employees were transferred to the new company. Also, 60 employees accepted the program to voluntarily leave the Company with compensation of 24 average monthly salaries. The Company plans to apply the same model of reducing headcount in the second half of 2004.

On the other hand, there is a lack of educated professionals, especially in the fields of information technology and sales. The Company plans to employ a number of young people with university degrees and provide training programs for them in order to meet the market demand and follow the rapid development of modern technologies.

#### 4.4.3 Training

The Company is paying attention to the education of its employees and providing training in different fields in order to keep pace with technological advances and to modernize the Company. Training Programs in the technical fields are organized in order to instruct employees how to operate new, technologically advanced equipment. Equipment suppliers such as: Ericsson, CISCO Systems and Kroni also provide support and organize seminars for technical staff. Courses in English language and work with newly implemented financial software SAP have also been organized as has training for employees in the field of sales.

#### 4.4.4 Remuneration

**Table 15: Employee salaries in the period 2001 – 1H 2004**

	in EUR			
	2001	2002	2003	1H 2004
Net salaries	4,646,784	6,800,288	8,369,346	3,752,676
Gross salaries	9,411,367	14,027,768	16,693,381	7,702,889
Average number of employees	1,294	1,323	1,330	1,166
Average net salary per employee	285.76	416.99	510.74	517.75

Net salaries are following an upward trend in recent years, in line with increased activities and revenues earned, and also due to changes in accounting policies related to payroll.

#### 4.4.5 Housing policy

Telecom Montenegro assists with its employees' housing needs through a five year housing-loan program which started in August 2003. The solution involves housing loans offered by commercial banks whereby Telecom Montenegro bears part of the interest expense. Telecom Montenegro allocated 5 million EUR for this program and disbursed 1.2 million EUR during 2003, for the housing needs of its employees.

### 4.5 Business operations

The Company's operations include building, maintaining and exploiting of the telecommunication system in the territory of the Republic of Montenegro, developing of telecommunication technologies and providing services to end users.

#### 4.5.1 Services

Telecom Montenegro provides the following services:

1. Fixed line telephony services for domestic and international incoming and outgoing calls including: a) routing of international traffic and b) direct international traffic.
2. Value-added services for fixed line telephony (since Feb 2002) such as :
  - Calling line identification blocking,
  - Call without dialing,
  - Call forwarding,

- Call waiting,
- Conference call,
- Diverting all calls without ringing,

Besides these services, the Company is planning to introduce a “call listing” service that will improve the quality of services and customer loyalty.

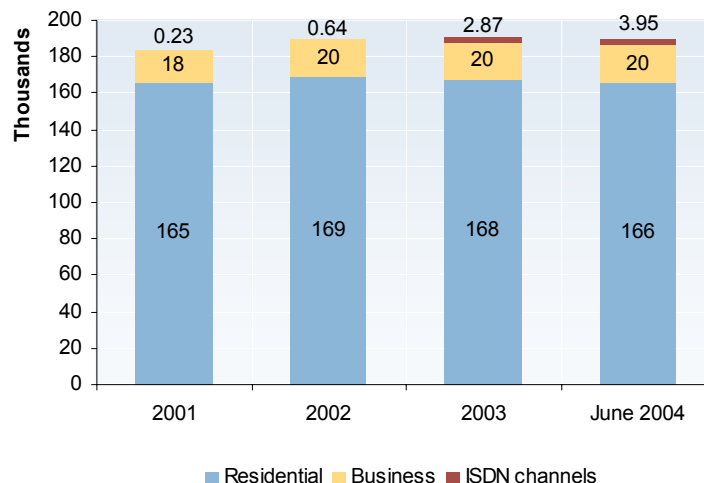
3. *ISDN* (Integrated Service Digital Network) was introduced in 2001 and a large promotional campaign was launched in 2003 to popularize ISDN that resulted in a steady increase of users. Additional services are included free in the ISDN package.
4. *Voice machines* are interactive digital voice machines that provide different messages and announcements of informative, educative or entertaining content.
5. *IP VPN – Internet Protocol Virtual Private Networks and Global Internet Access*
6. *Data transmission* -Telecom Montenegro provides data transmission via JUPAK (data transmission network) or leased facilities.

## 4.6 Subscribers

### 4.6.1 Residential/business subscribers

As presented in the chart below, residential subscribers make up around 90% of the total number of fixed telephony users, while business users account for approximately 10%.

**Chart 5: Subscriber segmentation in the period 2001 – IIQ 2004**



Source: Operational reports Telecom Montenegro

The number of total subscribers is increasing but the number of fixed line connections has slightly decreased as a result of replacing analogue switches when subscribers could not be immediately connected to the new switches. In addition, with an increasing number of ISDN users, some subscribers stop using classical fixed phone lines, resulting in a slight decrease in penetration rate of fixed telephony lines.



**Table 16: Market penetration in fixed telephony in the period 2001 – 1H 2004:**

	2001	2002	2003	1H 2004
Number of inhabitants	657,233	660,051	667,000 E	667,000 E
Number of subscribers	183,209	189,865	190,885	190,007
Penetration in %	27.9%	28.8%	28.6%	28.5%

Source: Operational report Telecom Montenegro

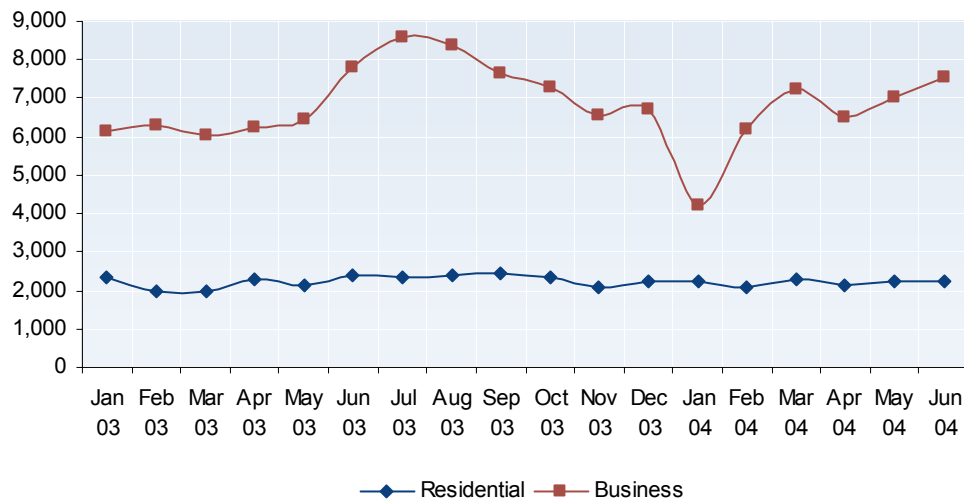
**Table 17: Average monthly number of pulses per subscriber 2002 – June 2004:**

	2002	2003	1 H 2004*
Residential subscribers	2,335	2,237	2,207
Business subscribers	7,632	7,010	6,464

\*Note: the first 6 months of 2004 are not the annual peak

The average number of pulses per residential subscriber per month shows a constant trend. A decline in January 2004 in the business segment is associated with the Christmas holidays in Montenegro (several days around 7 January). Due to the proximity of the New Year, Christmas and weekends, most companies were closed for almost two weeks in January 2004.

**Chart 6: Trend in average number of pulses per residential and business subscribers Jan 2003 – June 2004**



Source: Telecom Montenegro

Average monthly revenue per user (ARPU) has slightly decreased over the last years for both residential and business subscribers. The decline in pulses can be attributed to the increased popularity of mobile telephony. ARPU is calculated based on revenues from telecommunication services excluding VAT, radio and TV subscription and other non-related revenue)

**Table 18: Average monthly revenue per user 2002 – IIQ 2004:**

Average revenue per user (ARPU)	2002	2003	In EUR 1 H 2004*
Residential subscribers	15.55	13.90	13.75
Business subscribers	85.70	63.35	59.88

Source: Telecom Montenegro

#### 4.6.2 Leased capacities

Telecom Montenegro leases its infrastructure to: GSM operators, companies, the army or police, as well as to telecom operators of neighboring countries. During 2003, the main users were banks, Internet Service Providers in Kosovo and Albania and Internet Montenegro.

The number of leased line customers follows a constant upward trend. At the end of 2003, there were 133 users of leased lines, split as follows:

- Local lines – 45
- Intercity lines – 82, out of which: analogue 22 and digital 60.
- International analogue lines with capacities less than 64 kb/s – 6 (it is the first time that international lines between Montenegro, Croatia, Kosovo and Albania, are leased).

Leased lines are used for transmission of data, voice, text, images etc. For this service Telecom Montenegro offers to its clients a state-of-art digital channels network with nx64 kbit/s. The primary function of this network is to digitally connect business users both within the telecommunication network and with European operators. The network provides analogue/digital connections with speed from 64 kbit/s to 2 Mbit/s. The network consists of 17 nodes: Podgorica, Bar, Ulcinj, Budva, Herceg Novi, Kotor, Tivat, Cetinje, Danilovgrad, Niksic, Kolasin, Zabljak, Pljevlja, Bijelo Polje, Rozaje, Plav, Berane - connected on Telecom Montenegro's fibre-optic back-bone.

Leased links Telecom Montenegro leases its infrastructure to interested users in the country (GSM operators, army, police) and neighboring Telecom operators.

#### 4.6.3 Voice machines

Telecom Montenegro leases lines to different providers offering various services through voice machines, while revenues are split based on the contracts concluded with providers. Services provided are for information purposes, education or for fun (for example: advertisements, sports results, weather forecast, prize winning games, music, recipes etc.). There are 2 codes for voice machines: 044 and 045. The majority of pulses achieved towards voice machines (around 80%) relate to code 045.

Among users of code 044 are: television stations MBC and Sky SAT, NLO company, Zire, Queen Austro, Utelcom, Radio Adriatik, Radinex and Gras. Users of code 045 include: Phone Collect Partners, TV IN, Atel, Montenegrotrade and Link CGD.

#### 4.6.4 Users of Telegraph, JUPAK and TELEX

The telegraph network of Montenegro consists of an automatic transit telegraph exchange and two final exchanges, all located in Podgorica. A breakdown per cities of JUPAK and TELEX users in Montenegro is presented in Appendix I-2 to this Memorandum.

JUPAK is a commutated network used for data transmission and allows SVC (switched virtual connection) or PVC (permanent virtual connection). The JUPAK network provides computers networking with speeds up to 64kbit/s. Nodes exist in all Montenegrin municipalities, as well as connection with Belgrade, so it is possible to connect computers that are located out of Montenegro. If users do not have communication equipment that supports X.25 protocol, they can connect asynchronously by using an internal PAD on Athena. It is also possible to access the JUPAK Network through dial-up connection.

The total capacity of the existing system is 590 ports out of which 241 ports are in use. As of February 2004, there were 201 users of JUPAK, with a majority of them located in Podgorica (53 users). JUPAK is planned to be replaced with the more advanced MIPnet network that is to be put into operations in near future

#### 4.7 Traffic volume

Telecom Montenegro recorded high growth in traffic volume in recent years, both from residential and business users, with the highest portion coming from the mobile segment.

Please note that the traffic volume in pulses presented in the tables and charts below is not entirely comparable over the years due to the changes in tariffs occurred in previous periods, as the changes are performed through increase of number of pulses per minute i.e. shortening of pulse interval. In this way, the price of a call to Serbia was increased in August 2003. In 2004, Republic of Srpska, Bosnia and Herzegovina became the I international zone and the price of a minute call increased accordingly. In February 2004, the pulse interval for dial-up calls was shortened from 3 minutes to 2.5 minutes in peak and from 10 to 5 minutes in off-peak.

Tariffs are presented in more detail under Heading 4.9 of this Memorandum.

Fixed telephony traffic increased until 2002 and has slightly decreased in 2003, mostly due to the increased use of mobile telephony and a decrease in international traffic.

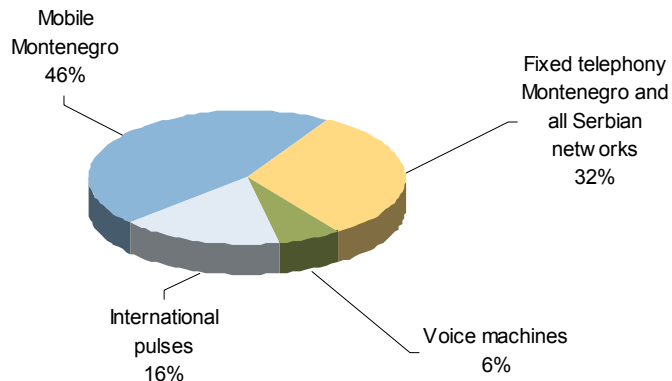
**Table 19: Traffic volume 2002- 1H 2004:** **in thousand pulses**

	<b>2002</b>	<b>2003</b>	<b>1H 2004</b>
Residential users	4,641,832	4,485,391	2,207,247
Business users	1,737,990	1,689,744	778,347
<b>Total</b>	<b>6,379,822</b>	<b>6,175,135</b>	<b>2,985,594</b>

Source: Operational reports Telecom Montenegro

The structure of traffic per outgoing traffic destination in 2003 is presented in the following graph.

**Chart 7: Traffic by destination in 2003**



Source: Operational reports Telecom Montenegro

Traffic volume according to the outgoing traffic destination is presented below:

**Table 20: Traffic volume per outgoing destination in thousand pulses 2002-2003\***

Traffic per outgoing destination	2002	2003
Fixed Montenegro network and all networks in Serbia	1,109,743	1,971,430
Voice machines	7,878	397,910
International pulses	1,963,997	1,004,108
Mobile network Montenegro	3,298,204	2,801,687
<b>Total</b>	<b>6,372,822</b>	<b>6,175,135</b>

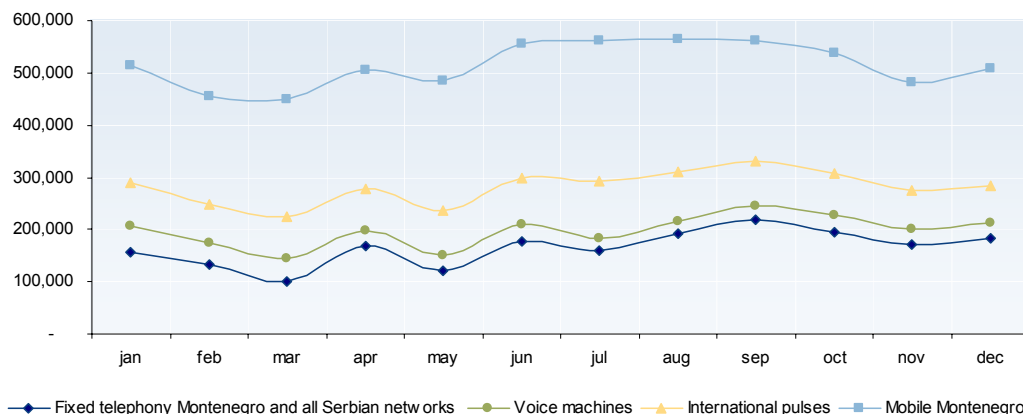
Source: Operating reports Telecom Montenegro

\*Note: Not entirely comparable due to changes in tariffs over the years (not normalized)

As presented in the table above, the largest volume of traffic in pulses is generated through mobile operators although all types of traffic are showing an increasing trend in the peak period that matches the tourist season in Montenegro.

There are slight decreases recorded at the end of 2003 and in the first quarter of 2004 in traffic to mobile networks due to the increase in mobile penetration.

**Chart 8: Monthly traffic in thousand pulses by outgoing destination, 2003**



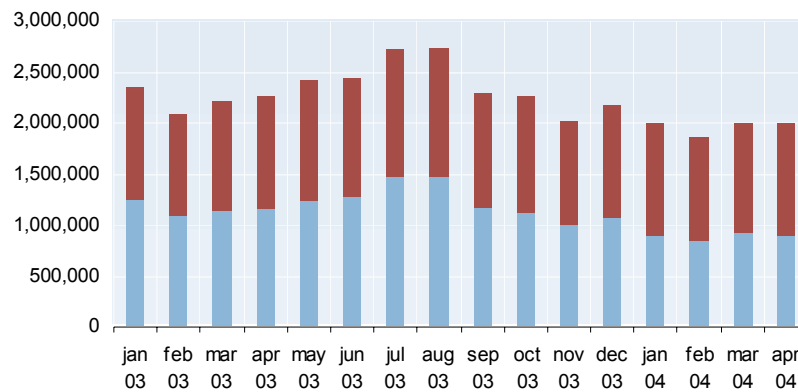
Source: Telecom Montenegro

Traffic volume shows its cyclical nature in all outgoing destination segments, with peaks in the summer months of June – September. In particular, this peak relates to international and mobile traffic, although a seasonal influence is substantial for other traffic destinations as well.

#### 4.7.1 Traffic volume – Montenegro mobile networks

Apart from the seasonal influence, the traffic volume between Telecom Montenegro and the two Montenegrin mobile operators, Pro Monte and Monet, is gradually decreasing. In particular incoming traffic from Pro Monte has declined significantly, as presented in the charts below.

**Chart 9: Incoming monthly traffic from mobile networks in minutes, Jan 2003 - April 2004**

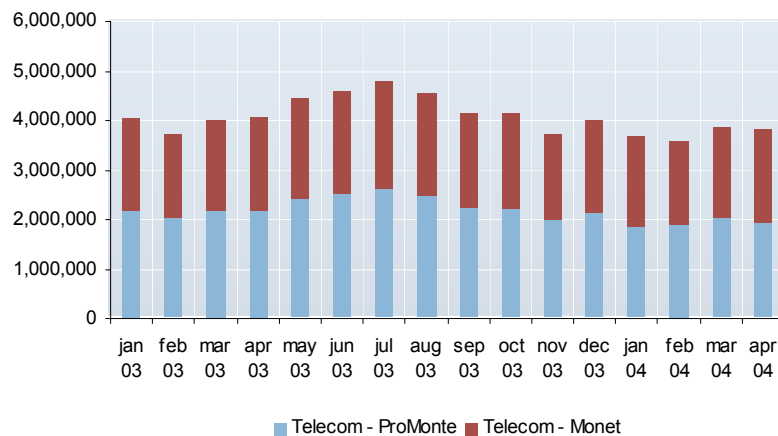


Source: Telecom Montenegro

■ Promonte - Telecom ■ Monet - Telecom

After expiry of Telecom Montenegro’s exclusive rights over basic voice services and abolishing the obligation that all traffic be directed through Telecom Montenegro, Pro Monte and Monet have established a direct connection between their networks. In addition, Pro Monte has also established a direct link with Mobtel GSM in Serbia. As a result, traffic volume of mobile networks directed through Telecom Montenegro has decreased. International traffic of the mobile operators is still directed through Telecom Montenegro.

**Chart 10: Outgoing monthly traffic to mobile networks in minutes, Jan 2003 - April 2004**



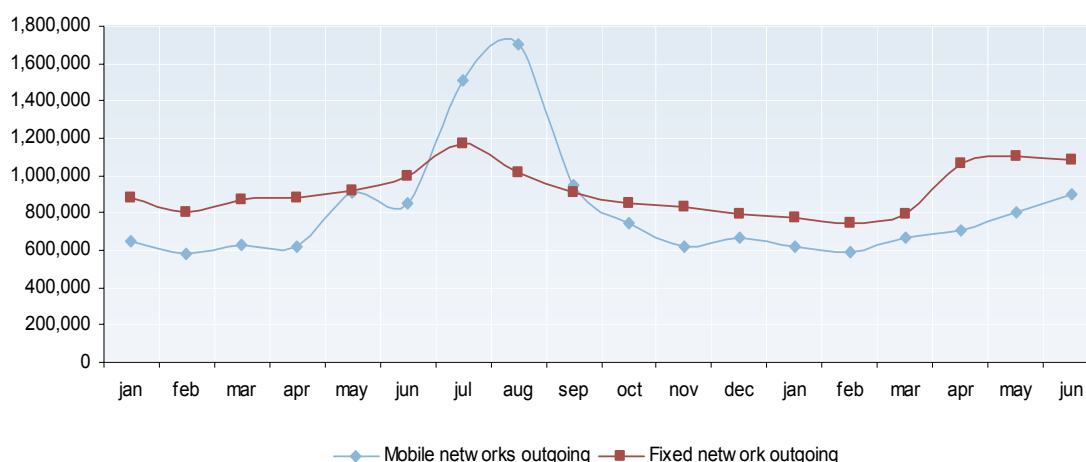
Source: Telecom Montenegro

#### 4.7.2 International traffic

In particular, international traffic shows significant cyclical characteristics i.e. the influence of the tourist season is the strongest especially during the June – September period, with a peak in July and August, as presented in the chart below:

##### International outgoing traffic

**Chart 11: International monthly outgoing traffic in minutes, Jan 2003-June 2004**



Source: International carriers department, Telecom Montenegro

Outgoing fixed network traffic shows a cyclical pattern but to a lesser extent than outgoing mobile traffic which is lower throughout the year with exception of the Summer months when tourists placing international calls contribute to a peak in international mobile traffic.

**Table 21: International monthly outgoing traffic (fixed and mobile) per zones in minutes**

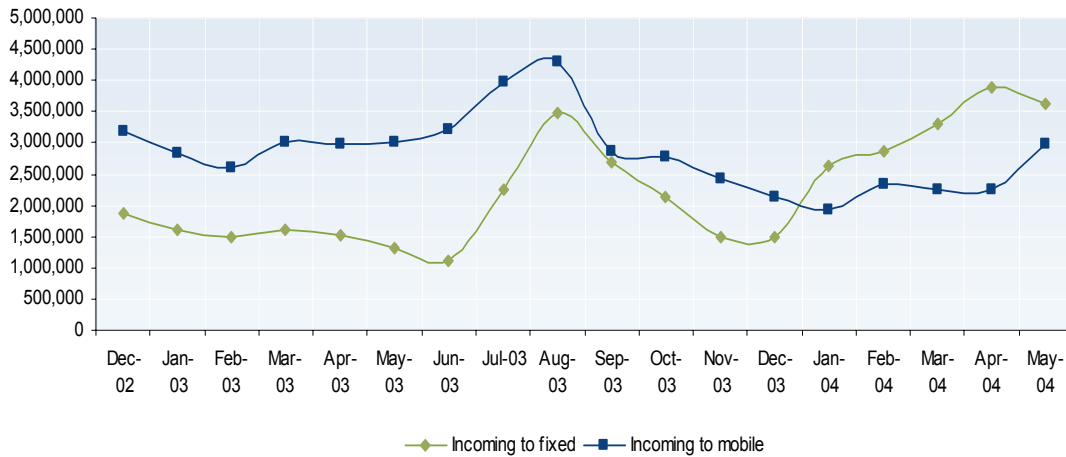
Zone	2001	2002	2003	Jan - June 2004
I	6,887,590	6,932,369	7,446,540	4,119,976
II	7,652,868	7,898,229	7,700,660	3,081,412
III	4,426,802	5,002,417	4,765,984	2,020,302
IV	1,275,574	1,204,306	1,062,992	475,540
V	117,484	106,180	117,177	48,189
VI	75,046	43,304	134,868	10,052
VII	315,622	187,736	129,418	89,324
<b>Total</b>	<b>20,750,986</b>	<b>21,374,541</b>	<b>21,357,638</b>	<b>9,844,795</b>

Source: International carriers department, Telecom Montenegro

International outgoing traffic per zones shows that the majority of outgoing calls are made to zones I, II and III. A breakdown of countries per zones is presented under Heading 4.9 of this Memorandum - Tariffs.

International incoming traffic

**Chart 12: International monthly incoming traffic in minutes**



Source: International carriers department, Telecom Montenegro

Total international incoming traffic is also influenced by the cyclical trends caused by the tourist season (June – September). However, the significant drop in the level of incoming traffic to the fixed network experienced in particular in November and December 2003 relates to the appearance of Internet providers who were using internet protocol to divert traffic from international routes and direct it through IP technologies, in which case it is registered as incoming call from Serbia although in reality it is an international. Since Telecom Montenegro is not in the position to monitor and register international traffic if not directed through international routes, it was not able to register such traffic as international. This problem was largely solved through signing of interconnection agreement with Telecom Serbia and more closely monitoring of traffic.

#### 4.7.3 Routing of International traffic

Telecom Montenegro initiated its own international traffic routing in 1999, establishing the Podgorica International Switch (PIS). In 2001, a second International Switch was installed increasing the capacity for traffic routing. Until 1999, all traffic was routed through the Belgrade International Switch (BIC).

International traffic routing of Telecom Montenegro is directed towards and carried out through international telecommunication carriers either through:

- 1) direct connections (routes) or
- 2) transit: (a) traditional transit or (b) hubbing

### Traffic through direct lines

Telecom Montenegro has direct connections (routes) with 12 international telecommunication carriers:

**Table 22: Direct connections of Telecom Montenegro with international carriers:**

	Country	Carrier
1	Austria	Telekom Austria
2	Albania	Albtelecom
3	Belgium	Belgacom
4	Bosnia and Herzegovina	BHTelecom
5	Greece	OteGlobe
6	Croatia	Hrvatski Telekom
7	Italy	Telecom Italia
8	Macedonia	Makedonski Telekomunikacii
9	Germany	T-Systems Int'l
10	Slovenia	Telekom Slovenije
11	Switzerland	Swisscom
12	Republic of Srpska, Bosnia and Herzegovina	Telekom Srpske

Source: International carriers department, Telecom Montenegro

Part of international traffic of Telecom Montenegro (incoming and outgoing) is carried through Telekom Serbia (certain number of links are only used for international traffic).

International traffic of Telecom Montenegro is carried through international switches in Podgorica (MnC/1 and MnC/2).

Interconnection fees between Telecom Montenegro and carriers with established direct connections are calculated as follows: for Telecom Montenegro's outgoing traffic towards destination countries, Telecom Montenegro pays termination fee to applicable carrier for traffic ending in fixed and mobile networks. For incoming international traffic Telecom Montenegro charges termination fee for traffic coming into fixed or mobile networks from carriers with established direct connections. The payments are made only for the net amount of fees.

### Traffic through transit

1. Traditional transit – for countries with which there are no direct connections established, international traffic is directed as transit via an agreed transit carrier. Telecom Montenegro currently uses Telekom Srbija – international switch in Belgrade, as a transit carrier.

In traditional transit, for outgoing traffic, Telecom Montenegro pays a termination fee to the carrier in the destination country and additionally a transit fee to Telekom Srbija (currently 0.015 SDR - Special Draw Rights).

2. Hubbing – is a form of directing of international calls, when outgoing traffic towards countries with no direct connections, is directed through carriers with whom Telecom Montenegro has established direct connections. In this case, Telecom Montenegro pays the price of “hubbing” (for fixed and mobile networks).



Through its routing plan, Telecom Montenegro may decide on the volume of outgoing international traffic from Montenegro that is to be directed as “hubbing”, depending on capacities available, price and quality of traffic.

It is the intention of Telecom Montenegro to shift international outgoing traffic to direct connections and cancel traditional transit, considering that the practice of most telecommunication carriers is not to receive and accept traffic from third countries through traditional transit but only through direct connections and “hubbing”.

Current termination interconnection fees between Telecom Montenegro and international carriers are agreed in SDR (Special Draw Rights) and are presented in the table below:

**Table 23: Termination interconnection fees, July 2004 in SDR (Special Draw Rights)\***

Carrier		Termination fee	
		Fixed network	Mobile network
Telekom Austria	Telecom Montenegro	0.065	0.135 for +43 664, 676, 699 0.170 for +43 650,660 if > 8%
	Telekom Austria	0.065	0.135
Albtelecom	Telecom Montenegro	0.07	0.10
	Albtelecom	0.07	0.135
Belgacom	Telecom Montenegro	0.04	0.14
	Belgacom	0.04	0.14
BH Telekom	Telecom Montenegro	0.09	0.143 for +387 61 0.150 for + 387 65, 63
	BH Telekom	0.09	
Ote Globe	Telecom Montenegro	0.02	0.17 for + 306 94; +306 93; +306 97 0.190 for + 306 99
	Ote Globe	0.065	0.135
Hrvatski Telekom	Symmetrical	0.065	0.135
Telecom Italia	Symmetrical	0.065	0.14
Makedonski Telekomunikacii	Symmetrical	0.080	0.160
T-Systems Int'l	Telecom Montenegro	0.049	0.124 for T-Mobile D1 0.129 for Vodafone D2 0.156 for other mobile operators
	T-Systems Int'l	0.065	0.135
Telekom Slovenije	Telecom Montenegro	0.065	0.150
	Telekom Slovenije	0.065	0.135
Swisscom	Telecom Montenegro	0.03	0.185 for other mobile operators 0.205 for Sunrise
	Swisscom	0.065	
MATAV	Symmetrical	0.065	0.135
BT	Telecom Montenegro	0.05	0.13
	BT	0.048	0.128
Telekom Srpske	Symmetrical	0.075	0.135

Source: International Carriers Department, Telecom Montenegro

\*Note: Current rate: 1.21 SDR = 1 EUR

**Table 24: Hubbing price** *in SDR*

From	Via	Destination	Fixed network	Mobile network
International carrier	Telekom Srbija	Telecom Montenegro	0.065	0.135
International carrier	Telecom Montenegro	Telekom Srbija	0.055	0.13

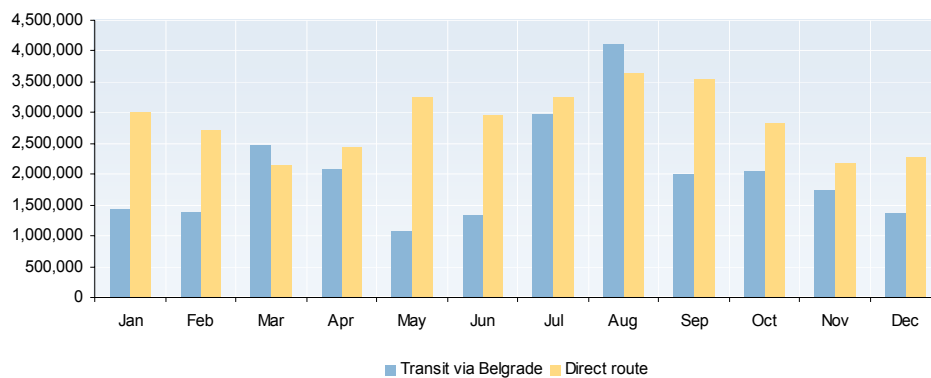
Source: International Carriers Department, Telecom Montenegro

\*Note: Current rate: 1.21 SDR = 1 EUR

#### Routing of international incoming traffic

The breakdown of international incoming traffic routed directly or via the Belgrade switch (Telekom Srbija) during 2003 is presented in the chart below:

**Chart 13: International incoming traffic routed directly or via Belgrade in minutes, Jan – Dec 2003**



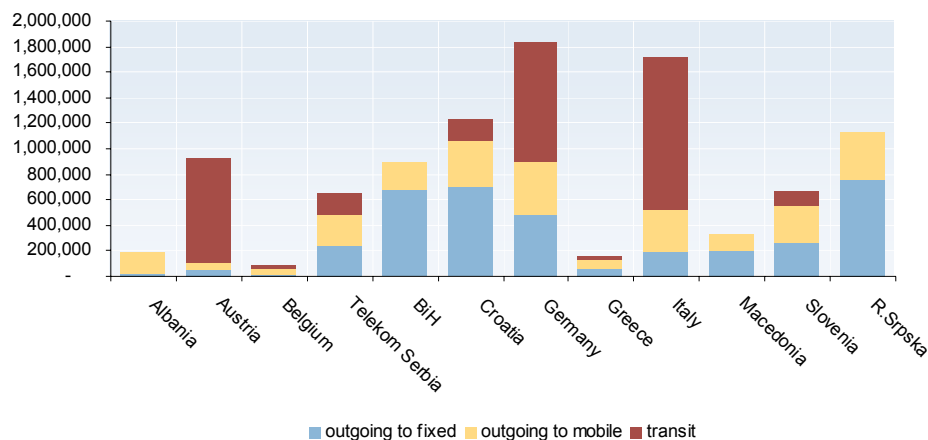
Source: International Carriers Department, Telecom Montenegro

Most international incoming traffic in 2003 was routed directly through Podgorica International Switch except in the July - August and in March when more calls were routed via Belgrade Incoming Switch.

#### Routing of international outgoing traffic

Breakdown of international outgoing traffic by country for the period January – June 2004 is presented below:

**Chart 14: International outgoing traffic by outgoing routes in minutes, Jan – June 2004**



Source: International Carriers Department, Telecom Montenegro

The majority of outgoing transit traffic was routed through Italy, Austria and Germany (hubbing), while the portion of outgoing traffic routed via Telekom Serbia is significantly smaller compared to 1999 when all outgoing traffic was routed exclusively through Telekom Serbia.

## 4.8 Revenues

Revenues of Telecom Montenegro may be divided as follows:

### 1. Revenues from telecommunication services

- Outgoing domestic and international calls
- Telecommunication subscription
- Income from lease of telephony capacities - leased lines and links.
- Income from telegrams and value added services such as: call listings, voice mail, telegram and other.

### 2. Income from international incoming and outgoing calls (direct and routed via other telecoms)

3. Interconnection income – incoming telephone traffic originated from mobile networks (Monet and ProMonte) and via Telekom Serbia, but which have been transmitted through or terminated on Telecom Montenegro's network.

### 4. Other income – include income from subsidiaries and associates and miscellaneous.

**Table 25: Revenue structure in 2002 and 2003**

Revenues	In EUR			
	2003	%	2002	%
Income from telecommunication services:				
• <i>Outgoing domestic and international calls</i>	34,179,847	48.37%	35,997,909	48.12%
• <i>Telecommunication subscription</i>	5,973,496	8.45%	5,782,724	7.73%
• <i>Radio and TV monthly subscription*</i>	1,537,834	2.18%	1,662,000	2.22%
• <i>Lease and maintenance of telephone lines</i>	1,239,650	1.75%	506,870	0.68%
• <i>Telegrams, telex and similar services</i>	711,255	1.01%	702,208	0.94%
• <i>Income from new subscribers</i>	572,503	0.81%	815,586	1.09%
• <i>Income from value added services</i>	140,212	0.20%	135,560	0.18%
• <i>Income from interconnection fees</i>	11,747,461	16.63%	10,039,185	13.42%
• <i>Income from international incoming call</i>	6,931,859	9.81%	13,429,526	17.95%
Other income	7,622,092	10.79%	5,730,907	7.66%
<b>Total revenues</b>	<b>70,656,209</b>	<b>100%</b>	<b>74,802,475</b>	<b>100%</b>

Source: Auditor's report Telecom Montenegro 2003

\*Note: Radio and TV monthly subscriptions are collected together with the phone bills. After separation of Radio broadcasting center into a separate legal entity, Telecom Montenegro continued to collect on its behalf

As presented above, the major revenue source is from outgoing traffic. However, international traffic is slightly decreasing over recent years and revenue from interconnection fees is expected to fall as Telecom Montenegro loses its monopoly position. In order to compensate for these anticipated losses, Telecom Montenegro is planning to increase other sources of income i.e. income generated from data transmission, in line with current international trend.

Value added services comprise a small part of total revenues of the Company, but they represent a potential for additional revenues without further investments into existing switching infrastructure. Customer relations are also strengthened through the provision of these services

as higher quality services are offered in addition to classical telephony. More details on revenues are presented in Heading 9 – Financial Information, of this Memorandum.

#### 4.9 Tariffs

Telecommunication Agency, as an independent regulatory body regulates, i.e. approves the price policy of Telecom Montenegro.

Generally, tariffs are defined based on the following elements:

- Length of call – call duration is measured in pulses, with the interval of pulses varying depending on call type
- Call destination – local, national, international, mobile.
- Time of call – different rates depending on the time of the day when the call is made
- User type – rates differ based on whether the user is a business or a residential subscriber

Telecom Montenegro used to be a monopoly fixed line operator with exclusive rights over basic voice telephony on the territory of Montenegro until the end of 2003 and has only started to experience the effects of liberalization starting from January 2004. Therefore, Telecom Montenegro did not frequently change its tariffs in the past. In the period 2001 to June 2004, the following changes took place:

- In July 2001, the pulse interval was shortened from 3 minutes to 1.5 for on-peak and for off-peak accordingly. At the same time, the price of a local call became equal to the price of a call within the same area code. The price for residential users is decreased from 0.009 EUR/minute to 0.003 EUR/minute and for business users from 0.018 EUR/minute to 0.006 EUR/minute. These prices are still valid today.
- In 2001, the installation fee was decreased both for business and residential users to 75.15 EUR in 2001 (from 75.19 EUR for residential and 225.57 EUR for business users). Monthly subscription fee increased from 0.25 EUR to 2.56 EUR for residential and from 1.02 EUR to 4.09 EUR for business users.
- As of August 2003, the price of peak calls to Serbia was increased from 0.069 EUR for residential users and 0.138 EUR for business users to 0.10 EUR and 0.20 EUR, respectively. Prices for off-peak traffic prices were adjusted accordingly as well. In addition, the whole territory of Serbia is treated as one zone (previously southern Serbia was treated as Montenegro).
- Since February 2004, the price of a dial-up call increased by shortening the pulse interval from 3 minutes to 2.5 minutes in peak and from 10 to 5 minutes in off-peak hours.
- In April 2004, Republic of Srpska, Bosnia and Herzegovina, became an international zone and the price for a call increased from 0.10 EUR to 0.32 EUR per minute for residential, and for business users accordingly.

Current tariffs are presented in the tables below:

**Table 26: General**

	Prices in EUR	
	Residential	Business
Pulse price	0.0046	0.0092
Monthly subscription fee	2.56	4.09
Installation fee	67.00	67.00

Source: Telecom Montenegro

#### 4.9.1 Domestic traffic

Tariffs for calls made at the territory of Serbia and Montenegro are presented below:

**Table 27: Tariffs for fixed telephone services in peak and off-peak hours in EUR, 2004**

Area	Interval of pulses	Pulses per minute	Prices per minute in EUR			
			Peak on*		Peak off**	
			Residential	Business	Residential	Business
Local area	90 sec	0.67	0.003	0.006	0.0015	0.003
Within same area code (I area)	90 sec	0.67	0.003	0.006	0.0015	0.003
Montenegro (II area)	7.5 sec	8	0.037	0.074	0.0184	0.037
Serbia (III area)	2.76 sec	21.74	0.10	0.20	0.05	0.10
Mobile telephony (IV area)	1 sec	60	0.276	0.552	0.138	0.276

\*Peak on hours: from 7:00 to 15:00 and from 17:00 to 21:00

\*\*Peak off hours: from 15:00 to 17:00 and from 21:00 to 7:00

Source: Telecom Montenegro

#### 4.9.2 International traffic

For international calls, all countries are divided into seven zones with different pulse intervals, as presented below:

**Table 28: Tariffs for international zones for residential and business customers**

Zone	Interval of pulses	Pulses per minute	Price per minute in EUR	
			Residential	Business
I zone	871 ms	68.84	0,32	0,63
II zone	707 ms	84.86	0,38	0,77
III zone	599 ms	100.16	0,46	0,92
IV zone	329 ms	182.37	0,84	1,68
V zone	274 ms	218.97	1,01	2,01
VI zone	235 ms	255.31	1,18	2,35
VII zone	183 ms	327.86	1,51	3,02

Source: Telecom Montenegro

**Table 29: Countries by areas (zones)**

Area	Country
Area I:	Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Hungary, Macedonia, Romania
Area II	Andorra, Austria, Belgium, Czech Republic, France, Greece, Italy, Moldavia, Netherlands, Poland, San Marino, Slovakia, Slovenia, Switzerland, Turkey, Vatican
Area III:	Algeria, Cyprus, Denmark, Estonia, Finland, Germany, Ireland, Latvia, Lithuania, Libya, Malta, Morocco, Norway, Portugal, Russia, Spain, Sweden, Tunisia, UK, Belarus, Ukraine, Faeroe Islands, Gibraltar, Iceland, Kazakhstan
Area IV:	Australia, Azerbaijan, Armenia, Canada, Georgia, Alaska, Bhutan, Greenland, French Guiana, Guadalupe, Qatar, Kyrgyz, Martinique, New Zealand, Turkmenistan, UAR, USA, Uzbekistan

Area V:	Argentina, Egypt, Iran, Iraq, Jordan, North Korea, Kuwait, Lebanon, Malaysia, Nicaragua, Saudi Arabia, Singapore, South Africa, Sudan, Syria, Taiwan, Venezuela, Israel, Oman, Uganda
Area VI:	Antilles, Bahrain, Bangladesh, Barbados, Bermuda, Caribbean, Indonesia, Japan, Kenya, Peru, Philippines, Puerto Rico, Yemen, Zaire, Zimbabwe, Aruba, Botswana, Rwanda, Burundi, Gambia, Guinea, Jamaica, Lesotho, Malawi, Togo
Area VII:	Afghanistan, Angola, Bhutan, Bolivia, Burma, Cambodia, Columbia, Congo, Cuba, Costa Rica, Ghana, Guatemala, Haiti, Honduras, Hong Kong, India, Ivory Coast, Mexico, Mozambique, Namibia, Nepal, Nigeria, Pakistan, Panama, Paraguay, Seychelles, Senegal, Somalia, Sri Lanka, Surinam, Tanzania, Thailand, Vietnam, Brunei, Belize, Benin, Cameroon, Capo Verde, Chad, Chile, China, Christmas Islands, Cook Islands, Diego Garcia, Djibouti, Ecuador, South Korea.

Source: *Telecom Montenegro*

The recently introduced liberalization of the Montenegrin market requires competitive price structure i.e. bringing the tariffs of Telecom Montenegro in line with the tariffs of comparative companies in the region. For comparison purposes, we present a regional analysis of tariffs for calls to mobile subscribers in the table below:

**Table 30: Comparative analysis of tariffs for mobile traffic in the region**

EUR/minute	Fixed to mobile Residential (peak)	Fixed to mobile Residential (off peak)	Fixed to mobile Business (peak)	Fixed to mobile Business (off peak)
Telecom Serbia	0.18	0.09	0.297	0.15
Macedonian Telecom	0.23	0.115	0.23	0.115
Telecom Republike Srpske	0.14	0.14	0.22	0.22
Telecom Slovenia	0.19	0.09	0.19	0.09
Telecom Croatia	0.20	0.10	0.20	0.10
Telecom Austria	0.17	0.17	0.17	0.17
Telecom Montenegro	0.276	0.138	0.552	0.276

Source: *Telecom Montenegro*

Telecom Montenegro is currently in the process of tariff rebalancing with the aim to create a pricing policy which enables the Company to react to developments on the liberalized market i.e. to adequately match competitors and keep its leadership position.

The steps to redefine the tariffs include:

- Further convergence of tariffs to comparative companies in the region
- Convergence of business and residential tariffs
- Further harmonizing local and long distance calls leading towards the introduction of an unique tariff for the territory of Montenegro
- Decreasing the tariffs for international calls and calls to mobile networks

The management of Telecom Montenegro has started the process of tariff rebalancing.

#### 4.9.3 Tariffs for other services

Tariffs for other services are presented in Appendix I-3 to this report (Voice Machines, JUPAK data transmission network, Internet access).

#### 4.10 Marketing and Distribution

Telecom Montenegro is paying great attention to marketing and promoting the company and its services, in particular when improving existing services and introducing new ones. Maintaining a media presence throughout the year is one of the Company's marketing objectives. Marketing activities include permanent advertising, participating at important events, fairs, Infifest and TV shows in order to draw public attention to new developments coming from Telecom Montenegro.

During 2003, the main campaign related to the introduction and popularization of ISDN which had positive results in increased sales figures. In addition, the Company permanently strengthens its image and brand through corporate campaigns.

At the end of the first quarter 2004, a new marketing campaign was launched to support value added services, especially the "Package Plus" comprising 4 services: incoming call identification, call diverting, call waiting and conference call.

In order to adapt to the liberalized telecommunication market in Montenegro, the Company is aware that it will have to change its approach to distribution and introduce new types of distribution channels. Therefore, Telecom Montenegro has already enabled purchasing of value added services by phone, through calling a unique number for the whole territory of Montenegro and also via Telecom's official website ([www.telekomcg.com](http://www.telekomcg.com)). In addition, value added services are also offered at the newly opened show room Planeta as well as in Telecommunication Centers.

#### 4.11 Procurement

In case of Telecom Montenegro, the procurement relates mostly to acquisition of equipment and intangible assets (software, billing systems etc.). The majority of equipment is imported, mostly related to switching and transmission systems. Construction works on optical and telecommunication access networks are usually performed by local companies chosen at local public tenders, as this proved to be more efficient and useful than launching an international tender. Intangible assets and services are purchased both locally and abroad, the choice being made by strict following of the tender procedure.

The Law on Public Procurements in Montenegro regulates procurement procedure i.e. in case of procurements in the amounts larger than 15,000 EUR, it is obligatory to launch local or international tender. After the sale of state owned majority equity interest in Telecom Montenegro, the obligation to perform procurement in accordance with the provisions of the Law on Public Procurements ceases to exist.

## 4.12 Telecom Montenegro Fixed Line Network

### 4.12.1 Switching

Telecom Montenegro switching network is divided into nine switching areas of local switching supported by local exchanges and remote local exchanges in each area. The local exchanges are then connected to the national/regional switches in Podgorica.

The major vendor for switching capacity is Ericsson and over 85 % of capacity is provided by the Ericsson AXE-10 switch model. Approximately 15% of switching capacity is from Iskratel. The network is fairly modern with 57% of switches installed in the last five years. An overview of the switching capacity in Telecom Montenegro is given in the table below:

**Table 31: Switching Summary by Area as of June 2004**

Area	Intl/ National exchanges	Main / Local exchanges	Remote Locals	Trunking Capacity	PSTN Lines	PSTN Lines	ISDN BA Lines	ISDN PRA
					Capacity	In Service	Capacity / In Service	Capacity In /In Service
081	2	5	49	65190	76604	57134	3236/1661	203/92
082		2	19	3620	19120	15333	1200/664	4/4
083		2	18	6450	28000	18962	640/181	4/2
084		1	22	2855	14976	11034	384/118	8/0
085		3	20	11406	29376	22628	1024/467	14/3
086		2	11	4940	20744	16032	720/450	17/11
087		3	23	2700	21182	16604	448/247	16/0
088		2	19	6450	20068	15556	960/300	6/6
089		2	11	1920	12430	8888	192/34	8/0
<b>TOTAL</b>	<b>2</b>	<b>22</b>	<b>192</b>	<b>105531</b>	<b>242500</b>	<b>182171</b>	<b>8804/4122</b>	<b>280/118</b>

Source: Telecom Montenegro

Both installed and activated capacities of Telecom Montenegro in fixed line telephony over recent years are presented in the table below:

**Table 32: Installed and connected lines, 2001 - 2003**

	Number of lines as of 31.12.2001.	Number of lines as of 31.12.2002.	Number of lines as of 31.12.2003.
<b>Installed lines</b>	<b>239,114</b>	<b>240,420</b>	<b>244,200</b>
Digital	205,590	219,844	237,515
Analog	31,241	17,736	3,735
Rural	2,283	2,840	2,950
<b>Telephone lines connected</b>	<b>185,833</b>	<b>189,865</b>	<b>188,012</b>
Digital	152,309	169,289	181,327
Analog	31,241	17,736	3,735
Rural	2,283	2,840	2,950

Source: Operational reports Telecom Montenegro



#### 4.12.2 Access

Telecom Montenegro access network has received significant modernization investment in the past three years. The network is over 99% digitalized and the number of party lines has been reduced to approximately 4,000. ISDN services have been introduced in 2001 and there were 2,783 Basic Rate Access and 90 Primary Rate Access ISDN subscribers as of December 2003. The Company is now planning to launch DSL services and has recently started a tender for equipment.

The access network is divided into 198 local areas and comprises 414,632 copper pairs connected to relevant distribution frames. As of 30 June 2004, almost all cables are underground and all new cables are installed with polyethylene insulation. 39.5% of lines in use are still paper insulated but the majority of the network has been installed or upgraded since the mid 1990's when polyethylene insulation was used almost exclusively.

#### *Capacity utilization*

Capacity utilization rates calculated as a ratio between total installed lines and activated lines per Telecom Centers (TC) in Montenegro are presented below:

**Table 33: Capacity utilization rates in 2003 per Telecom Centers (TC)**

	Fixed line connections	ISDN PRA	ISDN BA
Podgorica	79.06%	35.47%	37.52%
Niksic	76.45%	50.00%	28.35%
Pljevlja	77.54%	0.00%	0.00%
Bijelo Polje	76.86%	0.00%	27.34%
Berane	84.64%	0.00%	98.44%
Cetinje	81.69%	100%	98.96%
Bar	69.18%	20%	34.77%
Budva	80.21%	50%	39.17%
Kotor	80.71%	100%	41.23%
Herceg Novi	71.47%	100%	24.87%
Tivat	72.60%	100%	48.75%
Ulcinj	80.87%	25%	35.94%
Danilovgrad	72.14%	-	50.00%
Kolasin	74.44%	-	63.54%
Savnik	56.90%	-	12.50%
Pluzine	86.42%	-	1.56%
Zabljak	78.62%	-	29.69%
Mojkovac	77.11%	-	25.00%
Rozaje	77.81%	-	56.25%
Plav	80.59%	-	41.67%
Andrijevisa	70.42%	-	34.38%
<b>Total</b>	<b>77.01%</b>	<b>32.37%</b>	<b>36.42%</b>

Source: Operational report Telecom Montenegro

#### 4.12.3 Digitalization

The Company has almost completely switched to digital connections. The level of digitalization per TC as of 31. December 2003, is presented in the table below:

**Table 34: The level of digitalization per TC as of 31 December 2003**

Telecom Center (TC)	Total installed telephone connections	ISDN (PRA and BA)	Level of digitalization (ISDN included)
Podgorica	66,532	3,108	99.08%
Niksic	24,186	452	98.67%
Pljevlja	11,309	128	96.21%
Bijelo Polje	12,638	264	98.28%
Berane	9,819	96	99.71%
Cetinje	6,536	97	98.15%
Bar	21,579	522	98.56%
Budva	14,473	488	99.08%
Kotor	11,432	835	99.98%
Herceg Novi	21,201	772	99.96%
Tivat	8,585	241	100.00%
Ulcinj	9,856	260	100.00%
Danilovgrad	6,171	80	97.07%
Kolasin	2,484	96	94.22%
Savnik	768	32	100.00%
Pluzine	773	128	99.45%
Zabljak	1,408	64	100.00%
Mojkovac	2,779	64	92.30%
Rozaje	5,655	64	97.36%
Plav	4,224	96	100.00%
Andrijevica	1,792	32	100.00%
<b>Total</b>	<b>244,200</b>	<b>7,919</b>	<b>98.52%</b>

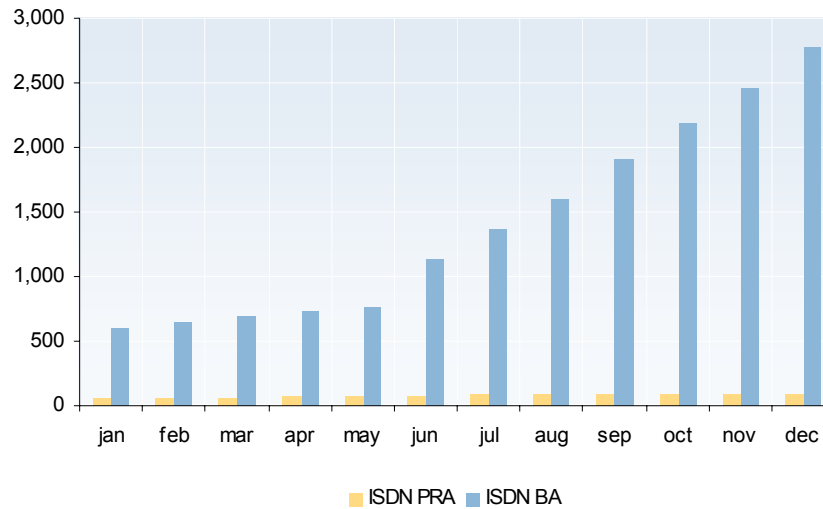
Source: Operational report Telecom Montenegro

During the first quarter of 2004, the work on digitalization was continued, and at the end of March 2004, the level of digitalization was 98.62%. The replacement of old analogue capacities should be completed in full by the end of 2004.

Apart from copper access lines, Telecom Montenegro provides fixed telephony services to approximately 3,600 households using Wireless Local Loop (WLL) via GSM technology using 30 BTS of Monet. This technology allows households to subscribe for fixed telephony services in areas where build out costs would normally prohibit access. The subscriber receives an antenna which is affixed to their house and connects to a normal fixed line handset. Access to the house is provided by a link to a Monet base station and the subscriber is charged fixed line tariffs.

Telecom Montenegro began with the commercial exploitation of ISDN in June 2001, but the promotional campaign in order to popularize use of ISDN was launched in June 2003. As a result of campaign there was a significant increase in sales of ISDN connections.

**Chart 15: Movements in the number of sold ISDN connections in 2003**



Source: Telecom Montenegro

During the first half of the year 2004, the increasing trend in the number of ISDN connections continued. As at 30.06. 2004., the number of installed ISDN was: 8,804 ISDN BA and 288 ISDN PRA, while the number of activated ISDN was: 4,122 ISDN BA and 118 ISDN PRA.

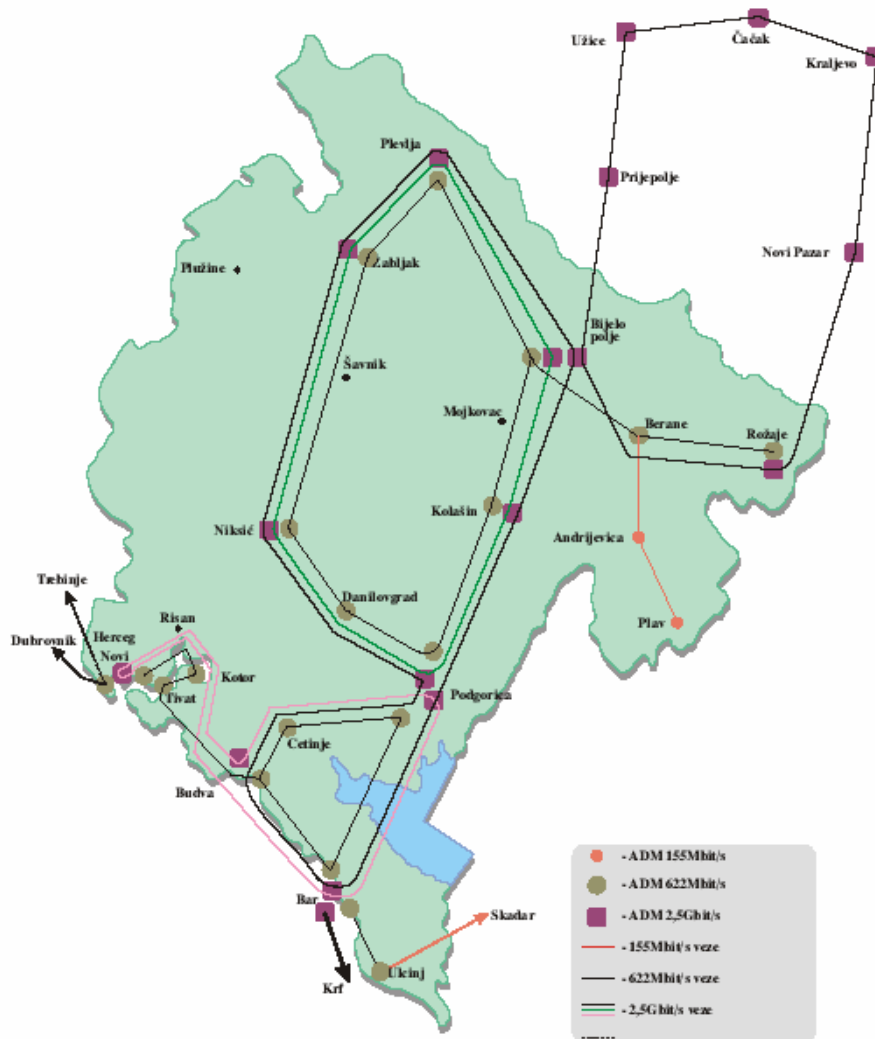
#### 4.12.4 Transmission Network

Telecom Montenegro's transmission network consists of a fiber optic back bone and a radio relay network and has been upgraded over the past ten years from an analogue to a digital network. In recent history, the company has continued its modernization program and constructed a Multiprotocol Label Switching (MPLS) network which is described in more detail in the Information Technology section 4.13

##### *Fibre Optic Network*

Construction of the digital fiber optic network was started in 1995. Back bone network consists of 33 links covering a total length of 989 kilometers. The number of fiber strands per link ranges from 12 to 48 with the majority of links containing 36 or 38 fiber strands. The fiber optic network is built based on a redundant ring architecture of three rings and provides transmission capacities between STM-1 to STM-16 using SDH technology.

Chart 16: Map of SDH network



Source: Telecom Montenegro

### Radio Relay Network

Telecom Montenegro's digital radio relay network consists of 28 links covering a total length of 827 kilometers and is primarily used as back-up transmission for the fiber optic network as well as providing transmission links where fiber has not yet been laid. It was built in 1995 using primarily Alcatel equipment but also has radio sets and multiplexers from other vendors such as Iskra Transmission and Telettra. Capacity per link ranges from 4Mbit/s to 140 Mbit/s but the most links are 34Mbit/s.

**Table 35: Radio relay network**

	FROM	TO	LENGTH	BAND	CAPACITY
			(Km)	(GHz)	
1	PODGORICA	LOVČEN	35,6	6	140Mbit/s
2	PODGORICA	CETINJE	42,2	13	34Mbit/s
3	LOVČEN	BJELASICA	86,4	6	140Mbit/s
4	LOVČEN	HERCEG NOVI	29,3	8	34Mbit/s
5	LOVČEN	KOTOR	11,5	8	34Mbit/s
6	LOVČEN	TIVAT	10,7	8	34Mbit/s
7	LOVČEN	BUDVA	11,1	8	34Mbit/s
8	LOVČEN	BAR	42,5	8	34Mbit/s
9	LOVČEN	NIKŠIĆ	51,3	8	34Mbit/s
10	BAR	ULCINJ	22,5	8	34Mbit/s
11	GOSPOĐ. VRH	BAREL	60	7	34Mbit/s
12	MTC/PODGORICA	TARABOŠ I	46	7	34Mbit/s
13	MTC/PODGORICA	TARABOŠ II	46	7	34Mbit/s
14	MTC/PODGORICA	TARABOŠ III	46	2,4	10Mbit/s
15	BJELASICA	BIJELO POLJE	40,5	6	140Mbit/s
16	BIJELO POLJE	PLJEVLJA	58,1	8	34Mbit/s
17	BIJELO POLJE	BERANE	45	8	34Mbit/s
18	BERANE	ROZAJE	27,5	13	34Mbit/s
19	LOVČEN	DODOŠI	28	15	8Mbit/s
20	LOVČEN	R. CRNOJEVIĆA	23	7,5	4X2Mbit/s
21	LOVČEN	NJEGUŠI	3,3	26	4X2Mbit/s
22	LOVČEN	GRAHOVO	33	7	8X2Mbit/s
23	TIVAT	KRAŠIĆI		18	34Mbit/s
24	TIVAT	ZABRĐE	8,5	26	8Mbit/s
25	VELJA GORA	RVAŠI	4	26	4X2Mbit/s
26	MOJKOVAC	POLJA	3,3	26	2X2Mbit/s
27	ZVINJE	ROSE	5	26	4X2Mbit/s
28	MTC	DINOŠE	7	26	2X2Mbit/s

Source: Telecom Montenegro

#### 4.12.5 International Network Connections

Historically, Telecom Montenegro was principally reliant on Telecom Serbia to provide international connectivity to telecommunications carriers in foreign countries. Starting in 1999, Telecom Montenegro begun building its own international connections with Slovenia and Croatia and has continued to develop reliable and autonomous flows of international traffic. The table below shows current status of Telecom Montenegro's international voice and IP links.

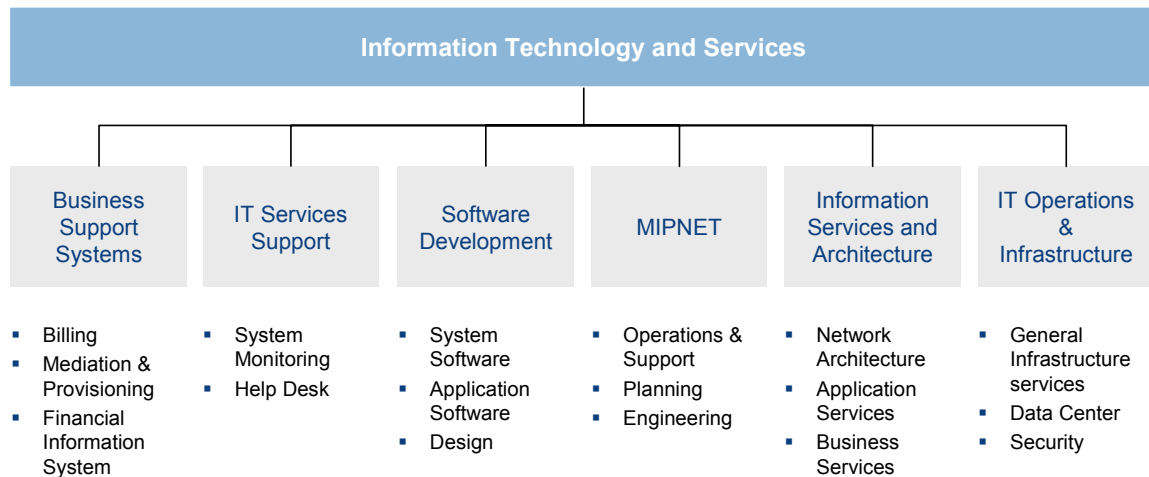
**Table 36: Telecom Montenegro's voice and IP links**

COUNTRY	CARRIER	CAPACITY	DATE of link
Austria	Telekom Austria	2E1	2002 / 2004
Albania	Albtelecom	1E1	2000
Belgium	Belgacom	1E1	2002
Bosnia & Herzegovina	bhtelecom	2E1	2000 / 2001
Greece	OteGlobe	2E1	2002
Croatia	Hrvatski Telekom	8E1	1999/2000
Croatia	Hrvatski Telekom (IP_GIA Split)	155Mbit/s	2003
Italy	Telecom Italia	5E1	2002 / 2004
Macedonia	Makedonski Telekomunikacii	1E1	2002
Germany	T-Systems	4E1	2002
Slovenija	Telekom Slovenije	2E1	1999/2001
Switzerland	Swisscom	1E1	2004
Serbia	Telekom Srbija	18E1	
Serbia	Telekom Srbija	155Mbit/s	

Source: Telecom Montenegro

### 4.13 IT System

Telecom Montenegro's Information Technology department is responsible for the automation of core business processes including: billing, accounts receivable, accounting, operational logistics, corporate network communications, software development, and security. The individual departments can be seen in the organizational chart below.



Telecom Montenegro runs SAP modules for Financial Accounting, Controlling, Materials Management, Human Resources, and Sales and Distribution. The payroll function is a locally designed software application to meet the peculiarities of Montenegrin laws and regulations and is fully integrated with the company's existing SAP solutions.

Telecom Montenegro is currently installing two SAP modules for Project Management and Investment Management which are scheduled for implementation in October 2004. As with all other SAP implementations, Telecom Montenegro has contracted a licensed SAP implementer to install the new SAP modules.

There are currently the following SAP functionalities installed and licensed at Telecom Montenegro:

**Table 37: Installed and licensed SAP functionalities**

Module	Description
FI	Financial Accounting
FI-GL	General Ledger
FI-AP	Accounts Payable
FI-AR	Accounts Receivable
FI-AA	Asset Accounting
CO	Controlling
CO-CCA	Cost Center Accounting
CO-PCA	Profit Center Accounting
CO-PA	Profitability Analysis
TR-CM*	Cash Management
MM	Materials Management

Module	Description
SD*	Sales and Distribution
MIS*	Management Information System
HR	Human Resources
HR-PA	Personnel Administration
HR-OM	Organizational Management
Payroll**	[locally designed, SAP-compliant application]
BC	Basis Components

Source: *Telecom Montenegro*

### Billing

The current billing solution used in Telecom Montenegro was developed internally by the IT department in early 2001 using the following tools: Visual C++, Visual Basic 6.0, PHP, Apache Web server, Windows 2000 and Red Hat OS, Microsoft SQL 2000 and MySQL databases. Current billing solution has two types of interface: a web interface and via Windows 32 graphic interface.

Telecom Montenegro is in the process of replacing its current billing platform with a Tytan software system created by ComArch S.A. The tytan billing system is a technologically advanced and modern tool to support all areas of a telecommunication operator's activity in the field of billing. The system allows appropriate calculation of charges for any services provided within the confines of products offered by the operator and can settle the whole range of services, including:

- Conventional wire line telephony
- GSM, including GPRS and UMTS modules
- ISDN
- ATM
- Intelligent networks
- CATV networks
- IP services
- VoIP
- Other services not related to the use of network

The Tytan billing system is planned for installation in late 2004 and will run simultaneously with the current system until late January 2005 to allow testing. At this time the complete billing function will continue to run exclusively on the new Tytan system. The overview of the new Tytan billing system's hardware and software is as follows:



**Table 38: An overview of the new Tytan billing system's hardware and software**

Module Name	Hardware Server configuration
1.1. Tytan Billing System, 1.2. TYTAN Revenue Sharing 1.3. TYTAN Workflow 1.4. TYTAN MediatorCollector	<b>Cluster Server:</b> 2x Sun Fire V880 Server 4 <b>External Storage:</b> 2x Sun StorEdge 6120 System, RAW capacity 1022 GB;
Workstation for administration of Sun Fire V880	<b>Workstation:</b> Sun Blade 150 Workstation 650-MHz UltraSPARC-iii
WWW server for all system operators from 21 TK Centers about 120 concurrent users	<b>Server:</b> 2 x Sun Fire V210,
Internet Access Server for internet access to the system for administration maintenance	<b>Server:</b> ProLiant DL380R03 X2
TYTAN Service Provisioning for Fixed Lines and CATV	<b>Server:</b> Sun Fire V210
TYTAN Mediation Device –Central Mediator	Sun Fire V210, 2 x 1GHz
TYTAN Mediation Device –Mediators for dedicated exchanges	17 x HP D330 MT P4 2.4GHz

#### *X.25 Network*

Telecom Montenegro operates a managed data services transmission network using an X.25 network which is the former JUPAK public network for data transmission throughout Yugoslavia. The network has 20 links connecting Podgorica with 14 other cities in Montenegro. Six links are between smaller cities. The network speed is primarily 2,048 kbps (14 links) while five links offer 19.2 kpps and one link is 64 kbps.

#### *MIPNET*

To enable the efficient delivery of different audio, video and data with guaranteed delivery priorities, Telecom Montenegro designed and installed a Multiprotocol Label Switching (MPLS) network called Montenegrin IP Network or MIPNET. The MPLS network combines the attributes of Layer 2 switching and Layer 3 routing into a single platform and provides the following benefits:

- Allows differentiated services to be offered to customers of CGT, i.e. services that differ according to their class of service COS or quality of service QOS
- Offers enhanced traffic shaping and engineering
- Enhanced scalability
- Greater Interoperability due to standards based solution

MPLS can support any type of traffic on a large IP network without constraints of different routing protocols, transport layers, and addressing schemes which all contribute to increase the efficiency of data throughput by optimizing packet processing in the IP network.

**Table 39: The major elements the CGT MIPNET are as follows:**

4.13.1.1	Equipment	4.13.1.2	Number	4.13.1.3	Location
	P Router 12406		4		Podgorica, Bijelo Polje, Bar
	Internet GW Router 12406		2		Podgorica
	L2/L3 Switches Catalyst 6509		2		Podgorica
	PE Routers 7200		22		various
	L2 Switches 3550		35		various
	L2 Switches 3550 PWR		1		Podgorica
	Dial Access Server AS5350		1		Podgorica
	Cisco PIX 515 Firewall		2		Podgorica
	Aironet 350 Wireless Bridge		35		various
	Router 1760		13		various
	Telindus rack modems		35		various
	Nbase Media Converter		11		Berane, Rožaje, Andrijevica, Plav, Mojkovac, Kolašin, Žabljak, Šavnik, Kotor, Tivat
	Optical Regenerator		6		Podgorica, B. Polje, Bar, Budva, Kolašin
	Cisco IP Phone 7960		5		Podgorica
	Media Convergence Server - 7825H		1		Podgorica
	Sun V120		1		Podgorica
	Sun V240		4		Podgorica
	HP DL320 G2		2		Podgorica
	Management SW		-		Podgorica

Source: Telecom Montenegro

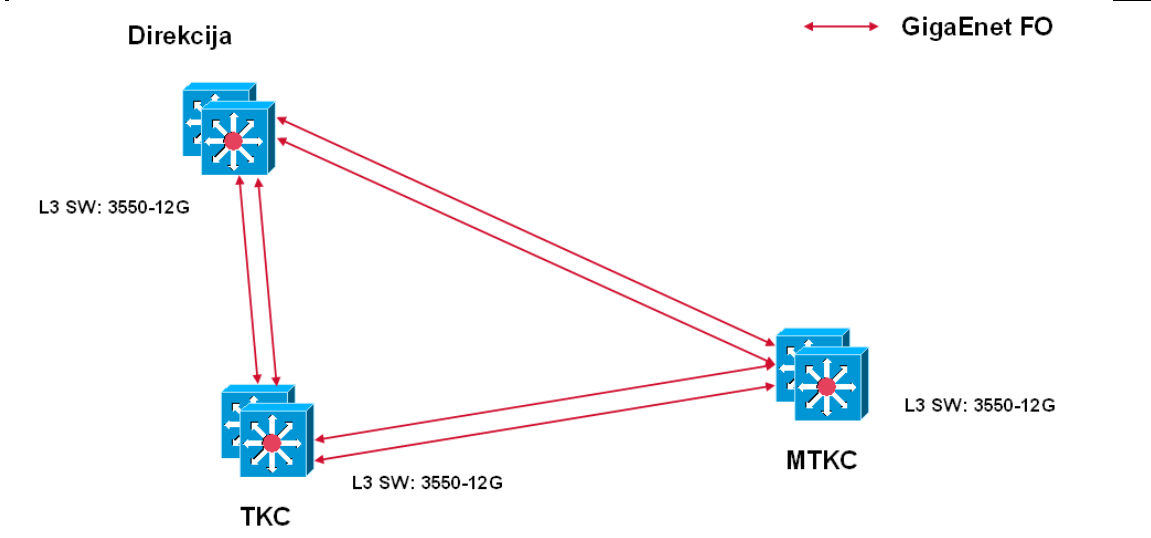
### MAN Podgorica

Telecom Montenegro has constructed a Metropolitan-Area-Network in Podgorica which comprises connections between the three main buildings of Telecom Montenegro within Podgorica. The backbone is based on three locations:

- Magistralni TK Centar (MTKC)
- Direkcija Telekom Crne Gore (Direkcija)
- TK Centar Podgorica (TKC)

These three locations are connected over double L3 routers (Cisco Catalyst 35550) that work in load balancing and failover modes using double dark fibre links which allows full a redundant solution (Chart 18) to be implemented. DHCP/DNS servers are installed in each of these three nodes. In addition, each node is an aggregation point for the 28 remote sites (buildings) throughout Podgorica.

**Chart 17: Metropolitan area network**



Each of Telecom Montenegro's business units also has an ethernet connection with MAN Podgorica using the MIPNet infrastructure. For operational work, each business unit is connected to the WAN of Telecom Montenegro over a VPN created in MIPNet.

#### *Recent IT Projects*

During the last three years Department for IT&S has developed several projects for the internal use of Telecom Montenegro. Some of these projects are:

- Billing System – In early 2001 programmers of Telecom Montenegro developed an internal solution for the billing system to replace the then existing platform. The entire project was developed and implemented within 6 months.
- Web portal of Telecom Montenegro –developed using Microsoft ASP technology and running under Microsoft IIS 5.0.
- Web Application for ordering ISDN service – using this web interface, customers of Telecom Montenegro have the possibility to order ISDN packages over the internet.
- Internal IT portal for project management – This solution is based on Microsoft Sharing portal and is currently used among sub-departments of the IT&S department.
- Prototype of a smart box based on a Linux-embedded operating system with onboard computer which can either work on a standalone basis or manage devices and execute commands received from the remote server
- Implementation of an IDS system based on Snort software under Red Hat OS
- Implementation of new e-mail server using Q-mail software under Linux Red Hat OS customized to offer protection from hacker, virus and spam attacks.
- Implementation solutions for VPN server based on Linux Red Hat OS and Windows 2000 OS.
- Local SAP customization for the Sales & Distribution module
- Numerous specialized reports for the Finance Department

### Database system and IT disaster recovery system

Telecom Montenegro is currently using the following types of databases:

- Oracle 9i
- Microsoft SQL server 2000
- Sybase
- MySQL

In mid 2004, Telecom Montenegro began developing a Disaster Recovery System. The backup site will be placed in Niksic, about 60km from Podgorica, in a protected building, and apart from Telecom Montenegro, it will also offer services to other companies and institutions.

#### 4.14 Capital Expenditures in Recent Years

Telecom Montenegro has made significant investments in upgrading the technical infrastructure of the system in recent years. Based on these investments, Telecom Montenegro has managed to build a stable technical basis and secure return on investments through increased revenues. These capital investments were partly financed from the Company's own funds and partly from long-term loans.

**Table 40: Capital investments made in 2002 and 2003:**

Description	2002 in EUR	2003 in EUR
Access networks and infrastructure	3,165,621	6,057,936
Switching	6,627,268	7,988,610
Buildings	3,318,764	2,839,621
Optical transmission system	1,602,525	-
Radio broadcasting system	3,156,420	-
SDH and PDH line equipment	954,253	-
Software	835,912	-
Rural telephony	90,873	-
MIPnet	-	3,051,856
SAP	-	992,126
<b>Total</b>	<b>19,751,636</b>	<b>20,930,219</b>

Source: Operational reports Telecom Montenegro

For the year 2004, the Company plans to continue with its further upgrades (commutations, MIPnet, new Billing system, access network), however as it has already reached substantial level of technological development, the amount of capital expenditures will be lower than in previous years. In the first quarter of 2004, the total amount of capital investments was 2,474,777 EUR.

#### 4.15 Strategy

Due to changes in the Company's environment, especially with respect to the liberalization of the Montenegrin telecommunication market, and loss of its monopoly position, the Company is developing a more market oriented strategy to position itself for future competition.

The main aim of Telecom Montenegro is to stay ahead of the accelerated telecom market development in Montenegro, mitigate the effects of a decreasing market in fixed telephony and to maintain its leadership position. The new direction towards which Telecom Montenegro relies on more extensive use of its current infrastructure through implementation of IP technology for data transmission and re-organization of the Company to more market oriented approach, putting stronger emphasis on sales, marketing and promotions.

Telecom Montenegro has already taken initial steps to implement this strategy through large investments in its infrastructure and launching new services, such as MIPnet and ADSL. MIPnet is a network for the transmission of data, voice and video images through the optical infrastructure and its commercial exploitation is planned to start during 2004. ADSL is a service that is in the testing phase in Montenegro and its realization is also planned for the year 2004.

Telecom Montenegro's strengths include: a developed network infrastructure, large customer base, strong brand name, skilled workforce, geographical market coverage and an established billing system. The Company can build on these foundations and go beyond its core operations into adjacent business, offering new value added solutions, establishing new revenue streams. New business opportunities may include: Voice VAS and Digital TV managed services.

#### 4.16 Financial Information

This section provides basic financial information with brief comments. Readers are advised to read this section in conjunction with the audited financial statements for the year ended 31 December 2002 and for the year ended 31 December 2003 and the Independent Auditors' Report for 2002 and 2003, to be found in the Data Room.

**Table 41: Audited Income Statement for 2002 and 2003 (in EUR)**

	2002	2003
<b>Operating revenues</b>	<b>75,345,680</b>	<b>72,062,293</b>
Sales	74,802,475	70,656,209
Other operating revenues	543,205	1,406,084
<b>Operating costs</b>	<b>71,151,968</b>	<b>55,511,426</b>
Operating expenses from principal activities	22,221,995	17,997,815
Staff costs	14,723,578	15,926,385
Depreciation	19,085,443	6,237,722
Other operating costs	15,120,952	15,349,504
<b>Profit from operations</b>	<b>4,193,712</b>	<b>16,550,867</b>
Financial income/(expense), net	2,572,372	1,562,716
<b>Profit before taxation</b>	<b>6,766,084</b>	<b>18,113,583</b>
Income taxes	2,607,226	110,121
<b>NET INCOME</b>	<b>4,158,858</b>	<b>18,003,462</b>

Source: Audited financial statements

During the last two years, total operating revenues have slightly decreased by 4%, amounting to 72 million EUR in 2003. However, the decrease relates mostly to the effects of changes in accounting policies (due to first time full application of International Accounting Standards in Montenegro), that should be taken into account when comparing operating revenues between the years 2002 and 2003.

Operating costs have been declining at a faster rate than revenues in the observed period, decreasing considerably their participation in operating revenues from 94% in 2002 to 77% in 2003. A decrease of depreciation costs was recorded in 2003, from 19 million EUR in 2002 to only 6 million EUR in 2003, mainly due to the effects of the valuation performed. In addition, the Company has recorded net financial income in the amount of 1.56 million in 2003, mostly due to the realized financial income from subsidiaries.

As a result, the net income has grown significantly (more than 4 times), from 4.2 million EUR in 2002 to 18 million EUR in 2003, considerably increasing the profitability of Telecom Montenegro, from 6% in 2002 to 25% in 2003, measured through net income margin.

The most significant sales revenue item represent income from telecommunication services, i.e. revenue from outgoing domestic and international calls (48%), and is followed by income from interconnection fees-domestic (17%), and income from international incoming calls (which participate with 10% in the Company's sales).

The largest operating costs are related to operating expenses of principal activity, participating with 32% in total operating expenditures in 2003, but decreasing their value by 19% compared to 2002. Interconnection expenses (domestic) were prevailing within this cost group in both analyzed years, totaling 8.3 million EUR in 2003. In comparison to 2002, expenses from international outgoing calls have decreased by 64%. Staff costs were relatively stable during the observed period, participating with approximately 29% in operating expenses in 2003.

The following table presents the audited balance sheets of the Company as of 31 December 2002 and 31 December 2003.

**Table 42: Audited Balance Sheet as of 31 December 2002 and 31 December 2003 (in EUR)**

	31 Dec 2002	31 Dec 2003
<b>Non-current assets</b>	<b>198,459,131</b>	<b>130,674,394</b>
Intangible assets	6,031,608	7,661,121
Property and equipment	169,226,545	93,868,825
Long term investments available for sale	20,700,978	26,644,448
Other long term receivables	2,500,000	2,500,000
<b>Current assets</b>	<b>22,458,315</b>	<b>27,906,327</b>
Inventories	1,491,379	819,685
Accounts receivables, net	17,227,707	25,208,857
Short term financial placements	1,893,831	315,801
Prepaid expenses	303,624	39,337
Accrued income	290,415	302,558
Other current assets	0	271,990
Cash and cash equivalents	1,251,359	948,099
<b>TOTAL ASSETS</b>	<b>220,917,446</b>	<b>158,580,721</b>

<b>Equity and Reserves</b>	<b>203,062,371</b>	<b>132,813,479</b>
<b>Non-current liabilities</b>	<b>3,205,392</b>	<b>8,428,324</b>
Long-term borrowings	598,166	5,736,562
Deferred taxes	2,607,226	1,663,039
Provisions		1,028,723
<b>Current liabilities</b>	<b>14,649,683</b>	<b>17,338,918</b>
Trade payables	10,158,080	11,065,521
Short term financial liabilities	2,945,216	4,336,421
Tax liabilities	1,249,993	1,405,536
Accrued expenses	296,394	531,440
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>220,917,446</b>	<b>158,580,721</b>

Source: Audited financial statements

The Company's reported assets, totaled 158.5 million EUR as of 31 December 2003, were decreased by almost 30% comparing to the end of 2002, predominantly due to a decrease of non-current assets.

Non-current assets were the major item in assets structure; however, its share in total assets have decreased from 90% to 82%, amounting to 130.7 million EUR at the end of 2003, which was a decrease of 34% in comparison to December 2002. This decrease of value and share in total assets was predominantly caused by the effects of the Company's property appraisal, as well as by first-time application of international accounting standards (IFRS 1).

Current assets recorded significant growth (by 24%) in the period 2002 – 2003, increasing also their participation in total assets from 10% to 18%. The largest item was accounts receivables, which grew by 46% during the observed period, participating with 90% in current assets at the end of 2003.

Equity and reserves totaled 132.8 million EUR as of 31 December 2003, or 84% of total equity and liabilities. Equity and reserves decreased in absolute terms by 35% during the period of analysis; their participation in total equity and liabilities also declined from 92% in 2002 to 84% in 2003, mostly due to the effects of the first-time application of International Accounting Standards (IFRS 1), as well as to the effects of the performed valuation.

Both current and non-current liabilities accounted for 23% of total equity and liabilities in 2003, thus showing considerable growth during the observed period. Non-current liabilities amounted to 8.4 million EUR in December 2003, they increased by 163% compared to 2002, predominantly due to the fact that the Company has been extended long-term loan for the supply of new telecommunication equipment by Ericsson Nikola Tesla, Zagreb, and loan agreement for the construction of IP service network by HVB Bank, Belgrade in the course of 2003. Current liabilities totaled 17.3 million EUR at the end of 2003, which was an increase of 18%, mainly due to an increase in current portion of long term liabilities.

Although an increase in both short-term and long-term liabilities was recorded in 2003, the Company has expressed no liquidity problems, and the analysis of its financial position indicates that the performance in the observed period was stable and profitable. The Management actions resulted in the good structure of assets and equity and liabilities, as well as in the financial balance.

## **5 MONET D.O.O**

### **5.1 General Information**

Monet started its operations on 1 July 2000, as an integral part of Telecom Montenegro and it has been operating as a separate legal entity since 1 August 2000. The company was registered as a limited liability company for providing public mobile telecommunication services on the territory of Montenegro and is 100% owned by Telecom Montenegro. Headquarters of the company is located at Podgorica and the official address is: Bulevar Lenjina 3, Podgorica, Montenegro.

The main strategic goals of the company are: achieving the leading position in mobile telecommunications as well as maintaining a continual growth through diversification of high quality services and preserving current profitability level.

### **5.2 Corporate Governance**

Corporate governance of the company is carried out by the General Meeting and the Executive Manager. The function of General Meeting is assumed and performed by the Board of Directors of the Founder, Telecom Montenegro, Podgorica.

#### **5.2.1 Executive Manager**

The Executive Manager of Monet is nominated and revoked by the Board of Directors of the Founder. The Board of Directors of the Founder may decide to nominate the Executive Manager by public announcement of the vacancy. The Executive Manager is nominated for a 4-year mandate, with the possibility of re-election. His tasks and assignments, remuneration (bonus) etc. are specified in a separate contract to be executed, on behalf of the company, by the President of the Board of Directors of the Founder. Should, for any reason, the company remain without an Executive Manager, the Board of Directors of the Founder shall be obliged to nominate one member of its Board to assume the function of the Executive manager.

The Executive Manager shall be entitled to assign certain operations from his scope of activities to the members of the Management team and other employees of the company, in compliance with the Law and resolution of the Board of Directors of the Founder.

#### **5.2.2 Corporate Secretary**

The company has a Corporate Secretary who is nominated by the Executive Manager from the ranks of the company's employees. The function of Corporate Secretary is currently performed by Ms. Mirsada Murseljević.



### 5.2.3 Representing the company

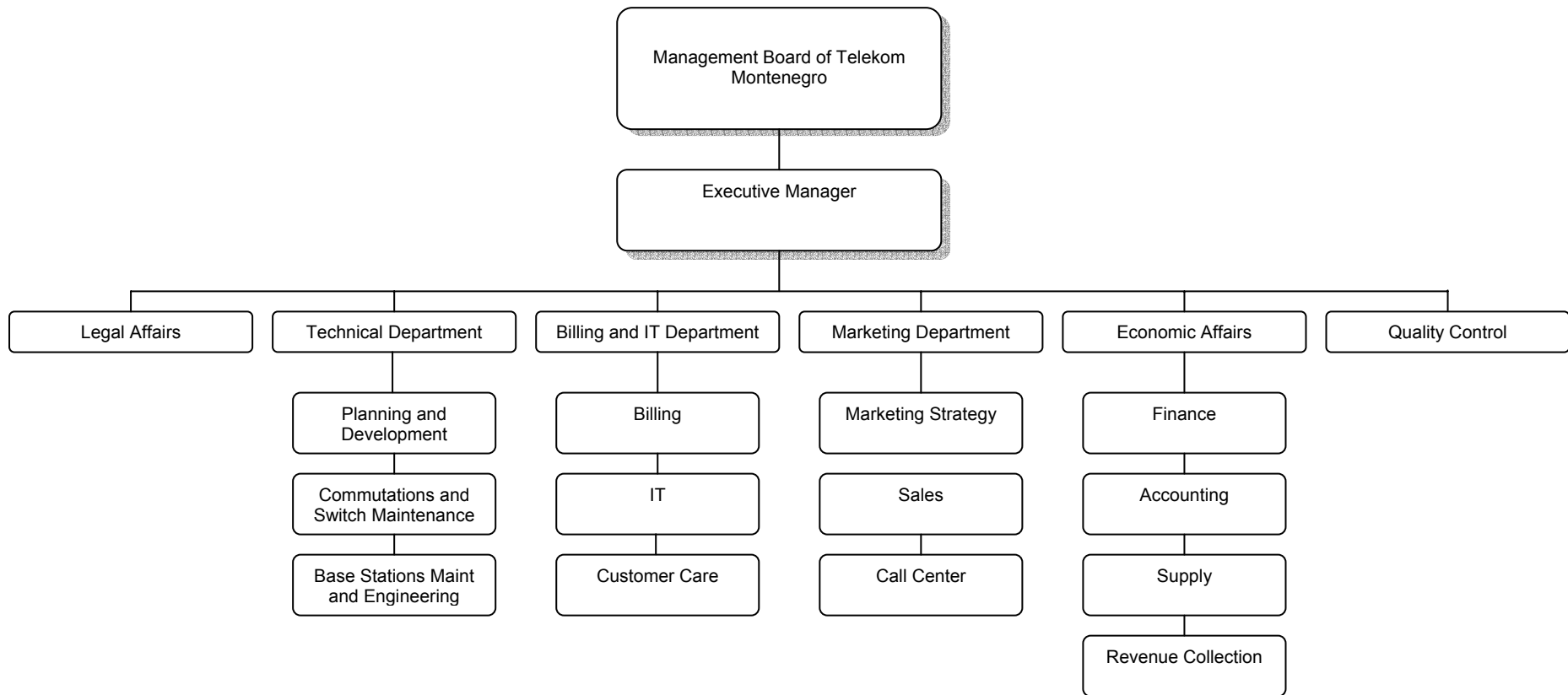
Subject to the Articles of Association, the company is represented by the Executive Manager. In certain cases, the Board of Directors of the Founder may decide that the company shall be represented by the President of the Board of Directors of the Founder. Such resolution shall contain the limits of the powers, rights and obligations and shall also specify the requirement of collective signatures, i.e. cases when two authorized signatures are required.

## 5.3 Organizational structure

The company has adopted functional organizational structure, with the following departments:

- **Technical Department** deals with all issues related to development and network operations. There are three divisions within this department: a) Planning and Development, b) Commutations and Switch Maintenance, and c) Base Station Engineering and Maintenance.
- **Billing & IT Department** deals with software and hardware administration, billing, customer administration and co-ordination with the distribution network and clearing houses. There are three divisions within this department: a) Billing, b) IT, and c) Customer Care.
- **Marketing Department** is organized in three divisions: a) Marketing Strategy, b) Sales, and c) Call Centre.
- **Economic Department** includes: a) Finance, b) Accounting, c) Supply, and d) Revenue collection division.
- **Department for Legal Affairs** is in charge of legal matters related to Monet's activities, as well as human resource management, administration, and other.
- **Quality Control Department** is focused on the implementation of the ISO standards and other quality issues, such as monitoring service level indicators.

Chart 18: Organizational chart, “Monet”



Source: Monet

## 5.4 Human Resources and Remuneration

### 5.4.1 Management

Monet's current management is presented in the following table. For more details on management biographies please refer to Appendix II-1 of this Memorandum.

**Table 43: Top management of Monet**

Name	Current Position
Miodrag Ivanović	Executive Manager
Ivan Raičević	Chief Financial Officer
Mirsada Murseljević	Chief Legal Officer
Tatjana Obradović	Chief Marketing and Sales Officer
Miodrag Krunić	Chief Technical Officer
Eva Šabanović	Chief IT and Billing Officer

Source: Monet

### 5.4.2 Employees

Monet currently employs 147 people. In addition to this number, Monet also employs 16 workers on the basis of Service and Consulting agreements. As shown in the following table, university and college educated professionals participate make up over 50% in the total number of employees:

**Table 44: Employee qualification structure as of 1 July 2004**

Education	No. of employees	%
University degree	66	45
College degree	15	10
High school	62	42
Other (Master degree)	4	3
<b>Total</b>	<b>147</b>	<b>100</b>

Source: Monet

Out of 147 employees as of July 1 2004, the majority is working in the Technical, Billing & IT and Marketing and Sales departments as presented in the table below:

**Table 45: Employee structure per department, 1 July 2004**

Department	No. of employees	%
Technical department	43	29
Billing and IT department	30	20
Marketing department	44	30
Economic department	18	12
Legal affairs	9	6
Quality control	2	2
Executive director	1	1
<b>Total</b>	<b>147</b>	<b>100</b>

Source: Monet

Almost 60% of all employees are between 26 and 35 years of age making the average age of employees within the company of 33 years. The following table depicts the current employee structure according to age.

**Table 46: Age structure of employees, 1 July 2004**

Department	No. employees	%
Up to 25	15	10.2%
26-30	41	27.9%
31-35	43	29.2%
36-40	33	22.4%
41-50	12	8.2%
Over 50	3	2.1%
<b>Total</b>	<b>147</b>	<b>100.0%</b>

Source: Monet

### 5.4.3 Remuneration

The company pays salaries and all applicable taxes and contributions on a regular basis. The average net monthly salary per employee in Monet increased from EUR 540 in 2001 to EUR 762 in 2003 as a consequence of the company's improved performance. The trend in gross and net salaries in the period 2001-2003 and the first six months of 2004 is presented in the table below:

**Table 47: Breakdown of salaries for the period 2001 – 1H 2004**

Education	In EUR			
	2001	2002	2003	1H 2004
Total net salaries	407,990	874,036	1,234,284	636,980
Total gross salaries	842,843	1,675,714	2,253,654	1,126,337
Average number of employees	63	118	135	144
Average monthly net salary per employee	540	617	762	737
Average monthly gross salary per employee	1,115	1,183	1,391	1,304

Source: Monet

In the first six months of 2004 the average monthly net and gross salaries are slightly lower than in 2003 because they don't include annual bonus payments. Additional incentives for employees are based on two major reward schemes:

- Monthly incentives – salary increase in the specific month, based on the extraordinary results achieved by an employee;
- Annual bonus – offered once a year to the employees who have achieved outstanding business results during the year.

### 5.4.4 Training

Monet pays great attention to training of its employees. In 2003, the company allocated over EUR 180,000 for advanced training programs for employees, in particular for engineering staff (courses and seminars). Monet has been providing scholarships for 30 employees (3 University, 18 at college and 9 enrolled in post-graduate studies).

## 5.5 Monet's Subscribers

### 5.5.1 Subscriber Base

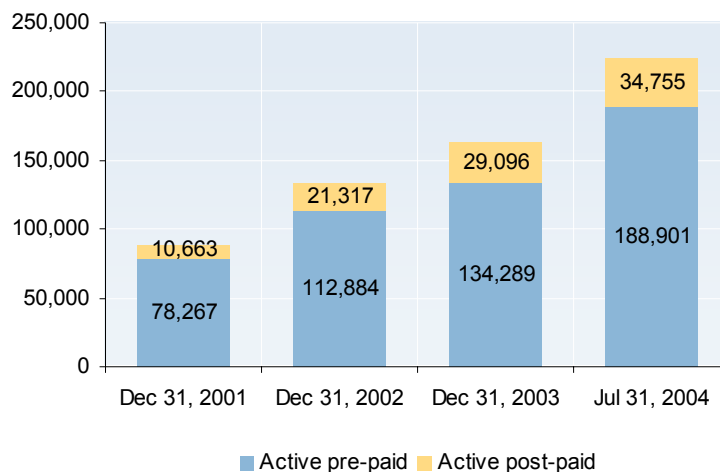
The estimated total number of Monet's subscribers as of 31 July 2004 was 262,619. This figure includes 188,901 active and 38,963 passive pre-paid subscribers and 34,755 active post-paid subscribers.

Passive pre-paid subscribers, for the purpose of this Information Memorandum, are defined as subscribers that activate their SIM cards only for certain period of the year. Passive subscribers are mostly tourists that come to Montenegro for a summer vacation. Active subscribers become passive upon 90 days of no activation of their SIM cards. Should they not add credits to their SIM cards in a period of one year, they become permanently deactivated.

The average growth rate of total active subscribers in the period 2001-2003 was approximately 40%: the average growth rate of pre-paid subscribers was 37%, while the average growth rate of post paid subscribers was 68%. As of 31 July 2004, Monet had a total of 223,656 active subscribers, which is a 37% increase in the subscriber base from 31 December 2003. The increase in the number of subscribers is sharpest in the summer period, when lot of passive subscribers convert into active.

The following chart shows the development in the number of active subscribers as of 31 December 2001, 2002, and 2003 and as of 31 July 2004.

**Chart 19: Monet's active subscribers until 31 July 2004**



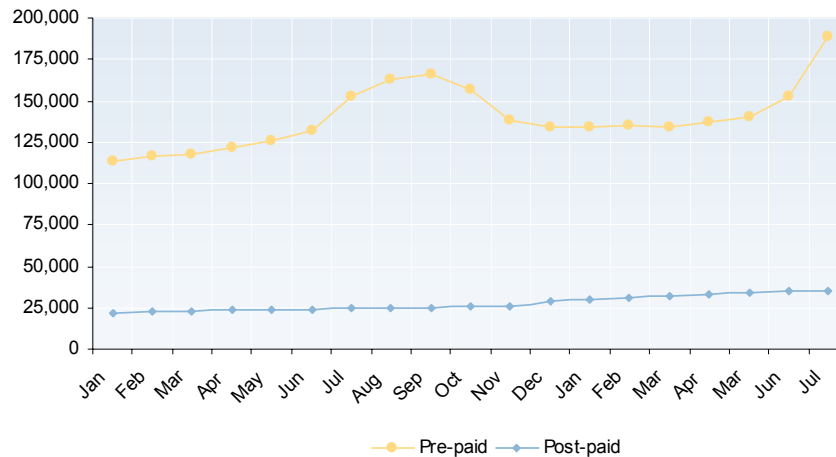
Source: Monet

The majority of subscribers are pre-paid (82% as of 31 December 2003) while the remaining 18% are post-paid subscribers. This structure changes in the summer season in favor of the pre-paid subscribers, when numerous tourists (passive subscribers) activate their SIM cards. Hence, the 2004 data portray slightly different structure (84% pre-paid vs. 16% post-paid).

Most of the subscribers (36%) are located in Podgorica. A detailed territorial distribution of subscribers per municipalities is presented in the Appendix II-2 of this report.

Monthly movements in the number of active subscribers during the period Jan. 2003-July 2004 are presented in the following chart:

**Chart 20: Monthly number of subscribers, Jan. 2003-July 2004**



Source: Monet

As presented in the chart above, the number of active pre-paid users increases in the summer months and falls in October, November, and December. This is a regular development since temporary users that buy pre-paid cards during the tourist season become passive subscribers after 90 days of non usage.

The number of post-paid subscribers has steadily increased over the observed period. The tourist season does not affect this subscriber segment in the way it affects the pre-paid segment.

Within the post-paid segment, there were 22,291 residential users and 6,805 business users at the end of 2003 (an increase of over 55% compared to 2002). The proportion of business customers' share in the total number of post-paid users also increased from 20% in 2002 to 23% at the end of 2003.

Monet's strategy is to focus more on the business users segment, as a segment with the most lucrative growth potential. The management has already undertaken some steps to increase the business customer base, by introducing a new post-paid business package in April 2003 with no monthly subscription fee and lower tariffs.

### 5.5.2 Market Share

Although it entered the market four years after ProMonte, Monet has quickly gained significant market share. Two key tools were reduced tariffs (Monet offered 50% lower only tariff rates) and the introduction of pre-paid SIM cards, as prior to Monet entrance, ProMonte only offered post-paid services.

Up to the end of 2003, Monet increased its market share to 43%, expanding its customer base and improving its range of services. As a result, ProMonte's market share dropped by 16% compared to 2001. The following table presents the estimated market share of the two mobile operators in 2001-2003. The market shares are calculated on the basis of active subscribers.

**Table 48: Estimated market share of two mobile operators**

Mobile provider	2001	2002	2003
Monet	27%	40%	43%
ProMonte	73%	60%	57%
<b>Total mobile telecommunications market</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

Source: Monet

### 5.5.3 Churn Rates

Monet does not keep record of deactivated subscribers on a monthly basis, but rather in two to three month periods. Therefore, precise information on monthly churn rates is not available. The following table shows pre-paid and post-paid yearly churn rates for 2002 and 2003 and the first half of 2004, as well as average monthly churn rates for the same periods. There is a decline in the average monthly churn rates for both pre-paid and post-paid segment, indicating that Monet implements effective strategies in preserving its customer base.

**Table 49: Pre-paid and Post-paid Churn Rates**

	Pre-paid subscribers				Post-paid subscribers			
	Ave. no. of subscribers	Switched off subscr.	Total Churn	Ave. monthly churn	Ave. no. of subscribers	Switched off subscr.	Total churn	Ave. monthly churn
Year 2002	123,895	16,030	12.94%	1.08%	17,237	2,073	12.03%	1.00%
Year 2003	172,534	27,347	15.85%	1.32%	24,127	543	2.25%	0.19%
1 <sup>st</sup> half 2004	197,767	11,070	5.60%	0.93%	32,152	706	2.20%	0.18%

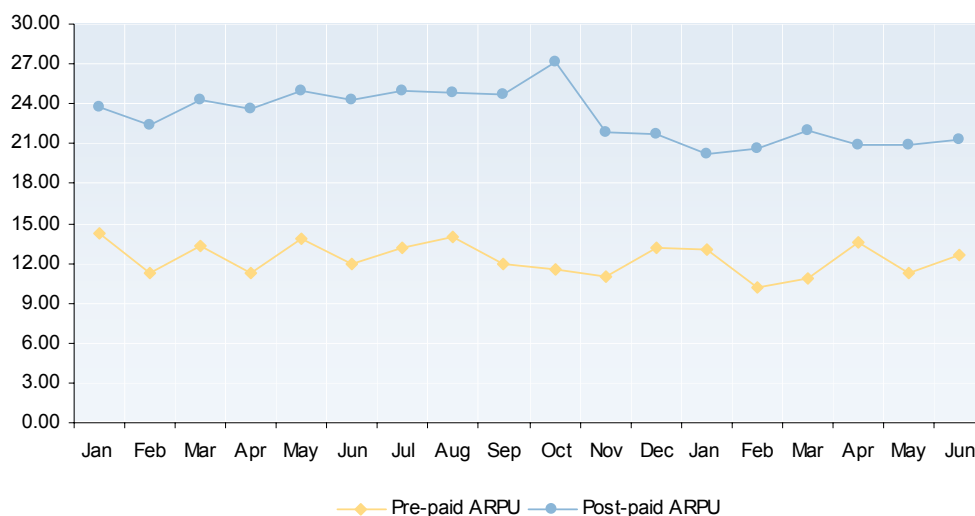
Source: Monet, RIAG calculations

### 5.5.4 Average Revenue per User (ARPU)

The average consumption of pre-paid monthly users in 2003 was EUR 12.98 (VAT included), or EUR 11.22 (without VAT), while in the first six months of 2004 it was EUR 11.69 (VAT included), or 10.02 (without VAT). The highest ARPU in the observed period was achieved in August 2003 (EUR 14.98 VAT included, or EUR 12.8 without VAT), whereas the lowest was in February 2004 (EUR 10.08 VAT included, or EUR 8.26 without VAT).

The average monthly bill of post-paid subscribers amounted to EUR 24.05 (without VAT) per user in 2003 while in the first six months of 2004 it was EUR 21.01 (without VAT). The highest ARPU in the observed period of EUR 27.19 (without VAT) was achieved in October 2003.

**Chart 21: Pre-paid and post-paid ARPU in the period January 2003-June 2004**



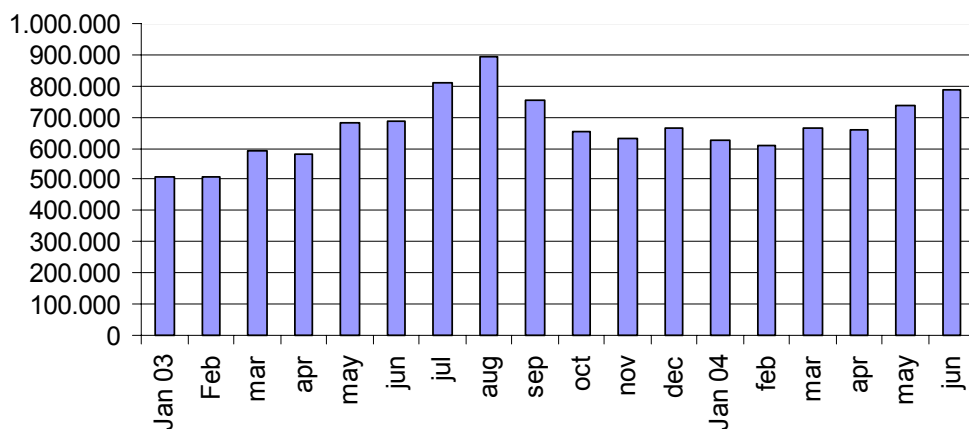
Source: Monet

## 5.6 Traffic

### 5.6.1 Traffic Carried on Monet Network

Due to the choice of Montenegro as a summer holiday destination, the traffic over the Monet network exhibits a high degree of seasonality. Year on year comparisons, however, demonstrate that the amount of traffic is increasing rapidly as subscriber numbers and international roamers in the Monet network increase.

**Chart 22: Traffic in Erlangs**

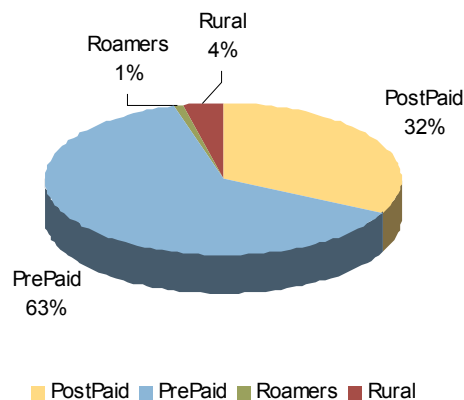


Source: Monet

### 5.6.2 Outgoing Traffic

As shown in the chart below, the majority of outgoing traffic (63%) comes from pre-paid subscribers, while post-paid subscribers make up 32% of total outgoing traffic. Rural users and roamers make up the smallest amount (5%) of total outgoing traffic.

**Chart 23: Structure of total outgoing traffic in first six months of 2004**



Source: Monet



Total outgoing traffic from the Monet network amounted to approximately 144 million minutes in 2003 and is almost 30% higher than in 2002. In the first six months of 2004, total outgoing traffic amounted to 74 million minutes and was higher than in the same period of 2003, mainly as a result of increased traffic towards ProMonte and fixed networks as well as towards Serbian mobile and fixed networks. Also, international traffic was more than twice as high as the first six months of 2004 than in the same period of 2003. The following table presents a breakdown of outgoing calls by call destination in the period January 2002 – June 2004:

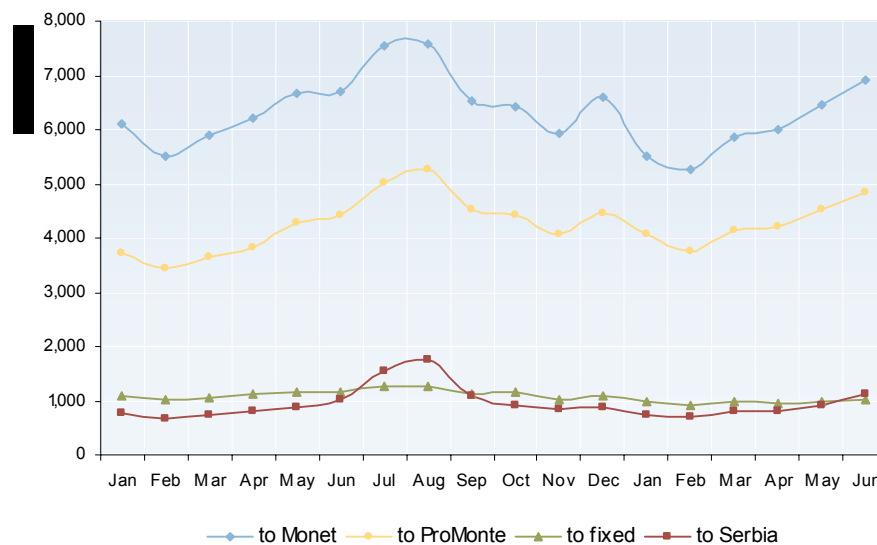
**Table 50: Breakdown of outgoing calls 2002 – 1H 2004** *in thousands of minutes*

Call destination	2002	2003	1H 2004
to Monet	44,227	77,696	36,031
to ProMonte	41,401	51,039	25,553
to Fixed network	13,844	13,522	5,845
to Serbia	9,727	11,976	5,089
to International	2,666	3,063	1,362
<b>Total</b>	<b>111,865</b>	<b>143,775</b>	<b>73,880</b>

Source: Monet

Traffic within the Monet network achieves the largest outgoing monthly traffic volume:

**Chart 24: Monthly Outgoing traffic by call destinations in the period January 2003-June 2004**



Source: Monet

### International outgoing traffic

The most significant zones in terms of traffic minutes are zones I, II and III. Together, they accounted for around 95% of outgoing traffic in the first six months of 2004. International outgoing traffic from Monet subscribers by international zones is presented in the table below:

**Table 51: International outgoing traffic according to zones** *in minutes*

International zones	2003	1H 2004
I	1,175,033	534,267
II	1,061,327	460,949
III	609,360	263,710
IV	99,042	48,728
V	30,394	3,991
VI	81,935	1,501
VII	6,383	3,829

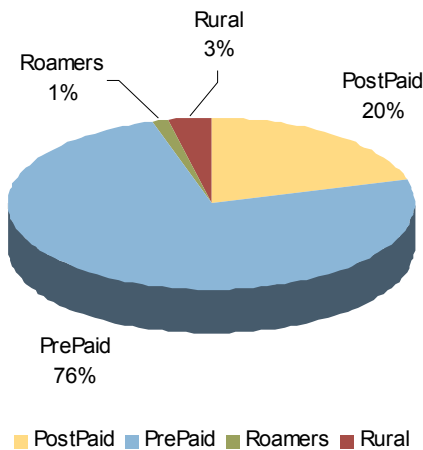
Source: Monet

Countries per zones are presented under Heading 4.10.2 – Telekom Montenegro of this Memorandum.

### 5.6.3 Incoming Traffic

The structure of incoming traffic is as follows:

**Chart 25: Structure of total incoming traffic Jan-June 2004**



Source: Monet

The following table presents the breakdown of incoming calls by call destination in the period January 2002 – July 2004:

**Table 52: Breakdown of incoming calls 2002 – 1H 2004** *in thousands of minutes*

	2002	2003	1H 2004
from Monet	44,136	64,014	35,933
from ProMonte	39,194	48,214	24,442
from Fixed network	23,619	23,051	10,464
from Serbia	18,085	23,672	8,708
from International	10,345	10,689	3,158
<b>Total</b>	<b>135,379</b>	<b>169,640</b>	<b>82,705</b>

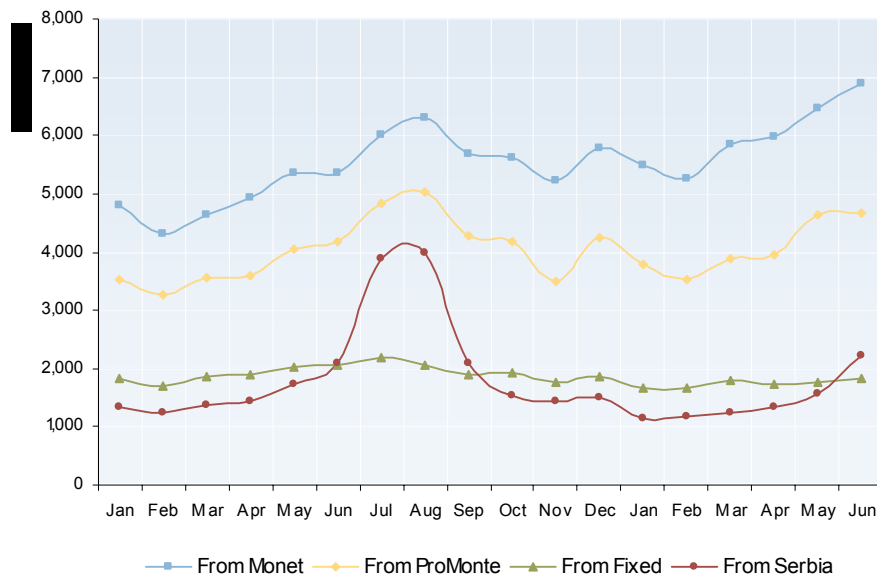
Source: Monet

Total incoming traffic to the Monet network amounted to approximately 170 million minutes in 2003 and is by 26% higher than in 2002. In the first six months of 2004, total outgoing traffic

amounted to 83 million minutes and was higher than in the same period of last year mainly as a result of increased traffic within its own network and to ProMonte.

Incoming traffic in all destination segments is characterized by seasonality, with peaks in the summer months of July and August. Traffic from Monet towards its own network has the highest incoming monthly traffic throughout the observed period. A significant increase of traffic from Serbian networks is visible in July and August as many tourists from Serbia receive calls on their Monet cards while staying in Montenegro over the summer.

**Chart 26: Incoming traffic to Monet in the period January 2003-June 2004**



Source: Monet

## 5.7 Overview of Services Provided

Monet renders a range of mobile telephony services to its subscribers such as basic voice services, value added services and roaming.

### 5.7.1 Basic Services

Basic services include standard GSM operators' services to pre-paid and post-paid subscribers. Prior to Monet's entrance into the mobile telecommunications market, only post-paid subscriptions were available in Montenegro. Monet introduced pre-paid cards as soon as it entered the market in July 2000, which resulted in a great shift of ProMonte's customers towards Monet's network.

An overview of Monet's pre-paid and post-paid packages is presented in the following table:

**Table 53: An overview of basic GSM services**

Type of Package	Description
<b>Monet pre-paid packages</b>	
MO4U	typical pre-paid package
COSMOS	special pre-paid package offering substantially lower prices for talks and SMS inside 067 network
<b>Monet post-paid packages</b>	
Standard	typical post-paid package
Business	special post-paid business package with no monthly subscription fee

Source: Monet

Users subscribing to one of the above presented packages are entitled to the following services free of charge:

**Table 54: Free activating services**

- SMS
- Voice mail
- Call forwarding
- Call waiting
- Call holding
- Call barring

Source: Monet

**Monet pre-paid** is a service that enables subscribers to have full control over costs as they can recharge their pre-paid cards with as much credits as they like. The major advantages of the pre-paid system include: no obligation to sign binding contracts, no obligation to pay subscription

fees and avoidance of monthly bills. One advantage for Monet is having no problems with the collection of receivables.

**Monet post-paid** is a service that gives unlimited call freedom to subscribers and offers favorable tariffs. Post-paid subscribers pay once a month at the end of the calculation period.

The company's new Business post-paid package became one of the strongest reasons why many companies opted for Monet services instead of ProMonte's.

Regardless of the package type, legal entities are entitled to the following free of charge services:

- Free SIM cards and access to the network
- Free roaming activation
- Free change of number
- Free call listing

In case employees have limits on their business mobile phone bills, Monet offers the possibility to separate the monthly bill: the employer receives one part of the bill up to the limited amount and the employee receives the other part of the bill in the amount exceeding the limit.

Monet plans to introduce new Family and Youth packages in the future.

### 5.7.2 Additional Services

In addition to basic GSM network services, Monet provides its users with a range of additional services. Monet was the first operator to start providing **GPRS** and **MMS** services in Montenegro.

GPRS enables a high-quality Internet connection, using a mobile phone for data transmission and sending and receiving e-mails. With GPRS, mobile phone users can use all Internet services which are available over fixed phones. The largest advantage of GPRS is that the voice channel is always free, so that user does not miss calls while browsing the Internet. Data transmission over GPRS is four times faster than over "ordinary" GSM.

MMS enables the sending and receiving of messages that contain text, sound, images and video. Multi media messages can be sent from a phone to another phone or to any e-mail address.

The technical team at Monet has launched modern, international mobile services as they have become available, such as GPRS and MMS in May 2003 on limited basis and nationwide in September 2003. Both GPRS and MMS are currently offered for free.

Monet also launched a pilot phase for video streaming services in June 2004.

A number of applications in use by various departments of Monet were internally developed by Monet-GSM's experts. These include various services and options that are being used by Monet's subscribers such as:

**Table 55: An overview of additional services**

<b>SMS 2 MAIL</b>	Sending e-mail via SMS
<b>MAIL 2 SMS</b>	Free service enabling post-paid subscribers to receive notification about incoming e-mail
<b>WEB 2 SMS</b>	Possibility of sending free SMS from Monet's web site to a mobile phone
<b>WEB MAIL</b>	Free service which enables all active post-paid customers to use their personal "data organizer" on the Web and Wap (directory, calendar, planner, sending and receiving e-mail messages). A user should log on the web site: <a href="http://wmail.monetcg.com">http://wmail.monetcg.com</a> , and must have mobile phone that supports GPRS technology.
<b>MMS 2 WEB</b>	If subscriber does not have an MMS mobile phone or have not activated the service, they can see their MMS on the Monet web address
<b>MOW@P</b>	Wireless Application Protocol (WAP) - enables mobile phones to access the Internet and advanced services
<b>SMS services</b>	Welcome SMS note for roamers SMS flirt: Chatting anonymously and flirting or just getting in touch with other registered participants SMS bookmakers: Guessing at sport results SMS dictionary: English - Serbian, Serbian – English SMS fun: Ordering melodies and EMS pictures SMS info-bill: Checking the balance of the account SMS info-phonebook: Tracking Monet subscribers' numbers SMS info roaming: Info on Monet's roaming partners Easy net – payment of Internet time through SMS
<b>USSD-SMS services</b>	"Call me" SMS service for pre-paid subscribers to send a free SMS, requesting a call from other subscribers "Send me a credit" application which allows topping-up of pre-paid vouchers by transferring from another subscribers phone via SMS
<b>Voice service</b>	MO Ball: Info on sport results

Source: Monet

Monet's service range is also characterized by the so-called DUAL card. With a DUAL card, subscribers have the possibility to have 2 numbers on one SIM card:

- One **post-paid** and **one pre-paid** – call forwarding from post-paid to pre-paid is free of charge, or
- Two **post-paid** numbers with one subscription and free call forwarding from one number to another (DUAL PP).

### 5.7.3 Roaming

Roaming services are available to Monet's post-paid subscribers and pre-paid subscribers (since 2003). In the first two years of operations, Monet established roaming agreements with 74 operators. During 2003, Monet signed additional 47 roaming agreements. Consequently, as of 31 December 2003, the company had a total of 121 roaming partners, present in 71 countries. According to company's latest data, as of June 2004, Monet has further increased the number of its roaming partners to 143, expanding its global presence and providing services for its customers in 86 countries. The list of Monet's roaming partners as of July 2004 is presented in Appendix II-3 of this Memorandum.

## 5.8 Tariffs

### 5.8.1 Tariff Policy

At market entrance, Monet exhibited a price skimming policy. Prices of both, pre-paid and post-paid SIM cards were set at EUR 0.5. Later, the price of a post-paid SIM card was increased to EUR 10, while the price of pre-paid SIM cards increased to EUR 5.

Basic tariffs for calls have not changed over time and currently they are on the same level as they were when Monet entered the market. In the meantime, Monet introduced new tariff packages (Business and Cosmos).

All calls are charged in units of 15 seconds, except for Cosmos pre-paid package in which every initiated call is charged for 30 second units and then for every 5 seconds thereafter. Also, calls to some special number groups are charged in units of 60 seconds. Calls to the taxi service are charged by each call.

### 5.8.2 Pre-paid Tariffs

The activation fee for the MO4U pre-paid package is EUR 15 or EUR 25 depending on the value of vouchers included in the package (either vouchers of EUR 10 or EUR 20 are included). The activation fee for a Cosmos pre-paid package is EUR 9 and it includes a voucher of EUR 5. An overview of valid tariffs for pre-paid packages is given in the following table:

**Table 56: An overview of pre-paid tariffs (excluding 17% VAT)**

Type of call	Price in EUR / minute		Price in EUR / minute	
			30 sec / next minutes	30 sec / next minutes
	MO4U package		COSMOS package	
	peak (08-22)	off peak (22-08)	peak (10-24)	off-peak (00-10)
Own network		0.09	0.045 / 0.08	0.0225 / 0.045
Fixed network	0.13	0.11		0.14 / 0.20
ProMonte network	0.13	0.11		0.09 / 0.13
Serbia – fixed and mobile networks		0.24		0.20 / 0.30
SMS own network			0.025	0.009
SMS other networks		0.04	0.05	0.05

Source: Monet

Pre-paid users are charged EUR 10 to change SIM cards.

The Cosmos package gives its users the possibility to talk and write more at lower cost. It has more favorable tariffs for calls and SMS within Monet's network especially at off-peak times.

### 5.8.3 Post-paid Tariffs

The activation fee for a standard post-paid package is EUR 10, while the monthly subscription fee is EUR 4.09. The activation fee for DUAL and DUAL PP is EUR 15. The Business post-paid package does not anticipate a monthly subscription fee. An overview of valid tariffs for post-paid packages is presented in the table below:

**Table 57: An overview of post-paid tariffs**

Type of call	Price in EUR / minute		Price in EUR / minute	
	Standard package		Business package	
	peak (08-22)	off peak (22-08)	peak (07-22)	off-peak (22-07)
Own network		0.09	0.11	0.08
Fixed network	0.12	0.10	0.14	0.11
ProMonte network	0.12	0.10	0.14	0.11
Serbia – fixed and mobile networks		0.22		0.22
SMS		0.03		0.03

All prices are stated without VAT.

Source: Monet

The Business package has no subscription fee but all calls initiated from this package within Montenegro during peak hours are more expensive than equivalent Standard package rates. Calls to the fixed and ProMonte networks in off-peak hours are more expensive while only calls in own network are cheaper compared to Standard package.

However, the Business post-paid package enables legal entities to have discounts for calls within caller group as follows:

- The discount for calls within a caller group comprising of 5-10 users is 30% with respect to prices valid for calls within the 067 network,
- The discount for calls within the caller group having 10 or more users is 50% with respect to prices valid for calls within the 067 network

In addition to the above call tariffs, Monet charges fees for requested services as follows:

**Table 58: Charges for services at request**

Service at request	Fee in EUR
Call listing	1.71
Change of phone number	5 (VAT included), 4.27 (without VAT)
Change of SIM card	10
Change of ownership	10 (VAT included), 8.55 (without VAT)

Source: Monet

Individuals must deposit EUR 100 in advance in order to activate roaming services.



#### 5.8.4 International and Special Number (SN) Tariffs

The prices for international calls are the same for all pre-paid users no matter which package they use and are also the same within all post-paid packages. However, prices of international calls for pre-paid users are substantially higher across all international zones compared to post-paid tariffs.

The same pricing policy applies to special number tariffs (such as information centre, taxi etc.) except SN group 2 and 3 in which call prices are the same for pre-paid and post-paid users. Current levels of international tariffs and special number tariffs are presented in the table below:

**Table 59: An overview of international and special number tariffs for pre-paid and post-paid users**

Zone	Pre-paid	Post-paid
International zone I	0.66	0.60
International zone II	0.77	0.70
International zone III	0.89	0.81
International zone IV	1.52	1.38
International zone V	1.80	1.64
International zone VI	2.07	1.88
International zone VII	2.63	2.39
Special numbers – SN1 ( <i>billing on 60 sec</i> )	0.154	0.14
Special numbers – SN2 ( <i>billing on 15 sec</i> )	0.09	0.09
Special numbers – SN3 ( <i>billing on 60 sec</i> )	0.132	0.124
Special numbers – SN4 ( <i>billing by call</i> )	0.154 / call	0.14 / call
Special numbers – SN5 ( <i>billing on 15 sec</i> )	0.29	0.26

Source: Monet

\*Countries by zones are presented under the heading 4.10.2 of this report

For a detailed list of special number groups, please refer to Appendix II-4 of this Memorandum.

#### 5.8.5 Comparison between Monet and ProMonte Tariffs

Monet entered the market by offering attractive tariffs, which were up to 50% lower than corresponding ProMonte tariffs at that time. This caused ProMonte to respond by aggressively reducing its own rates. Currently, Monet's tariffs are still lower compared to its only competitor ProMonte.

##### *Pre-paid*

The comparison of tariffs for typical pre-paid packages between Monet and ProMonte is represented in the table below. All prices are stated in EUR / minute excluding VAT.

**Table 60: Comparison of typical pre-paid tariffs between Monet and ProMonte**

	Monet		ProMonte	
	Peak 08-22	Off-peak 22-08	Peak 08-22	Off-peak 22-08
Prepaid package	15 (SIM + voucher € 10) 25 (SIM + voucher € 20)		15	
Own network		0.09	0.12	0.10
Fixed and competitor networks	0.13	0.11	0.14	0.13
Serbia – fixed and mobile networks		0.24	0.32	0.31
Republic of Srpska – fixed network		0.66	0.32	0.31
SMS (€ / message)		0.04		0.05
Call centre		free		0.19

Source: [www.monetcg.com](http://www.monetcg.com) and [www.promonte.com](http://www.promonte.com) as of 20 April 2004

### Post paid

A parallel overview of current post-paid tariffs between Monet and ProMonte shows that Monet's prices are much more competitive and lower by all call types.

Typical post-paid tariff schemes of Monet and the equivalent tariff schemes of ProMonte are depicted below. All prices are stated in EUR / minute excluding VAT.

**Table 61: Comparison of typical post-paid tariffs between Monet and ProMonte**

	Monet		ProMonte	
	peak (08-22)	off-peak (22-08)	peak (08-22)	off-peak (22-08)
Activation fee	10		12.83	
Monthly subscription	4.09*		2.87	
Own network		0.09	0.12	0.08
Fixed and competitor networks	0.12	0.10	0.14	0.12
Serbia – fixed and mobile networks		0.22		0.24
Republic of Srpska – fixed network		0.60		0.24
SMS ( € / message)		0.03	0.04	0.03
Call centre		free		0.14

Source: [www.monetcg.com](http://www.monetcg.com) and [www.promonte.com](http://www.promonte.com) as of 20 April 2004

The comparison of charges between Monet and ProMonte for typical post-paid packages shows that Monet prices for the activation as well as for all call types, except calls to Republic of Srpska, are lower than those of ProMonte. Only Monet's initial monthly subscription fee is more expensive but after a period of one year, Monet's monthly subscription fee gets reduced to level of EUR 3, which is almost the same as ProMonte's fee.

### 5.8.6 Interconnection Tariffs

Monet currently has two interconnection agreements, one with Telecom Montenegro and another with ProMonte. All traffic, apart from calls within Monet’s own network and calls between Monet and ProMonte, goes through Telecom Montenegro.

Interconnection fees, either charged for outgoing calls or collected by Monet for incoming calls, are agreed at the same level for both pre-paid and post-paid users. Also there is no difference in respect of peak or off-peak intervals during the day.

#### *Monet expenses generated through interconnection*

- For outgoing calls terminating in ProMonte network, Monet pays ProMonte EUR 0.03 per minute
- For outgoing calls terminating in fixed network, Monet pays Telecom Montenegro EUR 0.061 per minute
- For outgoing calls to international networks, Monet pays Telecom Montenegro interconnection charge which is determined according to Telecom’s price list for mobile operators with a 5% discount. Current levels of interconnection fees are presented in the table below:

**Table 62: Interconnection Fees for International Calls**

Traffic	Price (EUR / min)
Monet – International zone I	0.452
Monet – International zone II	0.549
Monet – International zone III	0.656
Monet – International zone IV	1.195
Monet – International zone V	1.438
Monet – International zone VI	1.671
Monet – International zone VII	2.152

*Source: Monet*

- For outgoing calls terminating in Telecom Srbija networks (fixed and mobile), Monet pays Telecom Montenegro EUR 0.045 per minute
- For outgoing calls terminating in Mobtel (mobile operator in Serbia), Monet pays Telecom Montenegro EUR 0.05 per minute

*Monet income based on interconnection fees*

- For calls from ProMonte to Monet, ProMonte pays Monet EUR 0.03 per minute
- For calls from the fixed network to Monet, Telecom Montenegro pays Monet EUR 0.165 per minute
- For calls from international networks to Monet, Telecom Montenegro pays Monet EUR 0.095 per minute. This charge is the same regardless of international zone type.
- For calls from Telekom Srbija to Monet, Telecom Montenegro pays Monet EUR 0.03 per minute
- For calls from Mobtel to Monet, Telecom Montenegro pays Monet EUR 0.025 per minute

Monet uses Telecom Montenegro's infrastructure i.e. interconnection links and pays the connection fee and monthly lease at the following rates:

**Table 63: Charges for Interconnection links** **in EUR**

The length of the link	Monthly lease	Connection fee
up to 3 km	654	5,113
up to 100 km	900	6,135

*Source: Monet*

## 5.9 Distribution Channels

Monet uses two distribution channels to reach end-users: direct sale and indirect sales through dealers' network.

Direct sales are organized through 2 showrooms, both located in Podgorica selling directly to individuals and legal entities. Showroom, "Planeta" is located at Telecom Montenegro headquarters and is used by Telecom Montenegro, Monet and Internet Montenegro. , "Planeta" represents a first-class show-room that is used on special occasions (presentations, announcements, award prizes to winners of Monet's games, etc.). The other showroom, "Monet Centre" is located in the centre of Podgorica and is used only by Monet.

Indirect sales are organized through a dealer's network. As a result of continuous efforts to expand its distribution network, at the end of 2003 Monet had business relations with approximately 30 dealers, using more than 1,400 sales outlets throughout the territory of Montenegro for the distribution of its post-paid and pre-paid cards and vouchers.

**Table 64: List of Monet's major dealers as of 31 December 2003**

Name of distributor	Headquarters	Total sales outlets	Commission and rebate group
"Ribnica"	Podgorica	23	I
"Eticard"	Podgorica	37	I
"Sofico"	Rozaje	34	I
"Market plus"	Berane	46	I
"Real Estate"	Ulcinj	20	I
"Raki"	Plav	5	I
"VM&S"	Bar	1	I
"Nova"	Berane	1	I
"Dulovic"	Mojkovac	12	I
"Sky Sat"	H. Novi	1	III
"Ornament"	H. Novi	1	III
"Posrednik"	H. Novi	41	I
"Evangelion"	Niksic	9	I
"Oreola"	B. Polje	29	I
"Skorpion"	Kolasin	10	I
"Elektromont"	Danilovgrad	16	I
"Pismo in slikar"	Pljevlja	30	I
"Planer"	Berane	14	I
"Maresco company"	Budva	183	I
"Post Montenegro"	Podgorica	74	V
"Alliance PG"	Podgorica	1	I
"Trgopress"	Podgorica	23	IV
"NEREGELIA"	Podgorica	381	II
"Tabacco shop"	Podgorica	273	I
"Prevalitana holding"	Nikšić	1	III
"Foto Riva"	Tivat	61	I
"Alfa Media"	Pljevlja	6	I
JP Aerodromi CG	Podgorica	2	IV
"Monteplasma"	Podgorica	104	IV
<b>TOTAL</b>		<b>1439</b>	

Source: Monet

## 5.10 Promotion Activities

Since its foundation, Monet has been constantly making efforts to create an image of a modern, customer-oriented company. Diversity of services and their superior performance have reflected the company's vision to offer highest quality products and to exceed customers' expectations. Due to a number of successful promotional campaigns and events, Monet has become a well-recognized brand name in the telecommunications market in Montenegro.

Monet's communication efforts are focused on potential customers. In addition, the company offers sponsorships for various cultural and sport events, as well as for various humanitarian purposes.

During the 2003, one of the biggest campaigns undertaken by Monet's marketing team, was the promotion regarding the introduction of the 2.5 mobile telephony generation (GPRS and MMS) held in May 2003. The campaign has further contributed to the outstanding corporate image in the public, strengthening the market leader and technology position of the company.

Other newly introduced services were successfully promoted through numerous marketing campaigns during 2003:

- "From heart to heart" (special offer on St. Valentines day)
- "NAJMMS" (the best MMS) prize winning game
- Introduction of pre-paid roaming
- "At the wheels of fortune" prize winning game for pre-paid subscribers
- Campaign of selling NOKIA mobile phones at discounted prices

For promotional purposes in 2003, Monet allocated EUR 1,128 thousand representing approximately 3.6% of company's operating revenues or 4.5% of total operating expenditures.

According to Monet's business plan for 2004, different media activities will be used in order to promote Monet's operations and services in 2004 (TV, radio, daily newspapers, magazines, outdoor campaigns, sponsorships, PR activities, company's brochures and newsletters, etc.)

The company plans to introduce innovations in promotional activities that include market segmentation and focus on specific target groups. Special attention will be paid to Monet's pre-paid customers, through various activities: prize winning games, promotional sales of pre-paid packages, free minutes, SMS quizzes and games, MMS contests, etc.

## 5.11 Sales

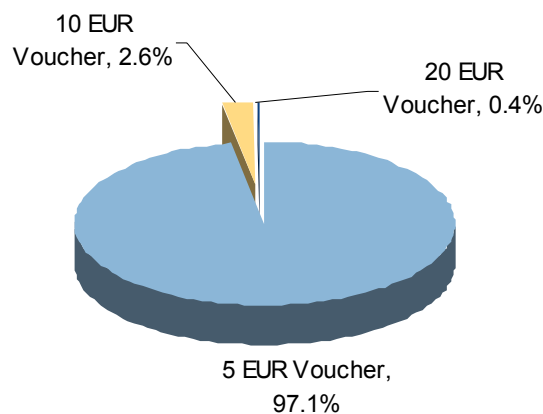
### 5.11.1 Sale of Subscriptions (SIM cards)

In 2003, Monet sold a total of 82,977 SIM cards. Pre-paid SIM cards represent the largest portion (73,582) of the total sale of SIM cards. Sale of post-paid SIM cards account for 8,190 cards, while the smallest portion of the total sale of SIM cards comes from DUAL (842) and DUAL PP (363) cards. Territorial distribution of SIM cards sale is presented in the Appendix II-5 of this Memorandum.

### 5.11.2 Sales of Pre-paid Vouchers

During 2003, Monet sold almost 4 million vouchers. The structure of vouchers sold is presented in the following chart:

**Chart 27: Structure of vouchers sold in 2003**



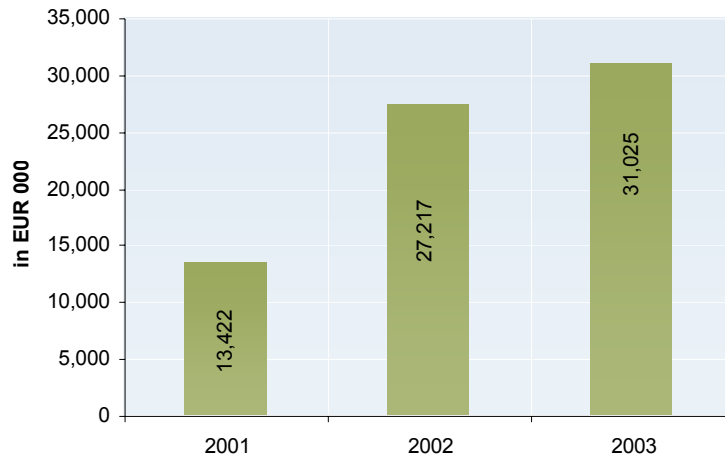
Source: Monet

The revenues from sale of vouchers were highest during the summer months (July and August), due to the seasonality of Monet operations.

### 5.11.3 Operating Revenues

In 2003, Monet achieved operating revenues of EUR 31,025 thousand. Compared to EUR 13,422 thousand disclosed in 2001, this corresponds to an increase of around 130%. The following chart presents the growth of Monet's operating revenues in the period 2001-2003:

**Chart 28: Operating revenues (in EUR 000), 2001-2003**



Source: Operational reports of Monet for 2001, 2002 and 2003

The structure of operating revenues has not changed significantly over recent years. In 2003, the largest contribution to operating revenues came from domestic traffic-pre-paid (56%) and post-paid (22%). Interconnection revenues accounted for 15%, while roaming and other operating revenues accounted for 5% and 1% respectively.

A breakdown of operating revenues is presented in the following table:

**Table 65: Breakdown of operating revenues** *in EUR 000*

Revenues	2001	%	2002	%	2003	%
Pre paid	6,891	51.3	13,148	48.3	17,446	56.2
Post paid	4,614	34.4	8,011	29.4	7,016	22.6
Roaming	906	6.8	1,435	5.3	1,657	5.4
Interconnection fees	1,011	7.5	4,623	17.0	4,529	14.6
Other operating revenues					377	1.2
<b>Total operating revenues</b>	<b>13,422</b>	<b>100</b>	<b>27,217</b>	<b>100</b>	<b>31,025</b>	<b>100</b>

Source: Monet's operational reports for 2001, 2002 and 2003



## 5.12 Overview of Monet's Network

After launching operations in 2000, Monet has continually built up its network and now has significant coverage both in terms of population and territory. As of 30 June 2004 Monet's coverage was approximately 98% of the population and 69% of the territory of Montenegro.

The development of Monet network is portrayed in the table below:

**Table 66: Development of Monet network since its foundation in 2000**

	2000	2001	2002	2003	2004
<b>Core Network equipment</b>					
MSC	1	1	1	1	1
BSC	1	2	2	2	2
BTS	59	82	104	126	132
TRX	302	425	453	487	612
Microwave links (2Mbit/s)	4	4	10	19	36
<b>License capacity in subscribers</b>					
HLR	60.000	100.000	180.000	210.000	210.000
VLR	60.000	105.000	150.000	170.000	207.000
Voice mail server	60.000	90.000	90.000	90.000	90.000
SMSC	16.000	28.000	36.000	60.000	100.000
<b>Coverage in percent</b>					
Population coverage	90%	94%	95%	97%	98%
<b>Territory coverage</b>	<b>51%</b>	<b>59%</b>	<b>62%</b>	<b>67%</b>	<b>69%</b>

Source: Monet

The Monet GSM network operates in GSM 900 and 1800 frequencies covering 98% of the population of Montenegro. The network's exclusive vendor is Ericsson which supplied the MSC, BSCs, and all 132 base stations. 24 repeaters supplement the network which is operating in half-rate mode to maximize capacity.

The access network of Base Transceiver Stations (BTSs) and Base Station Controllers (BSCs) are connected primarily via 2Mbit/s leased lines from Telecom Montenegro and supplemented by 36 Monet owned microwave links. Backbone connectivity to the Mobile Switching Center (MSC) is provided by 2Mbit/s links, with high capacity STM-4 and STM-1 leased lines from Telecom Montenegro. Telecom's PDH 34Mbits routes are used on some shorter routes, where it uses 2Mbits leased lines. Through its founder's stake, Telecom transferred to Monet's ownership 60 x 2 Mbit/s systems for the first 60 base stations of a total length of 7028.648 km. In addition, for 27 base stations with C+ combining units, additional 27 x 2 Mbit/s systems were provided.

An overview of the installed capacity of the core network components is shown below:

**Table 67: Installed capacity of the core network components**

	Location	Year installed	Model	Manufacturer	Subscriber capacity
MSC/MLR	Podgorica	2000	APZ212 33	Ericsson	License 210.000
BSC 1	Podgorica	2000	APZ 212 25	Ericsson	
BSC 2	Podgorica	2001	APZ212 30	Ericsson	
HLR	Podgorica	2000 (2003)	APZ212 30	Ericsson	License 210.000
VMS	Podgorica	2000	Infinity rel. 6.013.36	Comverse	License 90.000
SMSMC	Podgorica	2000	version #2.6.14A	Comverse	License 100.000

Source: Monet

### 5.12.1 Network Performance

Despite the increase in traffic over the Monet network, Dropped call and Blocked call statistics have improved over the same time period, demonstrating the quality of the Monet network.

*Dropped Call* – Call is terminated without either calling party or called party ending the call (irregularities in network functioning, empty battery of mobile phone etc.)

*Blocked Call* – Call that is originated by calling party but not connected due to blocking in the network.

**Table 68: Dropped call statistics by BSC**

	Jan- Mar 03	Apr – Jun	Jul- sept	Oct – Dec	Jan- Mar 04	Apr – Jun
BSC 1	1.63,%	1.68%	1.72%	1.27%	1.03%	1.03%
BSC 2	1.14%	1.05%	0.87%	0.71%	0.69%	0.65%

Source: Monet

**Table 69: Blocked call statistics by BSC**

	Jan- Mar '03	Apr - Jun	Jul- sept	Oct - Dec	Jan- Mar '04	Apr - Jun
BSC 1	0.6%	0.61%	N.A.	0.42%	N.A.	N.A.
BSC 2	0.22%	0.28%	N.A.	0.25%	N.A.	N.A.

Source: Monet

### 5.12.2 Information Technology Department

The IT Department of Monet comprises seven employees who are divided into the following groups: Network operations, help desk, Internet servers and services, and domain controllers and windows servers. The Monet IT department is also responsible for the administration of its own servers which are listed below.

**Table 70: DMZ Internet Servers**

Server name	OS and main SW components	Type of server	Installation date
DNS	RHL 8.0/Bind 9	HP ProLiant DL380G3	2002, May
MAIL	RHL 8.0/Postfix 1.1	HP ProLiant DL380G3	2002, May
PROXY	RHL 8.0/Squid 2.4	HP ProLiant DL380G3	2002, May
Test - Restore	RHL 8.0	HP ProLiant DL380G3	2002, May
Test - Restore	RHL 8.0	HP ProLiant DL380G3	2002, May
WEBSERVER	Win 2000 Server/IIS5	IBM Netfinity 5600	2000, October

Source: Monet

**Table 71: DMZ Intranet Servers**

Server name	OS and main SW components	Type of server	Installation date
DC9 ( Domain Controller, DNS)	Windows 2000 Server/AD	eserver xSeries 232 - [8668-11X]	2002, March
BDC (Domain Controller , DNS)	Windows 2000 Server/AD	eserver xSeries 232 - [8668-44X]	2002, October
PKI (Certification Authority)	Win 2000 Server/Entrust 6.0 CA	HP ProLiant DL380G3	2004, April
PKI (backup )	Win 2000 Server/Entrust 6.0 CA	HP ProLiant DL380G3	2004, April

Source: Monet

**Table 72: Network management servers**

Server name	OS and main SW components	Type of server	Installation date
AAA (Access Control Server)	Windows 2000 / Cisco Secure ACS 3.1 for Windows, Vacman Radius Middleware	DELL PowerEdge 600SC	2002, December
VMS (firewalls mgmtand IDS)	Windows 2000, Cisco Security Management SW CWVMS 2.0-WINR-K9	DELL PowerEdge 600SC	2002, December
CWW (server monitoring and communication equipment)	Windows 2000, Cisco Works for Window 6.1, Vacman Radius Middleware	DELL PowerEdge 600SC	2002, December
CLOG (syslog server)	Red Hat 8.0	DELL PowerEdge 600SC	2002, December

Source: Monet

**Table 73: GPRS Servers**

Server name	OS and main SW components	Type of server	Installation date
DNS (internal) for GPRS	Sun Solaris 9.0/Bind 9	Sun Fire 240	2004
DNS (external) for GPRS	Sun Solaris 9.0/Bind9	Sun Fire 240	2004
Test - Restore	Sun Solaris 9.	Sun Fire 210	2004
RADIUS (Access Control Server)	Windows 2000 /Steel Belted Radius v4.7	Compaq Proliant DL 380	2004
RADIUS (Backup)	Windows 2000	Compaq Proliant DL 380	2004

Source: Monet

### 5.12.3 Billing & Customer Care

Eppix BCCS (Billing & Customer Care System) V.3.06.2. is the billing system that is currently in use in Monet GSM. Eppix is a product of LOGICA CMG (formerly Computer Answers International Ltd). With its four modules (Customer Care, Financial, Discounting, and Maintenance), Eppix BCCS takes care of the subscriber and billing data, processes billing runs and has a front end for the Customer Care department, allowing it to maintain information about subscribers and services.

The database that underlies the system is an Informix Dynamic Server 7.31. The number of users licensed for the Informix database is 30, while the system is licensed for 60,000 subscribers.

A third party software – CS3, from Tetra – is used only to extract data from the modules of Accounts Receivable and the General Ledger. This system has licenses for 8 users.

Stream Serve is used for invoicing, formatting and printing of invoices. Monet currently uses version 2.3 and the following modules: Design, Tool and Server. Monet has Stream Serve system licenses for two computers, one for production and one for the backup machine.

The replacement and or upgrade of the billing and customer care system is planned for late 2004. Monet is currently in the process of evaluating different products and offers.

### 5.12.4 Financial System

The system that manages Monet's finances is SAP R/3, version 46 C and there are currently two installations, one for production and another one for development/testing. The number of licenses is 40. The SAP applications were installed in October 2003 and so far Monet has installed five modules: Human Resources, Financial Accounting, Material Management, Sales and Distribution, and Controlling.

Two additional modules, Maintenance and Investment, are currently in the design phase and are planned to be installed in December 2004.

### 5.13 CAPEX

During 2003, the company invested more than EUR 14 million, predominantly in the installation of hardware and licenses, which together accounted for nearly 60% of total realized investments.

Installation of new hardware dominates the amount of total investments (35%). The three biggest items were the installation of 25 base stations (EUR 1.57 million), mini links (EUR 432 thousand), and the expansion of base stations controllers - BSC (EUR 791 thousand).

Almost EUR 2 million of investments in software included software for base stations (EUR 500 thousand), upgrades of mobile switching centers – MSC (EUR 583 thousand), and the introduction of GPRS (EUR 370 thousand).

In 2003, the company spent almost EUR 3.5 million on technical support and licenses. Major items within this group are: Support to the complete technical system, increase of license for HLR, increase of license for pre-paid, implementation of SAP and SAP licenses, GPRS, etc.

A summary of Monet's investments is presented in the following table:

**Table 74: Monet's capital investments in 2003**

<b>Equipment</b>	<b>Amount (in 000 EUR)</b>	<b>%</b>
Hardware	4,926	35%
Software	1,997	14%
Support and Licenses	3,426	24%
Training Courses	80	1%
<b>Total investments in equipment</b>	<b>10,429</b>	<b>73%</b>
<b>Buildings</b>	<b>Amount (in 000 EUR)</b>	<b>%</b>
Administrative building	2,839	20%
Projects and engineering	168	1%
Construction works on base stations and other	700	5%
Construction works on "Monet Center"	136	1%
<b>Total investments in buildings</b>	<b>3,843</b>	<b>27%</b>
<b>Total company's investments in 2003</b>	<b>14,272</b>	<b>100%</b>

Source: Monet Business Plan for 2004

### 5.14 Procurement/Suppliers

Monet is highly dependent on the supply of advanced telecommunications infrastructure systems and equipment since it operates in the fast-growing telecommunications sub-sector. Key supplier of equipment is Ericsson-Tesla (Croatia), which has been in charge of design, engineering, supply and installation of the mobile telephony system. The initial contract was worth approximately EUR 12 million in supplies and services, and, at a later stage it was extended by a further EUR 2.7 million worth for hardware and software. As a part of the initial contract, Ericsson used subcontractors for the billing system development, LMI and CMG from Ireland.

In 2003, Monet signed 3 new contracts with Ericsson-Tesla, for the installation of new hardware and software (two contracts in the amount of EUR 9,319,965), and support (one contract in the amount of EUR 797,134).

SIM cards and pre-paid vouchers supply is also sourced from foreign suppliers which are chosen depending on the quality of the product and the commercial terms offered (quantity discount, etc.).

## 5.15 Financial Information

This section provides basic financial information with brief comments. Readers are advised to read this section in conjunction with the audited financial statements for the year ended 31 December 2002 and for the year ended 31 December 2003 and the Independent Auditors' Report for 2002 and 2003, to be found in the Data Room.

**Table 75: Audited Income Statement for 2002 and 2003 (in EUR)**

	2002	2003
<b>Operating revenues</b>	<b>27,363,591</b>	<b>31,188,189</b>
Sales	27,216,794	31,024,644
Other operating revenues	146,797	163,545
<b>Operating costs</b>	<b>(21,114,877)</b>	<b>(24,844,183)</b>
Materials consumed and cost of commercial goods sold	(1,491,328)	(2,388,133)
Staff costs	(2,132,764)	(2,918,792)
Depreciation	(4,233,972)	(5,211,671)
Other operating costs	(13,256,813)	(14,325,587)
<b>Profit from operations</b>	<b>6,248,714</b>	<b>6,344,006</b>
Financial income/(expense), net	3,891	(425,345)
<b>Profit before taxation</b>	<b>6,252,605</b>	<b>5,918,660</b>
Income taxes	(1,022,270)	(1,026,852)
<b>NET INCOME</b>	<b>5,230,335</b>	<b>4,891,809</b>

Source: Audited financial statements

During the last two years, total operating revenues have increased by 14%, amounting to 31.2 million EUR in 2003. Operating costs grew at a faster rate than revenues in the observed period, increasing its participation in operating revenues from 77% in 2002 to 80% in 2003. Net financial expenses also considerably increased (425 thousands EUR in 2003), due to the large amount of interest paid on loans extended by Ericsson Nikola Tesla and the Montenegrin commercial bank in the course of the year.

As a result, net income decreased from 5.2 million EUR in 2002 to 4.9 million EUR in 2003, reducing the net income margin of Monet, from 19% in 2002 to 16% in 2003.

The most significant revenue item was the sales figure of pre-paid cards and vouchers (56%), and is followed by sales revenues from post-paid services (outgoing domestic and international calls, as well as monthly subscription), which accounted for 23% of the company's sales.

In terms of operating expenses, interconnection costs (predominantly from interconnection with Telecom Montenegro), accounted for 25% in total operating expenditures in 2003. Cost of goods

sold, materials, fuel end energy have increased their share in operating expenses by 60% during the period of analysis, totaling around 2.4 million EUR in 2003 compared to 1.5 million EUR in 2002. Within this cost group, costs of goods sold (MO vouchers, SIM cards, handsets) showed the largest change in 2003, increasing their value two times in comparison to 2002.

The following table presents the audited balance sheets of the company as of 31 December 2002 and 31 December 2003.

**Table 76: Audited Balance Sheet as of 31 December 2002 and 31 December 2003 (in EUR)**

	31 Dec 2002	31 Dec 2003
<b>Non-current assets</b>	<b>26,655,137</b>	<b>38,454,654</b>
Intangible assets	9,963,711	12,865,168
Property and equipment	16,007,697	24,960,015
Long term investments	454,729	497,646
Other long term receivables	229,000	131,825
<b>Current assets</b>	<b>3,785,706</b>	<b>6,784,865</b>
Inventories	489,067	1,217,533
Trade receivables, net	2,388,170	4,676,604
Short term financial placements	197,587	243,087
Cash and cash equivalents	289,044	145,407
Prepaid and deferred expenses	421,838	300,833
VAT advance payments	-	201,401
<b>TOTAL ASSETS</b>	<b>30,440,843</b>	<b>45,239,519</b>
<b>Equity and Reserves</b>	<b>24,644,926</b>	<b>26,586,112</b>
Subscribed capital	19,246,490	21,213,572
Legal reserves	168,101	480,731
Retained earnings	5,230,335	4,891,809
<b>Non-current liabilities</b>	<b>603,491</b>	<b>5,471,223</b>
Long-term borrowings	-	4,610,568
Deferred taxes	340,491	860,655
Deferred income	263,000	-
<b>Current liabilities</b>	<b>5,192,426</b>	<b>13,182,184</b>
Trade payables	2,158,631	5,373,684
Short term financial liabilities	1,000,000	3,985,145
Tax liabilities	604,466	754,348
Accrued expenses	1,429,329	3,069,007
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>30,440,843</b>	<b>45,239,519</b>

Source: Audited financial statements

The company's reported assets of 45.2 million EUR as of 31 December 2003, significantly increased (by almost 50%) compared to the end of 2002, due to an increase in both fixed and current assets.

Non-current assets represented the major item in the asset structure, and amounted to 38.4 million EUR at the end of 2003, which was an increase of 44% in comparison to December 2002. This increase was mainly caused by investments in new equipment, which increased by 56%

compared to 2002 and accounted for over 65% of total non-current assets at the end of 2003 and 55% of the total assets. However, a relative share of non-current assets in total assets decreased during the observed period, from 88% in 2002 to 85% in 2003, mostly due to the significant increase of current assets.

Current assets grew significantly (by 80%) in the period 2002 – 2003, accounting for 15% of total assets from (12% in 2002). The largest item were trade receivables, accounting for almost 70% of current assets at the end of 2003, doubling their value in comparison to 2002 figures. Short term financial investments and particularly inventories also rose compared to the previous year.

Equity and reserves totaled 26.6 million EUR as of 31 December 2003, or 59% of total equity and liabilities. The equity value increased in absolute terms during the period of analysis. However, due to an increase in long term borrowings and trade payables, the equity value decreased for 22% as a percentage of total equity and liabilities.

Both current and non-current liabilities accounted for 40% of total equity and liabilities in 2003, thus showing considerable growth during the observed period. Non-current liabilities increased more than 8 times compared to 2002, predominantly due to the fact that the company received new long-term loan from Ericsson Nikola Tesla in the course of 2003. Total current liabilities increased by 153%, due to an increase in trade payables, short term loans and accrued expenses, amounting to 13.2 million EUR in the last analyzed year.

Although Monet recorded an increase in both short-term and long-term liabilities in 2003, the analysis of the company's financial position indicates that the performance in the observed period was stable and profitable, exhibiting an upward trend of business activities.



## 6 INTERNET MONTENEGRO

### SUMMARY

Internet Crna Gora d.o.o. (Internet Montenegro) is the first Montenegrin Internet Service Provider (“ISP”), enjoying a monopoly position as the dominant ISP in Montenegro. The company is a limited liability company registered in the Central register of the Commercial court in Podgorica under registration No. 5-0085343/002. Telecom Montenegro has a 85% shareholding in Internet Montenegro.

### 6.1 History and ownership structure

Internet Montenegro was founded on 17 May 1997 in Podgorica as a joint venture of G&R Handels GmbH, Vienna, BITS d.o.o., Belgrade, PTT Montenegro, and the Government of the Republic of Montenegro - Secretariat for Development.

The company’s initial capital was USD 1,700,000, with the following ownership structure:

**Table 77: Initial ownership structure in Internet Montenegro**

Owner	Ownership Structure
G&R Handels	42%
BITS d.o.o.	18%
PTT Montenegro	25%
Secretariat for Development (GOM)	15%

*Source: Internet Montenegro*

Upon the conducted separation of the telecommunications and postal services in Montenegro, Telecom Montenegro inherited PTT Montenegro’s share in Internet Montenegro.

In 1999, G&R Handels and BITS d.o.o. made strategic decision to exit and their equity share was bought on 1 September 1999 by two private investors, each holding 30% in Internet Montenegro. In February 2004, Telecom Montenegro bought the equity share from the two private investors, becoming a majority owner of Internet Montenegro. Thus, the current ownership structure is as follows:

**Table 78: Current ownership structure**

Owner	Ownership Structure
Telecom Montenegro	85%
Secretariat for Development (GOM)	15%

*Source: Internet Montenegro*

### 6.1.1 Foundation Agreement with Telecom Montenegro

As a part of the initial foundation agreement of Internet Montenegro, Telecom Montenegro was granted ownership of a share of the capital of Internet Montenegro, while Internet Montenegro was granted ownership of Telecom Montenegro telecommunication equipment and space on Telecom Montenegro's premises, which represented the initial capital of Telecom Montenegro and GOM.

The initial agreement did not specify the obligations of Telecom Montenegro; therefore, Telecom Montenegro's Management Board passed a decision in February 1999 specifying the equipment and premises to be provided to Internet Montenegro as initial capital: 30 ISDN PRI<sup>2</sup>, 15 2Mbps links and 70m<sup>2</sup> of premises.

## 6.2 Corporate Governance

The applicable Articles of Association of Internet Montenegro were set out on 30 April, 2004. Corporate governance of the company is carried out by the Members of the company, the Board of Directors, and the Executive Manager.

### 6.2.1 Members of the Company

As a limited liability company, the owners of the company are referred to as Members. The Regular meeting of the Members of the company is convened once a year, within 3 months from the end of the financial year. Besides the Board of Directors, the right to convene the meeting of the Members of the company is vested in the members holding the stakes in the value of 1/10 of the company's capital.

Extraordinary meetings of the company's members shall be convened upon request of the Board of Directors or members having more than 1/10 voting rights, in the following cases: change of company's business activities; change of company's capital; replacement of a Board Member prior to expiry of his mandate; consideration of a significant loss; re-organization, merger, voluntary liquidation or initiation of bankruptcy proceedings and reduction of the number of Board Members. The Board of Directors is entitled to convene an extraordinary meeting of the members of the company when certain issues shall be considered at such a meeting.

A quorum of the meeting of the members of the company shall consist of the members holding stakes in the value in excess of one half of the company's capital, and who are present in person or by proxy, or have voted by voting lists. The value of the vote of a member shall be in proportion with his investment in the company as follows: Telekom Crna Gora - 85 votes and the Government of the Republic of Montenegro - Republic Secretariat for Development - 15 votes. A member shall vote with total number of its votes. Members of the company shall render resolutions by majority votes of the specified quorum, except in cases when other majority is required.

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<sup>2</sup> Primary group of 30 digital lines

### 6.2.2 Board of Directors

The Board of Directors is the governing and managing board of the company and consists of three members. Its resolutions are implemented by the Executive Manager of the company.

The Board of Directors shall submit to the members of the company the annual report on business and financial operations of the company. The Board of Directors shall elect a President from its members who may at the same time have the function of Executive manager.

President of the Board of Directors is authorized to:

- Convene the Board of Directors meeting and preside at the meeting;
- Monitor and ensure implementation of the Board of Directors resolutions;
- Ensure timely information on complete business operations;
- Monitor and take part in implementation of the Company’s strategy and development;
- Other operations specified in the Articles and Board resolutions.

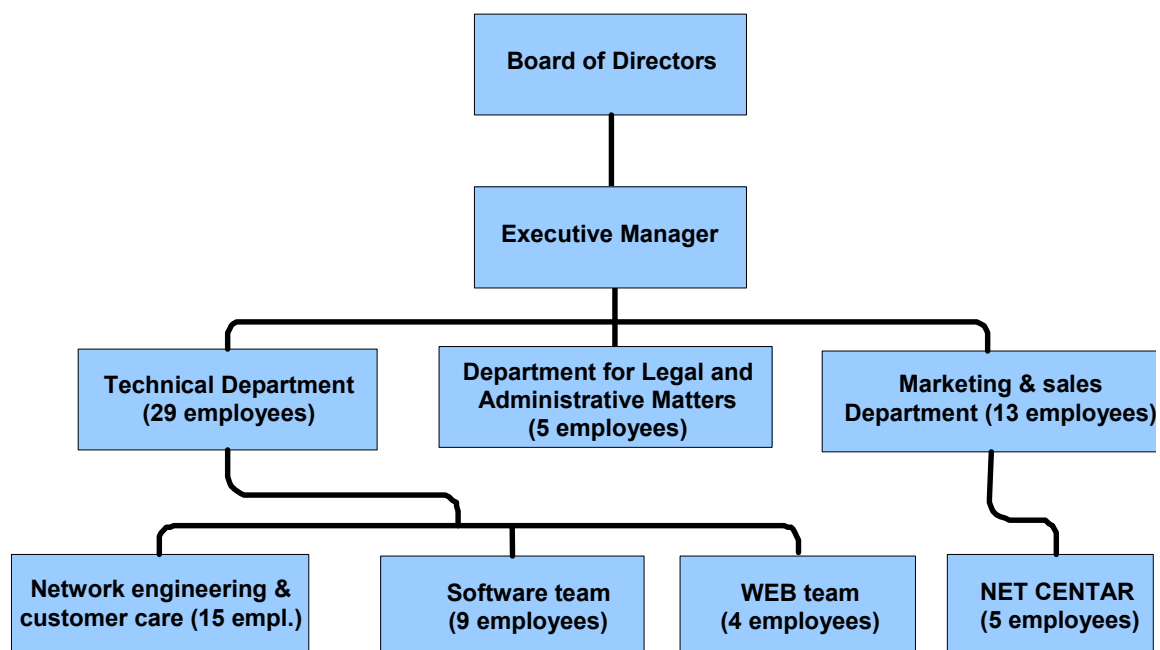
Resolutions of the Board of Directors are rendered if at least one half of the members of the Board of Directors vote in favor thereof. In case of equal division of votes, the President of the Board of Directors shall have the golden vote.

### 6.2.3 Executive Manager

The company is represented by the Executive Manager who is nominated and revoked by the Board of Directors. Executive Manager is obliged to execute and implement the resolutions rendered by the Board of Directors and to manage current operations of the company.

## 6.3 Organizational structure

**Chart 29: Organizational structure of Internet Montenegro**



Source: Internet Montenegro management

## **6.4 Human resources**

### **6.4.1 Management**

The relevant management bodies of Internet Montenegro are the Board of Directors and the Executive Manager.

The Board of Directors consists of 3 members appointed on the basis of the ownership structure. The members of the Board of Directors are:

Milan Perović, president of the Board of Directors and Executive Manager of Telecom Montenegro;

Saša Leković, Technical director at Telecom Montenegro, and

Borivoje Marić, Assistant Secretary in the Secretariat for Development.

The Executive Manager of Internet Montenegro is Slavoljub Popadić. He holds a Bachelor of Science degree in Electronic Engineering from University of Montenegro. Slavoljub Popadić is an expert in the field of electronics and telecommunications. He worked for ten years in the Computing centre of the GOM, first as a system engineer, than as Chief engineer and finally as Technical manager. Slavoljub Popadić is author and co-author of many information systems developed in Montenegro, within the GOM and in the private sector. He is the author of the current WAN and new Government networks and a co-author of the proposal for new IP MPLS WAN network that is being developed by Telecom Montenegro.

### **6.4.2 Employees**

As of June 2004, Internet Montenegro employed a total of 47 employees, of which 21 were employed on full-time, while 26 on part-time basis. In line with the global industry trend, the employees are very young, with an average age of 28 years. In total there are 18 employees with university degrees, 7 with college degrees, 11 with high-school degrees, while the remaining are mostly students employed at the help desk.

Internet Montenegro employees are leading Montenegrin network engineers, programmers, and web designers. The personnel is formed by some of the best information technology experts in the country, capable of performing complex tasks. Unlike many other engineers that leave Montenegro to pursue better career opportunities, only one engineer has left Internet Montenegro in the past six years.

Using their vast experience and knowledge, the Internet Montenegro team was involved in developing a number of complex information systems and applications for the GOM and large enterprises, such as Montenegro Airlines, the mobile operators Pro Monte and Monet, daily newspaper Pobjeda, Lukabar, and others.

Internet Montenegro has managed to increase its capacity and number of subscribers as well as to expand the range of services without a significant change in number of employees. The management believes that they can substantially develop the business with the existing staffing levels.

### *Training*

Permanent professional development within the company and keeping up-to-date with latest innovations in Internet technology is an important aspect of Internet Montenegro's Human Resource policy. Internet Montenegro employees are regular visitors of major information technology and Internet conferences and events (CISCO, JUNIPER, Microsoft, Linux, Oracle, RAD, Raip, Cebit and similar).

### *Remuneration*

In 2003 the average monthly net salary for a full time employee at Internet Montenegro was 659 EUR. Part-time employees are paid fixed salaries, based on agreed upon number of hours of engagement. Besides salaries, the employees in web design, network planning, and software development receive bonuses depending on the business results, and on additional commercial activities realized.

## **6.5 Company operations**

### **6.5.1 Internet market**

The total market for Internet providers is estimated at 77,000 users (including dial-up users, leased line users and estimated additional users who use the same dial-up account i.e. family members) and the penetration rate at the end of 2003 was 12.5%. The limits on Internet penetration in Montenegro are set by the number of PC's, as personal computers still present significant investment for a large number of people.

Market potential lays in the future improvement of the economic situation, stronger emphasis on computer awareness and education and introduction of more Information technologies in business processes. It is estimated that, in such circumstances, Montenegrin Internet market would increase up to 150,000 users within next 5 – 10 years.

### **6.5.2 Internet providers in Serbia and Montenegro**

Although there are approximately ten ISPs in Serbia and Montenegro, none of them provide services on both Serbian and Montenegrin market.

Among the biggest ISPs in Serbia are Telecom Serbia, PTT Net, EUNET, VeratNet, InfoSky, BITS, and SezamPro. Most of them are concentrated in the big cities, and some of them operate in all big cities.

There are only two commercial Internet providers currently active in Montenegro: Internet Montenegro and MontSky. Internet Montenegro is the dominant provider with 43,416 dial-up subscribers as of June 2004. MontSky had approximately 1,300 dial-up subscribers in April 2004.

MontSky started its commercial operations in October 2003. It operates within the company Informatics Montenegro, which is a branch office of a Belgrade company. Current Internet link capacity of Montsky is 2 Mbps. Based on its continuous cooperation and know-how, this company has a potential for further stable development on the Montenegrin market.

Apart from the two commercial, there is also a non-commercial ISP in Montenegro, Montenegrin Academic and Research Network. This network has a limited capacity of 30 dial-up lines and is exclusively used by students and University personnel. The Internet link for the purpose of this link is provided by Internet Montenegro.

*Potential new competition in Montenegro*

Internet Montenegro expects that some of the Internet providers from the region will enter the Montenegrin market. The management has assessed the characteristics of three ISPs that may enter the Montenegrin market. The results are depicted in the following table.

**Table 79: Characteristics of new potential ISPs in Montenegro**

	ProMonte	DirecSatellite	VeratNet
Main business activity	GSM		ISP
Compatibility of ISP with the main business activity	S	S	S
Financial aspects	S	M	S-M
Marketing	S	M	S
Technical Know how	S	M	S
ISP Know how	M	M	S
ISP Experience	W	W	S
Primary goal in Montenegro	ISP, VoIP	ISP, VoIP	ISP
Internet link in Montenegro	No	No	No
License request submitted	No	No	No
ISP presence in other markets	No	?	Serbia

Source: *Internet Montenegro*

\* S – strong                      W – weak                      M - Medium

Although none of the above potential competitors have submitted a formal request for ISP, it is well known that VeratNet has been preparing entrance into the Montenegrin market for some time, and ProMonte provides Internet services through GPRS technology. Internet Montenegro anticipates that the new competitors' strategy will be focused on attracting residential subscribers and small and medium sized businesses. The large companies and Government institutions are currently strongly connected to Internet Montenegro, having had a long-term successful cooperation. It is expected that the potential competition will enter the market with low prices for dial-up connection, as well as offer other forms of inexpensive access, such as 'wireless connection'.

However, ISPs are discouraged to enter the market due to the fact that the Montenegrin Law on Telecommunications strictly forbids the commercial use of VoIP to anybody except Telecom Montenegro and Telecom Montenegro is strict about respecting that prohibition. Nevertheless, in order to prevent competition, Internet Montenegro has been creating additional barriers to further strengthen its position in the market. In those lines, the company plans to focus on the following:

- Maintaining strong market position and presence in the media, public events, high technical level, strong communication with the subscribers, and aggressive marketing;
- Strengthening the cooperation with Telecom Montenegro – as a subsidiary of Telecom Montenegro, there is a high level of cooperation between the two companies, which is very important for efficient functioning of the ISP;
- Maintaining low prices, which has been a strategy of Internet Montenegro since its establishment in order to promote Internet usage;
- Large number of access lines per active subscriber in order to enable fast Internet connection and availability of capacity in any given moment. This, combined with the low prices presents serious barrier to new competitors;
- Introducing new payment systems and new services, such as wireless access.

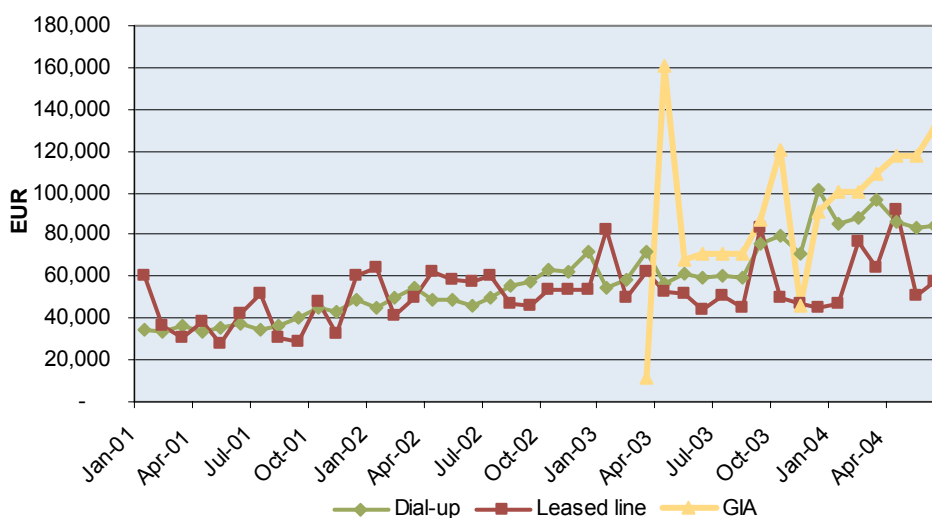
## 6.6 Services provided

Internet Montenegro has established itself as a provider of top quality service, closely following global trends of the internet media and technology sector. In order to maintain its leadership position, the company strives to provide a full range of high quality reliable services to its subscribers. Listening to the subscribers and catering to their needs is an important aspect of the business orientation of the company. Two years ago, Internet Montenegro won the award for quality in Serbia and Montenegro.

### 6.6.1 Internet Provision

The main business activity of Internet Montenegro is the provision of internet services which accounts for over 95% of its revenues. While the company has provided dial-up services since its establishment, leased line services and GIA services have been added later and are gaining higher importance today. The following graph presents the revenues from Internet providing through dial-up, leased line, and GIA service in the period January 2001 – June 2004.

**Chart 30: Growth in revenues from Internet providing, January 2001 – June 2004**



Source: Internet Montenegro

*Dial-up service*

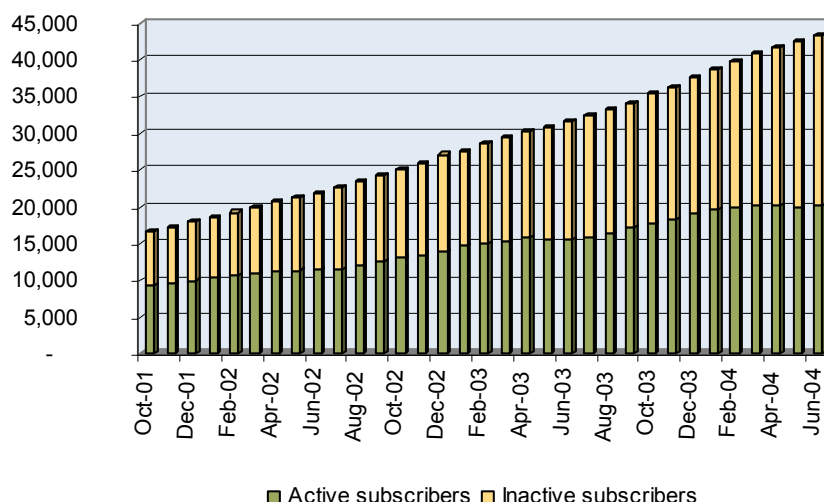
Dial-up has been the first commercial service offered by Internet Montenegro since its establishment in 1997. It is one of the main services, accounting for over 30% of the total revenues in 2003 and first half of 2004. Total dial-up revenues in 2003 and the first half of 2004 amounted EUR 811,223 and EUR 523,654 respectively<sup>3</sup>.

Internet Montenegro has a unique access number (9802) in the territory of Montenegro, which enables users to dial-up at local call charges from any location in Montenegro.

Dial-up Subscribers

As of June 2004, Internet Montenegro had a total of 43,416 registered dial-up subscribers, of which 20,101 were active subscribers<sup>4</sup>. The following figure shows total number of dial-up subscribers and the number of active subscribers in the last three and half years.

**Chart 31: Growth in dial-up subscribers, October 2001 – June 2004**



Source: Internet Montenegro

The total number of subscribers in the observed period grew constantly. However, the number of active subscribers grew at a slower rate.

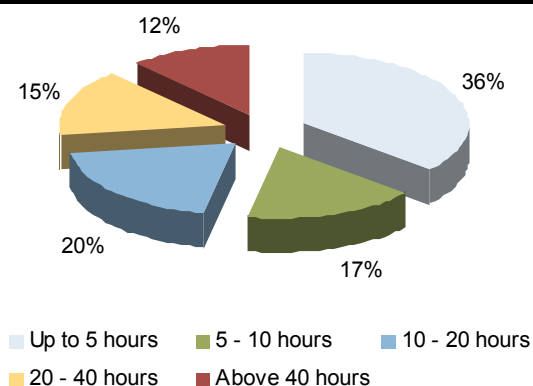
<sup>3</sup> Audited financial statements and management information

<sup>4</sup> An “active subscriber” is defined as someone who logs on at least once per month.



The minutes of use of active subscribers is depicted in the following graph.

**Chart 32: Minutes use of active subscribers**



Source: *Internet Montenegro*

The average monthly Internet usage per active subscriber in the period January 2002 – June 2004 was 1,180 minutes. Generally, the highest frequency of Internet use is noted in January and December. The lowest frequency of Internet use is noted in the summer months, June - August. The table below presents minutes of use of Internet in January 2002, 2003, and 2004 and in June 2002, 2003, and 2004. Minutes of use of Internet per total number of subscribers exhibited a downward trend, due to the fact that the number of inactive subscribers is growing faster than the number of active subscribers. On the other hand, active subscribers have spent more time on the Internet from year to year.

**Table 80: Internet usage in minutes in January and June 2002, 2003 and 2004**

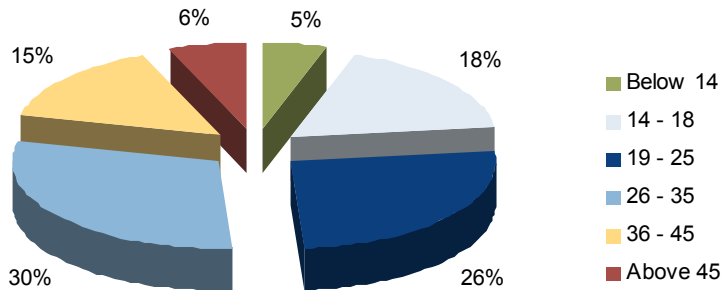
Period	Average no. of subscribers		Total usage time (minutes)	Usage per subscriber (min.)	
	Total subscribers	Active subscribers		Total subscribers	Active subscribers
January 2002	18,279	10,207	12,303,554	673	1,205
January 2003	27,367	14,303	18,264,815	667	1,277
January 2004	38,085	19,314	24,929,960	655	1,291
June 2002	21,607	11,350	11,799,094	546	1,040
June 2003	31,257	15,625	16,949,139	542	1,085
June 2004	42,977	20,036	22,224,848	517	1,109

Source: *Internet Montenegro*

In 2003, Internet Montenegro surveyed 8,500 Internet users in order to determine usage patterns. The results showed that 68% of men, and 32% of women use the Internet. 58% of the surveyed use Internet for work and studying, while 42% for entertainment purposes. There were 58% logins into the Internet from home, 42% from work, while only 4.5% from schools or universities.

The age structure of Internet users is depicted in the following chart:

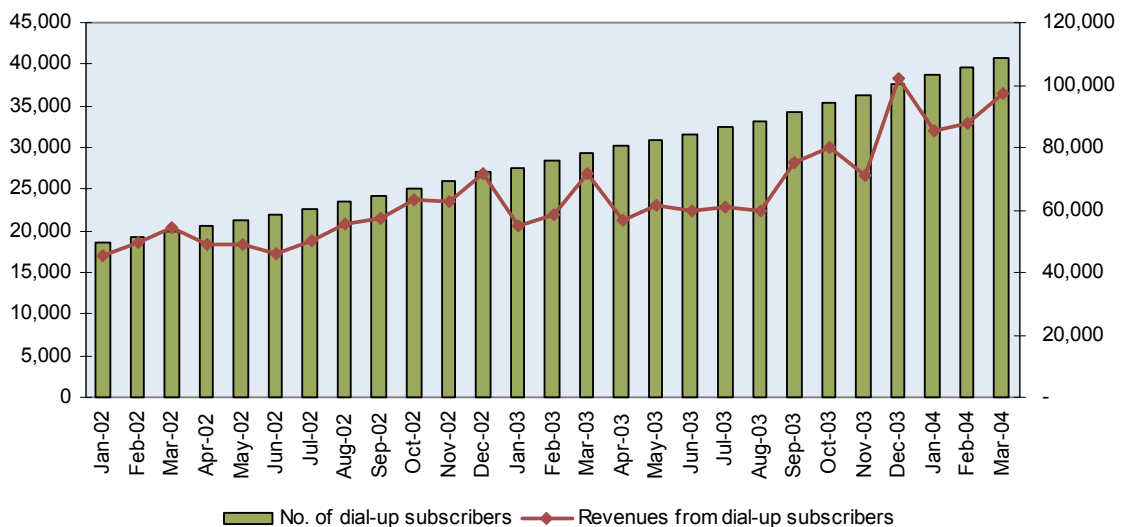
**Chart 33: Age structure of Internet users**



Source: Internet Montenegro

The trend in dial-up subscribers and in revenue generated from those subscribers in the period January 2002 - March 2004 is shown in the following graph.

**Chart 34: Revenue from and number of dial-up subscribers, January 2002 – March 2004**



Source: Internet Montenegro

The growth pattern of the revenue stream correlates with the number of subscribers, indicating that the Internet Montenegro new subscribers have consumer behavior similar to the one of existing subscribers.

Business customers contributed with 42% of Gross sales in 2002, 59% in 2003, and 62% in the first half of 2004. According to the Internet Montenegro management, many business customers are registering as residential users especially in the Small Office / Home Office segment. Thus, the split between revenues from legal and natural persons does not reflect the real structure of

revenues regarding business and residential subscribers but rather relates to the payment process: residential subscribers' revenues refer to cash disbursements and legal persons' revenues relate to money transferred through bank accounts.

*Leased Line Service*

Internet Montenegro has offered leased-line access service to business customers in Montenegro since 1997.

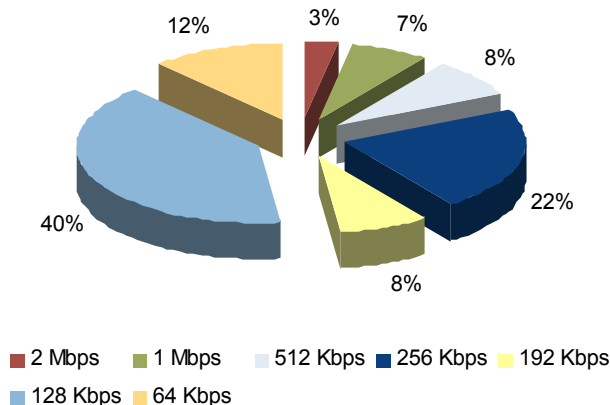
This service generated 28% of total revenues (EUR 664,537) in 2003 and 23% (EUR 388,156) in the first half of 2004<sup>5</sup>. Internet Montenegro managed to maintain the leased line revenue stream in 2004 despite the price decreases, which have been off-set by an increase in the number of customers and capacity used in the first quarter of 2004.

Upon the introduction of MIPnet and ADSL services planned for the second half of 2004, Internet Montenegro management expects a decrease in revenues from leased phone lines. It is expected that around 33% of the subscribers will switch from leased lines to MIPnet, and 42% from leased lines to ADSL. Internet Montenegro will attempt, by defining appropriate models of ADSL and developing new types of leased-line access suitable for medium and large enterprises, to maintain larger number of leased-line subscribers.

Leased-Line Subscribers

The number of leased-line subscribers has been constantly growing. As of 31 December 2003, Internet Montenegro had 103 leased lines and 73 leased-line subscribers. The following chart presents a breakdown of leased-line subscribers by capacity used:

**Chart 35: Breakdown of leased-line subscribers by capacity**



Source: Internet Montenegro

<sup>5</sup> Audited financial statements and management information

Over 80% of the leased-line subscribers are based in Podgorica. Most important customers are the GOM, the University of Montenegro, the National Power company, Petrol company, Post of Montenegro, both GSM mobile operators, as well as international organizations such as UNICEF and USAID.

Potential new subscribers include small and medium-sized companies that do or do not use dial-up connection and that are price sensitive, well established companies that have a low level of acceptance of Internet technology, state institutions, and IT dealerships.

#### *Global Internet Access (GIA) for the regions of Kosovo and Albania*

Internet Montenegro's strategy is to expand to neighboring markets and establish a good market position in the region of SEE. During 2002, Internet Montenegro in cooperation with Telecom Montenegro proposed to provide GIA for the leading ISPs in Kosovo and Albania. During the first months of 2003 four contracts were signed with leading ISPs from Kosovo and Albania: Ipko, Kujtesa, AlbaniaOnline and ABCom. The telecommunication infrastructure is based on three E3 34 Mbps radio relay links. Negotiations are underway for extending the capacities for two E3 links, one of which is to be used for provision of GIA for ISP(s) in Macedonia.

All links to Kosovo and Albania are achieved by leasing SDH capacities from Telecom Montenegro and using its own and Telecom Montenegro's radio relay link capacities.

Current GIA customers and leased capacities are shown in the following table:

**Table 81: Global Internet Access customers**

<b>Internet Service Provider</b>	<b>Capacity (Mbps)</b>
IPKO – PRISTINA	34
KUJTESA – PRISTINA	68
AOL – TIRANA	10
ABCom – TIRANA	20
<b>Total (Mbps)</b>	<b>132</b>

*Source: Internet Montenegro Management*

This service generated 34% of total revenues in 2003 (EUR 797,000) and 40% of total revenues in the first half of 2004 (EUR 675,700)<sup>6</sup>.

Internet Montenegro is also considering an entry into the markets of Macedonia and Serbia.

#### *Internet Roaming*

In December 2003, subject to an agreement with the leading ISP in Serbia, EUNET, Internet Montenegro activated Internet roaming service with Serbia, enabling its subscribers to use their Internet time while visiting Serbia.

<sup>6</sup> Audited financial statements and management information

Internet Montenegro enables international dial-up roaming since 2000, through GRIC Communications, Inc., one of the world leaders in global remote access service.

### **6.6.2 Sale of Computer Equipment**

Internet Montenegro sells computer and communication equipment only in conjunction with the sale of Internet service or the sale of Internet technology applications. Typical customers have been leased-line subscribers. Along with the sale of applications and equipment, Internet Montenegro also signs periodical maintenance agreements which provide additional revenues.

### **6.6.3 Other Services**

Internet Montenegro provides a range of other services, which individually do not generate significant revenues, but allow the company to operate as a “full service” operator and may further develop into profitable lines of business.

#### *Web Hosting*

Internet Montenegro provides Web hosting service since December 1997. Average monthly increase in the number of hosted presentations is within 12-14. In December 2003 the servers of Internet Montenegro hosted 696 presentations, of which 493 were commercial. Available servers are Windows, Unix and Linux Web servers, supported with commercial and non-commercial data base software, such as MS SQL, MS Access and MySQL.

#### *Web Design*

The Web Department was established in 2000. With its presentation of a recognizable design and dynamics Internet Montenegro Web team has set high standards in the Montenegrin market. Programs and tools used include PHP, MS Front Page, VB Script, Flash, PhotoShop, Dream Weaver, and JavaScript.

Business culture has been changing in Montenegro in recent years and awareness of the importance of Internet for successful business has been growing. This has been reflected in the growing need of enterprises for web presence. Most significant company references include the portal of the GOM ([www.vlada.cg.yu](http://www.vlada.cg.yu)), the web site of the President of Montenegro ([www.predsjednik.cg.yu](http://www.predsjednik.cg.yu)), the web sites of daily newspapers Pobjeda ([www.pobjeda.cg.yu](http://www.pobjeda.cg.yu)) and Vijesti ([www.vijesti.cg.yu](http://www.vijesti.cg.yu)), and web sites of corporations such as Atlas Mont ([www.atlasmont.cg.yu](http://www.atlasmont.cg.yu)). Along with the corporate, Internet Montenegro has designed and developed 1,100 personal web presentations.

#### Internet Montenegro sites

In order to stimulate Internet usage, expand the service range and facilitate the communication with its users, Internet Montenegro has developed several web sites. The most familiar one is

Café del Montenegro ([www.cafemontenegro.cg.yu](http://www.cafemontenegro.cg.yu)), which, according to “Yu-trend” indicators is one of the most visited sites in Serbia and Montenegro – forth place according to their last survey, with approximately 14,000 visitors daily. Another significant site, developed recently is the first on-line magazine for children - “Corner for little ones” ([www.kutak.cg.yu](http://www.kutak.cg.yu)). About 1,100 children daily visit this site.

All of the content offered to Internet users is free of charge, which is typical for the market of Serbia and Montenegro, where the banking system is not as developed as in Western European countries and the use of credit cards is limited to a smaller population.

### *Net Centre*

The Internet club of Internet Montenegro, Net Centre, was originally opened in 1998. It offers eight PCs with 2Mbps capacity link available, providing easy and fast Internet connection. Users are also provided with instructions and hints on Internet usage. This facility is intended as a marketing and customer awareness facility, aiming to introduce consumers to Internet use and then move them on to being full subscribers.

Observing the trend of constant increase of Internet centers throughout Montenegro, Internet Montenegro has developed a software solution enabling it to follow their operations and controlling the settlement procedures. This software also enables to establish large number of Net Centers as joint ventures between Internet Montenegro and partner firms.

### *Software Development*

Internet Montenegro has developed several software applications for clients such as ProMonte, Monet, and GOM. One of its major projects is complete booking system for Montenegro Airlines. Internet Montenegro programmers have developed the Authentication, Authorization, Accounting, and Administration software (“AAAA”). Besides developing software applications, Internet Montenegro software engineers often participate in important projects as consultants. Programs mainly used include C, C++, and Visual Basic.

### *Network Development and Set up*

Internet Montenegro, along with Digit Montenegro (subsidiary of the Belgrade firm Digit), are leaders in providing network development services. Most significant projects are the network of GOM, MAN and WAN network of Telecom Montenegro, WAN (VPN) networks of the Republic Health Fund, the insurance house “Lovcen osiguranje”, and UNEM.

### *On-line Advertising*

The Internet advertising market in Montenegro is quite limited. Most of the advertising revenues come from banners posted on Internet Montenegro sites.

### *Radio Streaming*

By signing the agreement with UNEM, the association of independent media, at the end of 2003 Internet Montenegro offered radio streaming service to 13 radio stations throughout Montenegro.

### *Maintenance*

Internet Montenegro signed a strategic contract with Monet for network maintenance. This has been one of the biggest successes of the network team, and is confirmation of their expertise and credibility they enjoy in the Montenegrin market.

### *WebMax*

WebMax is a web mail service available to all Internet Montenegro subscribers. This service opens numerous possibilities in simplification and improvement of business and other communication and with its characteristics fully follows evolution of similar web services in the world.

## **6.6.4 New services and technologies**

### *Wireless Internet*

During 2003, Internet Montenegro tested the Wireless Internet throughout several locations in Montenegro, preparing the infrastructure for this network. The commercial activation of this service is expected in 2004 in Podgorica and on the costal cities, which will provide broadband access to specific group of Internet users and will represent an additional entry barrier for the new competitors.

### *ADSL (Asymmetric Digital Subscriber Line)*

ADSL is one of the innovative projects that Internet Montenegro has tested in cooperation with Telecom Montenegro for over half a year. The pilot installation currently functions at Internet Montenegro, Telecom Montenegro, and around ten selected locations in Podgorica and Cetinje. The results of the pilot program are encouraging and the commercial launch of this service is expected in the second half of 2004.

Internet Montenegro management expects that upon introduction, ADSL service will cannibalize company's leased-lines revenues. It is expected that 42% of leased-line subscribers will switch to this significantly lower-cost service.

### *E-commerce*

Significant work has already been done in implementing this project. NET market will soon be promoted, representing the first steps in e-commerce.

### *MIPnet*

Telecom Montenegro has been developing public MPLS network for data transfer. The network was installed in February 2004 and will be fully functional and commercially launched during 2004. The implementation of MIPnet affects the operations of Internet Montenegro in the following manner:

- Internet Montenegro management expects that a portion of subscribers will migrate from leased-line services to MIPnet services, reducing the revenues from leased lines in 2004 by 13.5%;
- Internet Montenegro will be able to offer permanent Internet connection (leased lines) on the whole territory of Montenegro, instead of the current offer in 12 municipalities, with a significantly higher access speed in the locations outside of Podgorica;
- In order to integrate with the MIPnet system, Internet Montenegro will need additional resources to prepare project documents, acquire equipment, lease capacities in MIPnet and perform the integration.

#### *PLC (Power Line Communications)*

In March 2002, Internet Montenegro, in cooperation with the Swiss company ElektroWeb and the Israeli company MainNet, realized a pilot installation of PLC technology in Cetinje. This is a modern technology that enables Internet use through the electricity network (220 V) but it is not yet fully functional in Europe. The experience of this pilot program in Cetinje showed that this technology might function well. Internet Montenegro has the capacity and know-how to introduce PLC on profitable basis; however, Elektroprivreda Crne Gore (Montenegrin power utility company) still lacks the required resources (experience and know-how) and also, the introduction of this technology is disadvantageous to Telecom Montenegro.

#### *Internet Integration of Former Yugoslav Republics*

Internet Montenegro has been a sole financier of the peering link to Belgrade. The ambition is to make peering with Banja Luka, Belgrade, Ljubljana, Zagreb and Sarajevo.

Internet Montenegro has developed business relations with ISP companies in the neighborhood. One of its strategic partners is the Slovenian SIOL. The company also has a very good cooperation with Serbian Telecom and Croatian HINET, as well as with ISP partners from Serbia – BITSYU, EUNET, and PTT.

## **6.7 Tariffs**

### **6.7.1 Tariff Policy**

From commencement of commercial operations Internet Montenegro has been gradually decreasing tariffs to capture larger customer base. The rationale for such policy was not a pressure by competition, but rather, transferring the decrease of ISP costs to end-users. In December 2003, Internet Montenegro introduced four Internet packages enabling unlimited monthly access to the Internet from a single, previously defined phone line. The prices of these



packages are quite attractive and the intention is to stimulate subscribers with higher Internet usage.

Internet Montenegro tariffs for dial-up connection have been among the lowest in the CEE region. The tariffs are still competitive, particularly taking into consideration the quality of service (connection speed and number of access lines per subscriber).

In order to increase Internet usage, stimulate regular usage, and increase revenues, Internet Montenegro, in cooperation with Telecom Montenegro, is planning on introducing post-paid system of payment for Internet services. The goal is to attract at least 5,000 subscribers to switch to post-paid dial-up connection that will generate monthly revenues of EUR 60,000 – 100,000.

The tariffs for leased lines have been significantly reduced in 2003, and again in 2004. The prices of Internet Montenegro include lease of equipment, while registration is free of charge. The company tariff policy includes discounts for advance payments for 6 and 12 month subscriptions. Internet Montenegro plans to introduce a new method of payment for leased lines services - payment by data traffic, which is intended to stimulate the Internet usage of small and medium sized businesses. The target market for this payment method in 2004 are IT companies and dealerships.

### 6.7.2 Applicable Tariffs

In March 2004, Internet Montenegro proposed a new price list, which was approved by the Telecommunications Agency of Montenegro (“Agency”) in May 2004. This price list is currently applicable, and the tariffs are as follows:

**Table 82: Tariffs for dial-up connections (17% VAT included)**

<i>Type of service</i>	<i>Residential</i>	<i>Business</i>
	<u>EUR</u>	<u>EUR</u>
10 hours	4	6
20 hours	7	10
40 hours	13	19
100 hours	20	35
500 hours	80	140
1,000 hours	160	280
Unlimited monthly access	40	70
Unlimited 6-month access (plus 1 month free for business users)	200	350
Unlimited 12-month access (plus 2 months free for business users)	400	700
<hr/>		
<i>Internet Packages</i>	<i>EUR</i>	
Student Internet Package	12	
Standard Internet Package	20	
Family Internet Package	22	
Business Internet Package	40	

Source: Internet Montenegro Pricelist, March 2004

**Table 83: Tariffs for e-mail packages (17% VAT not included)**

<i>Type of product/service</i>	<i>Tariff</i>
	<b><u>EUR</u></b>
Mini mail package (10 e-mail addresses)	60
Mail plus package (20 e-mail addresses)	110
Super mail package (40 e-mail addresses)	200
Additional 10 e-mail addresses	30
Annual registration of cg.yu domain (valid for all e-mail packages)	15

Source: Internet Montenegro Pricelist, March 2004

The following table gives an overview of the tariffs for leased lines. Besides regular phone lines, Internet Montenegro offers lines for Virtual Private Networks (VPN) to businesses that primarily need data transfer within Montenegro. For locations within Montenegro Internet Montenegro offers links with capacity of up to 512 Kbps, while at the central location capacity of 1024 Kbps and 2048 Kbps.

**Table 84: Tariffs for leased lines (17% VAT not included)**

<i>Speed (Kbps)</i>	<i>Leased Lines</i>				<i>VPN Leased Lines</i>		
	<i>Regular Price</i>	<i>10% Discount for 5-10 Lines</i>	<i>22% Discount for 10 + Lines</i>	<i>Rates for Research Institutions &amp; Education Centers</i>	<i>VPN Bundle Prices</i>	<i>5 – 10 LL in Montenegro</i>	<i>10 + LL in Montenegro</i>
	<b><u>EUR</u></b>	<b><u>EUR</u></b>	<b><u>EUR</u></b>	<b><u>EUR</u></b>	<b><u>EUR</u></b>	<b><u>EUR</u></b>	<b><u>EUR</u></b>
128	380	342	296	266	/	323	285
192	400	360	312	280	/	340	300
256	500	450	390	350	/	425	375
512	850	765	663	595	/	723	638
1,024	1,390	1,251	1,084	973	765	/	/
2,048	2,700	2,430	2,106	1,890	1,485	/	/

Source: Internet Montenegro Pricelist, March 2004

Universities, schools, libraries, and other scientific research and educational institutions are granted 30% to 50% discount depending on the speed and number of connections. In the above table, calculated rates are based on 30% discount.

The above tariffs include:

- Lease of connection equipment (xDSL modem/bridge/router) from Internet Montenegro;
- Lease of lines at Telecom Montenegro.

Initial fees are not charged for connection with copper circuit (from the subscriber to the Point of Presence - PoP of Internet Montenegro). For other types of access, special contracts are being signed and an initial fee is being calculated.

VPN gateway device is not included in the above prices. Internet Montenegro may provide and install such devices, in which case a special contract has to be signed.

**Table 85: Tariffs for web hosting packages (17% VAT included)**

<i>Service</i>	<i>Period</i>	<i>Type of Platform</i>	<i>Tariff (EUR)</i>
<b>Mini</b>	Yearly tariffs	Linux	80
		Windows	92
	Monthly tariff	Linux	-
		Windows	-
<b>Basic</b>	Yearly tariffs	Linux	115
		Windows	130
	Monthly tariff	Linux	12
		Windows	14
<b>Premium</b>	Yearly tariffs	Linux	180
		Windows	205
	Monthly tariff	Linux	18
		Windows	20
<b>Premium Plus</b>	Yearly tariffs	Linux	280
		Windows	320
	Monthly tariff	Linux	28
		Windows	32
<b>Setup fee</b> (virtual web server activation) is valid for all packages and is paid once, at activation, or re-activation of the web site			10
For users of Internet Montenegro hosting			15
<b>Registration of int'l top level domains</b>	For other users		25
	Registration of .cc domain		50

Source: Internet Montenegro Pricelist, March 2004

The tariffs for the server co-location hosting service (placing the user's server into the server ROOM of Internet Montenegro) are presented in the following table. The user's server is connected to the Internet Montenegro network at a maximum speed of 100 Mbps; however, Internet Montenegro reserves the right to limit the connection speed of the server to 256 Kbps. Only RACK version servers (19") are accepted for co-location. A 1 unit (1U) server is recommended; An additional fee is calculated for servers larger than 1U.

**Table 86: Tariffs for server hosting – server co-location (17% VAT not included)**

<i>Service</i>	<i>Tariff</i>
	<u>EUR</u>
Registration	250
Co-location of server – monthly fee* (100 GB data transfer included)	150
Additional 1 GB data transfer	10
For every 1U above the standard**	40

\* 1 month free for 6-month advance payment, and 2 months free for 12-month advance payment

\*\* Standard size is 1U

Source: Internet Montenegro Pricelist, March 2004

Internet Montenegro users may use the Internet roaming service during their stay in Serbia by connecting to the servers of EUNET ISP. The price of one hour usage of Internet roaming corresponds to three hours of Internet usage within the network of Internet Montenegro.

**Table 87: Tariffs for Internet Marketing (17% VAT not included)**

<i>Service- Placing banners on the home page</i>	<i>www.cg.yu</i>	<i>www.cafemontenegro.com</i>	<i>www.webmax.cg.yu</i>
	<u>EUR</u>	<u>EUR</u>	<u>EUR</u>
Rotating banner 1/10	150	150	/
Rotating banner 2/10	280	300	/
Rotating banner 5/10	562	750	200
Rotating banner 10/10	1,020	1,500	400
Fixed banner	150	100	100

Source: *Internet Montenegro Pricelist, March 2004*

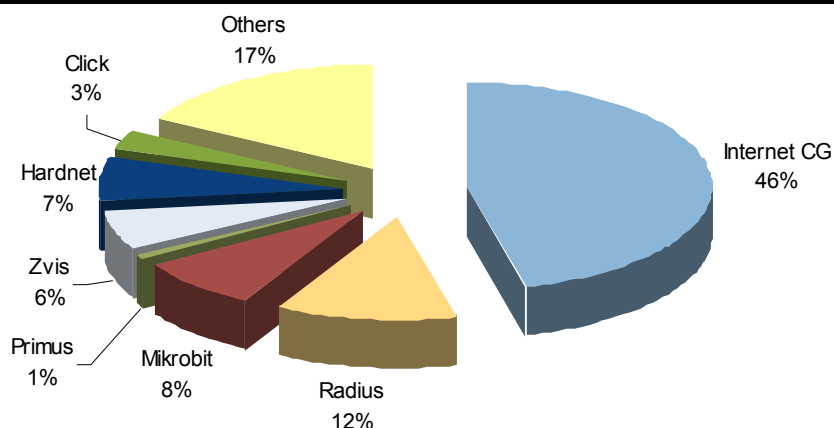
## 6.8 Distribution channels

### 6.8.1 Pre-paid

Internet time is currently being sold only on pre-paid basis at the Internet Montenegro Net Centre in Podgorica, as well as through a network of 25 dealers with a total of 29 outlets throughout Montenegro. The dealers are typically companies that sell computer equipment. Their commission varies from 7 to 20% depending on the amount of Internet time sold.

Internet Montenegro contributes 46% of total sales of dial-up services, which is depicted in the following graph.

**Chart 36: Distribution channels**



Source: *Internet Montenegro Business Plan for 2004*

The following table presents a breakdown of dial-up revenues and the participation of distribution channels through 2002 and 2003.

**Table 88: Dial-up Revenues Breakdown by Distribution Channel**

<i>Item</i>	<i>2002 (EUR)</i>	<i>2003 (EUR)</i>
Gross sales (including VAT)	771,150	887,290
Internet Montenegro Net Centre	409,843	384,752
Dealers	361,307	502,537
Dealer's commission	39,774	
Transferred to 2004		76,461
Net Sales	731,406	810,829
Turnover tax	78,334	
Dial-up revenues	653,073	810,829

*Source: Internet Montenegro Management*

### 6.8.2 Post-paid

Internet Montenegro proposed a business arrangement to Telecom Montenegro to use Telecom Montenegro billing system and collection facilities to offer post-paid service to its customers. This arrangement is expected to provide a significant stimulus to Internet Montenegro operations, due to the following:

- Subscribers will be able to access the Internet with much greater ease as they will not need to make a separate trip to buy Internet time.
- Individuals are expected to be less cost-conscious in their usage.
- Profit margins will increase due to the elimination of dealers' commission.
- It will allow Internet Montenegro to develop more sophisticated pricing structures to encourage higher usage.

### 6.9 Promotion

Internet Montenegro continuously promotes its services, especially the newly introduced ones and the improvements in its technology, in order to create positive brand image and maintain leadership position. Media used for promotion include the official sites of the company ([www.cg.yu](http://www.cg.yu), [www.cafemontenegro.com](http://www.cafemontenegro.com), [www.webmax.cg.yu](http://www.webmax.cg.yu)), daily newspapers, specialized IT magazines, TV, radio, and outdoor advertising. Internet Montenegro frequently supports various IT events and sponsors sports clubs.

Although the number of subscribers has been constantly growing, the market conditions in 2004, i.e. the appearance of a second ISP, impose the need for increased marketing activities in order to preserve the leadership position. Commercial education is one of the most important strategic goals, intended to be realized through an educational TV show.

The promotion campaigns for 2004 are intended to boost the Internet usage, increase market penetration, further develop the brand name, and promote new services. Examples include:

- Promotion of ADSL service, in cooperation with Telecom Montenegro;
- Promotion of Wireless Internet service;

- Development of a portal, i.e. organizational and styling integration of all Internet Montenegro web sites, enabling more efficient presentation of all company services;
- Sponsorships and donations – Internet Montenegro is a sponsor of the female chess club of Montenegro, which is a European leader and state vice champion for 2003. The company will participate at the Infest 2004 – the most significant IT fest in Serbia and Montenegro and in this part of Europe.

## 6.10 Facilities and infrastructure

### 6.10.1 Premises

Premises utilized by Internet Montenegro are the following:

- The Head office (including management, technical, development, finance, and marketing departments) is located in the centre of Podgorica in rented premises of 320 m<sup>2</sup>.
- Sales Department and Net centre (Internet Caffe) are located in separate building in the centre of Podgorica in rented premises of 120 m<sup>2</sup>.
- Central technical infrastructure, links, modems, routers, access servers, and servers are located in the premises of Telecom Montenegro (within the Main Telecommunication Centre). This facility of 14 m<sup>2</sup> is part of the initial capital of Telecom Montenegro<sup>7</sup>. According to the foundation agreement and amendments, Telecom Montenegro is obliged to provide additional 32 m<sup>2</sup> in the same building for storage of equipment.
- Technical infrastructure at some PoPs is located in local Telecom Montenegro telecommunication centers in 12 cities. These premises (2 m<sup>2</sup> per PoP) are also subject of the foundation agreement.

## 6.11 Internet Montenegro Infrastructure and Capacity

Due to the nature of the company's founding, Internet Montenegro infrastructure comprises wholly owned network components and network links which are leased from Telecom Montenegro. The company's infrastructure is organized in Network, Hardware and Software elements.

### 6.11.1 Network

Internet Montenegro network is based on leased-line capacities which are provided by Telecom Montenegro. Network operations are organized into the following sub-segments:

- Network Topology
- Dial-up Capacities

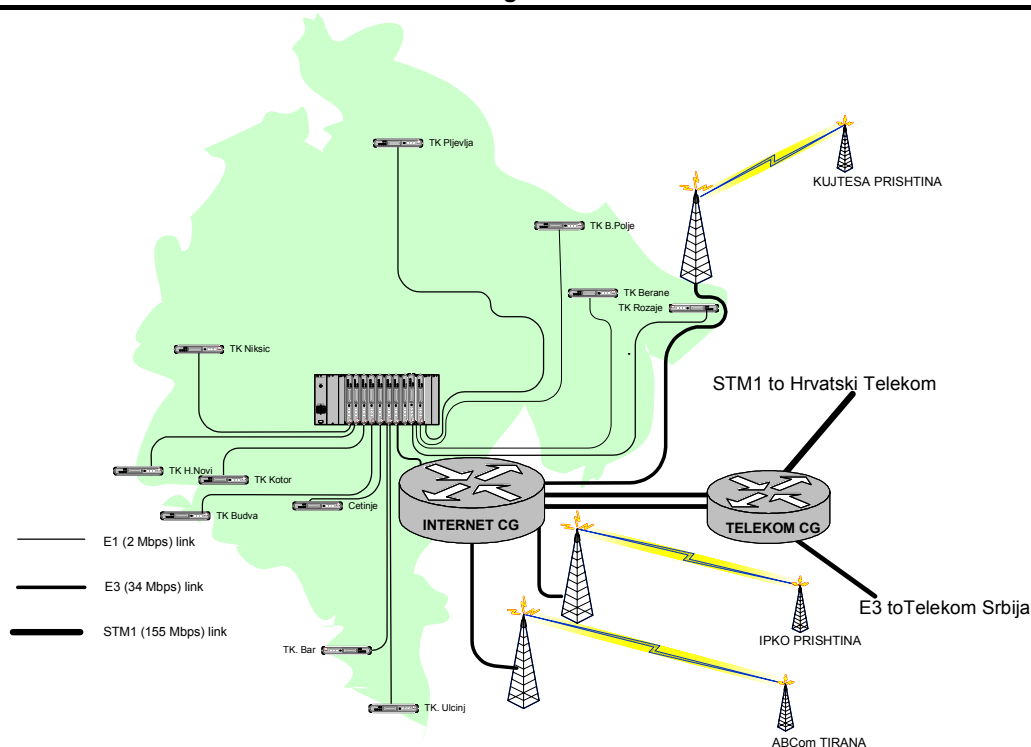
<sup>7</sup> See Section 6.1.1: Foundation Agreement with Telecom Montenegro

- Internet Links
- Leased lines

*Network topology*

Internet Montenegro has 12 PoPs in Montenegro. All PoPs are structured as in a star configuration and are connected to the central node in Podgorica at 2 Mbps where the administration of all PoPs is carried out. PoPs communication equipment is located in the premises of Telecom Montenegro. The following figure shows the network infrastructure of Internet Montenegro.

**Chart 37: Network Infrastructure of Internet Montenegro**



Source: Internet Montenegro

*Dial-up capacities*

Internet Montenegro currently uses approximately 1,380 modem ports which are ISDN ready. ISDN technology is used in all cities where infrastructure of Montenegro Telecom allows it. Access servers are stored in 12 cities in Montenegro. Specification of the access servers and their location is presented in the table below:

**Table 89: Access servers**

Location	AS 5350	AS 3640	AS 3620
Podgorica	5	0	0
Niksic	0	1	0

Location	AS 5350	AS 3640	AS 3620
Herceg Novi	0	0	3
Ulcinj	0	0	1
Bar	0	0	2
Budva	0	0	1
Kotor	0	0	1
Cetinje	0	0	1
Bijelo Polje	0	0	1
Rozaje	0	0	0
Berane	0	0	0
Pljevlja	0	0	0

Source: Internet Montenegro Management

### Internet links

Internet Montenegro personnel is in charge of the entire technical administration and maintenance of the Internet link of Montenegro Telecom.

Until March 2003, Internet Montenegro had Global Internet Access ("GIA") agreements with Slovenia Telecom and Croatian Telecom. In February 2003 Internet Montenegro signed an agreement with Telecom Montenegro for the provision of GIA. Since December 2003, Internet Montenegro has had a 64 Mbps capacity link in usage.

Telecom Montenegro uses 2 links to access global Internet. The primary link is provided through STM1 transport and is connected to Telecom Serbia and further transmitted to Deutsche Telecom. The secondary link is through STM1 transport and is connected to Telecom Croatia.

### Leased lines

Internet Montenegro leases 44 – ISDN PRI connections and 16 - 2Mbps links from Telecom Montenegro. Of the 44 ISDN connections, 38 PRI connections are currently in use and an additional 16 PRI connections are planned for the beginning of June 2004. In addition, all 2 Mbps links are planned to be replaced with new capacity in Telecom Montenegro new MPLS network as its operations are extended.

A detailed list of leased-line capacities from Telecom Montenegro that Internet Montenegro uses is shown in the following table:

**Table 90: A detailed list of leased line capacities from Telecom Montenegro**

	Location	ISDN PRI Links	E1 Links	Premises m2
1.	Podgorica	35		46
2.	Bar	2	1	2
3.	Budva	1	1	2
4.	Kotor	1	1	2
5.	Herceg Novi	3	1	2
6.	Niksic	2	1	2
7.	B. Polje	1	1	2
8.	Berane		1	2
9.	Pljevlja		1	2
10.	Cetinje	1	1	2
11.	Rozaje		1	2
12.	Tivat		1	2



13.	Ulcinj	1	1	2
14.	Zagreb		1	
15.	Ljubljana		3	
16.	Other			

Source: *Internet Montenegro management*

### 6.11.2 Hardware

Internet Montenegro uses communication equipment produced by leading manufacturers such as Juniper, Cisco, Telindus, IBM, HP, Compaq, and 3Com and Internet Montenegro currently uses 35 Cisco routers and access servers and one 3Com access server. There are currently 18 servers in use from recognized vendors such as Compaq, Cisco, IBM, HP, and Digital (Alpha).

Modems for 2Mbps links are produced by RAD while Telindus and Zyxel are used for leased lines. A detailed specification of the Internet Montenegro communication equipment is presented below:

**Table 91: Internet Montenegro Communication Equipment**

Type	Pcs
Juniper M5 (4XE3, 4XE1, 4XFE)	1
Cisco AS5350 (8XPRI)	5
Cisco 3620	16
Cisco 2501 series	3
Cisco 2509 series	1
Cisco 2511 series	8
Cisco 3640	3
Cisco 4500	1
Cisco 3662	1
Com super stack 3000	1
Cisco catalyst 2948g-l3 Router	1
Cisco catalyst 3550 Router	1
Cisco catalyst 2950t Switch	1
Allied Telesyn Rapier 24	1
Nortel Networks BayStack 450 24T	1
zyxel prestige 1600 (router 16 idsl 8 sdsl)	1
Zyxel 100L	16
Zyxel 128L	1
Zyxel 681	6
Telindus HS Rack (27 Modems)	1
RAD FCD-E1 2MB	14
RAD DXC-30	1
Zyxel IES-1008	4
Zyxel 782	49

Source: *Internet Montenegro management*

### 6.11.3 Software

All elements of the system are under full supervision of the engineering team of Internet Montenegro and the functionality of the system is supported by software for supervision and control. The software in use is the following:

AAAA	(Authorization, Authentication, Accounting and Administration) software developed by Internet Montenegro,
MRTG	(Multi Router Traffic Grapher) tracking of links to the Internet backbone, PoPs, users, and the key resources of the system.
WhatsUp gold	customized software for online tracking of links and servers and automatic notification by mobile phone.
SNORT	Customized variant of this software for detection of a malicious code (Intrusion Detection System).
Track AS	Internet Montenegro internally developed software for tracking of the status and occupation of the access servers.
Track TB	Internet Montenegro internally developed software for tracking of the technical base of the system (web based software with detailed visual preview of all equipments and technical characteristics and configuration of all equipment).
Back up	Internet Montenegro internally developed software for performing automated back-up procedures and monitoring of back-up performances.

An important factor of the system's reliability and efficiency is the very good cooperation with Montenegro Telecom. Based on this cooperation, Internet Montenegro has the opportunity to provide resources for the direct connection of business users and respond to requests in a short time. This also enables speedy repairing of infrastructure malfunctions.

## 6.12 Capital Investments (CAPEX)

### 6.12.1 Short review of capital investments in the last three years

In the last three years, Internet Montenegro has mainly invested in the development of the technical infrastructure of the system. Thanks to these investments, Internet Montenegro has managed to build a stable base and provide for a return of investment through an increase of revenues. The following table shows the Capex for years 2000, 2001, 2002, and 2003.

<b>Investments</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>
Communication equipment	220,000	170,000	233,000	150,000
Servers	15,000	30,000	20,500	40,000
Work stations, notebook, printers	17,500	2,000	25,000	15,000

Office furniture and accessories	0	1,000	4,400	26,000
Software and licenses	2,000	1,200	4,300	30,000
Other equipment	1,200	1,300	800	10,000
<b>Total</b>	<b>255,700</b>	<b>205,500</b>	<b>288,000</b>	<b>271,000</b>

Source: Business plan for 2004

### 6.12.2 Planned CAPEX for 2004

Planned investments for 2004, the first year in which Internet Montenegro faces more serious competition, are mainly focused on the following:

- network restructure in LAN/MAN segment, integration in MIPnet;
- increase of dial-up connection capacities, which is recognized as a priority investment by Internet Montenegro management;
- increase of storage capacity and level of data security;
- increase of connection speed towards the Internet backbone; and
- providing space capacities for further continuous development of the company.

The Management has estimated the total CAPEX for 2004 at EUR 346,000.

### 6.13 Financial Information

This section provides basic financial information with brief comments. Readers are advised to read this section in conjunction with the audited financial statements for the year ended 31 December 2002 and 31 December 2003 and the Independent Auditors' Report for 2002 and 2003, located in the Data Room.

**Table 93: Income Statement for 2002, 2003, and first half of 2004 (in EUR)**

	2002 (audited)	2003 (audited)	Jan - June 2004 (unaudited)
<b>Operating revenues</b>	<b>1,345,004</b>	<b>2,338,019</b>	<b>1,656,885</b>
Sales	1,342,334	2,335,807	1,656,885
Other operating revenues	2,670	2,212	0
<b>Operating costs</b>	<b>(1,208,807)</b>	<b>(1,910,079)</b>	<b>(1,048,210)</b>
Materials consumed and cost of commercial goods sold	(34,414)	(47,927)	(32,777)
Staff costs	(271,568)	(346,902)	(249,765)
Depreciation	(322,670)	(263,824)	(122,396)
Other operating costs	(580,155)	(1,251,426)	(643,272)
<b>Profit from operations</b>	<b>136,197</b>	<b>427,940</b>	<b>608,675</b>
Financial income/(expense), net	(16,765)	(11,679)	979
<b>Profit before taxation</b>	<b>119,432</b>	<b>416,261</b>	<b>609,654</b>
Income taxes	(20,230)	(56,036)	(42,084)
<b>Net income</b>	<b>99,202</b>	<b>360,225</b>	<b>567,571</b>

Source: Audited financial statements and management information

Total revenues have increased from 2002 to 2003 by 74%. Should the second half of 2004 resemble the results from the first half, the growing revenue trend will continue. Operating costs have increased at a slower rate than revenues in the observed period. Operating costs accounted for 82% of total operating revenues in 2003 versus 90% in 2002 to 82% in 2003 (63% in the first half of 2004).

As a result, net income increased from EUR 99,202 in 2002 to EUR 567,571 in the first half of 2004, improving the net margin of Internet Montenegro from 7% in 2002 to 15% in 2003 and 34% in the first half of 2004.

**Table 94: Structure of operating revenues in the 2002, 2003, and first half of 2004 (EUR)**

	2002	2003	Jan - June 2004
Net revenues from business dial-up users	274,456	474,739	325,204
Net revenues from residential dial-up users	378,758	336,484	198,450
Net revenues from wholesale of goods		12,530	
Net revenues from hosting services	32,777	38,408	24,752
Net revenues from other services	1,522	11,910	29,404
Net revenues from leased lines	646,172	664,538	388,156
Net revenues from foreign customers		797,198	675,705
Revenues from Internet café			4,479
Net revenues from the sale of equipment	8,648		10,735
Other revenues	2,671	2,212	
<b>Total operating revenues</b>	<b>1,345,004</b>	<b>2,338,019</b>	<b>1,656,885</b>

The most significant revenue items were sales to foreign customers (i.e. revenues for GIA services provided to customers in Kosovo and Albania), leased phone lines, and dial-up Internet services.

The largest operating cost items included depreciation and staff costs and lease of channels (within other operating costs category), which encompass the lease of GIA links to Slovenia (until May 2003) and Croatia.

The following table presents the audited balance sheets of the company as of 31 December 2002, of 31 December 2003, and the unaudited balance sheet as of 30 June 2004.

**Table 95: Balance Sheet as of 31 December 2002, 31 December 2003, and 30 June 2004**

	31 Dec 2002 (audited)	31 Dec 2003 (audited)	30 Apr 2004 (unaudited)
<b>Non-current assets</b>	<b>1,018,976</b>	<b>994,314</b>	<b>971,980</b>
Intangible assets	13,157	8,173	6,916
Property and equipment	913,786	832,151	813,575
Long term investments	92,033	142,033	139,532
Prepaid taxes	0	11,957	11,957
<b>Current assets</b>	<b>261,324</b>	<b>756,571</b>	<b>835,332</b>
Inventories	564	812	812
Cash and cash equivalents	129,228	577,960	141,657
Short term investments	-	-	488,117
Trade receivables, net	126,942	158,410	201,026
Prepaid expenses	4,608	19,389	1,720
<b>TOTAL ASSETS</b>	<b>1,280,300</b>	<b>1,750,885</b>	<b>1,807,312</b>

<b>Equity</b>	<b>1,094,157</b>	<b>1,371,387</b>	<b>1,593,959</b>
Capital	985,494	985,494	985,494
Legal reserves	9,461	16,591	40,894
Undistributed profit	99,202	369,302	567,571
<b>Non-current liabilities</b>	<b>41,278</b>	<b>124,445</b>	<b>114,539</b>
Long-term borrowings	26,602	30,645	
Deferred income	14,676	93,800	114,539
<b>Current liabilities</b>	<b>144,865</b>	<b>255,053</b>	<b>98,814</b>
Trade payables	96,061	189,707	40,470
Current portion of long-term debt	35,469	41,724	
Tax liabilities	13,067	23,222	5,320
Accrued expenses	268	400	53,024
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>1,280,300</b>	<b>1,750,885</b>	<b>1,807,312</b>

Source: Audited financial statements and management information

The company assets as of June 2004 totaled EUR 1,807,312 million. They showed a positive trend throughout the analyzed period increasing by 3.2% compared to 2003 level and by 41% compared to 2002 level.

Non current assets in the amount of EUR 971,980 as of June 2004 were a major item of total assets (54%), mainly due to the large amount of property and equipment (EUR 813,575). Current assets were EUR 835,332 as of June 2004, an increase of 10% in comparison with 2003 levels and 220% in comparison with 2002 levels. This increase is mainly due to the significant increase in cash and cash equivalents.

Total equity in the amount of EUR 1,593,959 accounted for 88% in total equity and liability as of June 2004. Total equity rose by 25% in 2003 compared to 2002 and by 16% in June 2004 compared to year end 2003. This significant increase was mainly due to an exceptionally high growth of retained earnings totaling EUR 567,571 as of June 2004.

Internet Montenegro had a low leverage with total debt of 12% of total equity and liabilities, showing significant potential for additional debt financing. The major part of total liabilities as of June 2004 was in the form of deferred income and trade payables.

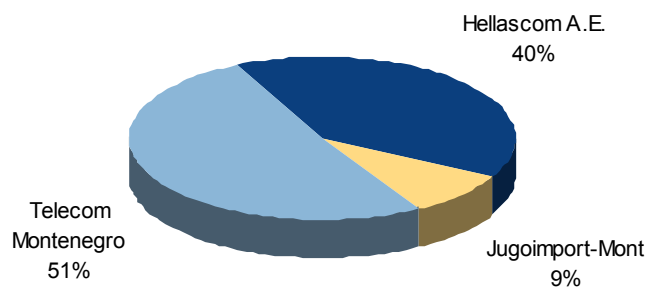
## 7 MONTENEGRO CARD D.O.O

### 7.1 History and Ownership Structure

Montenegro Card d.o.o. is a limited liability company registered as of 29 December 1999 at the Commercial Court in Podgorica with the aim to build and exploit a system of public phone boots at the territory of Montenegro. The company was founded as a joint investment of: Telecom Montenegro, Podgorica; Hellascom A.E. Athens, Greece and Jugoimport-Mont, Podgorica.

The ownership structure is presented below:

**Chart 38: Ownership structure Montenegro Card**



*Source: company data*

### 7.2 Corporate governance

Corporate governance of Montenegro Card is carried out by the Board of Directors and Executive Manager. Applicable Articles of Association are dated 29 April 2003.

#### 7.2.1 Board of Directors

The Board of Directors is the managing corporate body and consists of three members to be nominated and dismissed by each of the members/founders. The mandate for Board members is four years with a limitation on re-elections. The Board elects its chairman and his deputy from among its own ranks.

Board meetings are held at least once every three months. A Quorum for rendering decisions requires a minimum of two members. Each board member has votes in proportion with the respective stake of the Founder they represent (Telecom Montenegro: 51; Hellascom: 40, and Jugoimport-Mont: 9).

The Board renders decisions according to the system of simple and qualified majority. A simple majority is more than 50% out of the total number of votes and a qualified majority is consensus of members nominated by Telecom Montenegro and Hellascom.

A qualified majority is required for the following issues:

- Rendering of Articles of Association;
- Enacting of the business plan & budget;
- Rendering decisions on initial capital reduction and increase, decisions on profit allocation and covering of losses, decisions on statutory changes and changes of company's legal form, decisions on short-term investments and capital investments, indebtedness and procurement, decisions on sale, lease, and mortgaging of company's assets, decisions on any kind of cooperation with another company, and decision on liquidation;
- Defining prices of the services;
- Specifying organizational scheme of the company;
- Rendering Rules on its operations; and
- Rendering decisions on remuneration of the Board of Directors members.

### **7.2.2 Executive Manager**

The Executive Manager of Montenegro Card is nominated and revoked by the Board of Directors at the proposal of Telekom Montenegro, with prior consent of other members. The nomination shall be either direct or on the ground of public vacancy announcement. Executive Manager is nominated for four years, with the possibility of re-election.

Assignments, salary (bonuses) and other issues in connection with Executive Manager' engagement are governed by a special agreement executed, on behalf of the company, by the President of the Board of Directors of the Founders.

### **7.2.3 Minority Members Special Rights**

Within the organizational structure of the company, Board of Directors shall nominate the persons who would be authorized for economical and financial affairs, upon Hellascom proposal and development and technical affairs, upon the proposal of Jugoimport-Mont.

### **7.2.4 Representation and Signing on Behalf of the Company**

The company is represented and individually signed by the President of the Board of Directors.

The Board of Directors is entitled, against a resolution thereof, upon proposal extended by the President of the Board of Directors, to assign the authority for general representation for the

purpose of undertaking certain activities on behalf and for the account of the company, to Executive Manager and/or the member of the Board of Directors. Executive Manager or Board member would be entitled to represent the company and sign on behalf of the company within the limits defined by the Law, Articles of Association and Board of Directors' resolution. Executive Manager, against Board of Directors' consent, shall be entitled to grant individual or collective procure to certain person or persons.

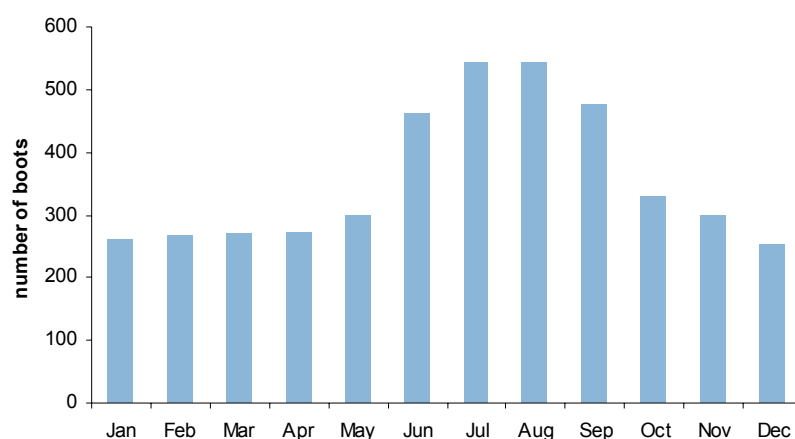
### 7.3 Business activities

The core business of Montenegro Card is to manage the system of pay phones in Montenegro i.e. public phone boots. They operate using phone cards sold by the distributors.

The total number of public phone boots varies depending on the current needs and traffic volume and reaches its peak during the tourist season.

Movements in the number of installed phone boots during 2003 per months are presented below:

**Chart 39: Number of installed phone boots per months, 2003**



*Source: Operational report Montenegro Card 2003*

As presented above, in the year 2003, the maximum number of public phone boots operating in Montenegro was 543, which is 10% less than in the year 2002. The main reason for the decrease is lower demand for this service. After the end of the tourist season, most of the public phone boots are dissembled in order to preserve them for the next season. The geographical split per main towns in Montenegro is presented in the table below.

**Table 96: Installed public phone booths per cities in Montenegro, 2002 - 2003**

	31.12.2002.	31.12.2003.	Peak 2003 (July – Aug)
Podgorica	44	32	46
Danilovgrad	10	8	10
Kolasin	9	5	9
Kotor	15	16	30
Tivat	19	18	33
Niksic	10	10	11



Savnik	-	-	-
Pluzine	-	1	-
Bijelo Polje	7	4	7
Mojkovac	-	-	-
Bar	25	38	67
Ulcinj	27	30	106
Budva	30	30	113
Cetinje	5	4	6
Berane	9	5	9
Andrijevisa	-	-	-
Plav	-	1	1
Rozaje	6	5	6
Pljevlja	7	4	7
Zabljak	7	6	7
Herceg Novi	31	36	75
<b>Total</b>	<b>261</b>	<b>253</b>	<b>543</b>

Source: Operational report Montenegro Card 2003

As shown above, the significant change in the peak tourist season relates to the cities located at the Adriatic coast, displayed with the Sales totaling 80% of core activity Sales from June till September.

Company policy is to move phone boots in peak months from the cities with lower demand to cities with higher demand for public phones.

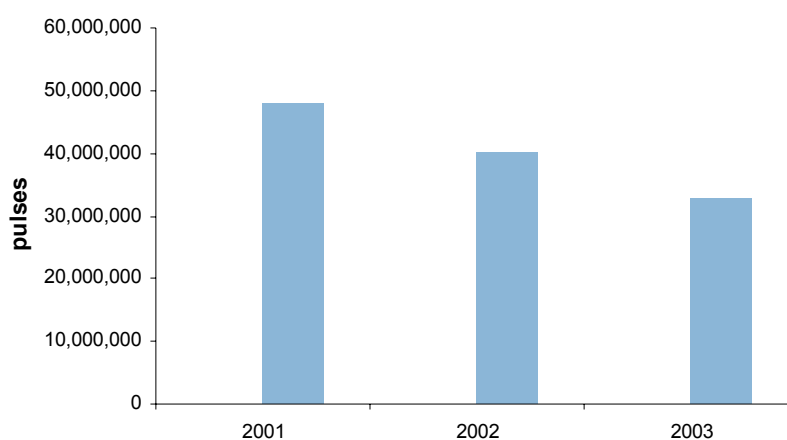
Substitute services are fixed and mobile telephony, where mobile telephony is steadily gaining market share. Since one of the subsidiaries of Telecom Montenegro is the mobile operator Monet, cannibalization of Montenegro Card is taking place.

The main competitor to Montenegro Card is the Montenegro Post that is providing phone boots service but without the use of phone cards, which allows to provide the same service at a lower price.

#### 7.4 Traffic volume

Traffic volume is following a downward trend measured in pulses, reflecting the decreased need for public pay phones.

**Chart 40 : Number of installed phone boots per months, 2003**



Source: Operational report Montenegro Card 2003

Traffic according to destination is also extremely seasonal in character i.e. impulses towards Serbia, Republic of Srpska, Kosovo and international traffic increase significantly in summer months during the tourist season, since the majority of tourists in Montenegro comes from these destinations.

## 7.5 Phone cards distribution

Public pay phones service is provided by usage of phone cards which are being sold by the distributors.

Since 2003 phone cards are being distributed with the price printed on them. Lack of price tag in the previous years allowed distributors to sell phone cards at a higher price than the ones determined by Montenegro Card, which made them even less competitive on the market. The Dealers' provision for selling phone cards is 8%.

## 7.6 Basic Financials

The Company's decreasing traffic volume and market share is reflected in falling sales and Net Income in 2003.

In 2003 sales declined by 33%. Net Loss in the amount of EUR 202,159 increased substantially compared to the previous year's positive EUR 14,320, which was mainly due to low capacity utilization.

In 2002 the company enjoyed income tax holidays based on the foreign capital invested in the company.

**Table 97: Montenegro Card Income Statement in EUR**

	2002	2003
Revenues	816,552	489,912
COGS	482,233	338,079
SG&A	433,975	399,222
EBIT	14,320	-202,159
interest	0	0
EBT	14,320	-202,159
Tax	0	0
<b>Net Income</b>	<b>14,320</b>	<b>-202,159</b>

Source: Operational report Montenegro Card 2003

**Table 98: Montenegro Card Balance Sheet in EUR**

	31. Dec 2002	31. Dec 2003
Tangible assets	645,426	560,144
Intangible assets	666,724	662,634
Fixed assets	1,312,150	1,222,778
Inventories	25,727	55,487
Account receivables	258,762	127,232
Placements	100,000	70,000
Cash and marketable securities	31,019	42,272
Other current assets	0	2,566
Current assets	415,508	297,557
Total assets	1,727,658	1,520,335
Short term liabilities	55,673	50,509
Equity	1,671,985	1,469,826
<b>Total liabilities and equity</b>	<b>1,727,658</b>	<b>1,520,335</b>

Source: Operational report Montenegro Card 2003

## 8 BENCHMARK ANALYSIS

### 8.1 Summary of Results

The comparison of the financial performance of Telecom Montenegro with the selected companies resulted in the following key conclusions:

- Telecom Montenegro is a company with sizeable profitability and is among the top performers of the peer group. Its 2003 operating profit margin of 23.27% is among the highest within the peer group and well above the peer group average, indicating that the company has considerably lower costs than those of the peer group companies.
- The potential earning power of Telecom Montenegro demonstrated through its pre-tax ROE is significant. Du Pont analysis shows that the company's ROE of 13.4% is among the highest in the peer group and that is primarily based on its high pre-tax income. Telecom Montenegro has a significant potential to further increase its earning power. If the leverage and operating efficiency of the median peer group company was applied to Telecom Montenegro's net income margin, pre-tax ROE would amount to 19.7%. Leverage increase can add significantly to shareholders' return rate. To maximize this return, any funding of expansion projects should not draw on internal cash flow but be based on debt financing where possible.
- The productivity analysis shows that although Telecom Montenegro seems to be overstaffed in comparison with its peers, such overstaffing is well hedged by the relatively lower costs of labor in Montenegro, as well as efficient utilization of own and borrowed capital.

### 8.2 Comparison Methodology

For the purposes of comparing the financial performance of Telecom Montenegro with other companies RIAG used financial information contained in various databases. The selection of comparative companies was performed using the following qualitative and quantitative variables:

- Size
- Growth
- Leverage
- Profitability
- Turnover
- Liquidity

On the basis of these variables a sample of 10 companies was selected, against whose financial performance the financial performance of Telecom Montenegro was benchmarked. The analysis is based on the consolidated balance sheets and income statements of the benchmark companies for 2003, presented in local currency and translated into EUR by the applicable foreign exchange rates for the period.

The benchmark analysis of Telekom Montenegro was conducted using the following ratios:

Profitability Ratios

- ❑ Earnings Before Interest and Taxes to Sales
- ❑ Earnings Before Taxes to Sales
- ❑ Net Income to Sales

Return on Investment Ratios

- ❑ DuPont Analysis

Productivity Analysis

- ❑ Revenues per Employee
- ❑ EBT per Employee

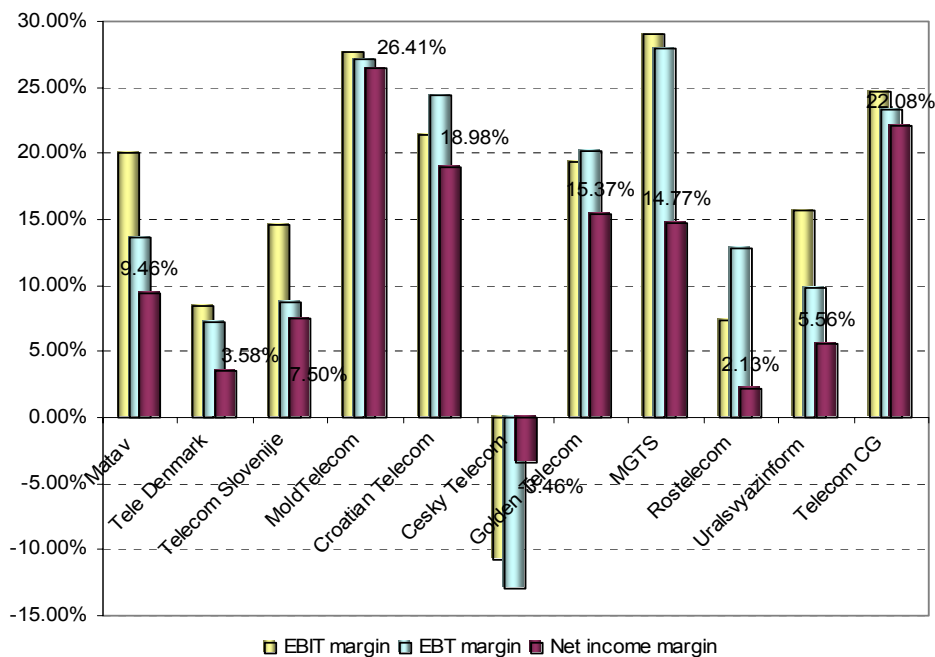
Leverage Ratios

- ❑ Debt to Total Assets
- ❑ Net Debt to EBITDA
- ❑ EBITDA to Interest Expense

### 8.3 Results of Benchmark Analysis

The results of the benchmark analysis for 2003 are shown in Appendix III-1 of this Memorandum. The figure below presents a comparative **profitability analysis** on operating, pre-tax and net income level.

**Chart 41: Profitability Margins, 2003**

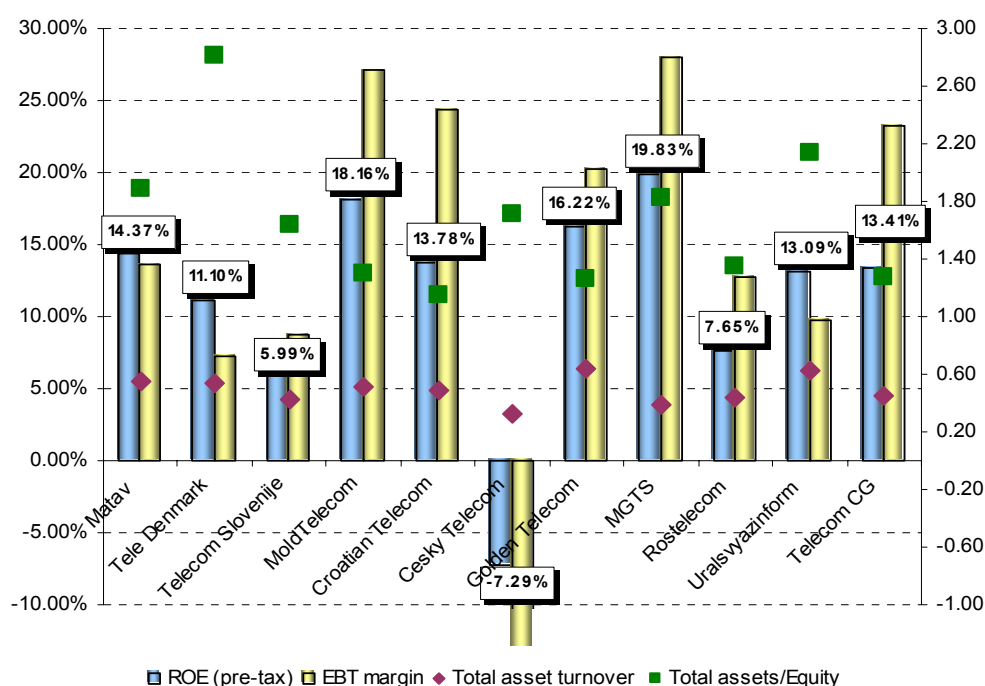


Source: RIAG research

The profitability analysis shows that Telecom Montenegro has among the highest profitability compared to analyzed peer group companies. Its net income, EBT and EBIT margin are well above the peer group average. Special attention should be paid to the EBIT margin of 24.68%, which is almost 10% higher than the average. This level of profitability is the best indicator of company's earning power since it is a consequence of its operations excluding the income from financial and extraordinary activities. Telecom Montenegro also makes good use of borrowed capital, demonstrated through its 10% higher EBT margin than the average. Company's net income margin of 22% is more than twice higher than the 10% average.

The following graph presents **Du Pont analysis** of Telecom Montenegro and comparative companies.

**Chart 42: Du Pont Analysis, 2003**



Source: RIAG research

DuPont chart shows that earning power of Telecom Montenegro is primarily based on high EBT margin, rather than high assets turnover or leverage. Pre-tax income margin, as elaborated above is among the highest in the peer group, due to low operating costs and good use of borrowed capital.

Contrary to profitability, asset turnover is lower than the peer group average. In addition, low leverage is one of the main features of the Telecom Montenegro. The low debt ratio is due to the company's ability to generate enough cash to self-finance its investments. Telecom Montenegro obtains debt financing when it can access debt with favorable terms.

Assessment of the company's potential earning power as measured by ROE and the impact of increase of assets utilization ratio and leverage are portrayed in the table below.

**Table 99: Assessment of ROE Potential**

	Audited Figures	Peer Group Median Figures Applied *
Pre-tax Income Margin	23.27%	23.27%
Total Asset Turnover	0.45	0.51
Total Assets/Total Equity	1.28	1.68
<b>Return on Equity (pre-tax)</b>	<b>13.41%</b>	<b>19.72%</b>

\* Peer group median figures are applied to asset turnover and leverage

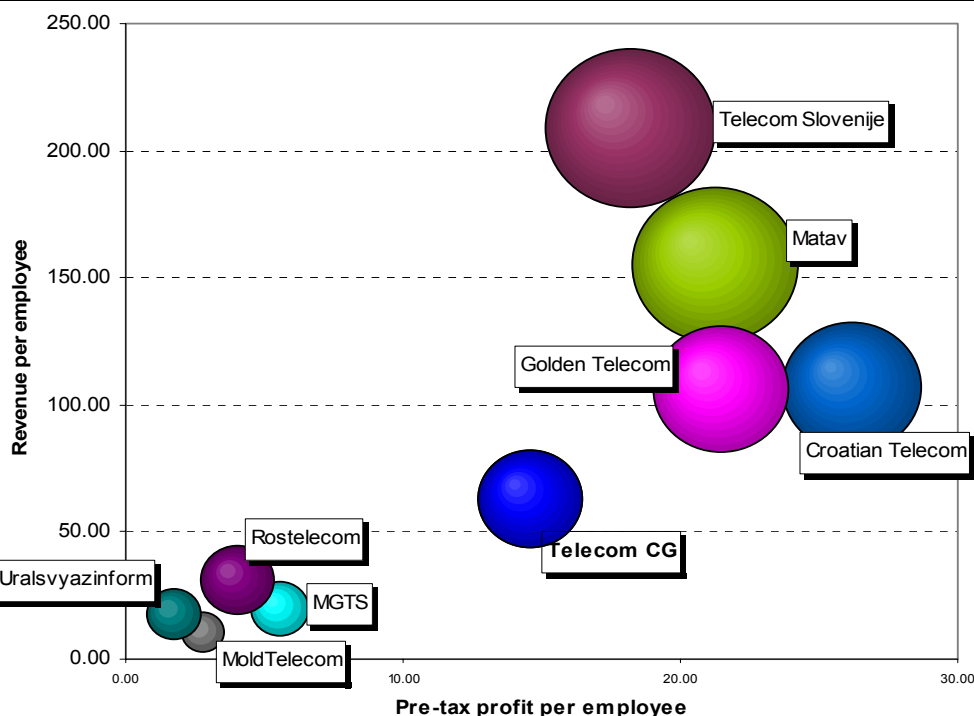
Source: RIAG research

Return on equity of Telecom Montenegro is below its potential. If median company financing structure and assets utilization ratios were applied to Telecom Montenegro's pre-tax income margin, its ROE would amount to 20%.

There are however, constrains on the company's ability to improve these financial ratios. It is likely that after privatization the company will have better access to debt through its new owner, however increasing the asset utilization ratio will involve increasing the company's net revenue.

**Productivity analysis** is performed on the basis of parallel comparison of sales per employee and pre-tax income per employee. The results are presented in the following chart.

**Chart 43: Productivity Analysis, 2003**



Source: RIAG research

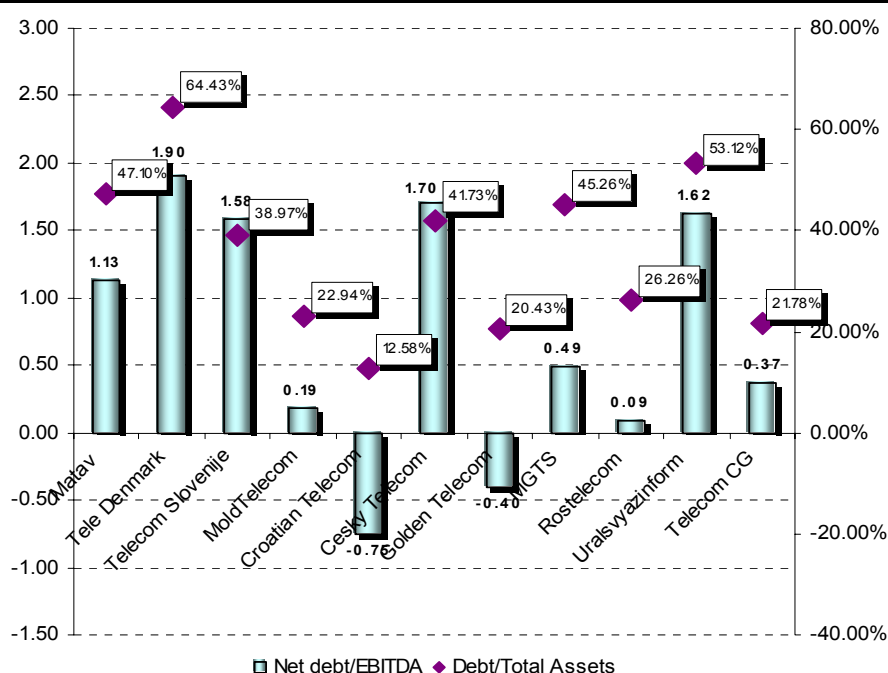
The results of productivity comparison show that Telecom Montenegro has overall average productivity within the peer group. Its productivity demonstrated through average pre-tax income per employee are better then the average (EUR 15 thousand vs. EUR 11 thousand), while productivity demonstrated through sales per employee ratio is lower then the peer group average

(EUR 63 thousand vs. EUR 108 thousand). This shows that although Telecom Montenegro seems to be overstaffed in comparison with its peers, such overstaffing is well hedged by the relatively lower costs of labor in Montenegro, as well as efficient utilization of own and borrowed capital.

Another conclusion drawn from these figures is that there is room for productivity improvement, however, at this point, the level of overstaffing can not be assessed with enough accuracy and any downsizing effects can not be estimated.

**Leverage analysis** was performed on the basis of parallel comparison of debt to total assets, EBITDA to interest expense, and net debt to EBITDA. The results are as follows:

**Chart 44: Leverage analysis**



**EBITDA/Interest Expense**

Matav	Tele Denmark	Telecom Slovenije	Mold Telecom	Croatian Telecom	Cesky Telecom	Golden Telecom	MGTS	RosTelecom	Uralsv yaz.	Telecom Mont.
6.26	12.83	7.28	71.18	2,978	21.34	104.55	16.53	-53.06	4.63	343.00

Source: RIAG research

As already stated above, Telecom Montenegro is a low leveraged company. Its debt to asset ratio of 21.8% is significantly below the peer average of 37.3%. The company's potential to raise additional debt financing is further demonstrated through its relatively low net debt to EBITDA ratio of 0.37, which is also below the peer average of 0.75. Telecom Montenegro has considerable ability to service its debt from its cash flow operations, confirmed with its high cash coverage ratio.



## 9 FINANCIAL INFORMATION

### 9.1 Introduction

This analysis is performed for the fiscal years ending 2002, 2003 and the first half of 2004. The financial statements analyzed are Audited financial statements as of 31 December 2002 and 31 December 2003 and statutory financial statements as of 30 June 2004.

Audited financial statements for the year 2002 are prepared by the independent auditors Pricewaterhouse Coopers, Belgrade. The financial statements of Telecom Montenegro for the year 2002 were prepared in accordance with at that time existing financial regulations applied in Montenegro. Montenegrin accounting rules from 2002, recognized 18 relevant IAS standards. For presentation in accordance with International Accounting Standards ("IAS"), the accounts have been partly adjusted and reclassified.

The financial statements as of 31 December 2002 represent consolidated financial statements of Telecom Montenegro and its subsidiary Monet, and a joint venture Montenegro Card. In 2002 Montenegro Card was accounted for by the equity method of accounting. Therefore, this section is advised to be read in conjunction with the audited financial statements of previously mentioned companies for the year ended 31 December 2002 and consolidated independent auditors' report of Telecom Montenegro for the same period to be found in the data room.

The independent auditors firm Deloitte & Touche, Podgorica, prepared audited financial statements for the year 2003. The financial statements of Telecom Montenegro for the year 2003 are prepared in accordance with the financial regulations applied in Montenegro, which included appliance of International Accounting Standards (IAS). International Accounting Standards (IAS) were adopted as local starting from January 2003.

The financial statements as of 31 December 2003 represent consolidated financial statements of Montenegro Telecom and two subsidiaries Monet and Radio Broadcasting Centre (Radio-difuzni centar). The Company decided not to consolidate the financial statements of Montenegro Card for the year 2003. The financial statements of Telecom Montenegro as of 30 June 2004 are statutory financial statements prepared by the Company and are not audited.

The financial statements as of 30 June 2004 represent consolidated financial statements of Telecom Montenegro and its three subsidiaries Monet, Radio Broadcasting Centre (Radio-difuzni centar) and Internet Montenegro. As of February 2004 the Company increased its ownership in Internet Montenegro from 25% in 2003 to 85% in the first part of 2004.

The financial statements are recorded in euro (EUR).

## 9.2 Operating performance

The table below summarizes the audited Income Statement presented in accordance with IAS for 2003 and to the limited extent in accordance with IAS for 2002. Also, it contains statutory Income Statement for the first half of 2004, prepared in accordance with IAS.

**Table 100: Income statements for 2002, 2003 and the first half of 2004 (in EUR)**

	2002	2003	30.06.2004.
Revenue	89,892,784	92,396,591	47,658,242
Cost of sales	26,148,122	21,606,533	11,003,752
<b>Gross profit</b>	63,744,662	70,790,058	36,654,490
General and administrative expenses	(30,848,056)	(36,485,567)	17,888,693
Gain (Loss) from investing and financing		22,084	(907,190)
Foreign exchange gain, net	34,375	(444,686)	127,045
<b>EBITDA</b>	32,930,981	33,881,889	17,985,652
Depreciation	(23,648,354)	(11,471,710)	(7,240,758)
<b>EBIT</b>	9,282,627	22,410,179	10,744,894
Interest, net	221,424	(896,854)	(637,307)
<b>EBT</b>	9,504,051	21,513,325	10,107,585
Income taxes	3,787,414	1,136,973	1,573,490
<b>Net income</b>	<b>5,716,637</b>	<b>20,376,352</b>	<b>8,534,095</b>

Source: Statutory statements for the first half of 2004 and audited financial statements for 2003 and 2002

Total Company's revenues have increased by 3% from 2002 to 2003. The main reason for this increase lies in increase of revenues from Monet operations while fixed telephony revenues recorded slight decrease in 2003 from 2002. However, fixed telephony still remains the main revenue generator with 64% of total revenues in 2003. Revenues for the first 6 months of 2004 are EUR 47.6 million which is approximately one half of total revenues for 2003. On the other hand, if we know that the Company's revenue is always higher in the second part of the year, it is reasonable to expect that the revenues for the year ending 2004 will exceed the last year revenues. Again, the main growth generator will be increase of revenues from mobile operator. In 2004 the Company acquired majority stake in Internet Montenegro (holding now 85% of equity) that is expected to grow in future and generate additional revenues for the company. The Company records a positive trend of revenues in recent years and it is expected to grow in the future as the management is constantly improving the Company's operations in line with new market conditions.

Gross profit increased from Euro 63,744,662 in 2002 to Euro 70,790,058 in 2003, mainly due to decrease in cost of sales. In 2003 gross profit was 77% up from 2002 level of 71% of total revenues. In the first half of 2004 gross profit comprises 77% of revenues and it is expected to remain at this level by the end of the year.

EBITDA level in 2003 increased in nominal amount by 3% compared to the financial year 2002. EBITDA margin is constant at 37% in both 2002 and 2003, and slightly higher in the first half of 2004 (38%).

EBIT levels increased in 2003 compared to 2002 by 141% in nominal terms. EBIT margin increased from 10% in 2002, to 24% and 23% in 2003 and 2004, respectively. The main reason

of enlarged EBIT levels is decrease in depreciation charges due to change of accounting policies and application of IAS and lower value of tangible and intangible assets determined by appraisal in 2003.

Income before taxes increased by 126% in 2002 comparing to 2003 because of previously explained changes in depreciation charges and enlarged interest income.

As a result of more efficient management and change in accounting policies, net income has dramatically increased from Euro 5,716,637 in 2002 to Euro 20,376,352 in 2003 which resulted in increased net income margin from 6% in 2002 to 22% in 2003. Net income margin as of 30 June 2004 is 18%.

## 9.2.1 Assessment of Income Statement

### Revenues

**Table 101: Revenues for the years 2002, 2003 and the first half of 2004** in EUR

	2002	2003	30.06.2004
Revenues	89,892,784	92,396,591	47,658,242
Revenues from fixed telephony	65,249,344	58,832,663	28,283,871
Revenues from mobile telephony	20,397,445	26,394,770	14,585,489
Revenues from internet services			1,579,674
Monthly subscription for radio and TV	1,662,000	1,677,221	504,698
Other operating revenues	2,583,995	3,922,281	2,141,920
Other revenues	0	1,569,656	562,590
<b>Total revenues</b>	<b>89,892,784</b>	<b>92,396,591</b>	<b>47,658,242</b>

Source: Statutory statement for the first half of 2004 and audited financial statements for 2003 and 2002

The main generator of Company's revenues are revenues generated from fixed telephony making 59% out of total revenues for half year 2004, 64% in 2003 down from 73% in 2002. The declining trend is a result of both significant increases in the proportion of revenues from mobile telephony as a share of total revenues and cannibalization between fixed and mobile telephony. However, the Company is investing in fixed telephony network with the aim to increase quality of the service and create pre-conditions for introduction of new, more advanced value added services. Revenues from fixed telephony decreased by 9% in 2003 comparing to 2002.

Revenues from fixed telephony comprise: outgoing domestic (Serbia and Montenegro) and international calls, monthly subscription for the use of telephone line and revenues from interconnection of incoming calls of ProMonte mobile operator and Telecom Serbia on the bases of incoming traffic transiting through or with the final destination in Telecom Montenegro. Expenses from interconnection are expenses for outgoing traffic from Telecom Montenegro to mobile operators and Telecom Serbia with final destination in Serbia. Revenues and expenses from interconnection with Telecom Serbia are included starting from 1 August 2003. Before 1 August 2003 interconnection agreement with Telecom Serbia did not exist and therefore, incoming and outgoing traffic has not been reconciled. In this sense, revenues from traffic with Telecom Serbia for the above mentioned period distort the realistic picture of total revenue in 2003.

Until 1 July 2002 all incoming and outgoing telephone traffic was routed through PTT Union and the revenues and expenses based on international traffic through PTT Union used to be calculated based on predetermined percent. However, starting from 1 July 2002 the Company started routing international traffic individually which resulted in enlarged levels of revenues. For further details about adjustments performed the reader is advised to consult Audited Report for the year ended 2003.

Additionally, revenues from international outgoing calls in 2003 are lower than expected due to the lack of recordings for international outgoing traffic for months November and December 2003 because of the appearance of internet providers who were using new technologies to divert traffic from international routes and direct it through IP technologies, stripping the Company from their international revenues in these months.

Revenues from Monet's operations increased by 29% in 2003 comparing to 2002. In the first 6 months of 2004 this trend is continued. Revenues from mobile telephony were increasing its share in total revenues from 29% in 2003 to 31% in half year 2004. This indicates the cannibalization trend between fixed and mobile telephony. The main reason is increased use of prepaid mobile services and the increased accessibility and popularity of mobile telephony in general among customers and gaining market share on the expense of other mobile operator ProMonte. Those revenues relate to the net post-paid revenues from outgoing domestic (Serbia and Montenegro) and international traffic, and revenues from monthly subscription. Also, pre-paid revenues are included as well as roaming revenues and revenues and expenses from interconnection of ProMonte customers domestic and international traffic. Revenues from sale of postpaid and prepaid packages and mobile telephones are part of revenues from mobile telephony. Revenues from activation are one time service undertaken while connecting a user to network. Expenses from activation are mainly related to the dealer's fee for new user and expenses for SIM cards.

Revenues from internet services for the first half of the year 2004 in the amount of EUR 1.7 million are a new revenue stream as of end of February 2004 when the Company increased its share of ownership in the Internet Montenegro to 85%. These revenues are expected to have increasing trend in future years with further increase in penetration of internet services and increase in customer base (current penetration 15%).

Monthly subscription for radio and television are charged monthly and collected from the customers.

Other operating revenues include renting and maintenance of telephone capacities, revenues from associated entities, revenues from connecting new customers, telegrams, telex and other services etc. They are expected to be at a constant 4% of total revenues as they were in the observed period.

#### *Cost of sales*

Cost of sales has decreased in 2003 compared to 2002 by 17% due to higher amounts of expenses for international outgoing calls and expenses for trainings and seminars, and marketing expenses occurred in 2002.

Major item of cost of sales relates to expenses associated with revenues from Company's main business activities. The leading item within cost of sale structure in 2002 and 2003 is expense from interconnection in the country with ProMonte mobile operator and Telecom Serbia on the bases of incoming traffic transiting through or with the final destination in Telecom Montenegro and is at approximately constant annual level of EUR 8,449,392 in 2002 and EUR 8,464,460 in 2003. These expenses have increasing trend as a share in cost of sales from 32% in 2002, 39% in 2003 to 45% in 2004. Expenses for international outgoing calls in 2002 and 2003 are not comparable because expenses of previous periods from reconciliation with Union PTT in the amount of EUR 4.2 million are taken into account as a part of expenses for international outgoing traffic in 2002. That is the main reason for expenses from international outgoing calls to be lower by 64% in 2003 from 2002. Therefore, the realistic decrease of those expenses during this period is around 13.4%. In the first half of 2004 expenses for international outgoing calls make 10% of total cost of sales showing decreasing trend throughout the observed period partly because of switching to hubbing which is cheaper and the trend of lower prices of interconnection with international providers.

Increase of expenses for telecommunication material, other material and spare parts is noticeable, from EUR 491,685 in 2002 to EUR 1,205,194 in 2003. The main reason for this is in constant upgrading and new investments in telecommunication network.

Cost of goods sold have increased from EUR 793,944 in 2002 to EUR 1,881,589 in 2003, relating to SIM cards, mobile phones, vouchers, prepaid and post paid packages.

Both cost of goods sold and expenses of telecommunication material, other material and spare parts have increased their share in total cost of sale from 2% and 3% in 2002 to 6% and 9% in 2003 and 6% and 8% in the first half of 2004, respectively.

Energy expenses have increased from EUR 1,131,652 in 2002 to EUR 1,910,434 in 2003. The reasons for this are irregular recordings of energy by electricity supplier.

#### *Depreciation and amortization*

Depreciation charged during 2003 comprises amortization and depreciation of intangible and tangible assets. Amortization calculated for intangible assets relates to telecommunication license for fixed and mobile telephony and software in the amount of EUR 2,749,260, while depreciation for tangible assets relates to buildings, telecommunication equipment and network in the amount of EUR 8,722,450. Depreciation charge decreased in 2003 from 2002 by 51%. The main reasons for decrease in depreciation charges are changes in accounting policies and application of IAS, and lower value of tangible and intangible assets determined by an independent appraisal. The method applied for calculating depreciation is straight-line method for both tangible and intangible assets for the year 2002. For the year 2003 straight-line method was applied for buildings and intangible assets whereas for other tangible assets declining method was used. At the end of the first half of 2004 depreciation was at the level of EUR 7 million while at the 2003 year end it amounted to EUR 11 million. This increase is due to additional investments made in fixed assets as well as change/increase in the base for depreciation rate for tangible assets bought after 1 January 2003.

### *General and administrative expenses*

General and administrative expenses have increased from EUR 30,848,056 in 2002 to EUR 36,485,567 in 2003. The main reasons for this increase are loss on sale of fixed assets and write-off of non-current assets, and increase in expenses for wages, salaries and personal benefits, expenses for intellectual and other services from specialized institutions such as various consulting services, expenses for representation, expenses for rent of GSM locations and other rent, etc.

The major item on the part of general and administrative expenses is expenses for wages, salaries and personal benefits in the amount of EUR 22,203,697 in 2003 and EUR 18,824,759 in 2002, making 61% of total general and administrative expenses in 2002 and 2003. Wages and salaries, including healthcare, social and pension contributions represents 43% of total wages, salaries and personal benefits in 2003 and 41% in 2002, recording an increase of 26%. Tax and other contributions on salaries were 45% in 2003 and 42% in 2002 increasing by 25% in total amount. According to the Telecom Montenegro's and Monet's Collective labor agreement cost of various staff benefits such as public transport allowances, winter aid allowances, meal allowances and food subsidies in 2002 are recorded as other compensation which is the reason for higher other compensation expenses in 2002 than 2003. According to the Montenegrin regulations the Company was obliged to pay tax and other contributions to state funds for employees' social benefits in full until July 2002 when these taxes and contributions were split into two parts. Since then the Company is obliged to pay taxes on salaries and other social benefits according to predetermined rates for one part of total amount due and for the second part, the Company is obliged to withhold from the employees and make payment on their behalf according to the new Law on tax for individuals. In addition, taxes and contributions on behalf of the employer increased leading to increase in expenses for wages, salaries and personal benefits. Also, according to the Collective labor agreement the Company is obliged to payout to employees for severance and jubilees.

Although general and administrative expenses are expected to increase on the basis of consolidation of Internet Montenegro, the Company managed to reduce their share in total revenues from 39% in 2003 to 38% in the first half of 2004. To some extent this is due to reduced number of employees, but also due to reduced expenses for intellectual and other specialized services and expenses. In addition, in the first half of 2004, EUR 1 million of receivables was written off (bad debts) which is twice as large as in the same period last year.

### *Interest expenses/income, net*

Interest is expressed in net amount comprising of interest income mainly from long-term deposit with Crnogorska komercijalna banka made on October 2002 amounting EUR 314.764 in 2003 and EUR 340.629 in 2002, and interest expenses of EUR 1,211,618 in 2003 and EUR 119,205 in 2002. In 2004 net interest expenses arise mainly on interest expenses for the current portion of interest expenses of long term liabilities and EUR 75,123 of interest revenues.

### *Gain (Loss) from investing and financing*

In the first half of 2004 loss from investing and financing relates mainly to the current portion of long term liabilities of Post Office of Montenegro in the amount of EUR 853,621 according to the contract and repayment schedule (please see equity and liabilities section).

In 2003 this position recorded gain from the dividends from banks, which for the first half of 2004 are in the amount of EUR 36,142.

### *Gain (Loss) on foreign exchange, net*

Foreign exchange loss in 2003 is a result of netting off foreign exchange loss of EUR 646,072 with foreign exchange gain of EUR 201,386. Significant increase in foreign exchange loss in 2003 is due to change in USD/EUR parity in favor of EUR. In 2002 foreign exchange gain is the result of netting off foreign exchange gain of EUR 306,872 with foreign exchange loss of EUR 272,497.

Foreign exchange rates used for expressing foreign exchange positions are:

**Table 102: Foreign exchange rates as of 31 December 2002, 31 December 2003 and 30 June 2004, in EUR**

	2002	2003	30.06.2004.
USD	0.9588	0.7996	0.8218
GBP			1.4966
CHF			0.6545

*Source: Statutory statement for first the half of 2004 and audited financial statements for 2003 and 2002*

In 2002 Company's accounting system did not allow consistent calculation of foreign exchange gains and losses. All recorded exchange gains and losses were classified within finance costs even if they were incurred in relation with revenues or operating expenses rather than financing.

### *Income taxes*

The following table presents income taxes as of 30 June 2004, 31 December 2003 and 31 December 2002.

	2002	2003	30.06.2004.
Tax rate (15%, 20%)	1,896,810	4,297,665	2,016,517
Tax relief allowed for investments made	(286,304)	(668,998)	(476,247)
Deductible costs	1,799,366	117,771	33,220
Non-recoverable withholding tax on Monet dividends	396,542		
Previous year adjustment		(2,607,226)	

Other	(19,000)	(2,239)	
<b>Total income taxes charge</b>	<b>3,787,414</b>	<b>1,136,973</b>	<b>1,573,490</b>
Correction of non-recoverable withholding tax on Monet dividends	(396,542)		
<b>Current tax</b>	<b>681,779</b>	<b>1,560,996</b>	<b>1,114,228</b>
<b>Deferred tax</b>	<b>(2,709,093)</b>	<b>(424,023)</b>	<b>(459,262)</b>

Source: Statutory statement for the first half of 2004 and audited financial statements for 2003 and 2002

Income taxes for the first half of 2004, year ending 2003 and 2002 are calculated with progressive tax rates of 15% for taxable income which is less than EUR 100,000, and 20% for taxable income above EUR 100,000. Law on income tax allows loss carry forward for the period of 5 years.



### 9.3 Balance Sheet Analysis

The table below summarizes audited Balance Sheet for 2003 prepared in accordance with IAS and to the limited extent in accordance with IAS for 2002, and statutory balance sheet as of 30 June 2004 prepared by the Company.

**Table 104: Balance Sheet as of 31 December 2002, 31 December 2003 and 30 June 2004** in EUR

	2002	2003	30.06.2004.
<b>ASSETS</b>			
<b>Fixed assets</b>			
Intangible assets	15,995,319	20,531,648	21,021,240
Tangible assets	185,234,242	124,621,281	128,315,720
<b>Total fixed assets</b>	<b>201,229,561</b>	<b>145,152,929</b>	<b>149,336,960</b>
Long term investments	4,553,973	4,583,491	5,495,727
<b>Long term investments</b>	<b>4,553,973</b>	<b>4,583,491</b>	<b>5,495,727</b>
<b>Total non-current assets</b>	<b>205,783,534</b>	<b>149,736,420</b>	<b>154,832,687</b>
<b>Current assets</b>			
Inventories	1,980,446	2,037,999	1,924,967
Account receivables	21,351,487	26,233,050	34,636,958
Cash and cash equivalents	1,737,990	1,107,814	2,769,157
<b>Total current assets</b>	<b>25,069,923</b>	<b>29,378,863</b>	<b>39,331,083</b>
<b>Total assets</b>	<b>230,853,457</b>	<b>179,115,283</b>	<b>194,163,770</b>
<b>LIABILITIES AND EQUITY</b>			
Equity	202,838,431	140,996,394	140,996,394
Reserves	2,228,606	11,966,926	11,979,868
Retained earnings (Accumulated loss)	3,548,618	(12,821,110)	(8,509,225)
<b>Total equity</b>	<b>208,615,655</b>	<b>140,142,210</b>	<b>144,467,037</b>
<b>Minority interest</b>			<b>237,794</b>
Long term liabilities	3,570,259	13,899,547	13,470,191
<b>Long term liabilities</b>	<b>3,570,259</b>	<b>13,899,547</b>	<b>13,470,191</b>
<b>Current liabilities</b>			
Liabilities from operations	17,938,082	24,119,670	35,213,428
Interest accruals	0	133,037	151,842
Corporate tax liabilities	729,461	820,819	623,478
<b>Total current liabilities</b>	<b>18,667,543</b>	<b>25,073,526</b>	<b>35,988,748</b>
<b>Total liabilities</b>	<b>22,237,802</b>	<b>38,973,073</b>	<b>49,458,939</b>
<b>Total liabilities and equity</b>	<b>230,853,457</b>	<b>179,115,283</b>	<b>194,163,770</b>

Source: Statutory statement for the first half of 2004 and audited financial statements for 2003 and 2002

Total assets decreased in 2003 from 2002 by 22%. The main reason for decrease of fixed assets in 2003 is valuation as a result of the fixed assets appraisal performed by the independent appraisal firm American Appraisals that was recorded into the Company's books (independent valuation of fixed assets is performed according to IAS rules). According to valuation, tangible assets, primarily buildings and equipment, decreased by EUR 275,599,154 and intangibles decreased by EUR 341,533. In the first half of 2004 assets have increased by 8% due to additional long term investments in two banks, Atlas Mont banka, Podgorica and Hipotekarna banka, Podgorica. In addition, assets increased due to the increase in account receivables and enlarged levels of cash.

Current assets, as a percentage of total assets, recorded an increase in nominal terms of 34% in the first half of 2004 in comparison with 2003 and 17% in 2003 in comparison with 2002. The main reason for current asset increase is upward trend of receivable with 23% of increase between 2002 and 2003 mostly due to slowing down of international traffic netting.

Total equity, in the amount of EUR 86,701,433, decreased in 2003 by 33% in comparison with the previous year due to the effects of change in accounting policies and application of IAS. As of 30 June 2004 total equity increased comparing to year ending 2003 by 3%.

Telecom Montenegro is a low leveraged company with debt levels of 7% out of total equity and liabilities in 2004 which is significantly below the industry average. The Company's potential to raise additional debt financing is further demonstrated through its relatively low net debt to EBITDA ratio of 0.37.

### 9.3.1 Assessment of Balance Sheet

#### *Intangible assets*

Intangible assets comprise of telecommunication licenses, other licenses and software. Telecommunication license for fixed telephony is issued by the Agency for telecommunications of Montenegro for the period of 25 years in 2002. Telecommunication license for mobile telephony refers as general license for GSM 900 Mhz mobile telephony issued by the Agency for telecommunications of Montenegro for the period of 15 years in 2002. The Company has an option to renew the license for the period of 10 years after the expiration of license. The license gives the right to the Company to install, maintain and operate mobile telecommunication network according to the Law on telecommunication.

Although, in 2003 intangible assets have been revalued by an independent appraiser lowering their value by EUR 341,533, their share in total intangible assets has increased by 28% from 2002 to 2003 and as a percentage of total assets from 7% in 2002 to 11% in 2003. The main reason for this increase is that the Company is constantly upgrading technical infrastructure of the system such as implementation of SAP software.

In the first half of 2004 additional investments in SAP were undertaken and installation of MIPnet was finished in February 2004 when testing of the network has taken place and its commercial use will start in short time period.

#### *Tangible assets*

Tangible assets comprise land, buildings, equipment, current investments and prepayments for tangible assets. Property and equipment is in the form of mobile and fixed line telecommunication equipment and networks, radio and television equipment, IT equipment, buildings and offices.

Tangible assets in 2003 comparing to 2002 have decreased by 33% mainly because of change in accounting policies and application of IAS, and lower value of tangible assets determined by appraisal. The reason for this is netting off increased investments in tangible assets with the effects of an independent appraisal in the amount of EUR 275,599,154.

Tangible assets as a share of total assets in 2003 make 70% and in 2002-80% of total assets. Although tangible assets have decreased as a percentage of total assets (because of accounting reasons), substantial capital investments have been made into buildings, infrastructure and network, particularly installation of MIPnet network. In 2002, additions mainly relate to ongoing investment in network digitalization, the roll out of the optical fiber backbone network and upgrade of local distribution networks.

In the first half of 2004 additional investments are undertaken in construction of new headquarter building. The largest increase relates to goodwill from acquisition of additional 60% of Internet Montenegro arise on the difference between the accounting recordings of Internet Montenegro before acquisition when they had 25% of ownership and after the acquisition when they consolidated their statements. This goodwill is to be depreciated in 5 years at 20% annual rate.

The Company is not expected to have significant increase of tangible assets in future years as it is expected that the major investments in telecommunication network will be finished by the end of the year 2004.

#### *Long term investments*

Long term investments comprise of long term deposits, long term financial investments in subsidiaries, banks and other legal entities, and long term loans to employees.

The following table represents the structure of long term investments as of 30 June 2004, 31 December 2003 and 31 December 2002.

**Table 105: Long term investments as of 31 December 2002, 31 December 2003 and 30 June 2004 in EUR**

	% ownership	2002	2003	30.06.2004.
<b>Long term deposits</b>				
Long term deposits		2,500,000	2,500,000	2500000
<b>Total long term deposits</b>		<b>2,500,000</b>	<b>2,500,000</b>	<b>2,500,000</b>
<b>Investments in banks</b>				
Crnogorska komercijalna banka, Podgorica	17.46%	980,239	980,239	980,239
Hipotekarna banka, Podgorica	0.19%	19,062	19,062	34,401
EFG Eurobank, Belgrade	0.03%	10,712	10,712	10,712
Atlas Mont banka, Podgorica	1.46%			76,694
<b>Total investments in banks</b>		<b>1,010,013</b>	<b>1,010,013</b>	<b>1,102,046</b>
<b>Investments in subsidiaries</b>				
Internet Crne Gore, Podgorica	25%	195,991	195,991	
PTT Standard, Podgorica	20%	345,924	345,924	345,924
Montenegrocard, Podgorica	51%		83,776	83,776
Postanska stedionica, Belgrade	3.75%	127,040	127,040	127,040
Montmak, Podgorica	5%	47,550		

Lovcen osiguranje, Podgorica	0.39%	37,200	37,200	37,200
Bel Pagette, Podgorica	25%	18,341		
Adjustment		(411,815)	(345,924)	(345,924)
<b>Total investments in subsidiaries</b>		<b>360,231</b>	<b>444,007</b>	<b>248,016</b>
<b>Other long term investments</b>				
Loans to employees		454,729	497,646	1,494,469
Expenses for SIM cards in excess of one year		229,000		
Prepaid rent of GSM locations			131,825	131,825
Prepaid taxes				19,371
<b>Total other long term investments</b>		<b>683,729</b>	<b>629,471</b>	<b>1,645,665</b>
<b>Total long term investments</b>		<b>4,553,973</b>	<b>4,583,491</b>	<b>5,495,727</b>

Source: Statutory statement for the first half of 2004 and audited financial statements for 2003 and 2002

Long term investments' share in total assets is 3% in half year 2004 and year ending 2003, and 2% for the year ending 2002 although they are recording increasing trend in total amount.

The largest share of total long term investments of 55% both in 2003 and in 2002 and 45% for the first half of 2004 relates to the long term deposit with Crnogorska komercijalna banka, Podgorica. This long term deposit is collateral for irrevocable bank guarantee issued to Ericsson Nikola Tesla, Zagreb on the basis of the Contract for purchase of digital switching equipment. Long term deposit is made since October 8, 2002 with fixed interest rate of 7.5% p.a. payable quarterly. The long term deposit will expire when all the liabilities to Ericsson Nikola Tesla, Zagreb from the above mentioned contract, are paid in full. The deposit is expected to expire on 31 December 2005.

Investments in banks are constant in both 2003 and 2002 while during the first half of 2004 the Company enlarged its investments with Atlas Mont banka, Podgorica, from the portion of investments undertaken by Internet Montenegro, increasing total investments in banks by 9%. Investments in subsidiaries are decreasing in the first half of 2004 because the Company increased its investment in Internet Montenegro in 2004 by 60%.

In 2003 provision was made in the amount of EUR 345,924 related to PTT Standard while in 2002 the provision amounted to EUR 411,815 against the carrying value of investments in PTT Standard, MontMak, and Bel Pagette.

### *Inventories*

Inventories in the amount of EUR 2,037,999 in 2003 and 1,980,446 in 2002 comprise of telephones, mobile phones, SIM cards, vouchers, prepaid and postpaid packages, ISDN telephones, spare parts, material, and other inventories. Inventories have increased by 3% in 2003 comparing to 2002 although their share in total assets remained the same 1% in both years.

## Receivables

Receivables as a percentage of total assets make 18% in the first half of 2004, 15% in 2003 and 9% in 2002.

**Table 106: Receivables as of 31 December 2002, 31 December 2003, and 30 June 2004, in EUR**

	2002	2003	30.06.2004
<b>Trade debtors from telecommunication services</b>			
Domestic trade debtors	23,260,193	27,726,770	34,062,899
Foreign trade debtors	2,510,651	5,888,685	7,592,146
Provision for the impairment of trade receivables	(8,355,312)	(10,220,547)	(11,235,259)
<b>Total trade debtors from telecommunications</b>	<b>17,415,532</b>	<b>23,394,908</b>	<b>30,419,786</b>
Other receivables	2,042,124	2,522,341	1,200,641
<b>Other receivables</b>	<b>2,042,124</b>	<b>2,522,341</b>	<b>1,200,641</b>
<b>Short term placements</b>			
Vektra, Podgorica	261,104	261,104	
Central Bank of Montenegro		199,071	
Crnogorska komercijalna banka, Podgorica	522,360	116,730	3,002,631
Elektroprivreda Crne Gore, Niksic	511,292		
Atlas Mont banka, Podgorica	500,000		
Budget of the Republic of Montenegro	99,075		
Rudnik uglja, Pljevlja			484,142
Provision		(261,104)	(484,142)
Current portion of long term loan to employees			13,900
<b>Total short term placements</b>	<b>1,893,831</b>	<b>315,801</b>	<b>3,016,531</b>
<b>Total receivables</b>	<b>21,351,487</b>	<b>26,233,050</b>	<b>34,636,958</b>

Source: Statutory statement for the first half of 2004 and audited financial statements for 2003 and 2002

Receivables have increased by 32% in the first half of 2004 comparing to 2003 and 23% in 2003 comparing to 2002 mainly because of the increase in trade debtors from telecommunication services.

In the first half of 2004 the Company's trade debtors from telecommunications increased because of the delay in reconciliation of international traffic. The largest increase in 2003 in relation to 2002 is in foreign trade debtors particularly due to the problems in collection from Deutsche Telecom related to their billing. Trade debtors from telecommunications in the amount of EUR 17,415,532 make 82% of total receivables in 2002 and EUR 23,394,908 represent 89% of total receivables in 2003.

In the first half of 2004 short-term placements increased in comparison with 2003. The main reason for this increase is new short term placement made with Crnogorska komercijalna banka, Podgorica in the amount of EUR 3 million. Short term placements are reduced by 83% in 2003 in comparison with 2002. In the first half of 2004 their share in total assets is 9%, in 2003 only 1% and 9% in 2002. Short term placements in 2002 included investments in loans and short term deposits provided to major corporations and banks in Montenegro at an average interest rate of approximately 6% p.a. Short term placements with Central bank of Montenegro in 2003 relate to Government short term notes with a face value of EUR 200,000 with discount rate of 6% p.a. and maturity as at 22 January 2004.

Provisions for trade debtor from telecommunication services in fixed telephony are based on the collection estimates of management and the collection history of the debtor. Provisions for the postpaid services are made for the receivables where the maturity of payment exceeds 120 days.

Main debtors as of 30 June 2004 are presented in the table below:

**Table 107: Debtors as of 30 June 2004** in EUR

<b>Debtors</b>	<b>30.06.2004.</b>
Telecom Serbia	3,076,970
Pro Monte GSM	2,343,499
Deutsche Telecom	1,903,028
Telecom Italia	1,815,049
Budget of Republic of Montenegro	1,174,729
PRO-MONTE GSM	845,785
British Telecom	626,921
Elektroprivreda Crne Gore	611,095
Army SCG	479,918
Telecom Austria	439,884
Telecom Greece	438,978
<b>Total debtors</b>	<b>13,755,856</b>

*Source: Statutory statements for the first half of 2004 and management data*

In 2003 the Company's collection of debt outstanding for fixed telephony was 96% for individuals and 89.6% for businesses entities, averaging 94% in total.

#### *Cash and cash equivalents*

Cash and cash equivalents as percentage of total assets represent around 1% as of 30 June 2004, 31 December 2003 and 31 December 2002. The structure of cash and cash equivalents as at 30 June 2004, 31 December 2003 and 31 December 2002 is as follows:

**Table 108: Cash and cash equivalents as of 31 December 2002, 31 December 2003 and 30 June 2004, in EUR**

	<b>2002</b>	<b>2003</b>	<b>30.06.2004</b>
<b>Cash and cash equivalents</b>			
Current account	888,977	610,388	2,078,818
Foreign exchange account	620,848	393,236	635,788
Cash in hand	20,838	24,329	20,539
Other cash	9,740	79,861	34,013
Treasury bills	197,587		
<b>Total cash and cash equivalents</b>	<b>1,737,990</b>	<b>1,107,814</b>	<b>2,769,158</b>

*Source: Statutory statement for the first half of 2004 and audited financial statements for 2003 and 2002*

Telecom Montenegro has current accounts with Atlasmont Banka and Crnogorska komercijalna banka and foreign exchange accounts with Montenegro banka, Hipotekarna banka, Atlasmont banka and Crnogorska komercijalna banka. Monet's accounts are with Atlasmont Banka, Podgorica and Crnogorska Komercijalna Banka, Podgorica. Internet Crne Gore has current account with Hipotekarna Banka, Podgorica and foreign exchange accounts with Hipotekarna Banka, Podgorica, Podgoricka Banka, Podgorica and Crnogorska Komercijalna Banka, Podgorica.

### *Equity*

In 2003 equity decreased by 30% from 2002 due to the changes in accounting policy and application of IAS as well as the result of effects of an independent appraisal.

The following table presents ownership structure of the Company as of 30 June 2004, 31 December 2003 and 31 December 2002:

**Table 109: Ownership structure as of 31 December 2002, 31 December 2003 and 30 June 2004**

in EUR

	31 December 2002			31 December 2003			30 June 2004		
	shares	%	value	shares	%	value	shares	%	value
<b>Government of the Republic of Montenegro</b>	<b>17,383,310</b>	<b>51.12%</b>	<b>103,693,182</b>	<b>12,083,443</b>	<b>51.12%</b>	<b>72,078,946</b>	<b>23,953,548</b>	<b>50.67%</b>	<b>71,442,403</b>
Zavod za zaposljavanje Republike CG							213,080	0.45%	635,520
Privatization funds				1,496,466	6.33%	8,926,569			
HLT	2,152,825	6.33%	12,841,816	790,444	3.34%	4,715,077	2,992,932	6.33%	8,926,538
Eurofond	1,295,700	3.81%	7,728,980	775,489	3.28%	4,625,869	1,580,888	3.34%	4,715,061
Atlas mont	1,010,148	2.97%	6,025,634	638,866	2.70%	3,810,900	1,558,451	3.30%	4,648,142
Trend	909,250	2.67%	5,423,767	576,542	2.44%	3,439,131	1,295,088	2.74%	3,862,651
Moneta	743,058	2.19%	4,432,415	359,723	1.52%	2,145,784	1,159,836	2.45%	3,459,257
Mig	517,500	1.52%	3,086,939	<b>4,637,530</b>	<b>19.62%</b>	<b>27,663,330</b>	727,582	1.54%	2,170,042
<b>Total privatization funds</b>	<b>6,628,481</b>	<b>19.49%</b>	<b>39,539,551</b>	<b>49,082</b>	<b>0.21%</b>	<b>292,779</b>	<b>9,314,777</b>	<b>19.70%</b>	<b>27,781,690</b>
<b>Other legal entities</b>	<b>59,223</b>	<b>0.17%</b>	<b>353,271</b>	<b>6,866,915</b>	<b>29.05%</b>	<b>40,961,339</b>	<b>183,866</b>	<b>0.39%</b>	<b>548,388</b>
<b>Individuals</b>	<b>9,933,266</b>	<b>29.21%</b>	<b>59,252,427</b>	<b>23,636,970</b>	<b>100.00%</b>	<b>140,996,394</b>	<b>13,608,669</b>	<b>28.79%</b>	<b>40,588,393</b>
Total equity	34,004,280	100.00%	202,838,431				47,273,940	100.00%	140,996,394

Source: Statutory statement for first half of 2004 and audited financial statements for 2003 and 2002



Nominal value per share as at 31 December 2003 is EUR 5.9651.

Company's shares are quoted on NEX Montenegro stock exchange.

As of 31 December 2003 subscribed but unpaid shares of individuals comprise of 37,472 shares in the amount of EUR 223,026 and are included in the total number of shares owned by private individuals.

Equity was reduced by 10,367,310 ordinary shares by the decision of shareholder assembly on 26 December 2003. This reduction is taken due to accumulated loss from previous periods in the amount of EUR 4,892,039 and effects of appraisal as of 31 December 2000. Proportion of shareholder ownership was not changed.

The Company paid out dividends during 2003 in the amount of EUR 3,820,552 with dividend per share of EUR 0.1124 and during 2002 in the amount of EUR 3,520,267 with dividend per share of EUR 0.1035.

As of 5 March 2003, the Company's General Meeting brought a Decision on issuing shares based on share splitting, establishing the nominal value per share at EUR 2.98255, dividing the total equity into 47,273,940 shares.

#### Reserves

**Table 110: Reserves as of 31 December 2002, 31 December 2003 and 30 June 2004, in EUR**

	2002	2003	30.06.2004
<b>Reserves</b>			
Revaluation reserves		10,190,769	10,190,768
Statutory reserves	933,179	480,731	493,673
Other reserves	1,295,427	1,295,427	1,295,427
<b>Total reserves</b>	<b>2,228,606</b>	<b>11,966,927</b>	<b>11,979,868</b>

Source: Statutory statement for the first half of 2004 and audited financial statements for 2003 and 2002

Reserves as of 30 June 2004 are slightly higher in comparison with 2003. Significant increase of total reserves in 2003 in comparison with 2002 is due to increase in revaluation reserves as a consequence of an independent appraisal and revaluation of tangible and intangible assets.

According to the Company's Articles of Association and its business policy, 5% of net income is being transformed annually into statutory reserves until they reach 10% of total equity.

#### Retained earnings / accumulated loss

Accumulated losses occurred in 2003 because of the change in accounting policy and the effects of implementation of IAS in the amount of EUR 40 million. As a result of netting off effects of implementation of IAS with current year net income, the Company is recording accumulated loss in the amount of EUR 12.8 million. Although significant, this loss incurred due to the change in accounting policy and implementation of IAS and therefore is not a measure of Company's realistic financial position.

In the first half of 2004 accumulated loss totaling EUR 8.5 million decreased from the previous year EUR 12,8 million and is expected to decrease further in the future.

### *Long term liabilities*

Long-term liabilities comprise long term loans, provisions, deferred taxes and accrued revenue from activation of SIM cards exceeding one year. Long term liabilities increased due to additional loans taken from HVB banka, Belgrade for the installation of Montenegrin IP service network and Ericsson Nikola Tesla, Zagreb for telecommunication equipment. Long term liabilities make up 7% of total assets as of 30 June 2004.

**Table 111: Long term liabilities as of 31 December 2002, 31 December 2003 and 30 June 2004, in EUR**

	Principal	2002	2003	30.06.2004
Long term loans				
HVB bank, Belgrade	3,200,000		3,200,000	3,200,000
Ericsson Nikola Tesla, Zagreb	23,858,652		13,455,962	11,278,607
Slovenska izvozna druzba, Ljubljana	747,707	598,166	598,166	523,395
Telecom Italy - "Corfu-Bar" Project	USD 1,962,050	474,630	397,154	408,191
<b>Total long term loans</b>		<b>1,072,796</b>	<b>17,651,282</b>	<b>15,410,193</b>
Other domestic long term liabilities				
Investment development of Montenegro Post		2,063,101		
Financing of Montenegro Post		397,259	267,414	
Prepayments				121,066
<b>Total other domestic long term liabilities</b>		<b>2,460,360</b>	<b>267,414</b>	<b>121,066</b>
Current portion of long term liabilities		(2,934,990)	(7,571,566)	(6,072,747)
<b>Total long term liabilities</b>		<b>598,166</b>	<b>10,347,130</b>	<b>9,458,512</b>
<b>Provisions, deferred taxes and accruals</b>				
Provisions			1,028,723	1,028,723
Deferred taxes		2,709,093	2,523,694	2,982,956
Accrued revenue from activation of SIM cards exceeding one year		263,000		
<b>Total provisions, deferred taxes and accruals</b>		<b>2,972,093</b>	<b>3,552,417</b>	<b>4,011,679</b>
<b>Total long term liabilities</b>		<b>3,570,259</b>	<b>13,899,547</b>	<b>13,470,191</b>

Source: Statutory statement for the first half of 2004 and audited financial statements for 2003 and 2002

The long term loan from HVB Bank, Belgrade of EUR 3,200,000 is intended for the construction of MIPnet (Montenegrin IP network). Loan terms are: interest rate of 6 months EURIBOR plus 6% payable in 4 semi annual payments starting from July 2004.

Long term loans in the form of vendor financing from Ericsson Nikola Tesla, Zagreb of EUR 13,455,962 at the end of 2003 relate to contracts for purchase of telecommunication switching equipment with a principal amount of EUR 21,766,152. Terms of the loan are as follows: 6 months grace period from the moment of advance payment in the amount of 20% - 30% of contracted purchase, payable in ten quarterly installments. Interest rate of 6.3% p.a. is for the principal amount of EUR 4,966,289 and 6.10% for the rest of the loan. In April 2004, Ericsson Nikola Tesla, Zagreb extended a long term vendor loan to Monet of EUR 2,092,500 payable in 36 months with a 6 months grace period and 5.9% p.a. interest rate. Therefore, total principal

amount extended to the Company as of 30 June 2004 is EUR 23,858,652 with an outstanding amount of EUR 11,278,607.

The long term loan from Slovenska izvozna druzba, Ljubljana of EUR 523,395 in the first half of 2004 is granted for the purchase of telecommunication equipment from Iskra Elektrozeve, Kranj with a principal of EUR 747,707 payable in 10 equal semi annual payments as of May 2003 and 6 months EURIBOR plus 1.85% p.a. interest rate.

The long term loan granted from Telecom Italy for the Corfu-Bar project of EUR 408,191 at the end of the first half of 2004 is for the installation and maintenance of underwater optical fiber from Corfu to Bar with a principal amount of USD 1,962,050 initially signed between Hellenic Telecommunications Organization (OTE), Telecom Italy and Yugoslav PTT. The interest rate is 2% p.a. with a maturity date of 30 September 2003.

Other long term liabilities comprise liabilities to the Montenegro Post Office taken during the spin off from PTT Montenegro with an agreed repayment schedule. The repayment schedule in the amount of EUR 4,800,000 from 2004 until 2007 is presented below:

**Table 112: Long term liabilities to Montenegro Post Office as of 31 December 2003. in EUR**

Liabilities to Montenegro Post Office	2003
2004	1,200,000
2005	1,200,000
2006	1,200,000
2007	1,200,000
<b>Total liabilities for the period</b>	<b>4,800,000</b>

Source: Statutory statement for the first half of 2004 and audited financial statements for 2003 and 2002

In the first half of 2004 the Company paid portion of the scheduled liabilities for Montenegro Post Office in the amount of EUR 853,621.

In 2003, provisions relate to employee benefits based on expected payouts for jubilee rewards, and compensation for early retirement in the amount of EUR 1,028,723.

#### *Liabilities from operations*

**Table 113: Liabilities from operations as of 31 December 2002, 31 December 2003 and 30 June 2004, in EUR**

	2002	2003	30.06.2004
Trade payables	8,515,720	10,360,514	15,447,785
Short term financing payables	1,000,000	750,000	1,849,637
Current portion of long term liabilities	2,934,990	7,571,566	6,072,747
Corporate tax liabilities	1,526,140	1,330,245	3,405,868
Accruals	905,318	1,202,088	
Other payables	3,055,914	2,905,257	8,437,391
<b>Total liabilities from operations</b>	<b>17,938,082</b>	<b>24,119,670</b>	<b>35,213,428</b>

Source: Statutory statement for first half of 2004 and audited financial statements for 2003 and 2002

Trade payables are payables for interconnection, direct international traffic, telephone services and lease of telecommunication infrastructure for international traffic. A significant share of trade payables are domestic trade payables with 81% in 2003 and 66% in 2002 comparing to foreign

trade payables with 19% in 2003 and 34% in 2002. Domestic trade payables increased by 49% from 2002 to 2003 while foreign trade payables decreased by 32% during the same period.

Short term financing payables consist of short term loans extended to Monet from Crnogorska komercijalna banka, Podgorica on 15 September 2003 with debt outstanding of EUR 750,000 as of 31 December 2003. The repayment of principal is to be made in monthly installments with annual interest rate of 12%. On 14 January 2004 a short term loan of EUR 2 million was extended from Crnogorska komercijalna banka, Podgorica to Monet, maturing on 18 July 2004 with an interest rate of 12% p.a. payable in monthly installments. A new loan of EUR 2 million was granted on 23 July 2004 to Monet and an interest rate of 12% p.a. payable in 6 monthly installments. Short term loan of EUR 1 million and interest rate of 10% p.a. was extended to Telecom Montenegro from the same bank on 28 May 2004 maturing on 28 August 2004.

The current portion of long term liabilities increased as a percent of total liabilities from operations from 16% in 2002 to 31% in 2003, and by 158% in total, because of the additional long term debt for financing investments in telecommunication equipment and the network.

Taxes payable include taxes payable for dividends, sales tax, and other taxes payable. As of April 2003 sales tax is replaced with VAT.

Accruals relate to revenues from prepaid vouchers, SIM cards, and prepaid amounts for postpaid users.

Other payables include payables to RTV Crna Gora, related to broadcasting subscription fees collected on its behalf by Telecom Montenegro, payables to PIO pension fund, payables for dividends, etc. Their percentage of total operating liabilities was 12% in 2003 and 7% in 2002.

#### *Corporate income tax liabilities*

Tax liabilities for 2003 include liabilities for income tax in the amount of EUR 820,819. In 2002 they included liabilities for income tax in the amount of EUR 328,319 and withholding tax for Monet dividends of EUR 401,142.

## APPENDIX I – Telecom Montenegro

## Appendix I-1: Biographies of Telecom Montenegro management team

### Chief Executive Officer (CEO)

*Mr. Milan Perović*

- Born in 1971
- Employment record:
- Nov 2002-present: Executive Manager of Telecom Montenegro
- Aug 2001-Jan 2002: Special advisor of Executive Manager for privatization and acting CFO of Telecom Montenegro
- 2000-2002: Manager in Deloitte & Touche
- Summer 1999: He worked on field project as a part of MBA programme
- 1996-1998: Assistant to reinsurance director in Lovćen Insurance Company, Podgorica
- 1996: Worked in Central and Eastern European Department of Harris & Dixon Insurance Brokers Ltd, London, Great Britain
- 1994-1996: Worked in IT department of Lovćen Insurance Company, Podgorica
- Education: Degree in Electrical Engineering, Faculty of Electrical Engineering, Podgorica  
MBA degree, SDA Bocconi, Milan, Italy

### Chief Financial Officer (CFO)

*Mr. Aleksandar Belević*

- Born in 1968
- Employment record:
- Jan 2002-present: Chief Financial Officer of Telecom Montenegro
- Oct 2000-Jan 2002: Project Manager and Chief of Representative office of Raiffeisen Investment AG in Podgorica
- Nov 1999-Oct 2000: Commercial manager at Vectra, Podgorica
- Feb 1997-Nov 1999: Manager in the Development Fund of Republic of Montenegro
- Dec 1995-Feb 1997: Financial advisor at Sinex, Podgorica
- Education: Degree in Business Administration, Faculty of Economics, Podgorica  
MBA degree, University of Montenegro, Postgraduate studies "Institutional economy", Montenegro

### Chief Legal Officer (CLO)

*Ms. Ana Radonjić*

- Born in 1965
- Employment record:
- Jul 2002-present: Member of the Board of Directors of Telecom Montenegro
- Sep 2001- present: Chief Legal Officer of Telecom Montenegro
- Jan 1996- Sep 2001: Head of Legal Department of the Development Fund of the Republic of Montenegro
- Nov 1994-Jan 1996: Attorney at law at the law office
- 1990-Nov 1994: Legal assistant at the Supreme Court in Podgorica
- Education: BSc. degree: Faculty of Law, Podgorica

### Chief Technical Officer (CTO for business units)

*Mr. Aleksandar Mijač*

- Born in 1957
- Employment record:
- Sep 2001-present: Chief Technical Officer of Telecom Montenegro
- 1998-Sep 2001: Chief of Technical Department of Telecom Montenegro
- 1996-1998: General Manager Advisor at JP PTT
- 1994-1996: Director of Broadcasting Centre in Podgorica
- 1986-1994: Head of Radio Communication Department at TV Montenegro
- 1982-1986: Worked in Broadcasting and Network Department at TV Montenegro
- Education: Degree in Electrical Engineering, Faculty of Electrical Engineering, Belgrade

### Chief Technical Officer for maintenance and development of telecommunication systems

*Mr. Željko Mirotić*

- Born in 1962
- Employment record:
- Apr 2002-present: Co-Chief Technical Officer, Telecom Montenegro
- 1999-Apr 2002: Director of TC Podgorica, Telecom Montenegro
- 1997-1999: Head of International transit switch, Telecom Montenegro
- 1992-1997: System Engineer, Telecom Montenegro
- Education: Degree in Electrical Engineering, Faculty of Electrical Engineering, Podgorica

### Chief IT officer (CIT)

*Mr. Saša Leković*

- Born in 1971
- Employment record:
- 2001-present Chief IT officer of Telecom Montenegro
- 2001-2001 Coordinator for MSC and Software Developer in Monet
- 1994-2001 Assistant lecturer at the University of Montenegro
- Education Degree in Electrical and Electronic Engineering, Faculty of Electrical Engineering, Podgorica  
MSc. Degree in Computer Science, Faculty of Electrical Engineering, Belgrade

## Appendix I-2: Breakdown of JUPAK and TELEX users

Data on users of YUPAK and TELEX network as at 27.02.2004											
Town	Ports			Users		Speed		Function		TELEX data Users	
	Capacity	Network	IS	Post	Other	19.2 Kb	64 Kb	Syn	Asyn	Post	Other
Andrijevica	8	1	1	1	2	4		4		2	2
Bar	32	1	1	4	8	12	1	12	1	7	35
Berane	32	4	1	1	5	5	2	5	2	3	3
Bijelo Polje	32	2	1	1	5	7		6	1	3	6
Budva	32	1	1	4	8	10	3	12	1	3	19
Cetinje	16	1	1	1	4	6		4	2	3	8
Danilovgrad	8	1	1	1	3	5		5		2	1
Herceg Novi	32	1	1	7	9	16	1	14	3	7	7
Kolasin	8	1	1	1	3	5		4	1	2	2
Kotor	32	1	1	4	5	9	1	9	1	5	10
Mojkovac	8	1	1	1	4	6		5	1	2	3
Niksic	32	3	1	3	7	10	1	10	1	5	14
Plav	8	1	1	1	5	7		6	1	2	2
Pluzine	8	1	1	1	1	3		3		2	1
Pljevlja	16	1	1	1	5	7		5	2	3	3
Podgorica 1	64	16	7	14	21	37	6	43		16	116
Podgorica 2	64	1		4	7	8		8			
Rozaje	16	1	1	1	5	7		5	2	2	5
Savnik	8	1	1	1	1	3		3		2	1
Tivat	16	1	1	2	5	8		6	2	3	6
Ulcinj	16	1	1	3	6	10		7	3	3	2
Zabljak	8	1	1	1	2	4		4		2	3
Bijela										3	3
Petrovac										2	2
Risan										1	2
Sutomore										2	
Virpazar										1	
<b>TOTAL</b>	<b>496</b>	<b>43</b>	<b>27</b>	<b>58</b>	<b>121</b>	<b>189</b>	<b>15</b>	<b>180</b>	<b>24</b>	<b>88</b>	<b>256</b>

Source: Company data



### Appendix I-3: Tariffs for Voice machine, JUPAK and Internet access services

#### Voice machines

Prices per minute for use of voice machines are presented below:

Group with a specific code	Interval of pulses (sec)	Pulses per minute	Price per minute in EUR	
			Residential	Business
044 1xx xxx	20	3	0.0138	0.0276
044 2xx xxx	7.5	8	0.0368	0.0736
044 3xx xxx	6	10	0.046	0.092
044 4xx xxx	4	15	0.069	0.138
044 5xx xxx	2	30	0.138	0.276
044 6xx xxx	1	60	0.276	0.552
044 7xx xxx	0.5	120	0.552	1.104
044 8xx xxx	0.25	240	1.104	2.208
045 1xx xxx	20	3	0.0138	0.0276
045 2xx xxx	7.5	8	0.0368	0.0736
045 3xx xxx	6	10	0.046	0.092
045 4xx xxx	4	15	0.069	0.138
045 5xx xxx	2	30	0.138	0.276
045 6xx xxx	1	60	0.276	0.552
045 7xx xxx	0.5	120	0.552	1.104
045 8xx xxx	0.25	240	1.104	2.208
045 9xx xxx			free	free
Monthly subscription for lease of code 044			30.00	30.00
Monthly subscription fro lease of code 045			60.00	60.00

#### Data transmission network – JUPAK

Prices for use of public data transmission network JUPAK are presented in the table below:

Data transmission through JUPAK network, in EUR	Price in EUR
Establishing subscription relationship for data transmission through JUPAK network (connection fee)	704.55
Installation fee	29.5
Subscription for data transmission for direct connections within JUPAK (monthly)	
9600 bit/s	12.77
19200 bit/s	14.19
48000 bit/s	56.15
64000 bit/s	65.28
Commutated virtual link, usage	
Per link	0.000765
Per minute of link	0.001173
Per size of package	0.000033
Permanent virtual line	
Monthly	2.40057
Per size of package	0.000033

Internet access

Capacity	Price per Mb/s EUR	Total EUR
2 Mb/s	2,584.00	5,168.00
4 Mb/s	2,006.00	8,024.00
6 Mb/s	1,720.00	10,320.00
8 Mb/s	1,496.00	11,968.00
10 Mb/s	1,326.00	13,260.00
12 Mb/s	1,224.00	14,688.00
14 Mb/s	1,129.00	15,806.00
16 Mb/s	1,074.00	17,184.00
18 Mb/s	1,020.00	18,360.00
20 Mb/s	986.00	19,360.00
22 Mb/s	959.00	21,098.00
24 Mb/s	932.00	22,368.00
26 Mb/s	911.00	23,686.00
28 Mb/s	891.00	24,948.00
30 Mb/s	870.00	26,100.00
32 Mb/s	857.00	27,424.00
34 Mb/s	843.00	28,662.00
36 Mb/s	836.00	30,096.00
38 Mb/s	823.00	31,274.00
40 Mb/s	816.00	32,640.00
42 Mb/s	802.00	33,684.00
44 Mb/s	789.00	34,716.00
46 Mb/s	782.00	35,972.00
48 Mb/s	768.00	36,864.00
50 Mb/s	762.00	38,100.00
52 Mb/s	755.00	39,260.00
54 Mb/s	748.00	40,392.00
56 Mb/s	741.00	41,496.00
58 Mb/s	734.00	42,572.00
60 Mb/s	728.00	43,680.00
62 Mb/s	721.00	44,702.00
64 Mb/s	714.00	45,696.00
74 Mb/s	706.00	52,244.00
84 Mb/s	615.00	51,660.00
94 Mb/s	606.00	56,964.00
104 Mb/s	600.00	62,400.00
114 Mb/s	585.00	66,690.00
124 Mb/s	582.00	72,168.00
134 Mb/s	581.00	77,854.00
144 Mb/s	578.00	83,232.00
155 Mb/s	576.00	89,280.00

## APPENDIX II – Monet

## Appendix II-1: Biographies of Monet management team

### *Mr. Miodrag Ivanović*

- Born in 1965
- Employment record
- 2001-present: Executive Manager of Monet and Assistant at the Faculty of Science and Mathematics in Podgorica
- 1999-2001: Deputy Secretary of Republic Development Secretariat – Director of Informatics Centre
- 1997-1999: Assistant at the Faculty of Science and Mathematics in Podgorica
- 1993-1997: Advisor to the President of the Republic of Montenegro for informatics data processing in administration
- 1991-1993: Advisor to the President of Montenegro
- Education: Bachelors degree, Faculty of Science and Mathematics, Podgorica  
Masters degree, University of Sheffield – Department of Computer Science, England

### Head of marketing and sales department

#### *Ms. Tatjana Obradović*

- Born in 1965
- Employment record:
- 2001-present: Monet, head of marketing and sales department
- 2000-2001: Telecom Montenegro, consultant and expert team member for introduction of mobile telephony business
- 1998-2000: Business secretary in RTV Montenegro
- 1997-1998: Marketing team leader in Internet Montenegro
- 1991-1995: Interpreter and manager for general affairs in rep office of Lovćeninvest, Moscow
- 1990-1991: Interpreter and business secretary in Timos, Moscow
- Education: Bachelors degree, University of International Business and Management, Moscow

### Head of technical department

#### *Mr. Miodrag Krunić*

- Born in 1967
- Employment record:
- 2001-present: Monet, head of technical department
- 2000-2001: Telecom Montenegro, chief engineer in the process of introduction of mobile telephony business
- 1999-2000: Chief engineer on ProMonte's phone switches
- 1996-1999: Maintenance director in a regional Telecom Centre
- Education: Bachelors degree: Electro-technical University, Podgorica

## Head of billing and IT department

*Ms. Eva Šabanović*

- Born in 1970
- Employment record:
- Oct 2001-present Monet, head of billing and IT department
- Apr 02 – Sep 02 Telecom Montenegro, Team member for preparing International Tender Documentation for introducing new Billing system in fixed line telephony
- Jan 01 – Jul 01 SEMA Communications Systems Inc., Miami, USA – Senior software engineer – analyst
- Nov 00 – Jan01 University of Montenegro - Team leader of Oracle Academic Initiative project (OAI)
- May 96 – Jan01 ProMonte – Assistant Manager of IT Department and BSCS Billing System Administrator - DBA
- Oct 93 – May 96 Assistant at Mathematical Faculty of Montenegro
- Education: Bachelors degree: Faculty of Mathematical Science, Podgorica  
Masters degree: Faculty of Science and Mathematics, Belgrade

## Head of economic-financial affairs department

*Mr. Ivan Raičević*

- Born in 1960
- Employment record:
- 2002-present Monet, Assistant executive manager for economic – financial affairs
- 2001-2002 Trade Minister in the Republic of Montenegro
- 1998-2001 General manager of trade company SIL, Berane
- 1992-1997 General manager of trade company WPB Montenegro, Berane
- 1983-1998 Clerk in the City Assembly of Berane
- Education: Bachelors degree: Faculty of Economics in Podgorica

## Corporate secretary and head of legal department

*Ms. Mirsada Murseljević*

- Born in 1956
- Employment record:
- 2002-present Monet, Head of legal department
- 1992-2002 Republic of Montenegro, Senior Advisor to the Minister without portfolio as well as to the Secretary General
- 1991-1992 Ministry of Justice of the Republic of Montenegro – Senior Advisor
- 1982-1991 Human Resources Bureau of the State Administration – Advisor and Senior Advisor
- 1981-1982 The Constitutional Court of Montenegro – Junior clerk
- Education Bachelors degree, Faculty of Law, Podgorica

## Appendix II-2: Detailed territorial distribution of subscribers per municipalities

Municipality	Population	No. of users*	% of users per municipality	Penetration rate, 2003
Andrijevica	5,697	890	0.6%	15.62%
B. Polje	49,773	10,710	7.2%	21.52%
Bar	39,688	7,695	5.2%	19.39%
Berane	34,791	6,500	4.4%	18.68%
Budva	15,671	5,179	3.5%	33.05%
Cetinje	18,380	5,569	3.7%	30.30%
Danilovgrad	16,270	3,772	2.5%	23.18%
H. Novi	32,889	9,412	6.3%	28.62%
Kolasin	9,871	2,109	1.4%	21.37%
Kotor	22,640	4,386	2.9%	19.37%
Mojkovac	10,007	1,732	1.2%	17.31%
Niksic	75,076	11,605	7.8%	15.46%
Plav	14,042	2,020	1.4%	14.39%
Pljevlja	35,724	7,687	5.1%	21.52%
Pluzine	4,269	526	0.4%	12.32%
Podgorica	168,600	53,926	36.1%	31.98%
Rozaje	22,341	7,721	5.2%	34.56%
Savnik	2,941	202	0.1%	6.87%
Tivat	13,404	3,806	2.5%	28.39%
Ulcinj	20,003	3,253	2.2%	16.26%
Zabljak	4,181	611	0.4%	14.61%
<b>Total</b>	<b>616,258</b>	<b>149,311</b>	<b>100.0%</b>	<b>24.23%</b>

Source: Monet

\* Number of users per municipality differs from the total number of active customers, as the data included in this table represent only users who made calls during December 2003

Note: The number of subscribers per municipality is assessed based on the most frequent calls made by user in the respective municipality during December 2003

### Appendix II-3: The list of Monet's international roaming partners

Country	Roaming Partner	Contract signed
ARMENIA	Armentel	April, 2004.
ALBANIA	AMC	April, 2002.
AFGHANISTAN	Vodafone	December, 2002.
	TDCA	March, 2004.
AUSTRIA	Connect ONE	May, 2001.
	Mobilkom	October, 2002.
	T Mobile	May, 2003.
AZERBAIJAN	H3G	November, 2003.
	Azracell	October, 2003.
ALGERIA	Djezzy	November, 2003.
AUSTRALIA	Optus Mobile	September, 2002.
BELGIUM	BASE	December, 2001.
BOSNIA HERZEGOVINA	ERONET	November, 2001.
	Mobilna Srpske	January, 2001.
	Telekom BH	January, 2002.
BELARUS	MDC	March, 2003.
	MTC	December, 2003.
BRAZIL	Telemar Oi (COMFONE)	October, 2003.
BRUNEI	DST (COMFONE)	December, 2002.
BULGARIA	MobilTel	September, 2001.
	Cosmo	May, 2003.
CANADA	Microcell (COMFONE)	September, 2003.
CONGO	Vodacom Congo	December, 2003.
CROATIA	VipNet	February, 2001.
	HT-Cronet	April, 2001.
CUBA	C COM	February, 2004.
CAMBODIA	Casacom	June, 2004.
CYPRUS	CYTAGSM	December, 2001.
	Eurotel Praha	April, 2001.
CZECH REP.	T Mobile	February, 2003.
	Hi3G Acess AB (unilateral)	June, 2004.
	Tele Denmark	September, 2001.
DENMARK	SONOFON	May, 2002.
	Telia Mobile	August, 2002.
	MobiNil (COMFONE)	November, 2002.
ESTONIA	Radiolinja Eesti	June, 2002.
EMIRATES	Tele 2 Esti	June, 2003.
	Etisalat	September, 2003.
FINLAND	Radiolinja Origo	April, 2002.
	Suomen, 2G Oy	June, 2003.
FRANCE	Bouygus Telecom	September, 2001.
	SFR-Cegetel	May, 2002.
	Stet Hellas-Telestet	June, 2001.
GREECE	Infoquest AEBE	May, 2003.
	Vodafone Greece	September, 2003.
GERMANY	T-Mobile D1	September, 2001.
GEORGIA	E-Plus	November, 2003.
	Geocell	September, 2002.
HUNGARY	Pannon	May, 2001.
	Westel	June, 2001.
HONG KONG	Vodafone	April, 2004.
	Hutchison	May, 2003.
INDIA	BPL Mobile	May, 2002.
	Spice Communications	March, 2003.
INDONESIA	Excelcomindo Pratama (COMFONE)	January, 2003.
IRELAND	Vodafone Ireland (COMFONE)	September, 2003.
IRAQ	Orascom (Mobinil, Egypt)	March, 2004.
ICELAND	Og Vodafone	September, 2002.
	H3G (unilateral)	March, 2004.
ITALY	TIM	April, 2001.
	Vodafone Omnitel	March, 2002.
	Wind	April, 2004.

ISRAEL	Partner Communication	February, 2002.
JORDAN	Cellcom	October, 2002.
KENYA	MobileCom	February, 2003.
KUWAIT	KenCell	June, 2003.
KOREA	Wania Telecom	June, 2004.
LATVIA	KTF Freetel Co	November, 2003.
LITHUANIA	LMT	October, 2002.
LEICHTENSTEIN	Tele2	June, 2003.
LUXEMBURG	Omnitel	July, 2002.
MAROCCO	UAB Tele 2	April, 2003.
MALDIVES	Mobilkom ,Swisscom	November, 2001.
MACEDONIA	P&T Luxembourg	March, 2004.
MALTA	MediTel	April, 2004.
MOLDAVIA	Dhiraagy	March, 2004.
MONACO	Cosmofon	February, 2001.
MALI	MobiMak	November, 2002.
MAURITIUS	Vodafone (COMFONE)	January, 2003.
NIGERIA	Mobisle Communications (COMFONE)	May, 2003.
NORWAY	Voxtel	June, 2004.
NETHERLAND	Bouygues Telecom, SFR	May, 2004.
PALESTINIAN AUTHORITY	Ikatel	November, 2003.
POLAND	Ertel	September, 2002.
PHILLIPINES	MTN	May, 2002.
PORTUGAL	Netcom	July, 2003.
ROMANIA	02 Netherlands B.V.	July, 2001.
RUSSIA	Jawwal	December, 2001.
SERBIA	PTC-ERA	December, 2002.
SPAIN	Polkomtel	August, 2002.
SRI LANKA	PTK Centertel	April, 2002.
SWITZERLAND	SMART Communication	October, 2001.
SWEDEN	Optimus	December, 2001.
SAUDI ARABIA	Cosmorom	April, 2001.
SEYCHELLES	Mobifon	October, 2001.
SINGAPORE	MEGAFON	December, 2001.
SYRIA	KB Impuls	July, 2002.
SLOVENIA	NCC	March, 2003.
SLOVAK REPUBLIK	Dontelecom	May, 2003.
SOUTH AFRICA	Kuban GSM	November, 2003.
	Primtelefon	November, 2001.
	Ermak RMS	February, 2004.
	NTC	December, 2000.
	MTS	November, 2001.
	Mobtel-BK	February, 2004.
	Telekom Srbija –064	December, 2000.
	Monaco Telecom (Kosovo)	November, 2001.
	Vodafone Airtel	October, 2002.
	XFERA	June, 2001.
	Telefonica Moviles (COMFONE)	October, 2001.
	MTN (Dialog)	April, 2003.
	Swisscom	March, 2003.
	Orange Communications	April, 2001.
	Sunrise	May, 2001.
	Telia Mobile	May, 2003.
	Vodafone Europolitan	October, 2001.
	COMWIQ	December, 2001.
	Hi3G (unilateral)	March, 2003.
	STC	April, 2003.
	Telecom Seychelles (COMFONE)	March, 2004.
	SingTel (COMFONE)	December, 2002.
	Spacotel	February, 2003.
	Mobitel	February, 2004.
	SI.Mobil	January, 2001.
	WWI – VEGA	December, 2001.
	Eurotel Bratislava	February, 2002.
	Orange Slovensko	June, 2001.
	Cell C	September, 2003.
	MTN	June, 2001.
		December, 2002.
		January, 2003.



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THAILAND	TA Orange	November, 2002.
TAJKISTAN	MEGAFON	
TURKEY	Turkcell	June, 2001.
	Telsim	November, 2002.
TUNISIA	Orascom Telecom (unilateral)	October, 2003.
	Tunisie Telecom	July, 2003.
	O2 UK Ltd.	May, 2001.
UK	Vodafone	June, 2001.
	T. Mobile	April, 2004.
	Hutchison 3G UK (unilateral)	March, 2003.
UKRAINE	Kyivstar GSM	September, 2002.
	UMC	November, 2002.
UZBEKISTAN	Uzdunrobita	September, 2003.
UGANDA	UTL	June, 2004.
USA	T Mobile (COMFONE)	March, 2004.
YEMEN	Spacetel	October, 2003.

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Source: Monet

## Appendix II-4: The list of special numbers

<b>Special numbers (SN1)</b>	
Republic Informative Centre	985
Elmag	917
RTV Montenegro	9806
AMS Montenegro	9807
Red Cross Montenegro	9808
Sports results Telecom	9811
Post Montenegro	9895
Hydro meteorological institute	9896
SKY SAT television	9897
Bel taxi	9800
<b>Special numbers (SN2) - Voice mail</b>	
Leaving messages	779
Listening to messages from own phone	777
Listening to messages from other phone	778
Tuning menu	773,774,775,776
<b>Special numbers (SN3)</b>	
Complaining about phone malfunction	977
AMD "Beco Lazovic"	987
Ministry of Internal Affairs	9819
Tourist information centre	9817
Radio taxi	9700
Orange taxi	9709
Radio taxi euro	9701
Radio Delfin	9866
Tourist centre	9797
<b>Special numbers (SN4)</b>	
Exact time	95
Info Telecom	988
<b>Special numbers (SN5)</b>	
Info ProMonte	9898

**Appendix II-5: Territorial distribution of Monet's sales of SIM cards and vouchers in 2003**

City	Postpaid	DUAL	DUAL PP	Prepaid	5 EUR voucher	10 EUR voucher	20 EUR voucher
Andrijevica				64	4,043	73	17
Bar	152	80	33	5,418	218,342	5,674	685
Berane	66	30	15	2,147	199,595	3,427	315
B.Polje	101	16	4	1,987	138,571	2,227	126
Budva	157	27	8	9,792	321,700	9,294	1,220
Cetinje	59	6	8	1,251	108,013	2,094	248
Danilovgrad	25	4		642	51,282	888	49
H.Novi	241	52	23	9,178	259,320	11,703	839
Kolašin	14	7	1	859	63,805	829	138
Kotor	46	13	4	1,599	74,493	1,805	202
Mojkovac	1	1	1	543	37,261	191	43
Nikšić	334	42	1	3,358	290,871	3,942	504
Plav	13	2	2	595	26,412	866	244
Pljevlja	64	13	10	2,651	174,455	1,242	329
Plužine				67	4,972	275	2
Podgorica	6,686	488	223	26,214	1,564,423	49,044	8,347
Rožaje	43	15	5	1,723	120,304	1,100	361
Šavnik				34	1,943	31	4
Tivat	127	25	9	3,056	77,475	3,482	328
Ulcinj	61	21	16	1,995	90,133	2,650	244
Žabljak				409	16,407	297	45
<b>Total</b>	<b>8,190</b>	<b>842</b>	<b>363</b>	<b>73,582</b>	<b>3,843,820</b>	<b>101,134</b>	<b>14,290</b>

Source: Monet

## **APPENDIX III – Benchmark analysis**

### Appendix III-1: Results of benchmark analysis

	Matav	Tele Denmark	Telecom Slovenije	MoldTelecom	Croatian Telecom	Cesky Telecom	Golden Telecom	MGTS	Rostelecom	Uralsvyaz inform	Telecom CG	Mean	Median
<b>P&amp;L Data</b>													
Revenues (EUR m)	2,391.5	6,764.9	579.5	73.5	994.9	1,614.2	319.0	418.1	918.5	633.8	92.4		
EBITDA (EUR m)	986.1	2,053.4	245.3	35.2	377.9	746.8	101.8	182.8	305.6	175.4	34.3		
EBIT (EUR m)	480.7	570.7	84.3	20.4	213.1	-173.7	61.8	121.5	67.9	99.0	22.8		
EBT (EUR m)	327.0	491.7	50.6	19.9	242.9	-209.1	64.4	117.1	117.6	62.0	21.5		
Net Profit (EUR m)	226.4	242.3	43.5	19.4	188.8	-55.8	49.0	61.8	19.5	35.3	20.4		
Interest Exp.(EUR m)	157.5	160.0	33.7	0.5	0.1	35.0	1.0	11.1	-5.8	37.9	0.1		
<b>Balance Sheet Data</b>													
Net Debt (EUR m)	1,115.1	3,903.1	388.0	6.6	-283.2	1,270.6	-40.8	88.9	28.4	283.9	12.8		
Total Assets (EUR m)	4,048.2	12,708.7	1,348.5	141.3	2,079.4	4,897.3	583.4	1,057.6	1,803.4	1,061.5	179.1		
Equity (EUR m)	2,141.4	4,519.9	823.1	108.9	1,817.8	2,853.7	464.2	579.0	1,329.8	497.7	140.1		
<b>General</b>													
Ave. no. employees	15,412	21,125	2,777	7,104	9,285	14,131	3,004	20,963	29,236	35,645	1,472		
<b>Multiples/Ratio</b>													
Ave. rev. / employee	155.17	311.83	208.68	10.34	107.16	114.23	106.20	19.95	31.42	17.78	62.79	108.28	106.68
Ave. EBT / employee	21.22	22.66	18.21	2.80	26.16	-14.79	21.45	5.59	4.02	1.74	14.61	10.90	11.90
EBITDA margin	41.23%	30.35%	42.33%	47.91%	37.98%	46.26%	31.90%	43.72%	33.27%	27.67%	37.12%	38.26%	39.61%
EBIT margin	20.10%	8.44%	14.54%	27.74%	21.42%	-10.76%	19.36%	29.06%	7.40%	15.62%	24.68%	15.29%	17.49%
EBT margin	13.67%	7.27%	8.73%	27.07%	24.41%	-12.95%	20.19%	28.00%	12.80%	9.78%	23.27%	13.90%	13.24%
Net income margin	9.46%	3.58%	7.50%	26.41%	18.98%	-3.46%	15.37%	14.77%	2.13%	5.56%	22.08%	10.03%	8.48%
Total asset turnover	0.56	0.54	0.42	0.52	0.49	0.33	0.64	0.39	0.44	0.63	0.45	0.50	0.51
Total assets/Equity	1.89	2.81	1.64	1.30	1.14	1.72	1.26	1.83	1.36	2.13	1.28	1.71	1.68
ROE (pre-tax)	14.37%	11.10%	5.99%	18.16%	13.78%	-7.29%	16.22%	19.83%	7.65%	13.09%	13.41%	11.29%	13.44%
ROA	7.60%	3.95%	3.66%	13.99%	12.05%	-4.25%	12.91%	10.85%	5.64%	6.14%	10.49%	7.25%	6.87%
Debt/Total Assets	47.10%	64.43%	38.97%	22.94%	12.58%	41.73%	20.43%	45.26%	26.26%	53.12%	21.78%	37.28%	40.35%
Net debt/EBITDA	1.13	1.90	1.58	0.19	-0.75	1.70	-0.40	0.49	0.09	1.62	0.37	0.75	0.81
EBITDA/Interest Exp.	6.26	12.83	7.28	72.18	2978.00	21.34	104.55	16.53	-53.06	4.63	343.00	317.05	14.68