# 3. PUBLIC FIXED TELECOMMUNICATIONS NETWORKS AND SERVICES

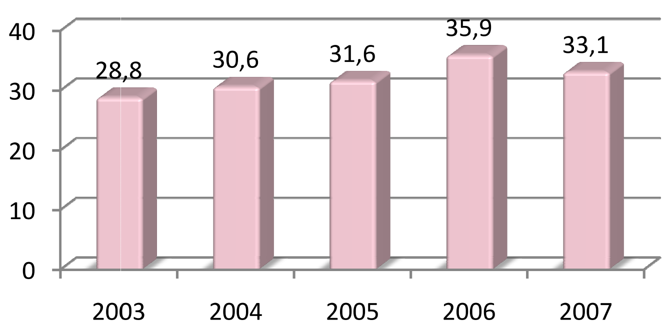
Telekom Srbija a.d. is the only public fixed telecommunication service operator. Since 2003, Telekom Srbija a.d. has been in the ownership of two shareholders, Public Company of PTT traffic "Srbija" (80%) and OTE, Greece (20%).

***Income from fixed telephone service – €414 mn***

Since Telekom Srbija is the only public fixed telecommunication service operator, on 24 March 2006, pursuant to the Telecommunications Law, the Republic Telecommunication Agency declared Telekom Srbija an SMP. In this regard, the process of drafting a cost-based accounting system for SMP operators was initiated.

The total revenue from fixed telephone service in 2007 amounted to RSD33.1 bn, 7% less compared with the previous year revenues of RSD35.9 bn (Figure 15). The largest share in the total revenues still goes to revenues from traffic, amounting to RSD25.2 bn or 76% of the total revenues, whereas the smallest share - and therefore the least impact on the total revenue flow - is that of the public payphones - 0.06%. The revenues from the subscription fees increased its share from 5.6% in 2006 to 9.9% in 2007, while the share of the revenues from one-off connection fee, leased lines, interconnection and other (cumulatively) decreased.

**Figure 15. Growth tendency of total revenue from fixed telephone services (RSD mn)**

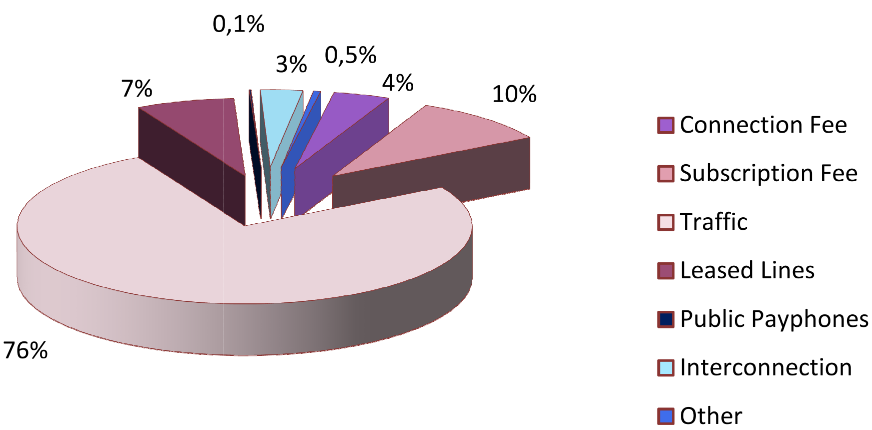



**Source: RATEL**

Distribution of revenue from fixed telephone services (Figure 16) was such that only subscription fee saw an increase of almost 60% compared with the previous year, amounting to approximately RSD3.2 billion, whereas other elements of revenues dropped which lead to an overall decrease in revenues. The sharp rise of the revenues from the subscription fee is the consequence of the increase in prices of the monthly fee to RSD74.75 (without VAT) as of 1 November 2006), but it is also owed to an increase of the number of subscribers of 5%. The revenues from the one-off connection fee dropped by 11% which is explained by the price cut by 15% for both residential and business users. The revenues from public payphones also saw a sharp drop in 2007 by as much as 95% compared with 2006, yet this had no significant impact on the overall revenues from the fixed network considering the insignificant share of this service.  The revenues from leased lines, interconnection and other fixed network services (jointly) also decreased significantly by 40%, while the revenues from the traffic were almost 2% smaller compared with 2006. In view of the aforesaid and the fact that the revenues are determined by the prices and number of users, the drop in the overall revenues can be accounted for by the price cut for all fixed telephone services since the number of subscribers is still growing.

Potential fixed telephony market involves over 3.2 million users and the expected growth rate by the end of 2010 is 5%. Introduction of cost-based accounting model and tariff rebalance which should contribute to more stable prices and revenues.  Planned annual investments amount to €350 million.

**Figure 16. Distribution of Revenues from Fixed Telephone Services in 2007**

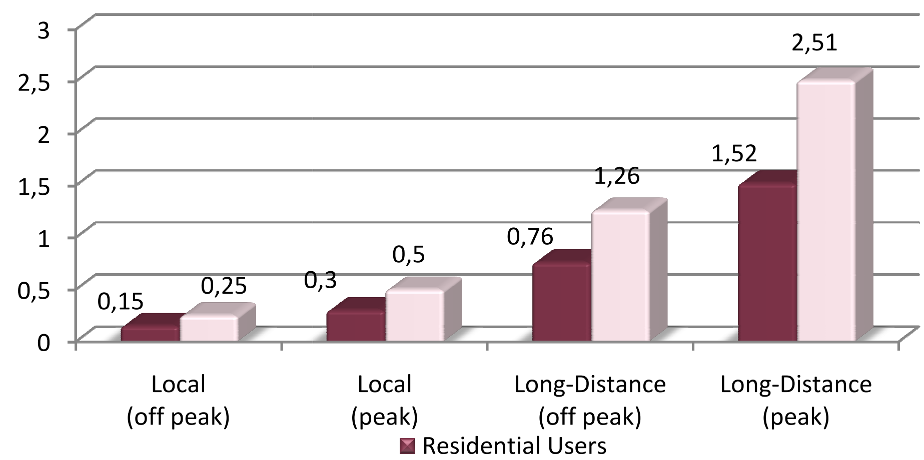



**Source: RATEL**

Based upon the Decision adopted by RATEL on request made by Telekom Srbija, on 1 November 2006 the monthly charge for analogue telephone extension was raised to RSD74.75 (VAT excluded) for both residential and business subscribers. In 2007, the price for 1 minute

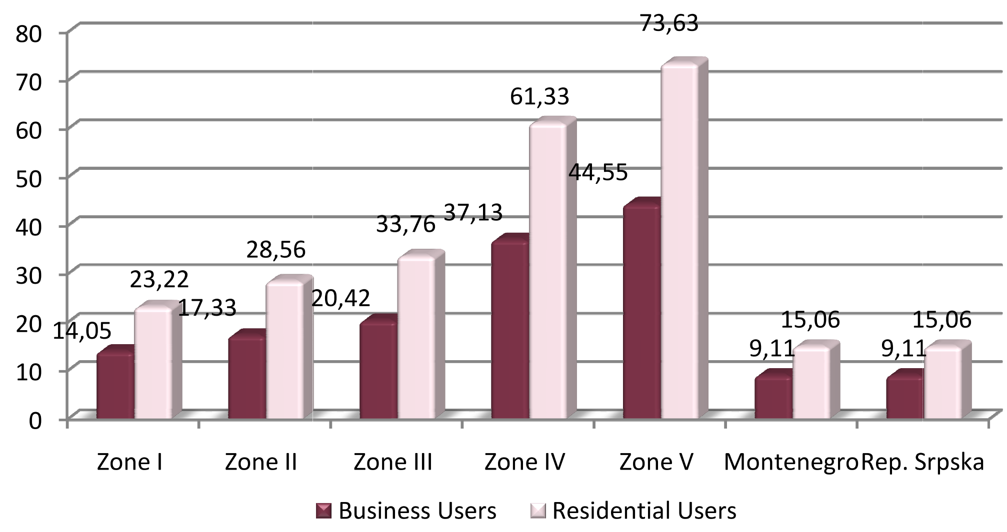
of local, national and international traffic were cut down by approximately 15% and once-off connection fee amounted to RSD 5,000.00 for residential users and RSD 10,000.00 for business users, (VAT excluded).

**Figure 17. Prices of Local and Long-Distance Telephone Services, VAT Excluded (RSD/min)**



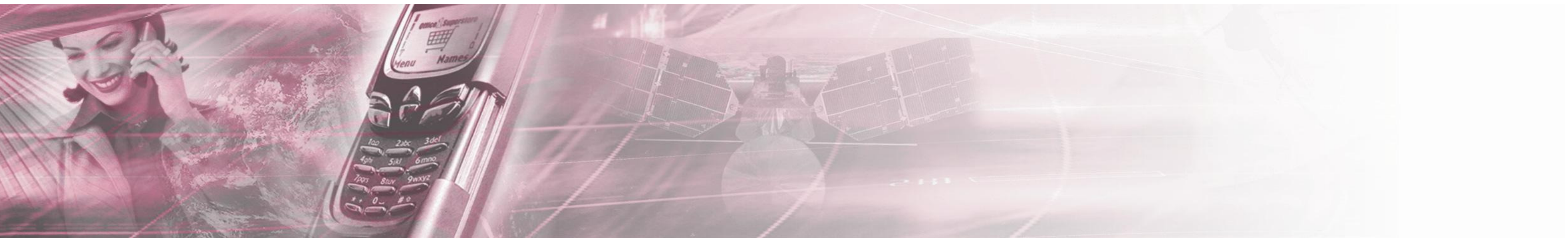

**Source: RATEL**

**Figure 18. Prices of International Telephone Services, VAT Excluded (RSD/min)**



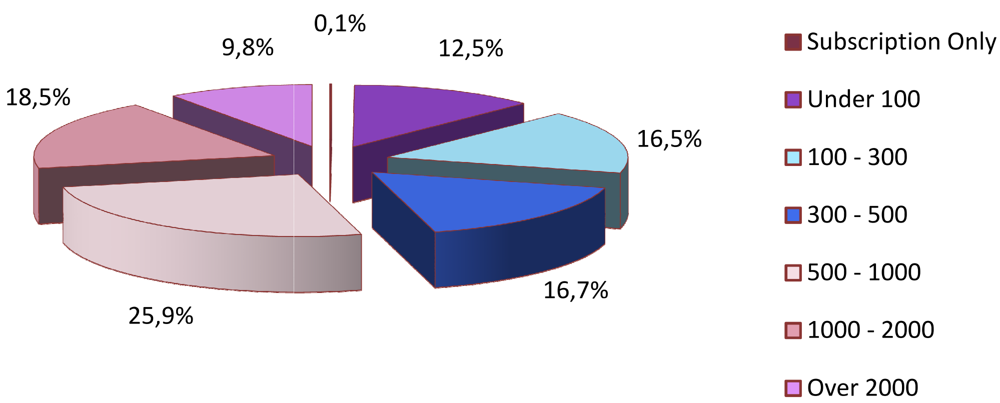

**Source: RATEL**

Compared with the previous year, there were fewer residential users paying only the monthly subscription fee (only 0.1% of the total users). There were approximately 18.5% of



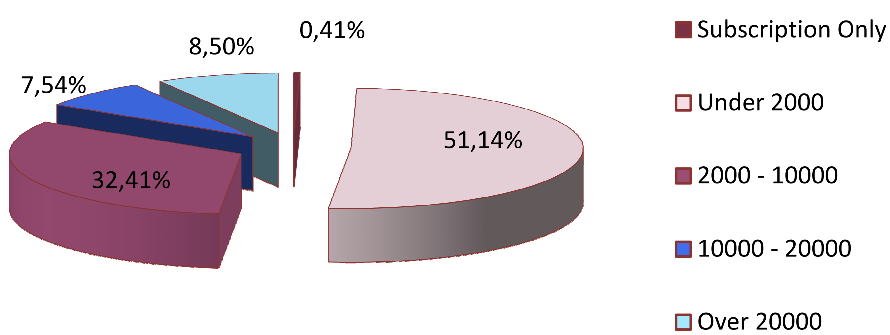
users with monthly bills between RSD1000 and 2000, while most of them (25.9%) were paying between RSD500 and 1000 a month for fixed telephone services. (Figure 19.). As for the business users, as much as 51% of users were spending over RSD20,000 for fixed telephony services, while no more than 0.4% paid were paying for the subscription fee only (Figure 20.).

**Figure 19. Distribution of Residential Subscribers According to Monthly Bill (RSD)**




**Source: RATEL**

**Figure 20. Distribution of Business Subscribers According to Monthly Bill (RSD)**

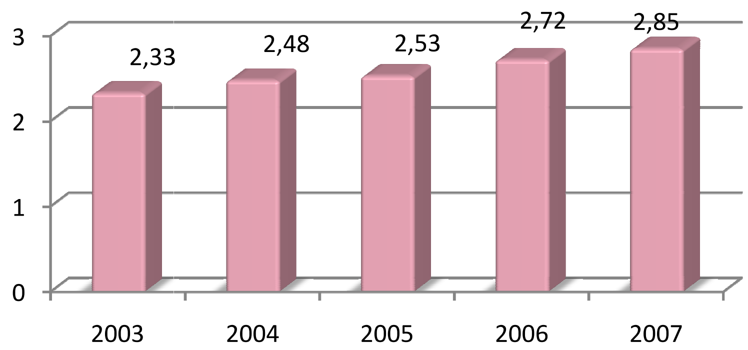



**Source: RATEL**

*2.85 million subscribers*

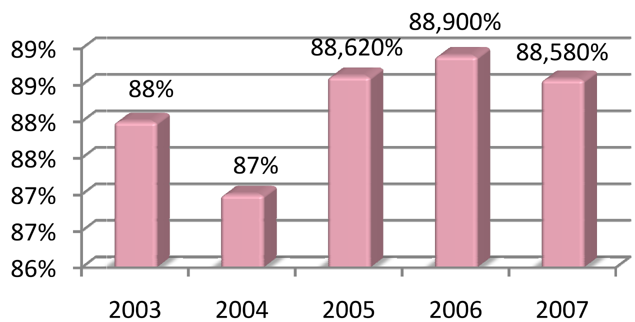
The number of subscribers is growing year after year, thus in 2007 there was an increase of 5% or 2.85 million and more than 88% of the subscribers are natural persons. The number of party lines was reduced by 25%. Digitalization rate achieved the amount of 93.31%. Mean value of direct line percentage in urban areas was 32.85%.

**Figure 21. Number of Subsribers (mn)**




**Source: RATEL**

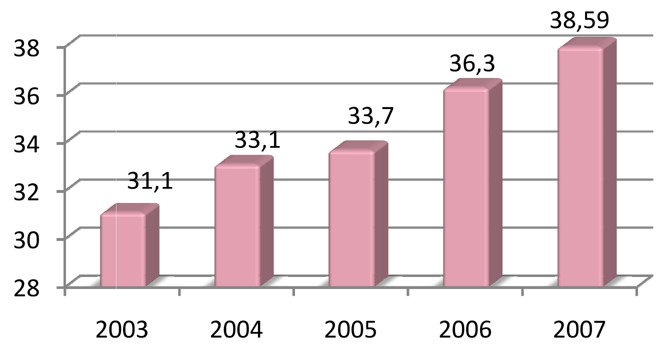
**Figure 22. Share of Residential Users in the Total Number of Subscribers**




**Source: RATEL**

Penetration is higher compared with the previous year reaching 38.59% which is within the regional average.

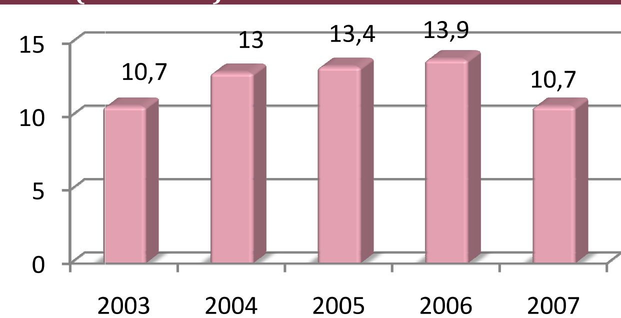
**Figure 23. Fixed Penetration (%)**




**Source: RATEL**

In 2007, the number of public payphones was reduced from 13.9 to 10.7 thousand as given in Figure 24. Consequently, the revenues from the payphones dropped representing mere 0.1% of the total fixed network revenues. It is evident that the public payphones ceased to be profitable for telecom operators, who are losing the interest to invest further in this service. Therefore, it is necessary to give support to those operators interested in providing these services of particular importance for the underdeveloped area of Serbia, through universal service.

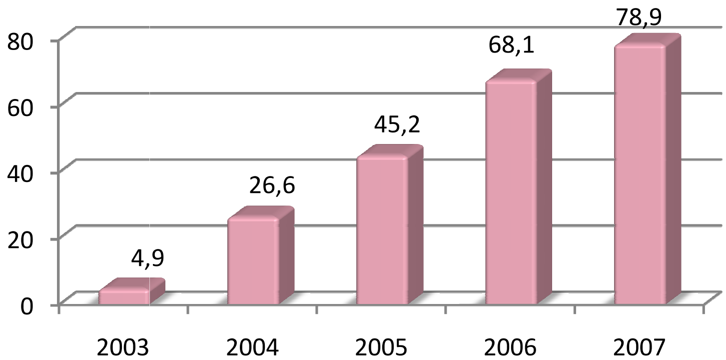
**Figure 24. Public Payphones (thousands)**




**Source: RATEL**

Figure 26. shows a growth trend in ISDN connections in the period 2003-2007. In 2007 there were 78.9 thousand of subscribers, which is an increase of 15.8%. More than 97% of subscribers have a basic rate access, whereas the other users have primary rate access.

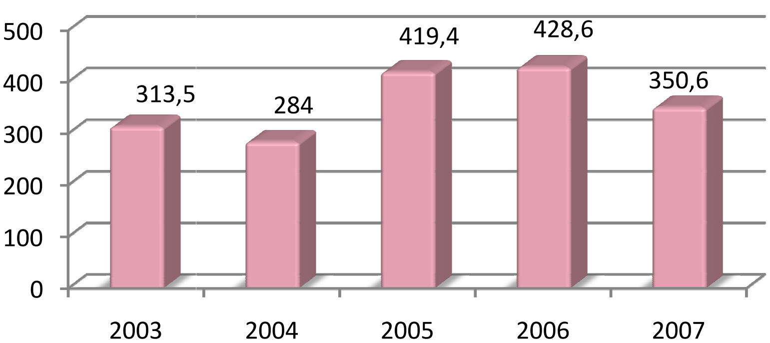
## Figure 25. Total Number of ISDN Subscribers (thousands)




**Source: RATEL**

In 2007, the number of unsolved requests for new fixed lines was around 350 thousand, this being a decrease of 18% compared with 2006. The number of malfunctions was also cut down to 48.7 per 100 lines, and the percentage of malfunctions repaired within 24 hours was 75%.

## Figure 26. Number of Requests for New Telephone Lines (thousands)

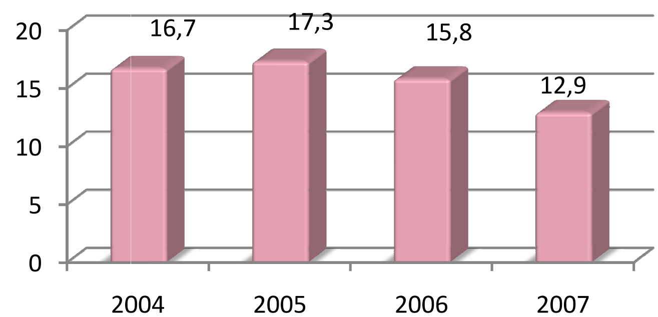



**Source: RATEL**

The total fixed network traffic continued to decrease in 2007 and is estimated to 12.9 billion minutes (18% less compared with the previous year - Figure 27.). The increase of the number of fixed line users indicates that the interest for this kind of service is not declining, yet the apparent drop in the traffic in the last two years shows that the subscribers are using the POT less and less, switching part of the traffic to other services. This mainly refers to mobile networks but also to electronic massages or VoIP. One of the results of such trend is the drop in revenues from fixed network.

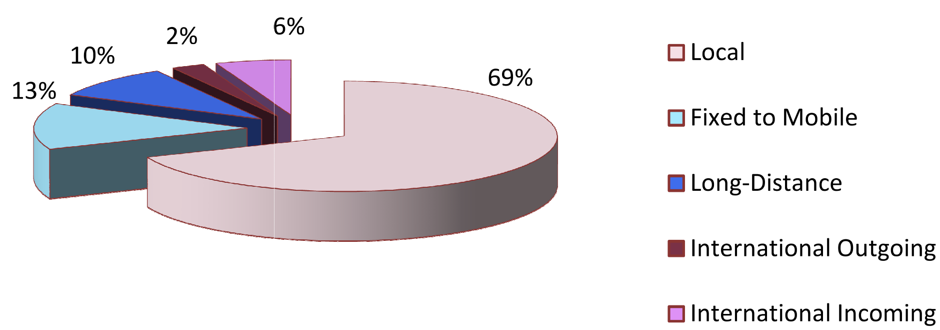
The total number of minutes of fixed network traffic is estimated on the basis of data from the exchanges where it is possible to register the consumed call units or minutes. Such data are extrapolated according to the total number of users in the network. 69% of total traffic was local traffic, and only 2% international outgoing traffic. (Figure 27.).

**Figure 27. Total Traffic (billion of minutes)**




**Source: RATEL**

**Figure 28. Distribution of Fixed Network Traffic in 2007**




**Source: RATEL**