3. PUBLIC FIXED TELECOMMUNICATIONS NETWORKS AND SERVICES

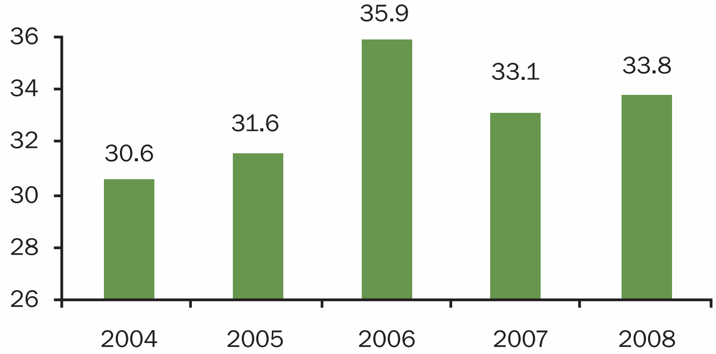
Telekom Srbija a.d. is the only public fixed telecommunication service operator. Since 2003, Telekom Srbija a.d. has been in the ownership of two shareholders, Public Company of PTT traffic "Srbija" (80%) and OTE, Greece (20%).

Since Telekom Srbija a.d. is the only public fixed telecommunication service operator, on 24 March 2006, pursuant to the Telecommunications Law, the Republic Telecommunication Agency declared Telekom Srbija a.d. an SMP. Accordingly, a special tariff regime is applied to public switched telecommunications services and there is the obligation to apply a cost-based model in telecom service pricing. Telekom Srbija a.d. is under obligation to observe the regulations and conditions stipulated under the Rules on the application of the cost-accounting principle, separate accounts and reporting of a telecommunications operator with significant market power and the telecommunications Law.

The total revenue from fixed telephone services in the territory of the Republic of Serbia in 2008 amounted to 33.8 billion dinars, 2% more compared with the revenues of 35.1 billion dinars in the previous year (Figure 13). The revenues from the international traffic in 2008 amounted to 5.9 billion dinars, making the total revenue 39.7 billion dinars. The largest share in the total revenues still goes to revenues from national traffic, amounting to 23.5 billion dinars or 59% of the total revenues, whereas the smallest share - and therefore the smallest impact on the total revenue flow - is that of the interconnection – around 2%. The investments made in the fixed telephony in 2008 amounted to 7.4 billion dinars, which is a decrease of 44% in respect to 2007 when the investments in this sector were 13.2 billion dinars.

As for the structure of fixed-line revenues in 2008, the biggest growth of 32% was seen in revenues from subscription fee amounting to 4.3 billion dinars. In 2008 the subscription fee rose from 74.50 dinars (without VAT) to 195.00 dinars (without VAT), thereby accounting for the

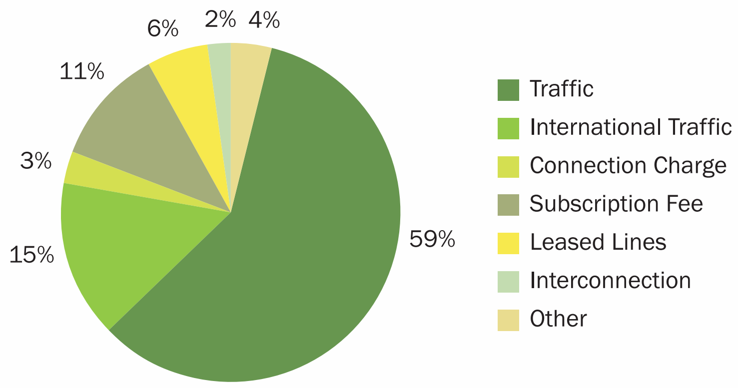
Figure 13. Growth Tendency of Revenue from Fixed Telephone Services (RSD bn)* Source: RATEL



* Revenues from fixed telephone services in the territory of the Republic of Serbia

increase in the revenues. The increase was also seen with the revenues from the connection charge 4%, along with the revenues from other services, which grew by 40% in respect to 2007. In 2008, the revenues from traffic fell by 7%, whereas the revenues from interconnection decreased by 22% in respect to the previous year.

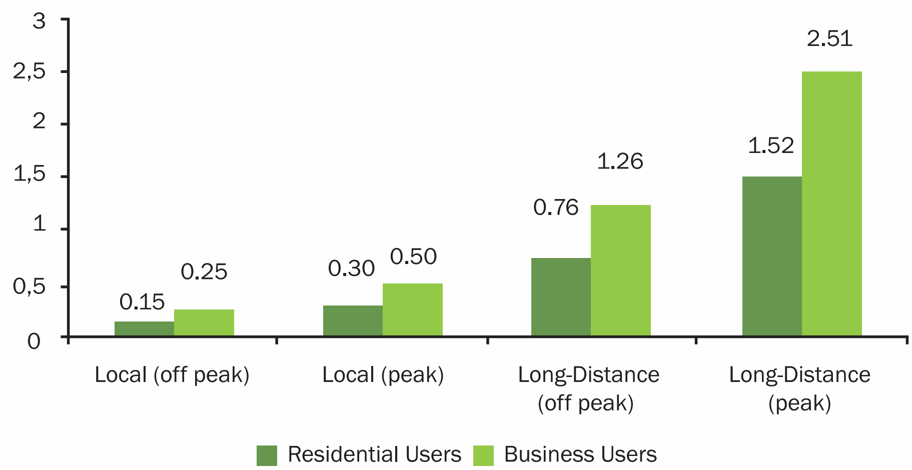
Figure 14. Distribution of Revenues from Fixed Telephone Services in 2008 Source: RATEL



Following the request of Telekom Srbija a.d., stating that a benchmarking analysis has shown that the price of the fixed-line service was still significantly lower compared with the prices in the

region, (see Figure 8), RATEL adopted the Decision on approving the price correction to the Telecommunications Company Telekom Srbija a.d., namely, for monthly subscription fee as of 1 November 2008, and for fixed-line calls and calls to special services as of 1 December 2008. Pursuant to the Decision, the monthly subscription fee amounts to 195.00 dinars (without VAT) as of 1 November 2008. However, the Government of the Republic of Serbia reached an agreement with Telekom Srbija a.d. to postpone the implementation of the part of the decision concerning the levelling of the call-unit price for residential and business users to 0.6074 dinars (without VAT) along with the increase in tariff for calls to special services.

Figure 15. Prices of Local and Long-Distance Telephone Services, VAT Excluded (RSD/min)
Source: RATEL



Compared with the previous year, the number of residential users paying only the subscription fee rose (almost 20 % of subscribers), which is the consequence of the price increase, together with the fact that there are 150 call-units available free of charge provided they are not exceeded. Most residential monthly bills for fixed-line services (around 32.7%) were in the range between 500 and 1 000 dinars (Figure 17). As for business users, as many as 54% of subscribers paid up to 2000 dinars monthly for fixed-line services, whereas 22.8% paid only the subscription fee (Figure 18). Smaller number of business users paying over 10000 dinars a month may be

explained by the fact that many larger companies have developed IP-based corporate networks which led to a significant reduction in the monthly bills.

Figure 16. Prices of International Telephone Services, VAT Excluded (RSD/min) in 2008

Source: RATEL

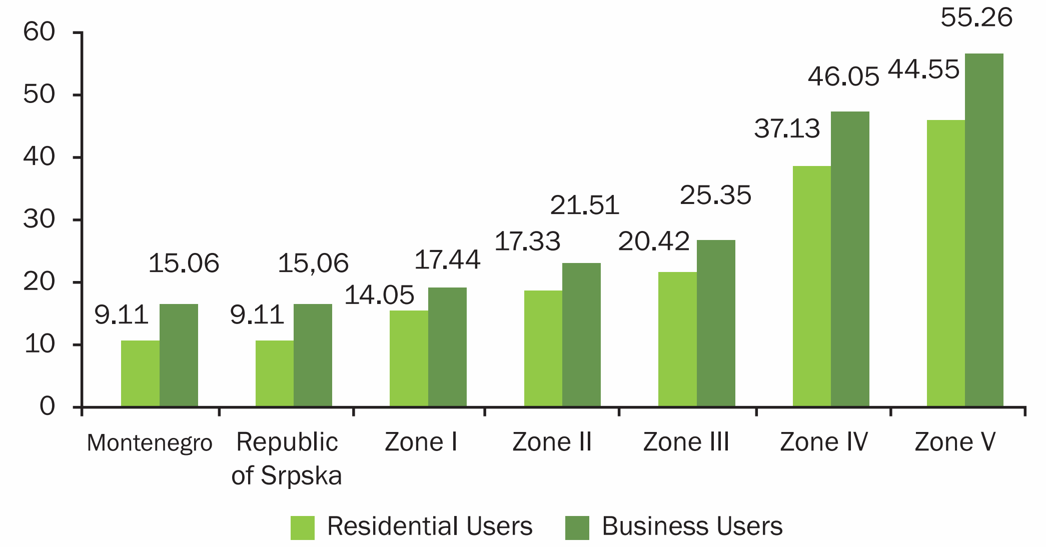


Figure 17. Distribution of Residential Subscribers According to Monthly Bill (RSD) Source: RATEL

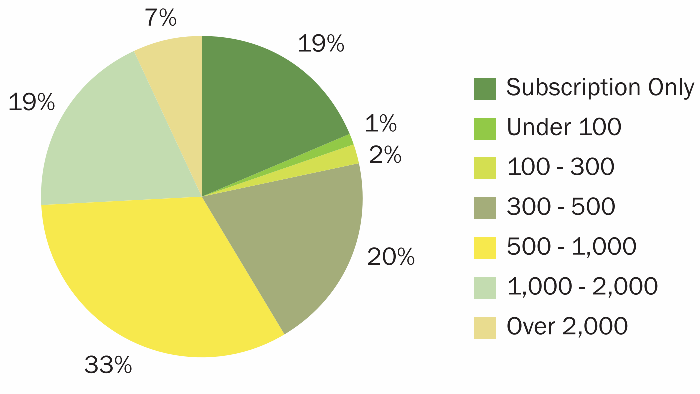


Figure 18. Distribution of Business Subscribers According to Monthly Bill (RSD) Source: RATEL

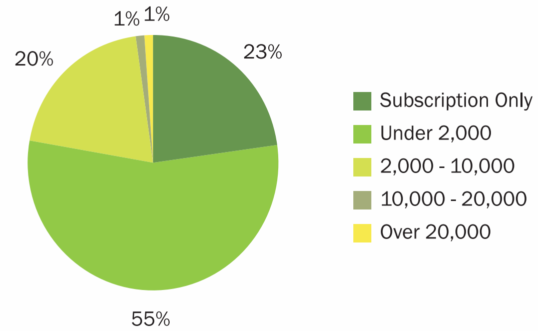


Figure 19. Number of Main Lines (mn) Source: RATEL

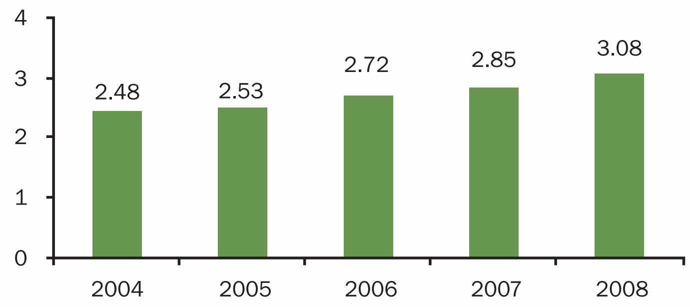
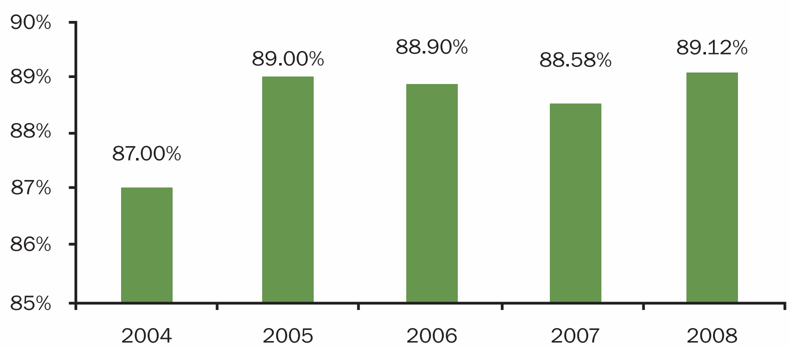


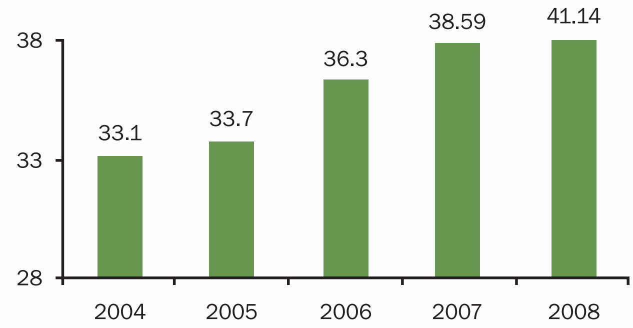
Figure 20. Share of Residential Users in the Total Number of Fixed-Line Subscribers
Source: RATEL



The number of main lines is growing every year, reaching 3.08 million in 2008, this being an increase of 3% in respect to 2007. The vast majority of users, 89%, are still private persons. The number of party-lines was reduced by approximately 20%. The digitalization rate rose to 95.52% in 2008.

Fixed penetration increased in respect to the previous year, amounting to 41.14%, which is above average for the region. According to the number of households, the penetration rate was around 116% in 2008.

Figure 21. Fixed Penetration (%) Source: RATEL



In 2008, the number of public payphones remained more or less unchanged, whereas the relevant revenues dropped by 36%, thus continuing the trend characteristic for this service in recent years. Apparently, public payphones are no longer profitable for the telecommunications operators and therefore the interest for investments in this service is ceasing to exist.

The breakdown of the number of ISDN connections in the period 2004-2008 is given in Figure 23 below. The number of ISDN subscribers in 2008 was 83.9 thousand or 3% of the total number of subscribers, this being an increase of 6% in respect to 2007. More than 97% of subscribers have a basic rate access, whereas the other users have primary rate access. In view of more modern technologies being introduced, further growth of ISDN connections is not expected.

In 2008, the number of unmet requests for new fixed-line connections was around 314 thousand, this being a decrease of 10% compared with 2007. The number of malfunctions was also cut

Figure 22. Public Payphones (Thousands) Source: RATEL

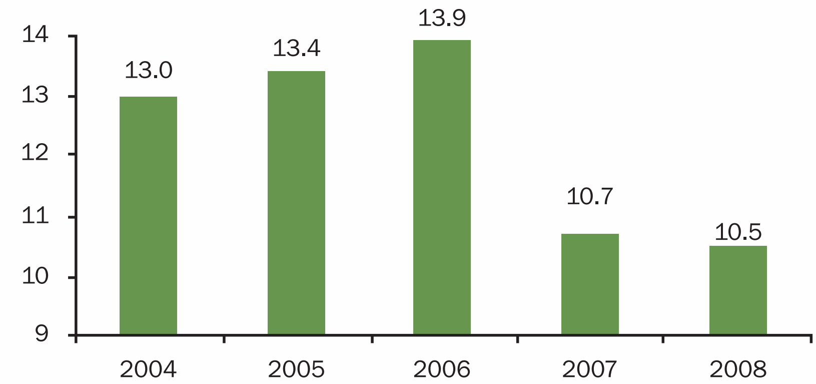
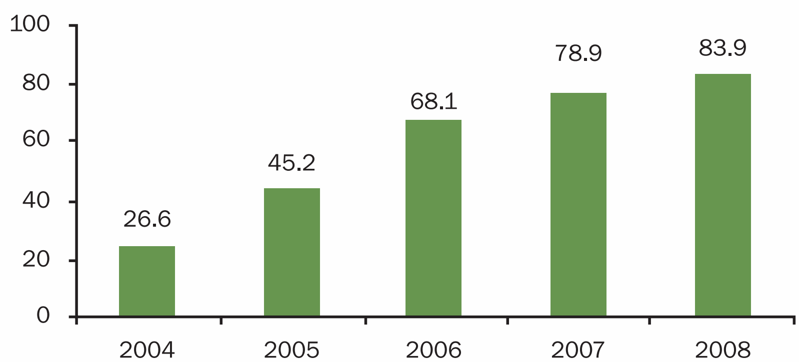


Figure 23.Total Number of ISDN Subscribers (Thousands) Source: RATEL



down to 31.19 per 100 lines, and the percentage of malfunctions repaired within 24 hours was 61.44%.

The total fixed network traffic grew by 23% in 2008 and is estimated to 15.9 billion minutes in national traffic and 1.9 billion minutes in international traffic. As shown in Figure 25, the traffic volume varied considerably in the observed period, showing a decrease tendency in the period 2005-2007, primarily due to other types of services being offered, such as mobile network, electronic messages or VoIP.

Figure 24. Number of Requests for New Fixed-Line Connections (Thousands)

Source: RATEL

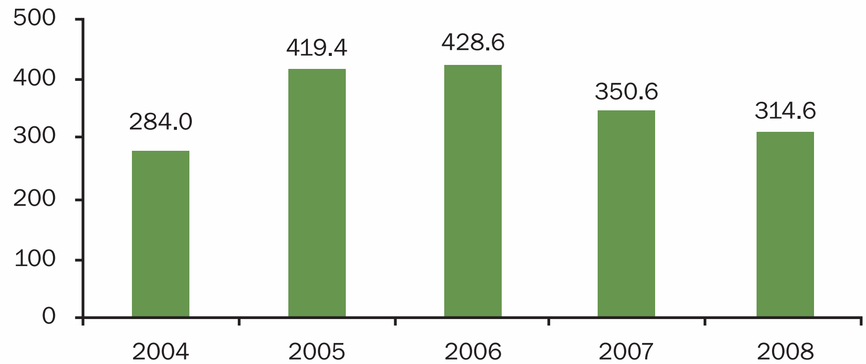
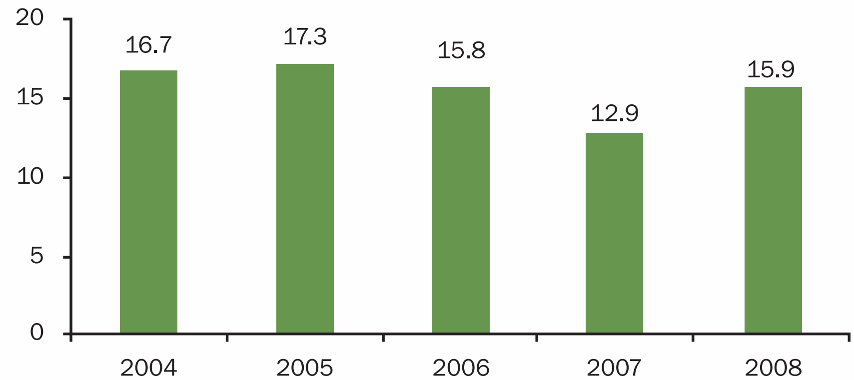


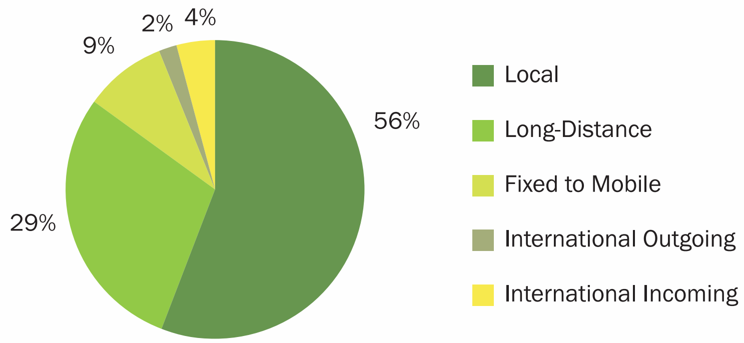
Figure 25. Total Traffic (Billion of Minutes) Source: RATEL



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. 56% of total traffic was local traffic, and only 2% international outgoing traffic.

Compared with the previous year, the share of local traffic dropped from 69% to 56%, the share of long distance traffic grew from 10% to 29%, whereas the share of fixed-to-mobile traffic dropped

Figure 26. Distribution of Fixed Network Traffic in 2008 Source: RATEL



from 13% to 9% in 2008. The drop in fixed-to-mobile traffic is explained by the increasing number of gateways to mobile networks, implemented for company needs, generating most calls from local networks directly to mobile operators.

The international ongoing and incoming traffic kept practically the same level compared with the previous year. However, the changes in the volume may be expected in the period ahead, mainly because of the entry of VoIP operators in the fixed-line market.

Pursuant to the Rules on terms and conditions for provision of voice transmission services over the Internet and the contents of authorization (*Official Gazette of RS*, no. 94/08), 9 authorizations for provision of voice transmission services over the Internet were granted in late 2008, and, therefore, with the entry of VoIP operators in the fixed-line market, greater competition can be expected in the period ahead. In 2008, tariff rebalance for fixed telephony was initiated and the Rules on the application of the cost-accounting principle, separate accounts and reporting of a telecommunications operator with significant market power (*Official Gazette of RS*, no. 103/08) were adopted, which should contribute to the stabilization of the prices and revenues in this market.

According to the forecasts of the Business Monitor International, in 2010 the penetration rate will reach 43%, after which a slight stagnation of public fixed telecom services is predicted to take place.

Figure 27. Projected Growth Rate Related to the Public Fixed Telecommunication Networks and Services (mn)
Source: Business Monitor International, Serbia Telecommunications Report 2009, March 2009