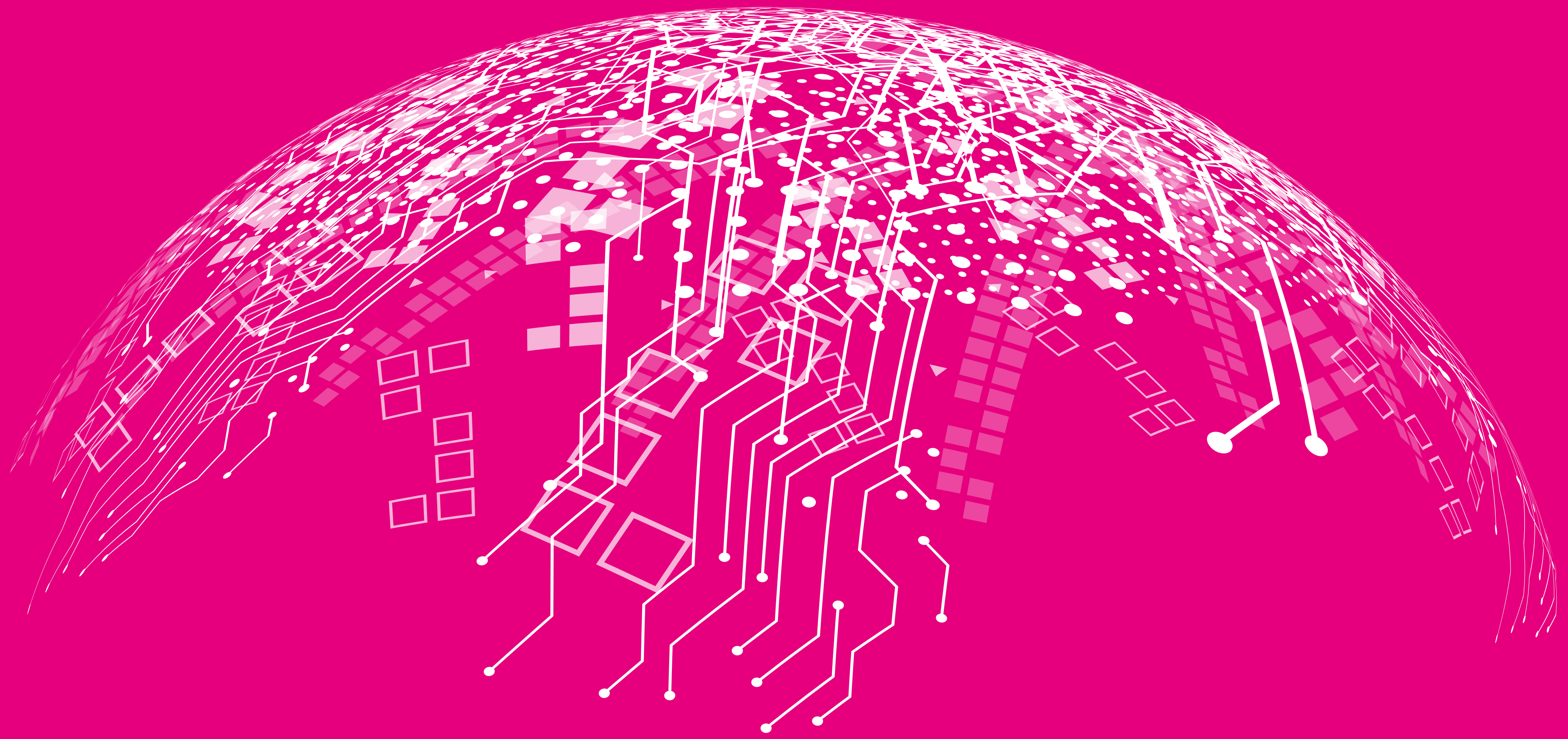
BUILDING THE GIGABIT SOCIETY

ANNUAL REPORT 2017

MAKEDONSKI TELEKOM AD – SKOPJE

LIFE IS FOR SHARING.

INDEX



BUILDING THE GIGABIT SOCIETY

Information moves the world. It dictates the rhythm of life and work. Everyday communication, professional efficiency, business and integration in the wider environment depend on the speed of information transfer.

As a telecommunication leader, we have an obligation to respond to the needs imposed by the dynamic lifestyle, in which information has a crucial role for each of us individually.

We simply dictate the changes in a society which has become dependent on the data transfer.
We are starting with the implementation of modern technologies in order to create a gigabyte society. We have already started to build a super-fast network with high performances which will respond to the new rhythm of time and the in creasing needs for a superior communication. We are preparing ourselves for a giganet!

Our vision is to respond to the galloping changes in the world that are about to happen. We will utilize our technological superiority and the experience to create a better society for all. We are aiming towards an equal society for all, which will provide new opportunities.
We are simply building a world without limits!

CORPORATE GOVERNANCE

MANAGEMENT AND GOVERNANCE OF MAKEDONSKI TELEKOM AD – SKOPJE

Pursuant to the legal regulations and the Statute of Makedonski Telekom AD – Skopje (Makedonski Telekom/Company), the bodies of Makedonski Telekom are the Shareholders’ Assembly and the Board of Directors. The corporate governance of Makedonski Telekom aims at ensuring better transparency by providing the following information:

- Competences of the Shareholders’ Assembly of Makedonski Telekom AD – Skopje
- Roles, responsibilities and members of the Board of Directors
- The independent auditor
- Other relevant information (acts of Makedonski Telekom and risk management)

MAKEDONSKI TELEKOM STRUCTURE

Makedonski Telekom AD – Skopje is a Joint Stock Company for Electronic Communications with a one-tier management system, as follows:

[SHAREHOLDERS’ ASSEMBLY] → [BOARD OF DIRECTORS] → [CHIEF EXECUTIVE OFFICER] → [CHIEF OPERATING OFFICER]

In accordance with the Law on Trade Companies and the Statute of Makedonski Telekom AD - Skopje, the Shareholders’ Assembly, the Board of Directors, the Chief Executive Officer and the Chief Operating Officer of the Company are authorized to adopt resolutions within their competence.

SHAREHOLDERS’ ASSEMBLY

THE SHAREHOLDERS’ ASSEMBLY SHALL ONLY PASS RESOLUTIONS UPON ISSUES EXPRESSLY SET OUT BY THE LAW ON TRADE COMPANIES AND THE STATUTE OF MAKEDONSKI TELEKOM, IN PARTICULAR THE FOLLOWING:

1. Modifications to the Statute of the Company
2. Approval of the Annual Accounts, Financial Statements and Annual Report on the Operations of the Company in the previous business year, deciding upon the distribution of the profit and defining the amount and method of dividend payments
3. Defining the means of covering losses incurred in the accounting period, additional approval of the method of utilization of the proceeds from the Reserve Fund
4. Appointment and release of the members of the Board of Directors and determining the remuneration which shall be paid to the non-executive members of the Board of Directors for their operation
5. Approval of the operation and management of the operation of the Company by the members of the Board of Directors
6. Change in the share type and class and change in the rights linked to certain types and classes of shares
7. Increase and decrease of the share capital of the Company
8. Issuing shares and other securities
9. Appointment of an authorized auditor for auditing the Annual Accounts and Financial Statements
10. Transformation of the Company into another form of a Company and status modifications of the Company
11. Approval of major transactions in accordance with the Statute
12. Alterations of the Company’s property structure, if the accounting value of the relevant part of the property affected by the alteration exceeds ten percent (10%) of the Company’s property net value as set forth in its latest Financial Statements
13. Termination of the Company
14. Other issues defined by law or the Statute of the Company
15. Adoption of Rules of Procedure for its operation

The Shareholders’ Assembly of the Company may not decide upon issues in the field of managing and governing the Company, which fall within the competence of the Board of Directors.

MAKEDONSKI TELEKOM’S SHARES

	PREFERENCE SHARES	ORDINARY SHARES
Issuer	Makedonski Telekom AD	MKMTSK101019
International Securities Identification Number (ISIN)	MKMTSK121017	
Industry	Telecommunications	Telecommunications
Country	Republic of Macedonia	Republic of Macedonia
Registered office of company	Skopje	Skopje
Total number of issued shares	1 golden share	95,838,780
Total number of voting rights *	1 **	86,254,902 ***
Currency	MKD (Macedonian Denar)	MKD (Macedonian Denar)
Nominal value per share	MKD 9,733	MKD 100
Security identification (ticker symbol)	-	TEL
Voting rights	One voting right and special rights	One voting right per share

DIVIDEND CALENDAR

YEAR	GROSS DIVIDEND PER SHARE IN MKD	FIRST DATE OF PAYMENT	ANNOUNCEMENT DATE
2016	14,51	26.09.2017	24.04.2017
2015	17,09	26.09.2016	12.04.2016
N/A*	14,38	18.12.2015	20.11.2015
2013	26,23	17.04.2013	29.03.2013
2011	71,46	25.04.2012	04.04.2012
2010	68,95	29.04.2011	14.04.2011
2009	75,01	12.07.2010	02.07.2010
2008	71,42	22.05.2009	29.04.2009
2007	113,42	29.09.2008	03.09.2008
2005	86,10	01.08.2007	31.07.2007
2004	60,88	04.07.2005	30.05.2005
2003	26,10	19.03.2004	20.02.2004
2002	25,04	05.05.2003	18.04.2003

* The dividend paid in the month of December 2015 was paid from the accumulated earnings of the Company from prior periods pursuant to the Resolution of the Shareholders' Assembly of Makedonski Telekom adopted on 20.11.2015.

CALENDAR OF EVENTS

MEETINGS OF THE SHAREHOLDERS' ASSEMBLY OF MAKEDONSKI TELEKOM IN 2017

24.04 2017 — **ANNUAL SHAREHOLDERS' ASSEMBLY**

13.10 2017 — **SHAREHOLDERS' ASSEMBLY**

SHAREHOLDERS' STRUCTURE

SHAREHOLDERS OF MAKEDONSKI TELEKOM BY 31.12.2015 INCLUSIVE

NAME OF OWNER	NUMBER OF SHARES	AS %
STONEBRIDGE AD SKOPJE (IN LIQUIDATION)	48.877.780	51,00
GOVERNMENT OF THE RM	33.364.875*	34,81
MAKEDONSKI TELEKOM AD - SKOPJE (TREASURY SHARES)	9.583.878**	10,00
IFC	1.392.204	1,45
OTHER MINORITY SHAREHOLDERS	2.620.044	2,73
TOTAL	**95.838.781**	**100,00**

TO OUR SHAREHOLDERS

Dear shareholders,

We live in a time of rapid changes, and in order to be successful in the world of telecommunications, it is necessary to be quick and have a network that is constantly improving in step with the great technological changes.

Makedonski Telekom, as the leading telecommunications operator in the country, aims to provide infrastructure that will make digital development possible in every sphere of society, thereby encouraging positive changes. Such was the previous 2017, a year in which we set new communication standards, primarily focusing on digitalization. We believe that this is a process that will make the world a better place. Simply, with the new technologies, we enter a digital era in which all of us will have an easier and simpler life, a more efficient society and a better environment.

If I am to summarize this past year, then I can easily say that we had a great and productive year and I am satisfied with the results achieved and the dedication of each team member. We continued to grow our core business, but with a proactive and innovative way of working in order to meet everyone's needs. Definitely, 2017 was a year of positive changes.

Following the trends and the increased need for unlimited communication and data transfer, in accordance with our strategic commitment to growth and development, we put emphasis on building a high performance network. In fact, with the upgrade and modernization of our network, we are paving the way for the development of the gigabit society for which we strive.

For this purpose, we introduced a new technology in the mobile segment, thereby achieving twice the speed compared to 4G. We measured the highest data transfer rate of the mobile network in the country and in the region of over 300Mbps for download. The habits and needs of our customers are changing and they deserve to get more internet at incredible speeds.

Therefore, with the planned investments of over 60 million euros in the coming years, we intend to make these speeds available for all citizens in Macedonia. Our vision is to enable all our customers to enjoy the possibilities of the new technologies, today and in the future, on the best network in Macedonia, confirmed by the customers and other independent surveys.

We have strengthened our position as a leading operator for integrated communication services on the market, primarily as a result of our portfolio of converged fixed, mobile and cloud services. We continued with the growth of Magenta 1, whereby at the end of 2017, 9% percent of the households enjoyed the benefits offered by the best integrated market offer in Macedonia. Furthermore, we did not stop with our efforts to expand the FTTH network, whereby as many as 161,000 homes were passed with fibre, enabling the customers to access high-speed internet.

The customers are, without a doubt, our driving force. Their habits have changed considerably in recent years, and with each passing year they grow more "hungry for internet". That is why, having the best and the most secure network, we created packages for quality and safe communication, new and unique services and applications in order to make their lives and business operations easier. And we are truly proud that our customers recognize and trust us as the best network operator.

Nevertheless, we went a step further and tore down the stereotypes of a company thinking solely on creating modern services and solutions in line with the pace dictated by the modern life. We want to build a different, but, above all, a partner relationship with the customers. That is why we promoted a new concept of shops that, from now on, are not merely locations for buying products, but also places for entertainment, socializing and different customer experience.

Dear shareholders,

We have an extremely important year ahead of us in which we have to make a turnaround in our operations. With the Mission Turnaround strategic initiative, our goal is to first achieve revenue neutrality. To that end, we will focus on convergence and increase our efficiency using the benefits and achievements of modern technology to achieve the desired results. Our second focus will be not only digitizing the company, which will simplify the internal processes, products and infrastructure, but also providing our customers with new digital tools and channels, thereby improving and enhancing our everyday lives. Simply put, we will continue on the path guaranteeing the success of the company!

Best regards,

Andreas Elsner

MANAGEMENT

Slobodanka Gievska, Miroslav Jovanovic, Andreas Elsner, Branko Stancev and Slavko Projkoski.

BOARD OF DIRECTORS

BOARD OF DIRECTORS

The Board of Directors of Makedonski Telekom AD – Skopje manages the Company within the authorizations defined by the Law and the Statute, as well as the authorizations explicitly granted by the Shareholders' Assembly. The rights and obligations of the Board of Directors, in accordance with the Law on Trade Companies, are regulated with the Statute of the Company.

- The members of the Board of Directors are appointed by the Shareholders' Assembly of Makedonski Telekom AD - Skopje.
- The Board of Directors of Makedonski Telekom AD - Skopje appoints the President of the Board of Directors from its non-executive members.
- The structure, appointment, authorizations and operation of the Board of Directors are regulated with the Statute of Makedonski Telekom AD – Skopje and the Rules of Procedure of the Board of Directors.
- Bodies established by the Board of Directors are: Audit Committee, Remuneration Committee and the Commitee for Transformation of Mobile Operations in MKTY
- The members of the Audit Committee, Remuneration Committee and Committee for Transformation of Mobile Operations in MKT are appointed and released by the Board of Directors of Makedonski Telekom.
- he operation of these bodies is defined in the Rules of Procedure that regulate their competences, composition and activities. The said Rules of Procedure are adopted by the Board of Directors.
- The rights and obligations for decision making by the Board of Directors, in accordance with the Law on Trade Companies, are regulated with the Statute of Makedonski Telekom.

Within the authorizations defined with the Law on Trade Companies and the Statute of Makedonski Telekom, the Board of Directors manages the Company and consists of fourteen (14) members, of whom twelve (12) are Non-Executive members, 2 (two) are Executive members and bear the titles Chief Executive Officer and Chief Operating Officer, and four (4) of the Non-Executive members are Independent members of the Board of Directors.

RULES OF PROCEDURE OF THE BOARD OF DIRECTORS

Pursuant to the provisions of the Statute of Makedonski Telekom AD – Skopje, the Board of Directors adopts its Rules of Procedure, which regulates the manner of operation of the Board of Directors, particularly:

1. The preparation of the meetings, the convening of the meetings, the course of operation during the meetings, the manner of decision-making (postponing, adjourning and concluding the meetings),

2. Minutes of the meetings, rights and duties of the members and other participants in the operation at the meeting, as well as

3. Other issues related to the operation of the Board of Directors within the authorizations granted by the law and the Statute of Makedonski Telekom.

MEMBERS OF THE BOARD OF DIRECTORS OF MAKEDONSKI TELEKOM AD – SKOPJE AS OF 31.12.2017

Nazim Bushi - Non-Executive member and President
Sasho Veleski - Non-Executive member and Vice President
Andreas Elsner - Executive member and CEO
Goran Trajanovski – Executive member and COO
Andreas Maierhofer - Non-Executive member
Péter Zsom - Non-Executive member
Andrea Sághy - Non-Executive member
Károly Schweininger - Non-Executive member
István György Dévényi - Non-Executive member
Aneta Simeska Dimoska - Non-Executive member
Pavel Hadrbolec - Independent member
Klaus M. Steinmaurer - Independent member
Zamir Mehmed - Independent member
Divna Jovkovska - Eftimoska - Independent member

MEMBERS OF THE BOD OF MAKEDONSKI TELEKOM AD – SKOPJE WHOSE MANDATE HAS EXPIRED/WHO RESIGNED/WERE RELEASED DURING 2017:

Resignations:

Walter Goldenits from the position of a Non-Executive member of the Board of Directors applicable as of 24.04.2017,
Attila Keszég from the position of an Independent member of the Board of Directors applicable as of 01.05.2017,
Susanne Krogmann from the position of an Independent member of the Board of Directors effective as of 13.10.2017,
Michael Frank from the position of a Non-Executive member of the Board of Directors effective as of 13.10.2017.

Released:

Pance Kralev from the position of a Non-Executive member of the Board of Directors as of 13.10.2017,
Zarko Lukovski from the position of a Non-Executive member of the Board of Directors as of 13.10.2017,
Nebojsa Stajkovic from the position of a Non-Executive member of the Board of Directors as of 13.10.2017,
Aleksandar Stojkov from the position of an Independent member of the Board of Directors as of 13.10.2017,
Vladimir Zdravev from the position of an Independent member of the Board of Directors as of 13.10.2017.

MARKET ENVIRONMENT

This Annual Report on Operation refers to Makedonski Telekom AD - Skopje (hereinafter referred to as: "MKT").

In 2017, the mobile voice revenues contributed with 33.7% to the total revenues, while 14.8% of the total revenues of MKT were generated from fixed line voice services. The fixed line Internet and data services revenues contributed with 14.1%, while the mobile non-voice services revenues contributed with 16.1% to the total revenues. The revenues from IPTV contributed with 6.5% to the total revenues.

The fixed line voice revenues still show a downward trend, mainly due to the decreased number of fixed-line customers and the decrease of the outgoing traffic. On other side the mobile voice revenues has been stabilized. The revenues from mobile non-voice services shown significant increase in 2017, supported by the IPTV revenues growth trend mainly due to the growing IPTV subscriber base.

At the end of 2017, MKT had 210,905 voice access fixed lines compared to 217,576 at the end of 2016. The number of total BB accesses is stable with 193,958 at the end of 2017, compared to 194,172 at the end of 2016. The number of IPTV customers at the end of 2017 reached 117,481 customers (including Magenta1, 3 Play and other TV services), marking 9,1% increase from the end of 2016. The number of Fibre to the Home (FTTH) customers reached 42,265 at the end of 2017, marking 14,2% increase from the end of 2016.

MKT had 1,203,228 mobile subscribers at the end of 2017, compared to 1,257,887 at the end of 2016. The mobile market penetration in Macedonia is 106.8%, which shows continual trend of individuals owning multiple SIM cards. As a result of the market saturation, MKT especially focuses on retaining the customers in order to protect the market share.

The Macedonian mobile market was characterized by highly competitive campaigns and offers in 2017. Due to the increased competitiveness and in order to prevent the churn and encourage the usage, MKT launched various campaigns, price plans and additional services specially designed to meet the subscribers' needs, with a focus on value instead of price. These offers are targeting different customer segments. The MAGENTA products which had been developed, as a DT strategy, were redesigned in 2016 and highlighted the year as a year of a holistic household approach offering integrated products and services to maximize the household base, secure the revenue and bring profitability.

MKT is continuously working on creating a market demand for mobile Internet and stimulating mobile data usage via device/data price plans.

The Macedonian mobile market, influenced by the global trends, is moving to a much broader and more interactive communications market, encompassing voice, mobile Internet and 3G/4G streaming services. Further roll-out of mobile broadband technology, improvement of customer management and billing processes and investment in value added services are planned in order to ensure market competitiveness.

TRANSACTION WITH AN INTERESTED PARTY

Below are the details of the transactions concluded with an interested party:

a. MKT has effected a transaction with an interested party, Macedonian Tennis Federation, whose President and authorized person was an Executive Member of the Board of Directors and Chief Operating Officer of MKT, at the time when transaction was effected. The transaction has been effected based on the concluded Sponsorship Contract in the amount of MKD 615,000 + VAT between MKT (as a Sponsor) and the Macedonian Tennis Federation (as a Sponsorship Beneficiary), for sponsoring the activities of the Tennis Federation in 2017, based on the Resolution of the Board of Directors of MKT on the approval of the conclusion of this Contract, as a transaction with an interested party, dated 22 March 2017. This sponsorship is a traditional activity of MKT for supporting the development of the sport in the Republic of Macedonia that will also contribute to the promotion of MKT at all events organized by the Macedonian Tennis Federation. On 12 April 2017, under this Sponsorship Contract, the transaction was effected in the sponsorship amount for the benefit of the Macedonian Tennis Federation.

b. The Agreement concluded on 04 November 2016 with the Joint Stock Company for Construction and Management of Residential and Commercial Properties of Importance for the Republic of Macedonia, responsible for management of the National Arena, on naming and branding the National Arena "Filip II", as a transaction with an interested party, ceased to be valid as of 1 September 2017. The information on this transaction with an interested party was published on 4 November 2016 in accordance with the Law on Trade Companies and the Listing Rules.
MKT, as a company which is committed to the corporate governance and the social responsibility towards the wider community, started this cooperation in order to raise the quality of the "Telekom Arena" to the level of the globally renowned stadiums. At the "Telekom Arena", national sports competitions, as well as important international events were held, whereby the stadium, the City of Skopje and the Republic of Macedonia were promoted more widely.

c. On 9 February 2017 MKT concluded a Contract for Surveying and Mapping of Underground Telecommunication Lines with Crnogorski Telekom a.d., as a transaction with an interested party, in view of the fact that two members of the Board of Directors of the Company are also members of the Board of Directors of Crnogorski Telekom a.d., which is a contracting party in the transaction. The conclusion of the Contract for Surveying and Mapping of Underground Telecommunication Lines with Crnogorski Telekom a.d. was approved with a Resolution of the Board of Directors of MKT adopted at the extraordinary meeting held on 9 September 2016, as a transaction with an interested party. The contract shall be concluded for a time period until the full completion of the project. The value of the Contract shall range between 1.2 and 1.5 million EUR, depending on the final mileage which will be covered on site, and its implementation and the respective payments by Crnogorski Telekom a.d. shall be performed in phases, in accordance with the Contract.

REGULATION AND PRICING

The Macedonian law concerning the electronic communications (Law on Electronic Communications - "LEC") was enacted on 5 March 2005. Thus, by means of certain transitional provisions, the country's telecommunications regulations were harmonized with the European Union (EU) regulatory framework. For the purposes of aligning with the EU Framework Directives 2009, the new draft LEC was enacted in March 2014 as primary legislation, as well as rulebooks as secondary legislation.

On 19 December 2014, amendments of the LEC were enacted. One of the most important changes is implemented in Article 75-a, which regulates the prices of international roaming.

According this article, the Agency for Electronic Communications ("the Agency") has the right, with a Decision, to determine the maximum prices for the services which are offered to roaming users from countries with which the Republic of Macedonia has concluded agreements on the reduction of the prices of roaming services in public mobile communications networks (Bosnia and Herzegovina, Montenegro and Serbia) on a reciprocal base, which cannot be higher than the prices of the same services in the EU. In a period of 3 years, starting from 2015, the prices will be reduced to the maximum determined.

On 6 November 2015, in the Official Gazette of RM No. 193, amendments of LEC were enacted, wherein the respective changes affect the misdemeanour provisions.

On 27 December 2016, MKT was once again designated as a Universal Service (US) provider for the next period of 5 years, for fixed telephony services and Internet of 2 Mbit/s, public payphones and equivalent access for disabled end-users for a five-year period starting from 1 January 2016.

REGULATION OF FIXED LINE BUSINESS

MKT is a significant market power (SMP) operator on the wholesale markets of fixed telephony networks and services, including the market of access to the networks for data transmission and leased lines. MKT, as a SMP operator, has the obligation to enable its subscribers to access publicly available telephone services of any interconnected operator with an officially signed interconnection contract.

In 2017, both relevant retail markets for fixed telephony: 1. Access to the public telephone network at a fixed location and 2. Publically available telephone services at a fixed location were deregulated. Based on it, MKT is not SMP anymore and has no ex-ante regulations for the retail fixed services.

According to the bylaws, MKT has an obligation to publish reference offers for the wholesale products for interconnection, Unbundling Local Loop (ULL), Local Bit-stream Access (BSA), Reference Access Offer for access to ducts and dark fibre (RAO) and wholesale terminating segments of leased lines. An initial Fibre to the "x" (FTTx) regulation was introduced in the second quarter of 2011 with the obligation for Reference Access Offer (RAO) for ducts and dark fibre imposed on MKT by the Agency. As of 1 April 2015, MKT introduced the VULA service and the optic bit-stream access services as part of its referent wholesale offer.

The Number Portability (NP) procedures are an obligation that arises from the LEC and the NP Rulebook for all operators in Macedonia. The deadlines for porting are two days in a fixed network and one day in a mobile network. The all call query method is an obligation due to the IP migration of all operators on the domestic market.

On 15 July 2014, the Agency introduced an obligation for all operators with cable network infrastructure (including MKT) to build their network underground and to place their existing aerial networks underground by the end of 2020 in the cities with more than 15,000 citizens. Additionally, all fixed and mobile operators are obliged in terms of digital agenda targets to provide broadband services with a minimum speed of 30 Mb/s for 100% of the households' network coverage and 100 Mb/s for 50% of the households' network coverage by the end of 2020.

The Rulebook on the emergency number E 112 was enacted on 27 October 2015 (Official Gazette No. 184/2015). Even though the obligations for the operators are defined in the rulebook, the date for starting the service is not set.

REGULATED WHOLESALE PRICES

In May 2017, the Agency adopted a Decision for the designation of MKT as a SMP operator on wholesale markets, local and central access on a fixed location, relevant markets, 3a and 3b. With the same market analysis, ONE.Vip was designated as a SMP operator for the first time, with same regulatory obligations as MKT. ONE.Vip is obliged to offer wholesale broadband services on DOCSIS technology.

The third analysis of Markets 9 and 10 – Transmission and termination segments of Leased Lines (LL) and Market 7 – Physical access to network infrastructure, was finished in November 2014. As a result of the analysis, on Markets 9 and 10 the transmission segments of the LL were deregulated and on Market 7 the regulations of fibre-based products of MKT were included. On 30 December 2014, the Agency adopted a Decision for the designation of MKT as a SMP operator on Market 9 – Terminating segments of leased lines in the geographical area of the Republic of Macedonia.

REGULATION OF THE MOBILE BUSINESS

In July 2015, the Competition Authority approved the merger of the business of VIP and ONE in Macedonia, consisted of mobile, fixed Internet and transmission of audiovisual content services, in the new entity ONE.Vip. After the merger between MKT and T-Mobile Macedonia (TMMK), all radiofrequency licenses awarded and used by TMMK were transferred to MKT. MKT has radiofrequency usage rights for the following radiofrequencies for public mobile communications systems:

- 2 x 12.5 MHz in the 900 MHz band, validity period: 8 September 2008 – 8 September 2018 (10 years)
- 2 x 10 MHz in the 1800 MHz band, validity period: 9 June 2009 – 9 June 2019 (10 years)
- 2 x 15 MHz 2100 MHz band, validity period: 17 December 2008 – 17 December 2018 (10 years)
- 2 x 10 MHz in the 800 MHz band, validity period: 1 December 2013 – 30 November 2033 (20 years)
- 2 x 15 MHz in the 1800 MHz band, validity period: 1 December 2013 – 30 November 2033 (20 years)

The competitor ONE.Vip has frequency usage rights for the following radiofrequencies for public mobile communications systems:

- 2 x 12.5 MHz in the 900 MHz band
- 2 x 10 MHz in the 2100 MHz band
- 2 x 10 MHz in the 800 MHz band
- 2 x 15 MHz MHz in the 1800 MHz band
- 2 x 10 MHz in the 800 MHz band
- 2 x 15 MHz in the 1800 MHz band

Licence duration of two licences previously owned by ONE.Vip was until 2017, 10 MHz from 900 MHz band and 10 MHz from 1800 MHz band expired on 23 March 2017, positioned in the lower parts of the bands. Based on a request from one.VIP for licence prolongation, the Agency adopted Resolution No. 0804-974 dated 2 November 2016 not to prolong these two licences. Their resolution was based on efficient and effective spectrum usage and necessity for realising radiofrequencies for entrance of third mobile operator on the market in order to foster competition. At the moment, these radiofrequencies are not allocated and are not available for sale to the existing operators.

The retail services provided by the mobile network operators in Macedonia are currently not subject to price regulation.

MKT has SMP on the wholesale market for voice call termination services in mobile communications networks, whereby several obligations are imposed: interconnection and access, non-discrimination in interconnection and access, accounting separation and price control and cost accounting.

MTRs were additionally decreased to 0.63 MKD/min starting from 1 December 2016, based on a new Agency Decision adopted in November 2016.

Also, the new wholesale prices for SMS termination were introduced starting from 1 December 2016, based on a new Agency Decision adopted in November 2016, on the level of 0.3 MKD/SMS.

At the beginning of the year 2016, the Agency conducted new market analyses on the relevant market for mobile origination and adopted a new Decision for SMP designation in April 2016. The regulatory remedies imposed by Agency are as follows: joint dominance of One.VIP and MKT, the same remedies for both operators, mobile access obligation for all MVNO hybrid types (including Reseller), a cost based price for Full MVNO and retail minus (-35%) for the Reseller, an obligation for access to MMS services and mobile data based on technology neutrality (including 4G access). The new wholesale prices for mobile originating calls, originating SMS/MMS and wholesale mobile data services are effective from 1 July 2016.

An auction procedure concluded in August 2013 awarded the whole 790 – 862 MHz band together with the unassigned spectrum in the 1740 – 1880 MHz band for Long Term Evolution (LTE) technology in a public tender. Each of the 3 Macedonian mobile operators acquired an LTE radiofrequency license of 2x10 MHz (in the 790 – 862 MHz band) and 2x15 MHz (in the 1740 – 1880 MHz band). Each license was acquired for a one-off fee of EUR 10.3 million (MKD 634,011 thousand). TMMK will retain the license for 20 years, until 30 November 2033, with an extension option for up to 20 years in accordance with the LEC.

AUDIOVISUAL AND MEDIA REGULATION

In May 2013, the Macedonian Parliament adopted a Law on Film Production, amended in January 2014, imposing obligations for the payment of an annual fee by all cable operators (retransmission) and operators that provide Internet services. The fees are defined as follows:

- 1% of the revenue of cable operators which are operating with TV broadcasting program services
- 1% of the revenue of the entities that provide Internet services
- 2% of the revenue of the legal entities which are operating in the distribution, rental and sale of movies

The above-mentioned fees are applicable as of 2014, calculated on the level of the related revenues from the previous year.

The Law on Audio and Audiovisual Media Services entered into force on 3 January 2014. The Agency for Audio and Audiovisual Media Services, the legal successor of the Broadcasting Council, has the right and obligation to conduct program supervision of the program packages that are retransmitted by the operators of public electronic communications networks.

MKT, as a provider of audio or audiovisual media services on demand, has an editorial responsibility regarding the selection or the content of the service. It is obliged to keep the audiovisual media service on demand unchanged for at least 30 days after its being made available to the users.

Additional obligations imposed by the law and affecting MKT are:

- If a program is subtitled in a language different from the language used originally when the program was produced, it has to be subtitled in Macedonian or in the language of the community that is not a majority, but is spoken by at least 20% of the population in the Republic of Macedonia, except for teleshopping and advertising programs.
- The annual fee for the surveillance carried out by the Agency for Audio and Audiovisual Media, in the amount of 0.5% of the total revenues earned by the retransmission and 0.5% of the total revenues earned for on-demand activity, has to be paid to the Agency for Audio and Audiovisual Media.
- Local program services can be transmitted within their service area and public broadcasting services funded by the broadcasting fee have to be transmitted and free of charge.
- In its subscription agreements, MKT has to specify the list of program services which are currently being retransmitted in its program package.
- The internal television channel output, i.e. the signal of that channel, has to be recorded fully and without any interruption and the recording has to be available at least 30 days after broadcasting.
- MKT is obliged to keep the catalogue and the content of the audiovisual media service on demand for at least 30 days after its being made available to the users.
- Obligation for the promotion of European audiovisual works.
- MKT is obliged to deliver the output signal continuously to the location for collecting signals for monitoring purposes.

COMPETITION

The competition in the telecommunications business is well-developed in all segments. Two main integrated players that offer full portfolio of fix and mobile services shape the telecommunications market in Macedonia.

Vip Operator, a subsidiary of the Telekom Austria Group, was merged with Telekom Slovenije's subsidiary ONE. The merger was consolidated as of 1 October 2015. In November 2017, Telekom Austria became full owner of the company, after purchasing the remaining 45% share from Telekom Slovenije, as agreed with the merger.

The MVNO Lyca-mobile entered the market in July 2016, on the network of ONE.Vip, and reached low market share by year end 2017 (around 2% according to an internal estimation). They are limited to prepaid offers only, and focus on international calls and data packages.

The Balkan lower roaming fees agreed by the regulators of Macedonia, Serbia, Montenegro and Bosnia and Hercegovina in 2015 were further decreased as of July 2017.

ONE.Vip, as an integrated operator, was offering various services - mobile and fixed voice, mobile and fixed broadband Internet and TV. The main focus was put on mobile post-paid, as well as on bundled FMC offers. In the mobile segment ONE.Vip continued to increase the contract ratio, which reached 58% in Q3 2017, but total base declined by 2.2% YoY, as customers move from multiple prepaid to single contract subscriptions (source: Telekom Austria Q3 2017 report).

In the fixed segment, ONE.Vip offers triple play bundles (fixed voice/Internet/TV) and FMC products. They introduced interactive TV feature in all TV products in February 2017, and later, in May, broadband internet for home use over 4G routers.

The cable operators also have a significant role in the telecommunications market and, as providers of cable television as their main service; they are well-established on the Macedonian market. Most of them offer Internet broadband services and fixed voice services on top of the TV service. Telekabel is the biggest cable provider among over 50 active cable operators. By the time this Report is finalized, Telekabel announced its intention to enter in the mobile business during 2018.

The product portfolio of all operators is driven by bundle products. The cable operators are bundling their TV offer with Internet and fixed voice services. The fixed voice service of the cable operators is usually perceived as a value added service. As the overall market is price sensitive, the price perception plays a major role in the customers' choice and thus the cable operators' offers are seen as more competitive than MKT's.

The trend of number portability continued to increase in 2017, for both mobile and fixed numbers. By the end of Q2 2017, there were almost 216 thousands mobile and 174 thousands fixed ported numbers in total (source: Report for electronic communications development Q2 2017, the Agency).

As at 31 December 2017, MKT has an estimated retail fixed voice market share of 60%, retail fixed broadband Internet market share of 41% and TV market share of 28% (source: internal best estimates). In the mobile market, the market share of MKT was estimated to 49% (source: internal best estimates and internal reports for active customers).

Operating in a highly competitive environment in all telecommunications segments, MKT was focused on the retention of the

SERVICES FOR OUR CUSTOMERS

existing customers and the up-sales to bundled converged services, as well as on the acquiring of new customers on the fixed and mobile market, for both the residential and the business segment.

MKT successfully continued the growth of Magenta 1product which reached 9% of the households in the country. Magenta 1, as a complete household approach, continues offering integrated services for all family members.
The Smart portfolio that was introduced in 2016 offered a novelty on the market, the roll-over concept - non-used bundled data from the current month to be used in the following month, and continues to be very well perceived by the customers and increased their satisfaction during 2017.

Smart portfolio introduced in 2016 by offered novelty on the market, the roll-over concept - non-used bundled data from this month to be used in the next month, continues to be very well perceived by the customers and increased their satisfaction during 2017.

In 2017, MKT introduced a new product on the market – Telekom SafeNet, offering a network security service for mobile customers. Mobile network security service protects web/http mobile traffic from malicious software (malware) like viruses, worms, spyware, hacking, phishing, etc. Telekom SafeNet is the enabler of a worry free digital life.

MKT continues to offer the fixed portfolio introduced in the last quarter of 2016 with a simple and flexible approach, offering stable Internet on the best fixed network with a combination of IPTV with an exclusive content, to contribute in sustaining the customer base, as well as to attract new households.

In the prepaid segment, the active base was stimulated by activities with tailor made offers for different segments. Different communication activities were executed, mainly driven by direct SMS instead of big ATL campaigns. Excellent results in the summer period were achieved by attracting visitors to MKT's offer. Price repositioning of weekly and monthly tariff options introduced end of 2016 and proper targeted BTL activities results positively both on the customer satisfaction aspect as well as on the financial side.

Customer retention and satisfaction as a main strategic direction continued also in 2017. Marketing activities based on the customer needs and habits are performed in order to build strong customer relations and provide the best customer experience. Focus on value based approach continues delivering an excellent customer experience for the most valuable customers as well as by creating value through transformation on customer journeys.

In the Business segment, MKT's focus product during 2017 was Magenta 1 Business and the new broadband portfolio aligned top premium business solutions created for dynamic market trends. The new repositioned broadband portfolio includes aligned fixed services with Magenta 1 Business and easy upsell path toward bundled Magenta 1 Business which now includes: upgraded speeds for all packages, more included Internet traffic per month, unlimited calls to all national networks, increased international minutes, LTE in all mobile options, broadband connectivity, superior Cloud services and a possibility to buy the Max TV service as a soft bundle option. The product firmly confirms its customers' unique possibility to procure integrated services and to build up an individual offer according to their needs.

The business portfolio for mobile only services consists of five tariff options that are suitable for all levels of the company's employees, from starting positions to executives. All options have LTE access with higher data volumes accompanied with smart phones at attractive prices.

Managed and cyber security continued to be one of the main development focuses for the Business Customers. Following the key trends, MKT was positioned as an active player on this market not only as a custom solution provider, but also when robust coverage on the topic is needed.

FTTH roll-out continued in 2017 with 29% homes passed with fibber technology giving the opportunity to the customers to have super fast Internet within the new repositioned portfolios. Fiber connections are app. 30% of total BB lines and 65% of optic customers pay additional fee for optic speed. Intensive proactive sales will be continued in 2018 to increase optic network monetization.

WE PROVIDE STATE-OF-THE-ART TOP SOLUTIONS FOR AN IMPECCABLE CUSTOMER

Possibilities for increased speeds through copper network introduced with VDSL technology are utilized for speed add-ons for Magenta 1 Business and repositioned broadband S and M packages. First wave of VDSL migration in 2017 that targeted SOHO customers with VDSL-ready router. Second phase planned for 2018 will continue with proactive migration of existing customers' base toward new repositioned portfolios.

During 2017, our communication efforts were generally focused around strengthening our image as the best network operator in the country. Product-wise, we continued to build the Magenta 1 product offer as the best integrated offer on the market, further occupying the sports, and especially the handball and football category, utilizing several major events throughout the year, starting with the European Handball Championship, the Champions League finals, and the Super Cup in Skopje.

For the post-paid segment, the Smart post-paid portfolio was still the hero in all our communication, this year focusing on several new features, such as the Duo card, which came with discounted monthly subscription, the increased internet roaming packages for the summer, and the internet security option with the exclusive SafeNet product. All of these changes to the standard portfolio were heavily covered with major ATL campaigns, generating awareness and engagement by customers.

In the business sector, the communication focus was placed on strengthening the image of Telekom MK as an innovative operator offering integrated communication services, with an emphasis on the Magenta 1 Business portfolio, combining communication and innovative services in one package and a reliable partner for building a long-term partnership.

The ICT segment was fully covered with a brand new web page, and with several strictly targeted digital campaigns, in which Telekom, as an innovative company and the main provider of smart ICT solutions on the market, was promoted.

Finally, within the Tetris media initiative created by DT, which resulted in a media pitch in 2017, we laid the foundation for improved media budget utilization, especially in digital advertising. The full effects of this should start to be visible in 2018, mostly in the offered possibilities for more targeted, better focused and highly relevant digital communication.

CHANNELS FOR SALE

MKT has developed different sales channels in order to serve the customers from different segments. The direct sales channels comprise: own retail network, telesales, on-line sales channel, technicians, direct sales agents, account managers (for Institutional and Large Accounts) and a multichannel logic in the sales and service of the SME (Small & medium Enterprises) SOHO (Small-Office-Home-Office) segment. The development and sale of ICT solutions is performed for different types of business customers. The indirect sales channel is based on indirect master dealers with their own network of shops, partner shops and kiosks. An external company engaged in 2014 continues with telesales activities (proactive retention and loyalty activities were also introduced). New external company was additionally engaged for telesales activities in November, 2017 in order to increase sales effect (cross sale: selling fix product to mobile customers and mobile products to fix customers). First external company is engaging people for D2D sales channel established in 2016. The same external company is engaging people for newly established D2D sales channel.

The main sales channels are MKT's shops. There are 35 shops and one kiosk as at 31 December 2017. All shops are offering the complete mobile and fixed product portfolio under the same conditions and with the same customer service level. In addition to the sales, the employees in the shops were also focused on service excellence. By using the boost tools, they achieved the sales targets for 2017, with the main focus on Magenta 1 and post-paid packages. The biggest portion of the Magenta 1 sales transactions were done over shops.

The partners' presentation in the own shops continues in 2017 with the implementation of a new content on m-Walls and Window Digits. The partners' stages in the refurbished shops were used for the same purpose.

New setup of D2D channel (in June, 2016) is developing further with roll out on the territory of whole country. The staff in this channel was engaged through an external company with the main focus on FTTH sale. In order to achieve a high level of service excellence, trainings with DT support were organized.

Sales activities that include home delivery via telesales were used in 2017 for upsell and retention of fixed and mobile subscribers. Striving for every call to be converted into a sales activity, the Contact Center has launched an action S2S (service2sales), for consumer and the business customers.

In 2017, MKT launched a brand new version of the self-service mobile app for all prepaid and post-paid consumer customers – Telekom MK. It significantly improved the customer experience and reached more than 100,000 downloads by end of 2017. The on-line sales experience was significantly improved by launching a complexly redesigned web shop with all new features (such as contract signing for new customers, 3D models of devices, colour management, faster and more responsive web shop). The user experience of desktop and mobile version of www.telekom.mk was improved according to the highest standards. Several online sales campaigns were launched to promote and increase the online sales.

Another channel of the distribution network of MKT is the dealers' cooperation. As at 31 December 2017, the network consisted of 6 master dealers with 60 shops as MKT partners. The majority of the MKT master dealers' shops are offering the full MKT portfolio. In all master dealer's shops bill payment was fully implemented in 2016. In addition, prepaid vouchers are also available in 3,500 kiosks via MKT own processing center. Additionally, two new Master Dealers which were introduced in the network at end of 2016 are fully operating with all the determined activities.

A part of the MKT product portfolio (e.g. telephone sets, TV sets, computers, printers, network equipment and home appliances) is available to the customers using payment by instalments through their telephone bill.

INFRASTRUCTURE AND NETWORK

The competitive pressure, in conjunction with saturated Telco market, complexity of business environment with multiple and more sophisticated customer segments, multiple vendors and complex service offerings, fast changes in the technology with new technology paradigm targeting for one universal IP network and cloud-based service delivery platform, as well as changes in the regulations, are only part of the challenges that MKT will face in the next few years.

In order to keep sustainable business and major revenue streams in a very complex telecommunication environment, as well as proactively influence to market trends with new business opportunities, MKT is aiming to keep the technology leadership position and ensure growth through service improvement and innovation by continuously developing of its infrastructure.

Development of infrastructure and investment in Technology should encompass the following objectives/trends: broadband performance, integrated service delivery platforms, efficiency and quality leadership, self-service enablers, cloud concept and "virtual" infrastructure, cost-efficiency, flexibility and responsiveness – reduced time-to-market, as well as competence development.

During 2017, we have made significant steps towards the achievement of our goals with development of the telecommunications network, the service platforms and the supporting systems.

In order to ensure high quality Broad Band (BB) performance and technology leadership, MKT is continuously investing in fix and mobile development. At the end of 2017, more than 161,000 homes passed installed capacity or 29% MKT network households' coverage with FTTH was reached. Regarding VDSL rollout, more than 96K VDSL CO and 5.9K VDSL FTTC homes passed were implemented. Significant improvement was also done in LTE rollout, reaching 98.5% territory coverage and 99.5% population coverage. During 2017, LTE 2CA (800+1800) were implemented on all urban and suburban sites which mean that 55% of all total sites were upgraded with LTE Advanced 2CA in order to gain better LTE DL throughputs.

Alongside extensive mobile BB access rollout, during 2017, high focus was set on the network quality and performance, which is confirmed by the P3 "Best in Test" certificate in December 2017 which represents an internationally recognized acknowledgement for quality of mobile network, as well as by the National Report for Network Quality Parameters prepared by the Agency. MKT is the best in class for voice and data services and leads the overall ranking with 901 points.

The growth of BB access and the continuous traffic increase are supported with further development of IP Core and transport network as cornerstone of all services. During 2017, IP Core & Transport Network Modernization" project which includes modernization, reorganization and extension of all IP Core Network elements, Transport and Aggregation systems was successfully completed. MKT managed to install full DWDM network and finalized IP Core implementation and integration, as well as IP Core services migration.

In Mobile area, MSS, GGSN & SGSN, as well as PCRF were performed during 2017 in order to extend the support of MSS and EPC. In this time frame, the CUDB project for upgrade of HLR/FNR and HSS-EPC on joint CUDB platform was successfully completed and all mobile subscribers were migrated to the new cUBD platform.

Also, a project has started for improvement of the transport network redundancy based on building redundancy of all major cities based on physical and logical path protection, creation of smaller protection rings by implementing new fiber optic routes between major sites and introduction of network redundancy on all other IP Core sites. The increased mobile Internet traffic is also supported with the modernization of the mobile base stations through fibre connections or radio links. At the end of 2017, only 2% of BTSs were connected via copper, which leads to complete fiber migration and copperless BTS backhaul at the beginning of 2018.

In terms of Service Platforms, during 2017, IPTV server platform was upgraded in order to extend the support till 2020. Replacement and capacity upgrade of old Storage at the remote site in Strumica was done as well. Geo-redundancy project for Live TV channels was started. OTT TV platform was future developed in order to be available for PC, Android and iOS. For providing better customer TV experience new features like Live, Vod, Timeshift, CUTV, Advertising, DRM, Reminders, Geo-location, etc were implemented.

Modernization of M-Payment platform in order to enable new mobile payment opportunities in a flexible and user friendly way for the end users was managed, which brings better synchronization, consolidation of databases, optimization of resources and clear work procedures. The commercial start for the mWallet application started in Q4 2017, which provided the users with a possibility to pay EVN and Telco taxes using Telekom specified application via their mobile phones.

Hybrid Access Solution was further developed, which aggregates the bandwidth of both DSL and LTE transmission links and creates a single, powerful broadband pipe between the network service node and customer's Broadband CPE.

The first LTE roaming partner was implemented during 2017, after the introduction of DRA in order to support LTE roaming.

In order to provide higher efficiency, better flexibility and fast response in the provisioning, fault clearance and other processes in technology domain, implementation of New Generation OSS, Broad Band Service Assurance (BBSA), and Trouble Ticketing (TT) extension were developed. New services/functionalities were implemented during 2017 like supporting new vDSL technologies, mass upload for OSP data (ODF import, OSP conduit import, Fiber OSP cable import, OSP containers xls import), Device Library extension - IPTV/MPLS/DWDM, etc.

MKT continues with its determination and its work to be innovation and technology leader on the market. Among the main focuses, as a continuation to the previous years, are the projects in the area of the Smart City. Further to our successful Smart Bus Transport Project implemented for the City of Skopje in 2015 and 2016 and the Smart Light project put in demo operation in 2016, during this year we have also put into demo operation solutions for a Smart Waste, Smart Parking, Smart Bench and Electrical Vehicle Charging, with an aim to demonstrate the advantages from the implementation of such smart systems and our competences in this area.

TECHNOLOGICAL EXCELLENCE FOR A WORLD WITHOUT ANY LIMITATIONS

Apart of the Smart City business area, we drive full force exploring other business possibilities for growth and development, in the field of finance, health, education, etc., especially considering their business prospects and potentials in terms of top line growth of our ICT and B2B business in general.

MKT, as a firm supporter of the new era of smart, connected way of life and work, in 2017 continued its pilot project in the area of Smart school - Hybrid Classroom that is about implementation of ICT-assisted solution for interactive learning in classes and at distance, in two secondary schools in the City of Skopje. The implementation of this project aims at creating a positive change in terms of the way of education, providing advanced, self-driven, collaborative and interactive classroom experience for youngsters; its aim is also to demonstrate the manner in which the use of technology could support the quality and efficiency of the education, thus impacting the long-term development of the educational system, as well as the society and economy.

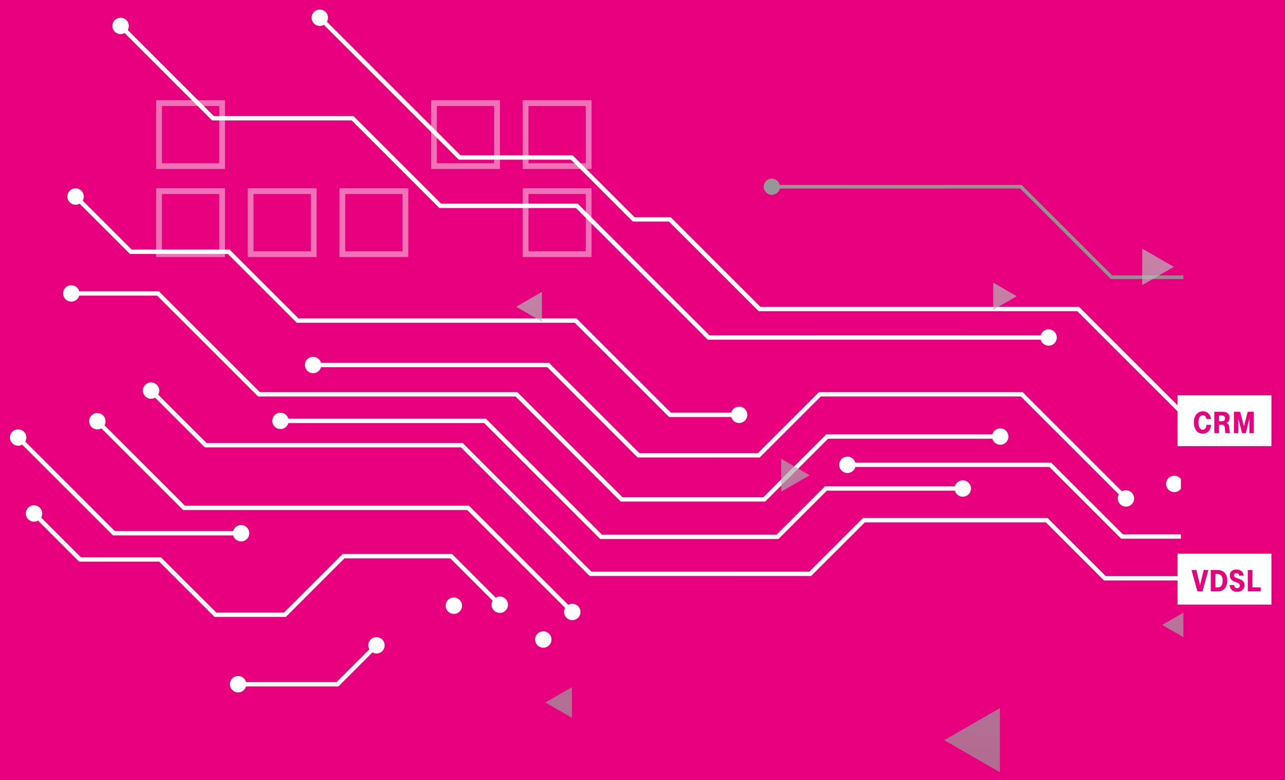
Also, utilizing the potential coming out from the EU-funded projects in the smart Internet of Things (IoT) solutions, e-government, etc., was under a close loop as well.

In addition to the business development activities given above, in 2017 we put focus on the development of the projects and products for digitalization and smart working for the business segment, which we believe are growing market potentials in the forthcoming years, expected to be driven by the advantages of the efficiency of ICT in the daily workflow systems and networks, as well as by the transparency and accountability of such solutions.

Under the motto - INNOVATION SYNERGIES – WIN WITH PARTNERS, we continue our strategic technology partnerships - Cisco Gold, EMC Cloud solution provider and Microsoft Silver Data Center. Furthermore, in 2017 we got recertification of our Oracle Platinum and HP Business partnership and we started the process of getting a status of Microsoft Cloud Solution provider. These partnerships are confirmations of MKT's competences in the areas of enterprise networks, cloud, collaborations, network securities, and Data Center technologies. Such competences are deemed to be crucial assets on which we can leverage further in our ICT business development activities.

BY MEANS OF CONTINUOUS INVESTMENTS WE ARE BUILDING THE FASTEST AND THE SAFEST NETWORK

INFORMATION TECHNOLOGY



The project for billing consolidation was successfully finished on 1 July 2017. The project achieved:

- Consolidation of Fix and Mobile billing in one system BSCS iX R2
- Consolidation of systems for baring and disconnection
- OPEX reduction due to retirement of the fix billing system Geneva
- Operational efficiency –utilizing one billing and barring system used for Mobile and Fix customers
- Possibility for creation of one bill for Fix and Mobile subscribers

Following the zero NTP ("no technical possibility") company strategy, the following projects have been implemented:

- Implementation of provisioning of VDSL technology providing possibility for higher data speed and customer coverage
- Implementation of Cube product providing fix data services over 4G network for subscribers where there is no technical possibility for obtaining services over fix access

The project for upgrade of mobile provisioning system to the latest version was successfully executed in November 2017. The upgrade was solely executed by internal resources resulting with significant cost savings.
The new system is enriched with new features/improved functionalities, better performances and new integrated tool for development activities.

The SafeNet service was launched in October 2017 providing Mobile Network Security Service to mobile customers. The service protects the mobile web/http mobile traffic from malicious software (malware) like viruses, worms, spyware, hacking and phishing. The introduction of the service has a strategic importance since network security as a service is becoming more and more important and it is one of the fields in which growth is expected.

In the CRM systems the project for implementation of VDSL technology was implemented. With this project, we introduced new VDSL technology support in our systems. Additionally, the technical possibilities of our systems were improved in order to support offer and sales of products that from a sales point of view are agnostic of the technology behind them. The processes for technical feasibility check, eligibility and order creation were also modified to support this kind of functionalities.

The upgrade of the web shop application was finished in 2017. The new web shop platform is more visually appealing to the customers, follows the new DT guidelines and is optimized for best user experience without delay in processing the orders.

A new functionality for acquisition of new post-paid customers through the online (web) is introduced.

The project for implementation of Mediation Zone in Hrvatski Telekom started in 2017. The project is divided in two phases (Mobile and FIX) and is planned to be finished by the end of 2018. It is realized through the Shared Service Center for Mediation.

The Intermediate solution as part of the DWH consolidation project of MKT's Data Warehouse systems was delivered in July 2017. The solution supports the consolidation of the billing systems. The DWH consolidation project in its original scope continues to be executed and is planned to be finished until Q1 2019.

The SAS campaign management upgrade to the latest SAS Customer Intelligence Studio 6.5 based on SAS Software version 9.4 was performed in December 2017. The project includes new server environment setting, application installation and configuration for both business contexts, also CDM data migration activities.

The project for the replacement of the existing Enterprise Storage System with new All Flash Enterprise Storage system was successfully completed and finished in the period June - August 2017. The centralized Enterprise Storage infrastructure provides storage-based services for the most important applications in all segments in our company (Billing system, CRM, NetCracker, MS SQL & Oracle DB, Mediation, ICARM, eRecharge, Appian, Interconnect, Mobi+, SAP system). The new Storage platform enables more efficient and reliable IT infrastructure and it will provide more benefits for our internal services/employees and external services/customers:

- Storage Capacity and performance upgrade
- Improve the Disaster Recovery services for the whole application (with consolidation of applications on the same storage system)
- Advanced technologies such as Storage Virtualization, Storage Partitioning, Tiering, etc.

INFORMATION SPEED AND SAFETY ARE THE DRIVER OF DIGITAL SOCIETY

HUMAN RESOURCES

Also in 2017, through our own strategy, we continued to follow the company's strategy, wherein we managed to keep the course and successfully reach the end of our path.

The intensive and dynamic market changes require a business model for human resources and a team that will be able to respond to the customers and our employees' demands and at the same time to remain within the values of the Deutsche Telekom Group and the internationally accepted standards.

In the strategy we had several strategic focuses that guided our activities:

- maximise the efficiency and effectiveness in the business processes;
- recognise, reward and retain the key employees;
- maintain a culture oriented towards target achievement;
- creation of development programmes for advancement of our employees and
- health, safety and wellbeing of our employees.

These focuses enabled us to fully dedicate ourselves to our clients, managers and employees, thus providing services that best suit their needs.

MAXIMISE THE EFFICIENCY BY ESTABLISHING NEW BUSINESS PROCESSES THAT SUPPORT THE COMPANY'S GROWTH STRATEGY - MISSION TURNAROUND

In September 2017, a new organisational structure was adopted which started to apply as of 1 November, modified in order to strengthen the strategic positioning of the company on the market.
The lean organisation with less hierarchy has largely contributed to the overall improvement and acceleration of the company's results. The organisation is more flexible on operational and organisational level and enables more simplified decision making processes and more efficient communication, enhanced efficiency in the management of the internal processes, as well as better harmonisation of the initiatives and project coordination.
This restructured and lean organisation, set up in the spirit of a start-up company, will support the implementation of the Mission Turnaround strategy which enables a new mindset and leads to growth in all segments of our operation.

For the purposes of strengthening the functions that enable superior customer experience, the new operational model defined three main drivers: consumers, business customers and digitalisation and innovations which, with the support from the other units, should provide a better organisation and higher coordination in the provision of the best products and services for the customers in both segments and better time to market. Furthermore, the organisation and management of the Chief Technical and IT Officer Area were restructured whereby significant synergies were created, all for the purposes of making the best use of the available capacities and providing superior quality in the operation as a support for the business growth.

The cross-functional method of operation is the best example of team cooperation and joint efforts for making positive changes with productive results.

WE RECOGNISE, REWARD AND RETAIN OUR KEY EMPLOYEES

In 2017 we put a special focus on creating positive experience for recognition, increased motivation and productivity of our key employees.

We introduced a recognition programme with the leading motto #ITryHarder, whereby we recognise those who, with their exceptional commitment and success in the work, the team spirit, the cooperation and the constant constructive support of other colleagues, contribute to the greater company's success, those who equally focus on external and internal customers and who are selflessly dedicated to the performance of their working tasks.
This programme, whose first cycle will be in duration of one year, in addition to offering each employee an opportunity to express gratitude to their colleagues by giving them adequate recognition, it also enables us to identify our best employees that will become members of the #ITryHarder club. The members of the #ITryHarder club will be rewarded with adequate benefits and they will be promoted at company's events and via the internal channels throughout the year, i.e. by the new cycle of selection of the following club members.

This year, taking into consideration the positive effects from the previous year, we continue the practise of having a special focus on the employee from the Chief Technical and IT Officer Area. We implemented a loyalty programme as a programme for development of the key experts from this area that will provide successors for specific job positions by means of a better transfer of knowledge, as well as raising the personal and professional development on a higher level.
Concurrently, the loyalty programme was extended to the employees from the Chief Commercial Officer Area, where the best 10 employees from the frontline got loyalty contracts, thus increasing their motivation and keeping their strategic job positions at times when the competition is making pressure on our successful staff.

Following the initiative and the wish of the Chief Executive Officer, we also started a new initiative through which we would like to publicly acknowledge the work and the results of our employees who continuously demonstrate outstanding results – the event **Pizza on Friday.** The purpose of the event, which is held quarterly, is to give recognition to the employees who achieved exceptional results in the previous quarter, through a time spent together in a relaxed atmosphere.

The employees are rewarded for their effort and they have an opportunity to take a break from the work duties, to get to know each other better, to motivate themselves and to socialize. This is an opportunity for the Chief Executive Officer and the other chief officers to spend some time together and to discuss current and important issues with the employees, to receive feedback and to exchange new ideas.

When it comes to the benefits, we defined new conditions which refer to the terms of use, as well as to the limits for procurement of company's mobile phones. The newly launched packages include higher monthly limit, 10 GB internet and roaming.

RESULTS-DRIVEN CULTURE

We will further strive to ensure a result-driven culture whereby we will enable equal opportunities for profit and attractive award for our committed employees in the Sales segment. Therefore, we implemented a new salary and incentive system for the employees in the Customers Relations segment – Contact Centre. In practice, this means standardizing the fixed salary in accordance with the local market conditions and introducing a variable part of the salary which depends on the level of a successful achievement of the service and sales targets.

WE VALUE AND FOLLOW OUR EMPLOYEES' OPINION

We believe that the inclusion of the employees in the decision-making process and the exchange of opinions create an environment in which the people have an impact on the decisions and the activities of the business operation, but also on their jobs and environment. Therefore, we continuously follow the employees' opinion through the regular **Pulse Check of the Company.** This helps us to identify the trends and the employees' feelings, it reveals how employees perceive the processes within the company, particularly at times of transformation and it identifies the strengths and the weaknesses in the areas where additional improvement measures should be implemented.

WE RESPONSIBLY OBSERVE OUR EMPLOYEES' NEEDS FOR DEVELOPMENT

The quick changes in our industry call for quick responses, i.e. properly educated and trained employees ready to perform their tasks in a positive work environment.

The highly developed education and training system provides a full expertise and potential to implement the business opportunities in all areas of our operation. Thus, we create various development programs which can respond to different levels of the organizational structure.

Development programmes for the management: We put a special focus on the creation of programmes aimed at this group of employees who directly manage the human resources. Our managers are the ones who fully and responsibly stand behind their decisions and the decisions of their team, while they bear the "burden" of being a role model and creating our corporate culture.

We worked on the creation and implementation of a programme for development of leadership competences that is aimed at managers and responds to the complex business environment. We also implemented global programmes for leadership skills, such as the Level Up programme; Open leadership portfolio program; Lead FIRST program (aimed at managers who were appointed to managerial positions for the first time in the current year), training for managers for working in a dynamic and changing business environment.

Development programmes for all employees: In 2017, we created several development programmes that are aimed not only at our employees, but also at those who are in direct contact with our customers in order to achieve the best results.
In 2017, we put a special focus on the development of our frontline employees. We created and implemented a training for sales skills for sales by phone, sales management and development of communication skills for the employees in the Contact Centre, as well as a training for sales and communication skills for the employees in our shops.

DT talent programme – Of all nominated employees within the DT group, 20 employees from Makedonski Telekom were promoted as global talents, which equals to 90% of the total number of nominees for the programme, which placed us on the seventh place in the DT group in terms of talents included in this global programme. The goal of this program is directed development of the employees identified as a valuable potential for the Company.

Promotion of digital learning - MKT was part of DT's pilot programme for Skillsoft – a digital learning platform which was globally implemented within the new international model for human resources development. The portfolio includes courses, books, preparation for certification and videos on many topics: Business operation (project management, sales and customer orientation, finance, HR and administration); Computer skills (Office, Windows, Internet Explorer, SAP applications); IT (software development, operating systems, ERP systems, WEB design, IT business)

A global program for English language is enabled for all employees through the digital school.

HEALTH, SAFETY AND WELLBEING OF OUR EMPLOYEES

Health, safety and wellbeing within our organization are the most important things. We provide a healthy environment for our employees by implementing the Company's policy in the field of health and safety of employees in accordance with the latest European regulations and practices. Thus, we provide a safe working environment and healthy working conditions for our employees.

Having regard to the nature of the work process, we provide our employees with adequate medical examination, whereby we take care of the health of each individual in the Company. Concurrently, in order to raise the awareness of the importance of our own health, we also introduced a new benefit for all employees with **special expanded medical check-ups.**

We ensure that the work environment is customized through the implementation of various security measures and standards. As a proof of the successful operation for 2017, on 06-07 May, 2017 in Ohrid, the World Day for Safety and Health at Work was successfully celebrated where Makedonski Telekom and the Safety and Health at Work Team within MKT won a gold plaque. With this, the strict requirements of the **OHSAS 18001 - occupational health and safety management system** were established whereby, once again, we remain a part of the **DT Umbrella BS OHSAS 18001:2007.**

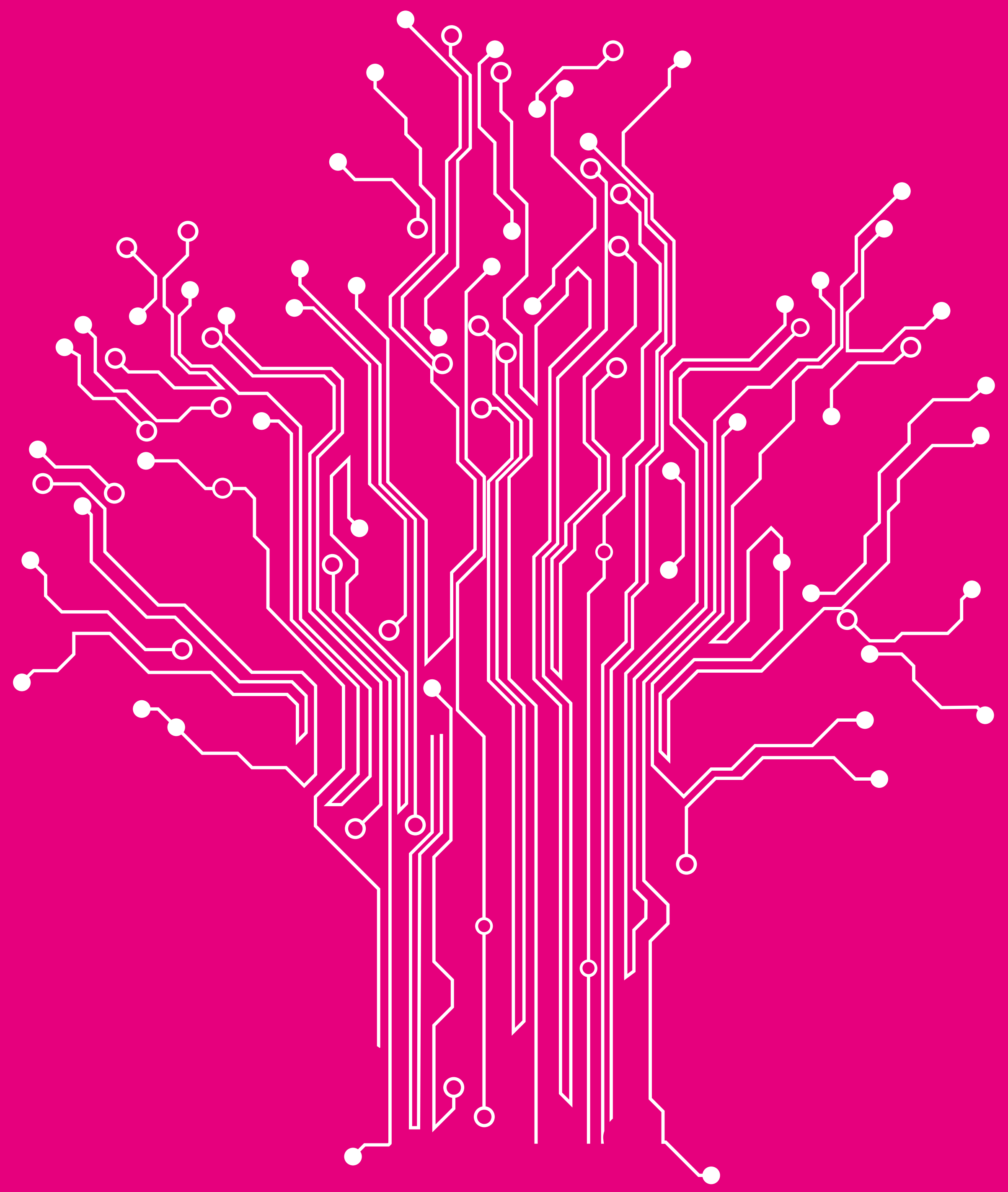
For the purpose of complete fulfilment of the safety requirements for increased risk job positions, all necessary and additional **tests of the personal and collective protective equipment for 2017** were conducted, while the **0% injuries** factor was kept.

Eco actions on a mountain - for the purpose of increasing the importance of the mountains for the everyday life, as well as to contribute to the creation of the common raising of the ecological awareness of the employees that will introduce positive changes for better and higher quality of life for the whole social community.

BEHIND EVERY SUCCESS OF THE COMPANY THERE ARE FULLY DEDICATED AND MOTIVATED COLLEAGUES

We continuously provide **trainings for all new employees** in order for them to gain the necessary specific knowledge of health and safety, as well as to raise the awareness about these issues. **A special web page was created and it is updated on a daily basis** for the purpose of timely informing of the employees on the latest developments in the area of health and safety, as well as recommendations and advices for better prevention measures related to the health.

SOCIAL RESPONSIBILITY



Corporate social responsibility is an integral part of our operations. We believe that this commitment is the right choice and basis to sustain not only our business, growth and development, but also, through responsible work, to create added value for the entire society. Makedonski Telekom, as one of the most important players in the Macedonian business environment, has been a true example of a socially responsible company for years. Our mission is to take care of our employees while enriching and improving the quality of life of all citizens in the country, as well as constantly investing in the community, thereby improving the environment in which we operate. Therefore, we continuously support important cultural and sporting events, donate and invest in education, health, social and child care, while promoting the universally acknowledged social responsibility values.

Sports, music, culture and social responsibility are the main pillars of the sponsorship strategy of Makedonski Telekom.
To that end, in 2017, we continued our cooperation with our best handball and football club "Vardar", the Macedonian Tennis Federation, and we also gave support to the best Macedonian rally driver, Igor Stefanovski-Idze. We also remained the general sponsor of the Futsal Business League and the humanitarian giant slalom in Mavrovo. As supporters of sport, we have also realized successful cooperation with the football club "Albarsa", as well as with the basketball club "Shkupi".

Except for sports, we are constantly investing in music, as one of the most significant social segments. For many years now we have been partners of the widely known and unique Skopje Jazz Festival, as well as of the children's music festivals such as Zlatno Slavejce (Golden Nightingale), Potocinja (Little Streams) and Grozdoberce (Grape Harvest). We strengthened and continued our support of the music festivals: Skopje Calling and Ohrid Calling, as well as of the popular artist Adrian Gaxha.We also generously invest in the culture. Among the more significant events, we highlight the Ohrid Summer Festival, a manifestation we have supported for many years, then the traditional street festival Buskerfest, Strumica Open Festival, Macedonia Investment Summit 2025, the traditional school Training for Young Leaders, as well as the AllWeb event. We have given our support to public interest projects in the field of international cooperation, such as the National Day of the Republic of Hungary and the Independence Day of the United States.

We have also been partners to the traditional manifestations for the Albanian population in the Republic of Macedonia, such as: Zvucite na Carsijata (The Sounds of the Old Bazaar), the Ibe Palikuka Ensemble, the Tetovo Summer Cultural Festival, the International film festival Skupi Festival, Akta Non Verba and the Children Theatre Centre.

Makedonski Telekom in 2017, in direction of its strategy for a socially responsible company, donated medical devices to the Institute for Respiratory Diseases in Children – Kozle, a leading institute in our country, but also in the region for complex respiratory diseases in children. With this donation, we have undoubtedly contributed to the improvement of the quality of life of the youngest. The donation of the medical devices will definitely contribute to improving diagnostics, reducing waiting time and enabling therapy for a larger number of patients.

WE CREATE ADDITIONAL VALUES FOR THE WELLBEING OF ALL CITIZENS

FOUNDATION "TELEKOM FOR MACEDONIA"

The mission of the Foundation "Telekom for Macedonia" is to help all stakeholders in the society. The two main focuses of the Foundation are the children of the vulnerable categories, as well as the development of the information society and equal inclusion for all, thus striving for a better and higher quality of life for all citizens. In this regard, in the course of 2017 several projects have been implementd, reaching out to different categories of citizens.

New Year's Caravan

The New Year's caravan is a traditional humanitarian activity of the Foundation "Telekom for Macedonia", which has been organized for 15 consecutive years. As part of the New Year's caravan, volunteers from Makedonski Telekom visited the most vulnerable categories of children: orphans, children with special needs, children with impaired hearing and vision, children with disabilities, children from socially disadvantaged families, as well as children staying in health institutions.
Our colleagues-volunteers visited Kavadarci, Skopje, Bitola, Veles, Debar, Delcevo, Negotino, Prilep, Resen, Struga, Strumica, Tetovo, Stip and Probistip. There, we have presented over 2000 New Year's gift bags and organized New Year's performances in a number of families and institutions.

The Foundation changes the institutions every year, in order to visit as many children as possible and bring joy and a New Year's atmosphere to those who need it the most.

European and Balkan Junior Olympiad in Informatics

The Balkan Junior Olympiad in Informatics in 2017 was attended by teams consisted of up to 4 participants – students no older than 15.5 from nine Balkan countries: Bosnia and Herzegovina, Bulgaria, Greece, Macedonia, Moldova, Cyprus, Romania, Serbia and Slovenia.

At the same time, the European Junior Olympiad in Informatics was organized for the first time and it was attended by 88 students from 22 European countries. The two Olympiads were organized in Sofia.

In the exceptionally strong competition, in addition to the three medals won at the Balkan Olympiad, the Macedonian team also won a bronze medal at the European Olympiad in Informatics.

The primary goal of these significant and elite educational events is to encourage interest in informatics among young children in all European countries, as well as to enable the best European young talents to showcase their knowledge and skills they have already acquired in this area, particularly in programming. The participation of the Macedonian representatives in the two Olympiads was supported by the Foundation "Telekom for Macedonia".

Numbers for Donations

For many people, the telephone numbers for donations are their only lifeline in their fight for life. These numbers are opened in order to help the treatments or surgical procedures of people who lack sufficient financial resources. Thus, in 2017, the numbers for donations were used 74 times, 65 of which were dedicated to natural persons and 9 for legal entities. The Foundation "Telekom for Macedonia" continues to support the citizens as users of these numbers, by paying the personal tax on the donated amount.

ACHIEVEMENTS IN 2017

9% OF THE HOUSEHOLDS ARE USING MAGENTA 1

117,500 USERS OF THE IPTV SERVICE

THE HIGHEST MOBILE NETWORK SPEED OF OVER 500 MBPS EVER MEASURED IN THE REGION

A LEADING POSITION ON THE FIXED VOICE SERVICES MARKET WITH SHARE 59.6%

A UNIQUE TELEKOM SAFENET SERVICE FOR MOBILE NETWORK SECURITY

161,000 HOMES PASSED WITH FTTH

A NEW DT SHOP CONCEPT WITH A GREEN ECO WALL FOR THE FIRST TIME IN MACEDONIA

AWARDS AND RECOGNITION

FACEBOOK MESSENGER CHATBOT WINS A TOP GLOBAL AWARD FOR CUSTOMER SERVICES

Makedonski Telekom is the winner of the **“Business Brilliance”** Award of the renowned British Global Events and Training Group “BOC”. The award was presented within the world event “Business Brilliance Awards UK” 2017 in the category of customer services for the advanced automatic customer support solution, Facebook Messenger Chatbot.

This is another important global acknowledgement for Makedonski Telekom received for our innovative approach to work. In competition of projects from all over the world, at the ceremony held on 7 December in London, Great Britain, Makedonski Telekom won the first prize for its advanced automatic customer support solution, Facebook Messenger Chatbot.

Facebook Messenger Chatbot of Makedonski Telekom (a.k.a. “Virtual Assistant”) is the first step towards achieving an advanced, automatic customer support. This basically is the beginning of a project for creating artificial intelligence that will provide 24/7 assistance and support to the clients of Makedonski Telekom.

STRATEGY 2018

“We are ACCELERATING OUR GROWTH by targeting segments currently not addressed by us, MAXIMIZING opportunities generating value by leveraging our superior technology, continuing the growth of our core business by building the HIGHEST BRAND CONSIDERATION, focusing on high impact activities by an organization evangelized with GROWTH MINDSET putting the CUSTOMERS FIRST”

FINANCIAL STATEMENT

LIFE IS FOR SHARING.

pwc

Independent auditor's report

To the Board of Directors and Shareholders of Makedonski Telekom AD – Skopje

We have audited the accompanying financial statements of Makedonski Telekom AD – Skopje (the "Company"), which comprise the statement of financial position as of 21 December 2017 and the statement of comprehensive income, statements of changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparations and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Standards n auditing applicable in Republic of Macedonia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether and financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate n the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements presents fairly, in all material respects, the financial position of the Company as of 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers Revizija doo Skopje

PricewaterhouseCoopers REVIZIJA DOO Skopje
Skopje
20 february 2018

PricewaterhouseCoopers Revizija doo, 8th September 16,
Hyperium Business Center, 2nd floor, 1000 Skopje, Republic of Macedonia, VAT No. MK4030008022586,
T: +389 (02)31 40 900/901, F: +389 (02) 31 16 525, www.pwc.com/mk

Statement of financial position

As at 31 December

In thousands of denars	Note	2017	2016
Assets			
Current assets			
Cash and cash equivalents	5	522,375	941,022
Deposits with banks	6	680,506	178,457
Trade and other receivables	7	2,893,949	3,342,231
Other taxes receivable	8	14,175	12,845
Inventories	9	338,121	438,320
		4,449,126	4,912,875
Assets held for sale	10	-	3,296
Total current assets		4,449,126	4,916,171
Non-current assets			
Property, plant and equipment	11	12,180,690	12,497,665
Advances for property, plant and equipment		4,553	2,784
Intangible assets	12	2,691,472	2,321,148
Trade and other receivables	7	330,635	346,043
Financial assets at fair value through profit and loss		63,925	60,366
Other non-current assets		612	612
Total non-current assets		15,271,887	15,228,618
Total assets		19,721,013	20,144,789
Liabilities			
Current liabilities			
Trade and other payables	13	3,463,777	4,338,917
Income tax payable		25,428	20,088
Other taxes payable	8	48,608	39,255
Provision for liabilities and charges	15	153,907	165,994
Total current liabilities		3.691,720	4,564,254
Non-current liabilities			
Other payables	13	519,264	168,621
Deferred income tax liabilities	14	128,928	151,595
Provision for liabilities and charges	15	57,340	65,808
Total non-current liabilities		705,532	386,024
Total liabilities		4,397,252	4,950,278
Equity			
Share capital		9,583,888	9,583,888
Share premium		540,659	540,659
Treasury shares		(3,738,358)	(3,738,358)
Other reserves		958,389	958,389
Retained earnings		7,979,183	7,849,933
Total equity	16	15,323,761	15,194,511
Total equity and liabilities		19,721,013	20,144,789

These financial statements were authorized for issue on 20 February 2018 by the Management of Makedonski Telekom AD - Skopje, and are subject to review and approval by the Board of Directors on 26 February 2018 and by the shareholders on date that will be subsequently agreed.

Andreas Elsner Chief Executive Officer	Goran Trajanovski Chief Operating Officer	Slavko Projkoski Chief Financial Officer	Goran Tilovski Controlling, Accounting and Tax Director Certified Accountant Reg. No. 0105436

The accompanying notes are an integral part of these financial statements.

Statement of comprehensive income

Year ended 31 December

In thousands of denars	Note	2017	2016
Revenues	17	10,318,376	10,557,595
Depreciation and amortization		(2,410,816)	(2,540,576)
Personnel expenses	18	(1,090,333)	(1,424,049)
Payments to other network operators		(894,255)	(1,043,572)
Other operating expenses	19	(4,359,024)	(4,344,422)
Operating expenses		(8,754,428)	(9,352,619)
Other operating income	20	49,659	40,617
Operating profit		1,613,607	1,245,593
Finance expenses	21	(70,484)	(62,373)
Finance income	22	45,982	40,094
Finance expense - net		(24,502)	(22,279)
Profit before income tax		1,589,105	1,223,314
Income tax expense	23	(208,257)	(187,372)
Profit for the year		1,380,848	1,035,942
Total comprehensive income for the year		1,380,848	1,035,942
Earnings per share (EPS) information:			
Basic and diluted earnings per share (in denars)		16.01	12.01

Statement of cash flows

Year ended 31 December

In thousands of denars	Note	2017	2016
Operating activities			
Profit before tax		1,589,105	1,223,314
Adjustments for:			
Depreciation and amortization		2,410,816	2,540,576
Write down of inventories to net realizable value	19	11,228	(444)
Fair value gain on financial assets	22	(3,559)	(7,254)
Impairment on trade and other receivables	19	153,982	58,025
Net (release)/ increase of provisions	15	(6,805)	14,174
Net gain on disposal of property, plant and equipment	20	(5,157)	(14,017)
Dividend income	22	(2,749)	(2,841)
Interest expense	21	35,050	48,252
Interest income	22	(39,674)	(15,693)
Effect of foreign exchange rate changes on cash and cash equivalents		9,583	(12,321)
Cash generated from operations before changes in working capital		4,151,820	3,831,771
Decrease/(increase) in inventories		88,971	(19,752)
Decrease in receivables		298,909	119,175
Decrease in payables		(512,703)	(131,794)
Cash generated from operations		4,026,997	3,799,400
Interest paid		(22,849)	(33,642)
Taxes paid		(225,584)	(178,602)
Cash flows generated from operating activities		3,778,564	3,587,156
Investing activities			
Acquisition of property, plant and equipment		(1,576,746)	(1,541,714)
Acquisition of intangible assets		(467,105)	(277,206)
Loans collected		9,469	12,416
Deposits collected from banks		178,457	-
Deposits placed with banks		(680,506)	(178,457)
Dividends received		2,749	2,841
Proceeds from sale of property, plant and equipment		38,416	40,500
Interest received		39,674	15,693
Cash flows used in investing activities		(2,455,592)	(1,925,927)
Financing activities			
Dividends paid		(1,251,439)	(1,954,519)
Payments of other financial liabilities		(480,597)	(328,132)
Cash flows used in financing activities		(1,732,036)	(2,282,651)
Net decrease in cash and cash equivalents		(409,064)	(621,422)
Cash and cash equivalents at 1 January		941,022	1,550,123
Effect of foreign exchange rate changes on cash and cash equivalents		(9,583)	12,321
Cash and cash equivalents at 31 December	5	522,375	941,022

The accompanying notes are an integral part of these financial statements.

Statement of changes in equity

In thousands of denars	Note	Share capital	Share premium	Treasury shares	Other reserves	Retained earnings	Total
Balance at 1 January 2016		9,583,888	540,659	(3,738,358)	1,237,534	8,009,529	15,633,252
Total comprehensive income for the year		-	-	-	-	1,035,942	1,035,942
Transaction with owners in their capacity of owners (dividends paid)		-	-	-	-	(1,474,683)	(1,474,683)
Transfer (see note 2.12 and 16.2)		-	-	-	(279,145)	279,145	-
Balance at 31 December 2016	16	9,583,888	540,659	(3,738,358)	958,389	7,849,933	15,194,511
Balance at 1 January 2017		9,583,888	540,659	(3,738,358)	958,389	7,849,933	15,194,511
Total comprehensive income for the year		-	-	-	-	1,380,848	1,380,848
Transaction with owners in their capacity of owners (dividends paid)		-	-	-	-	(1,251,598)	(1,251,598)
Balance at 31 December 2017	16	9,583,888	540,659	(3,738,358)	958,389	7,979,183	15,323,761

The accompanying notes are an integral part of these financial statements.

1. GENERAL INFORMATION

1.1. About the Company

These financial statements relate to the Company Makedonski Telekom AD - Skopje.

Makedonski Telekom AD – Skopje, (hereinafter referred as: “the Company”) is a joint stock company incorporated and domiciled in the Republic of Macedonia.

The Company’s immediate parent company is AD Stonebridge Communications – Skopje, solely owned by Magyar Telekom Plc. registered in Hungary. The ultimate parent company is Deutsche Telekom AG registered in the Federal Republic of Germany.

The Macedonian telecommunications sector is regulated by the Electronic Communications Law (ECL) enacted in March 2014 (Official Gazette No. 39 dated 28 February 2014) as primary legislation and rulebooks as secondary legislation.

As of June 2013 the Company is listed on the Macedonian Stock Exchange (MSE) in the mandatory listing segment and it is reporting to MSE, pursuant to the modifications of the Law on Securities dated 2013. In accordance with the MSE listing rules the Company has permanent disclosure obligations related to the business and capital, significant changes in the financial position, the dividend calendar, changes of the free float ratio (if it fails below 1%) and changes of the major shareholdings above 5%. In addition, the Company has specific disclosure obligations comprising of various financial information, including different financial reports (quarterly, semi-annual and annual), as well as public announcement for convening Shareholders’ Assembly (SA), all modifications and amendments made to the SA agenda and publication of certain adopted SA resolutions. Before June 2013, the Company was reporting to the Macedonian Securities and Exchange Commission as a Joint Stock Company with special reporting obligations.

The Company’s registered address is “Kej 13 Noemvri” No 6, 1000, Skopje, Republic of Macedonia. The average number of employees of the Company based on the working hours during 2017 was 1,117 (2016: 1,162).

1.2. Regulation environment - Mobile Line

On 5 September 2008 the Agency for Electronic Communications (the Agency), ex officio, issued a notification to the Company for those public electronic communication networks and/or services which have been allocated thereto under the Concession Contracts. The license for radiofrequencies used by the Company with a bandwidth of 25 MHz in the GSM 900 band, was also issued in a form regulated in the ECL with a validity period until 5 September 2018, which can be renewed up to additional 20 years in accordance with the ECL. Due to the modifications in the bylaws the 900 MHz band was opened for UMTS technology and based on the Company’s request the radiofrequency license was changed so that these frequencies are now available for both GSM and UMTS technology.

In 2008 a decision for granting three 3G licenses was published. The validity of the license is 10 years, i.e. by 17 December 2018, with a possibility for extension for 20 years in accordance with the ECL. License prolongation is expected in 2018.

On 19 December 2014, amendments of the ECL were enacted in the Official Gazette, No. 188. One of the most important changes was implemented by Article 75-a, which regulates the prices of international roaming. Pursuant to this article, the Agency has the right, with a Decision, to determine the maximum prices for services which are offered to roaming users from countries with whom the Republic of Macedonia has concluded agreement for reduction of the prices for roaming services in the public mobile communication networks, on reciprocal basis, which cannot be higher than the prices of the same services in the EU. In the period of 3 years from 2015, the prices will be reduced to the maximum determined ones.
Both mobile operators on the market, the Company and One.VIP are designated as operators with Significant Market Power (SMP) status on the relevant wholesale market “Access and call origination on public mobile networks”. The Agency imposed the same regulatory remedies on both operators:

- mobile access obligation for all MVNO hybrid types (including Reseller),
- cost based price for Full MVNO
- retail minus (-35%) for the Reseller,
- obligation for access to MMS services and mobile data based on technology neutrality (including 4G access)

An MVNO, Lyca Mobile hosted on One.VIP network entered the Macedonian market and started retail operations in July 2016 under regulated wholesale conditions.

Both operators, the Company and One.VIP are designated as operators with SMP status on the relevant wholesale market “Wholesale call termination on public mobile networks”. The current termination rates are symmetrical for all mobile operators. Telekom and One.VIP are also operators with SMP obligations on the relevant wholesale market “Wholesale SMS termination in public mobile networks”.

The Agency announced new analysis at the end of 2017 for mobile and SMS termination.
An auction procedure concluded in August 2013 awarded the whole 790 – 862 MHz band together with the unassigned spectrum in the 1740–1880 MHz band for Long Term Evolution (LTE) technology in a public tender. Each of the 3 Macedonian mobile operators, at that time, acquired an LTE radiofrequency license of 1x10 MHz in the 800 MHz band and 2x15 MHz in the 1800 MHz band. Each license was acquired for a one-off fee of EUR 10.3 million. The license is for 20 years, until 1 December 2033, with an option for extension for 20 years, in accordance with the ECL.

The Agency adopted a Decision on 10 December 2014 for the value of the points for calculation of the annual fee for use of radiofrequencies (RF). The value of the point is 0.8 EUR, which means that all annual fees for radiofrequencies are reduced by 20% from 1 January 2015, compared to the previous value. Formulas for the calculation of the annual RF fees are defined in the relevant rulebook.

After the merger of One and VIP, on 18 November 2016, One.VIP submitted a request to the Agency for change of the licenses for using radio frequencies in land mobile service with registered numbers 108269/1, 108271/1, 104068, 104069, 104711, 108269/2 and 108267/2. The Agency adopted a resolution not to approve the reshuffling request of One.VIP.

Based on the public debate held at the begining of 2017 the Agency adopted modifications to the Rulebook on Radiofrequencies fees:

- Decrease of RF fees from 2.3 GHz to 3 GHz for 43% (from 16,800 EUR/MHz to 9,600 EUR/ MHz)
- Decrease of RF fees above 3 GHz for 76 % (from 16,800 EUR/MHz to 4,000 EUR/MHz)
- Decrease of RF fees above 55 GHz (E band RF links) for 50% (from 8,000 EUR/250MHz to 4,000 EUR/250 MHz)

The change is favourable for the existing operators and for new entrants, especially for 2.6 GHz (not occupied).

The duration of the two licences previously owned by VIP was until 2017, 10 MHz from 900 MHz band and 10 MHz from 1800 MHz band expired on 23 March 2017, positioned in the lower parts of the bands. Based on the request from One.VIP for licence prolongation, the Agency adopted a resolution No. 0804-974 dated 2 November 2016 not to prolong these two licences. At the moment these radiofrequencies are not allocated and not available for sale to the existing operators.

These RF's will be subject to a public tender, which is already announced in the Agency's annual program for 2017, with a possibility for new MNO and/or MVNO. However, One.VIP still has a competitive advantage due to the significant amount (20 MHz) of spectrum on 800 MHz band.

On 26 May 2017 One.VIP submitted a request to the Agency for change of the licence for using radio frequencies in land mobile service with registered number 108267/2, whereby the following radiofrequency block is allocated: 1770-1785/1865-1880 MHz. On 09 October 2017, the Agency adopted a resolution for refusal of the One.VIP's request for reshuffling on 1800 MHz with explanation that the reshuffling cannot be performed because parts of spectrum are not allocated yet.

1.3. Regulation environment - Fixed Line

The Company has SMP obligations on several regulated markets for fixed services.

At the beginning of 2015, the regulation for access to fiber was implemented, with Local Bitstream Access over NGA on level 3 and 4 and VULA (Virtual Unbundled Local Access) regulation on level 2. The introduction of new technologies (VDSL Vectoring technology in 2017) announced by the Company for the retail customers leads to the introduction on new wholesale access products and reshaping the regulatory obligations.

Final document for wholesale central access for mass-market products provided at a fixed location market analyses (Market 6) was published in April 2017. For the first time the Agency imposed regulation for access to Hybrid Fibre Coaxial Access (HFC). All existing obligations for the copper and fibre network remain unchanged. All obligations refer to the Company and to One.VIP operator as SMP on the broadband market. At the same time the analysis of wholesale local access provided at a fixed location market (Market 5) was finished. All existing obligations imposed on this market remain unchanged for the Company, and One.VIP operator was also designated as SMP operator with imposed obligations for access to specific network elements (ducts and dark fibre).

In the middle of 2016, the obligation for IP interconnection (following the PSTN to IMS migration) was prolonged until the middle of 2017, at the latest, for all operators with interconnection with the Company, and until the end of 2017 for interconnection between mobile or alternative operators. This process of IP interconnection is still ongoing at the end of 2017.

In accordance with the Rulebook for technical conditions and building infrastructure (dated 15 July 2014), the Company is obliged to build its infrastructure underground in urban areas with over 15,000 citizens for buildings for collective living with more than eight apartments. The Company has a Digital Agenda obligation for coverage of 100% and 50% of all Macedonian households with 30 Mbps and 100 Mbps broadband speed respectively, with a technology neutral basis until the end of 2020.
The amendments made in September 2016, which include a new obligation for registration of new & existing electronic networks (ATLAS) refer to joint building and using of networks and a new obligation for the Agency to publish the received reports on the optic backbone segment measurements by all operators. All existing operators on the Macedonian market are obliged by the end of June 2017, at the latest, to submit data for already built infrastructure by September 2016.The tender for a USO provider has been published at the end of 2016, and one of the main criteria is the required amount for a refund. The Company won the tender and signed contracts with the Agency for the following universal services:

- Fixed access and access to disabled users (voice and Internet of minimum 2Mbit/s download)
- Public payphones

The tender for a USO provider was completed at the end of 2016 and R3 Infomedia signed a contract with the Agency for the Telephone Directory and Directory Inquiry universal services.

Following the market trends and the EU regulation, the Agency made decisions for deregulation on several markets: trunk segment of leased lines and avoiding regulation of the Ethernet leased line services; minimal set of leased lines (retail); WLR (Wholesale Line Rental) market; traditional retail fixed voice services. The Company has a cost based price obligation for the Regulated wholesale services, using Long Run Incremental Costs methodology (LRIC).

1.4. Investigation into certain consultancy contracts

On 13 February 2006, Magyar Telekom Plc., the controlling owner of the Company, (via Stonebridge Communications AD - Skopje, majority shareholder of the Company), announced that it was investigating certain contracts entered into by another subsidiary of Magyar Telekom Plc. to determine whether the contracts were entered into in violation of Magyar Telekom Plc. policy or applicable law or regulation. Magyar Telekom's Audit Committee retained White & Case, as its independent legal counsel to conduct the internal investigation. Subsequent to this, on 19 February 2007, the Board of Directors of the Company, based on the recommendation of the Audit Committee of the Company and the Audit Committee of Magyar Telekom Plc., adopted a resolution to conduct an independent internal investigation regarding certain contracts in Macedonia.

Based on publicly available information, as well as information obtained from Magyar Telekom and as previously disclosed, Magyar Telekom's Audit Committee conducted an internal investigation regarding certain contracts relating to the activities of Magyar Telekom and/or its affiliates in Montenegro and Macedonia that totaled more than EUR 31 million. In particular, the internal investigation examined whether Magyar Telekom and/or its Montenegrin and Macedonian affiliates had made payments prohibited by U.S. laws or regulations, including the U.S. Foreign Corrupt Practices Act (the "FCPA"). The Company has previously disclosed the results of the internal investigation.

Magyar Telekom's Audit Committee informed the U.S. Department of Justice (the "DOJ") and the U.S. Securities and Exchange Commission (the "SEC") of the internal investigation. The DOJ and the SEC commenced investigations into the activities that were the subject of the internal investigation. On 29 December 2011, Magyar Telekom announced that it had entered into final settlements with the DOJ and the SEC to resolve the DOJ's and the SEC's investigations relating to Magyar Telekom. The settlements concluded the DOJ's and the SEC's investigations. Magyar Telekom disclosed the key terms of the settlements with the DOJ and the SEC on 29 December 2011. In particular, Magyar Telekom disclosed that it had entered into a two-year deferred prosecution agreement (the "DPA") with the DOJ. The DPA expired on 5 January 2014, and further to the DOJ's request filed in accordance with the DPA, the U.S. District Court for the Eastern District of Virginia dismissed the charges against Magyar Telekom on 5 February 2014.

In relation to the local investigation by the state authorities in Macedonia and further to the previously disclosed information in the Financial Statements of the Company for the preceding years, the criminal procedure at the basic court is on-going.

We have not become aware of any information as a result of a request from any regulators or other external parties, other than the previously disclosed, from which we have concluded that the financial statements may be misstated, including from the effects of a possible illegal act.

2. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1. Basis of preparation

The financial statements of Makedonski Telekom AD – Skopje have been prepared in accordance with International Financial Reporting Standards (IFRS).

The financial statements are presented in Macedonian denars rounded to the nearest thousand.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 4. Actual results may differ from those estimated.

2.1.1. Standards, amendments and interpretations effective and adopted by the Company in 2017

- No standards, amendments and interpretation have been adopted by the Company in 2017 with significant impact on financial statements.

2.1.2. Standards, amendments and interpretations that are not yet effective and have not been early adopted by the Company

- Certain new accounting standards, interpretations and their amendments have been published that are not mandatory for 31 December 2017 reporting periods and have not been early adopted by the Company. The Company's assessment of the impact of these new standards and interpretations is set out below.

- IFRS 9 Financial Instruments. The standard addresses the classification, measurement and derecognition of financial assets and financial liabilities and introduces new rules for hedge accounting. In December 2011, in November 2013 and in July 2014, the IASB amended the standard in order to make further changes to the classification and measurement rules and also introduced a new impairment model. These latest amendments now complete the new financial instruments standard. The application of the new standard and its amendments is required for annual periods beginning on or after 1 January 2018. Earlier application is permitted. The adoption of the new standard and its amendments will not result in material changes in the financial statements of the Company. The new provisions on the classification of financial assets will not give rise to changes in measurement and presentation of financial assets. The new provisions on the accounting of impairment losses will lead to expected losses having to be expensed earlier in some cases. Application of the simplified approach also for financial assets will lead to a increase in impairment losses (MKD 27 millions). The impairment losses on contract assets to be recognized for the first time as of 1 January 2018 in accordance with IFRS 15 is disclosed with the effects of IFRS 15.
- IFRS 15 Revenue from Contracts with Customers. The core principle of the new standard is for companies to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration (that is, payment) to which the company expects to be entitled in exchange for those goods or services. The new standard will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively (for example, service revenue and contract modifications) and new guidance for multiple-element arrangements. The adoption of the new standard will result in significant changes in the financial statements of the Company, primarily in respect of the timing of revenue recognition and in respect of capitalization of costs of obtaining a contract with a customer. In the case of multiple-element arrangements (e.g., mobile contract plus handset) with subsidized products delivered in advance, a larger portion of the total remuneration is attributable to the component delivered in advance (mobile handset), requiring earlier recognition of revenue in future. This leads to the recognition of what is known as a contract asset – a receivable arising from the customer contract that has not yet legally come into existence – in the statement of financial position. At the same time, it results in higher revenue from the sale of goods and merchandise and to lower revenue from the provision of services. In the future, expenses for sales commissions (customer acquisition costs) must be capitalized and recognized over the estimated customer retention period. On first-time application of the standard, both total assets and shareholders' equity will increase due to the capitalization of contract assets and customer acquisition costs. Deferral, i.e., later recognition of revenue in cases where "material rights" are granted, such as offering additional discounts for future purchases of further products. Contract liabilities (which, as deferred revenue, were already recognized as liabilities in the past) must be netted against the contract assets for each customer contract. For the purposes of determining whether the Company sells products for its own account (principal = gross revenue) or for the account of others (agent = net revenue), it is unlikely that there will be any material change. The Company will utilize the option for simplified initial application, i.e., contracts that are not completed by 1 January 2018 will be accounted for as if they had been recognized in accordance with IFRS 15 from the very beginning. The cumulative effect arising from the transition will be recognized as an adjustment to the opening balance of equity in the year of initial application. Prior-year comparatives will not be adjusted; however an explanation of the reasons for the changes in items in the statement of financial position and the income statement for the current period will be provided as a result of applying IFRS 15 for the first time. The effects are being analyzed in a Company project on implementation of the new standard. Based on management's current estimate, the changeover to the new standard is expected to result in a cumulative net increase in retained earnings of MKD 368 millions, before taxes. This effect will be mainly attributable to the first-time recognition of Contract assets (MKD 343 millions) that, under IFRS 15, would have led to the earlier recognition of revenue from the sale of goods and merchandise, and Contract Liabilities (MKD 26 millions) and also Deferred customer acquisition costs (MKD 51 millions) that, under IFRS 15, would have resulted in the later recognition of selling expenses. As regards the new standard's impact on the income statement, the Company expects the overall share of revenue from the provision

of services to decrease, and the overall share of revenue from the sale of goods and merchandise to increase. As described, IFRS 15 means revenue will be recognized earlier and expenses will be recognized later for contracts not yet concluded by 1 January 2018. However, as the accounting effects of the changeover to the new standard will be recognized directly in equity, the only effects on profit or loss in 2018 will be related to changes in the point in time at which revenue and expenses are realized. On the assumption that business development remains unchanged, this will mean the following for a mass market characterized by a large number of customer contracts that are being concluded at different points in time: for existing contracts, lower service revenues and higher selling expenses from the amortization of capitalized contract assets and customer acquisition costs will be largely compensated for by higher revenue, on the conclusion of new contracts, from the sale of goods and lower selling expenses from the capitalization of contract assets and customer acquisition costs. Compared with the current accounting method, major effects on earnings can thus arise only if business development changes, for example, if volumes or prices change or if there are changes to business models or products offered. The application of the new standard is required for annual periods beginning on or after 1 January 2018. Earlier application is permitted.

- IFRS 16 Leases. IFRS 16 requires entities when they are a lessee, to: recognize a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments on the statement of financial position, initially measured at the present value of non-cancellable lease payments (including inflation-linked payments), and payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease; recognize amortization of right-of-use assets and interest on lease liabilities over the lease term; and separate the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the statement of cash flows. The most significant effect of IFRS 16 will be an increase in right-of-use assets and lease liabilities, the extent of which will have to be determined after thorough analysis. The Company mainly leases cell sites, rooftops, space on masts or towers, retail shops that will be affected by the new standard. Details of the Company lease commitments are disclosed in note 26. On the lessor (sell) side, Company will mainly have to analyze the extent of which multiple element arrangements with embedded leases may be affected by the revised definition of leases. Other than that, we do not expect a considerable impact on the financial statements of the Company at this time, as lessor accounting itself is not changing significantly through the introduction of IFRS 16. An entity is required to apply IFRS 16 for annual periods beginning on or after 1 January 2019 and permits to apply the new Leases Standard early, if the entity also applies IFRS 15 Revenue from Contracts with Customers at or before the date of early application.

2.2. Foreign currency translation

2.2.1. Functional and presentation currency

The financial statements are presented in thousands of Macedonian denars, which is the Company's functional and presentation currency.

2.2.2. Transactions and balances

Transactions in foreign currencies are translated to denars at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the financial statement date are translated to denars at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognized in the Profit for the year (Finance income/expenses). Non-monetary financial assets and liabilities denominated in foreign currency are translated to denars at the foreign exchange rate ruling at the date of transaction.
The foreign currencies deals of the Company are predominantly Euro (EUR) and United States Dollars (USD) based.

The exchange rates used for translation at 31 December were as follows:

	2017 MKD	2016 MKD
1 USD	51.27	58.33
1 EUR	61.49	61.48

2.3. Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial assets of the Company include, cash and cash equivalents, deposits with banks, equity instruments of another entity (available-for-sale and at fair value through profit or loss) and contractual rights to receive cash (trade and other receivables) or another financial asset from another entity.

Financial liabilities of the Company include liabilities that originate from contractual obligations to deliver cash or another financial asset to another entity (non-derivatives). In particular, financial liabilities include trade and other payables.

The fair value of traded financial instruments is determined by reference to their market prices at the end of the reporting period. This typically applies to financial assets at fair value through profit or loss.

The fair value of other financial instruments that are not traded in an active market is determined by using discounted cash flow valuation technique. The expected cash inflows or outflows are discounted by market based interest rates.

The fair value of long term financial liabilities is also determined by using discounted cash flow valuation technique. The expected cash inflows or outflows are discounted by market based interest rates.

Assumptions applied in the fair value calculations are subject to uncertainties. Changes in the assumptions applied in the calculations would have an impact on the carrying amounts, the fair values and/or the cash flows originating from the financial instruments. Sensitivity analyses related to the Company's financial instruments are provided in Note 3.

2.3.1. Financial assets

The Company classifies its financial assets in the following categories:

a) financial assets at fair value through profit or loss
b) loans and receivables
c) available-for-sale financial assets (AFS)

The classification depends on the purpose for which the financial asset was acquired. Management determines the classification of financial assets at their initial recognition.

Standard purchases and sales of financial assets are recognized on the trade-date, the date on which the Company commits to purchase or sell the asset. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognized at fair value, and transaction costs are expensed in the Profit for the year.

The Company assesses at each financial statement date whether there is objective evidence that a financial asset is impaired. There is objective evidence of impairment if as a result of loss events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Impairment losses of financial assets are recognized in the Profit for the year against allowance accounts to reduce the carrying amount until derecognition of the financial asset, when the net carrying amount (including any allowance for impairment) is derecognized from the statement of financial position. Any gains or losses on derecognition are calculated and recognized as the difference between the proceeds from disposal and the (net) carrying amount derecognized.

Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

(a) Financial assets at fair value through profit or loss

This category comprises those financial assets designated at fair value through profit or loss at inception. A financial asset is classified in this category if the Company manages such asset and makes purchase and sale decisions based on its fair value in accordance with the Company investment strategy for keeping investments within portfolio until there are favorable market conditions for their sale.

Financial assets at fair value through profit or loss' are subsequently carried at fair value. Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are recognized in the Profit for the year (Finance income/expense) in the period in which they arise.

Dividend income from financial assets at fair value through profit or loss is recognized in the Profit for the year when the Company's right to receive payments is established and inflow of economic benefits is probable.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except those with maturities over 12 months after the financial statement date. These are classified as non-current assets.
The following items are assigned to the "loans and receivables" measurement category:
- cash and cash equivalents
- deposits over 3 months
- trade receivables
- receivables and loans to third parties
- employee loans
- other receivables

Loans and receivables are initially recognized at fair value and subsequently carried at amortized cost using the effective interest method.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, cash in bank, call deposits held with banks and other short-term highly liquid investments with original maturities of three months or less.

Should impairment on cash and cash equivalents occur, it would be recognized in the Profit for the year (Finance expenses).

Trade and other receivables

Trade and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the underlying arrangement. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments as well as historical collections are considered indicators that the trade receivable is impaired.

If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognized in the Profit for the year (Other operating expenses – Impairment losses on trade and other receivables).

The Company's policy for collective assessment of impairment is based on the aging of the receivables due to the large number of relatively similar type of customers.
Individual valuation is carried out for the largest customers, international customers, customers of interconnection services and

also for customers under liquidation and bankruptcy proceedings. Itemized valuation is also performed in special circumstances. When a trade receivable is established to be uncollectible, it is written off against Profit for the year (Other operating expenses – Impairment losses on trade and other receivables) with a parallel release of the cumulated impairment on the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against the recognized loss in the Profit for the year.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss shall be reversed by adjusting an allowance account. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortized cost would have been had the impairment not been recognized at the date the impairment is reversed. The amount of the reversal shall be recognized in the Profit for the year as a reduction to Other operating expenses (Impairment losses on trade and other receivables).

Amounts due to, and receivable from, other network operators are shown net where a right of set-off exists and the amounts are settled on a net basis (such as receivables and payables related to international traffic).

Employee loans

Employee loans are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

Difference between the nominal value of the loan granted and the initial fair value of the employee loan is recognized as prepaid employee benefits, which reduces Loans and receivables from employees. Interest income on the loan granted calculated by using the effective interest method is recognized as finance income, while the prepaid employee benefits are amortized to Personnel expenses evenly over the term of the loan.

Impairment losses on Employee loans, if any, are recognized in the Profit for the year (Personnel expenses).

(c) Available-for-sale financial assets (AFS)

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the financial statement date. Purchases and sales of investments are recognized on the trade-date – the date on which the Company commits to purchase or sell the asset.

Subsequent to initial recognition all available-for-sale financial assets are measured at fair value, except that any instrument that does not have a quoted market price in an active market and whose fair value cannot be reliably measured is stated at cost, including transaction costs, less impairment losses. The intention of the Company is to dispose these assets when there are favorable market conditions for their sale. Changes in the fair value of financial assets classified as available for sale are recognized in Other comprehensive income. When financial assets classified as available for sale are sold or impaired, the accumulated fair value adjustments recognized in equity are included in the Profit for the year as gains and losses from investment securities.
The Company assesses at each financial statement date whether there is objective evidence that a financial asset is impaired. There is objective evidence of impairment if as a result of loss events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If such evidence exists for AFS financial assets, the cumulative unrealized gain (if any) is reclassified from Other comprehensive income to Profit for the year, and any remaining difference is also recognized in the Profit for the year (Finance income). Impairment losses recognized on equity instruments are not reversed through the Profit for the year.

When AFS financial assets are sold or redeemed, therefore derecognized, the fair value adjustments accumulated in equity are reclassified from Other comprehensive income to Profit for the year (Finance income).

2.3.2. Financial liabilities

Trade and other payables

Trade and other payables (including accruals) are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method. The carrying values of trade and other payables approximate their fair values due to their short maturity.

Long term financial liabilities are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

2.4. Inventories

Inventories are stated at the lower of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated selling expenses.

The cost of inventories is based on weighted average cost formula and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition.

Phone sets are often sold for less than cost in connection with promotions to obtain new subscribers with minimum commitment periods. Such loss on the sale of equipment is only recorded when the sale occurs as they are sold as part of a profitable service agreement with the customer and if the normal resale value is higher than the cost of the phone set. If the normal resale value is lower than costs, the difference is recognized as impairment immediately.

Impairment losses on Inventories are recognized in Other operating expenses (Write down of inventories to net realizable value).

2.5. Assets held for sale

An asset is classified as held for sale if it is no longer needed for the future operations of the Company, and has been identified for sale, which is highly probable and expected to take place within 12 months. These assets are accounted for at the lower of carrying value or fair value less cost to sell. Depreciation is discontinued from the date of designation to the held for sale status. When an asset is designated for sale, and the fair value is determined to be lower than the carrying amount, the difference is recognized in the Profit for the year (Depreciation and amortization) as an impairment loss.

2.6. Property, plant and equipment (PPE)

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see note 2.8).

The cost of an item of PPE comprises its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates, any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the costs if the obligation incurred can be recognized as a provision according to IAS 37 – Provisions, Contingent Liabilities and Contingent Assets.

The cost of self-constructed assets includes the cost of materials and direct labor.

In 2011, Law on acting with illegally built facilities was enacted, according to which the Company will incur certain expenditures related to obtaining complete documentation for base stations and fix line infrastructure in accordance to applicable laws in Republic of Macedonia. The Company capitalizes those expenditures as incurred. The capitalized expenditures are included within Property, plant and equipment (see note 11).

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the Profit for the year during the financial period in which they are incurred.

When assets are scrapped, the cost and accumulated depreciation are removed from the accounts and the loss is recognized in the Profit for the year as depreciation expense.

When assets are sold, the cost and accumulated depreciation are removed from the accounts and any related gain or loss, determined by comparing proceeds with carrying amount, is recognized in the Profit for the year (Other operating income/expense). Depreciation is charged to the Profit for the year on a straight-line basis over the estimated useful lives of items of property, plant and equipment. Assets are not depreciated until they are available for use. Land is not depreciated. The assets useful lives and residual values are reviewed, and adjusted if appropriate, at least once a year. For further details on the groups of assets impacted by the most recent useful life revisions (see note 11).

The estimated useful lives are as follows:

	2017	2016
	Years	Years
Buildings	20-40	20-40
Aerial and cable lines	20-25	20-25
Telephone exchanges	7-10	7-10
Base stations	10	10
Computers	4-6	4
Furniture and fittings	4-10	4-10
Vehicles	5-10	5-10
Other	2-15	2-15

2.7. Intangible assets

Intangible assets that are acquired by the Company are stated at cost less accumulated amortization and impairment losses (see note 2.8).

Subsequent expenditure on intangible assets is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred. New software modules that cannot be used independently of the existing software (releases), but rather only combined with the base version's functionalities and are implementations of enhanced software, characterized by systematic updates, revisions or expansions of previous versions of existing software represent subsequent costs for the previous version and are capitalized if they meet the capitalization criteria, i.e. if they coincide with the creation of additional functionalities. Consequently, the costs of releases is capitalized as part of the base version and amortized together with the residual carrying amount over the base software's remaining useful life. If indications exists that the software will be operated longer than the current useful life as a result of subsequently capitalized expenditure, the useful life of the base software is reviewed, and if applicable extended.

The Company's primary activities are in the fixed line and mobile operations in Macedonia. These operations usually require acquisition of licenses/frequency usage rights, which generally contain upfront fees and annual fees. For each acquired license/frequency usage right, the Company assesses whether the amount of future annual fees can be measured reliably at the start of the validity period of the license. If the Company considers that the amount of future annual fees can be measured reliably, the present value of the future annual fees is capitalized, if any, as part of the cost of the license otherwise these fees are recognized as expenses (Other operating expenses) in the period they relate to.

The useful lives of concession and licenses are determined based on the underlying agreements and are amortized on a straight line basis over the period from availability of the frequency for commercial use until the end of the initial concession or license term. No renewal periods are considered in the determination of useful life (see note 12).

Content rights are capitalized as intangible assets if all of the following conditions are met: there is no doubt whatsoever that the content will be delivered as agreed in the contract; non-cancellable term of the contract is at least 12 months and cost can be estimated reliably. Content rights are amortized over the contracts term. The financial liability recognized for capitalized content is presented in the statement of financial position within Other financial liabilities. Unwinding of an accrued interest is recognized as an interest expense and is presented within Financial expense. Consequently, the relevant cash outflows are presented as cash flows from financing activities.

The estimated useful lives are as follows:

	2017	2016
	Years	Years
Software and licenses	2-5	2-5
Concession	18	18
3G and 2G License	10	10
4G License	20	20

Amortization is charged to the Profit for the year on a straight-line basis over the estimated useful lives of intangible assets. Intangible assets are amortized from the date they are available for use. The assets useful lives are reviewed, and adjusted if appropriate, at least once a year (see note 12).
In determining whether an asset that incorporates both intangible and tangible elements should be treated under IAS 16 - Property, Plant and Equipment or as an intangible asset under IAS 38 – Intangible Assets, management uses judgment to assess which element is more significant and recognizes the assets accordingly.

2.8. Impairment of property, plant and equipment and intangible assets

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment.

Assets that are subject to amortization or depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and its value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units - CGUs).

Impairment losses are recognized in the Profit for the year (Depreciation and amortization). Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.9. Provisions and contingent liabilities

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Provisions are measured and recorded as the best estimate of the economic outflow required to settle the present obligation at the financial statement date. The estimate can be calculated as the weighted average of estimated potential outcomes or can also be the single most likely outcome. The provision charge is recognized in the Profit for the year within the expense corresponding to the nature of the provision.

No provision is recognized for contingent liabilities. A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or a present obligation that arises from past events but is not recognized because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability.

2.10. Share capital

Ordinary shares are classified as equity.

2.11. Treasury shares

When the Company purchases the Company's equity share capital, the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to the owners as treasury shares until the shares are cancelled or reissued. When such shares are subsequently reissued, the treasury share balance decreases by the original cost of the shares, thereby increasing equity, while any gains or losses are also recognized in equity (Retained earnings). Treasury shares transactions are recorded on the transaction date.

2.12. Other reserves

Under local statutory legislation, the Company was required to set aside minimum 15 percent of its net profit for the year in a statutory reserve until the level of the reserve reaches 1/5 of the share capital. With the changes of the Law on Trading Companies effective from 1 January 2013, the Company is required to set aside minimum 5 percent of its net profit for the year as per local GAAP (Generally accepted accounting principles) in a statutory reserve until the level of the reserve reaches 1/10 of the share capital. These reserves are used to cover losses and are not distributed to shareholders except in the case of bankruptcy of the Company.

2.13. Revenues

Revenues for all services and equipment sales (see note 17) are shown net of VAT and discounts. Revenue is recognized when the amount of the revenue can be reliably measured, and when it is probable that future economic benefits will flow to the Company and all other specific recognition criteria of IAS 18 on the sale of goods and rendering of services are met for the provision of each of the Company's services and sale of goods.

Customers of the Company are granted loyalty awards (credit points) based on their usage of the Company's services including timely payment of their invoices. Loyalty awards can be accumulated and redeemed to obtain future benefits (e.g. handsets, telecommunication equipment, etc.) from the operators of the Company. When customers earn their credit points, the fair value of the credit points earned are deducted from the revenue invoiced to the customer, and recognized as Other liabilities (deferred revenue). On redemption (or expiry) of the points, the deferred revenue is released to revenue as the customer has collected (or waived) the undelivered element of the deemed bundle.

Revenues from operating leases are recognized on a straight line basis over the period the services are provided.

2.13.1. Fixed line and mobile telecommunications revenues

Revenue is primarily derived from services provided to subscribers and other third parties using telecommunications network, and equipment sales.

Customer subscriber arrangements typically include an equipment sale, subscription fee and charge for the actual voice, internet, data or multimedia services used. The Company considers the various elements of these arrangements to be separate earnings processes and recognizes the revenue for each of the deliverables using the residual method. These units are identified and separated, since they have value on a standalone basis and are sold not only in a bundle, but

separately as well. Therefore the Company recognizes revenues for all of these elements using the residual method that is the amount of consideration allocated to the delivered elements of the arrangements equals the total consideration less the fair value of the undelivered elements.
The Company provides customers with narrow and broadband access to its fixed, mobile and TV distribution networks. Service revenues are recognized when the services are provided in accordance with contractual terms and conditions. Airtime revenue is recognized based upon minutes of use and contracted fees less credits and adjustments for discounts, while subscription and flat rate revenues are recognized in the period they relate to.

Revenues and expenses associated with the sale of telecommunications equipment and accessories are recognized when the products are delivered, provided there are no unfulfilled company obligations that affect the customer's final acceptance of the arrangement.

Revenues from premium rate services (voice and non-voice) are recognized on a gross basis when the delivery of the service over the network is the responsibility of the Company, the Company establishes the prices of these services and bears substantial risks of these services, otherwise presented on a net basis.

Customers may also purchase prepaid mobile, public phone and internet credits ("prepaid cards") which allow those customers to use the telecommunication network for a selected amount of time. Customers must pay for such services at the date when the card is purchased. Revenues from the sale of prepaid cards are recognized when used by the customers or when the cards expired with unused traffic.

Third parties using the telecommunications network include roaming customers of other service providers and other telecommunications providers which terminate or transit calls on the network. These wholesale (incoming) traffic revenues are recognized in the period of related usage. A proportion of the revenue received is often paid to other operators (interconnect) for the use of their networks, where applicable. The revenues and costs of these terminate or transit calls are stated gross in these financial statements as the Company is the principal supplier of these services using its own network freely defining the pricing of the service, and recognized in the period of related usage.

2.13.2. System integration and IT revenues

Contracts for network services consist of the installation and operation of communication networks for customers. Revenues for voice and data services are recognized under such contracts when used by the customer.

Revenue from system integration contracts requiring the delivery of customized products and/or services is generally covered by fixed-price contracts and revenue is recognized based on percentage of completion taking into account the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs.

Revenue from hardware and sales is recognized when the risk of ownership is substantially transferred to the customer, provided there are no unfulfilled obligations that affect the customer's final acceptance of the arrangement. Any costs of these obligations are recognized when the corresponding revenue is recognized.
Revenues from construction contracts are accounted for using the percentage-of-completion method. The stage of completion is determined on the basis of the costs incurred to date as a proportion of the estimated total costs. Receivables from construction contracts are classified in the statement of financial position as Trade and other receivables.

2.14. Employee benefits

2.14.1. Short term employee benefits and pensions

The Company, in the normal course of business, makes payments on behalf of its employees for pensions, health care, employment and personnel tax which are calculated according to the statutory rates in force during the year, based on gross salaries and wages. Holiday allowances are also calculated according to the local legislation. The Company makes these contributions to the Governmental and private funds. The cost of these payments is charged to the Profit for the year in the same period as the related salary cost. No provision is created for holiday allowances for non-used holidays as according the local legislation the employer is obliged to provide condition for usage, and the employee to use the annual holiday within one year. This is also exercised as Company policy and according the historical data employees use their annual holiday within the one year legal limit. The Company does not operate any other pension scheme or post retirement benefits plan and consequently, has no obligation in respect of pensions. The Company has contractual obligation to pay to employees three average monthly salaries in Republic of Macedonia at their retirement date according the Collective agreement between the Company and the Trade Union of the Company, for which appropriate liability is recognized in the financial statements measured at the present value of three average monthly salaries together with adjustments incorporated in the actuarial calculation. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high quality bonds that are denominated in the currency in which the benefits will be paid. In addition, the Company is not obligated to provide further benefits to current and former employees.

2.14.2. Bonus plans

The Company recognizes a liability and an expense for bonuses taking into consideration the financial and operational results. The Company recognizes a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

2.14.3. Termination benefits

Termination benefits are payable whenever an employee's employment is terminated before the nominal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Company recognizes termination benefits when it is demonstrably committed to either terminate the employment of current employees according to a detailed formal plan without the possibility of withdrawal or to provide termination benefits as a result of an offer made to encourage voluntary redundancy.

2.15. Marketing expenses

Marketing costs are expensed as incurred. Marketing expenses are disclosed in note 19.

2.16. Taxes

2.16.1. Income tax

According to the provisions of the profit tax law, the tax base is the profit generated during the fiscal year increased for non-deductible expenses and reduced for deductible revenue (i.e. dividends already taxed at the payer) and the income tax rate is 10%. In line with these income tax for the year was calculated and recorded in the Statement of comprehensive income.

2.16.2. Deferred income tax

Deferred tax is recognized applying the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit. Deferred tax is determined using income tax rates that have been enacted or substantially enacted by the financial statement date and are expected to apply when the related deferred tax asset is realized or the deferred tax liability is settled.

Deferred tax assets are recognized to the extent that it is probable that future taxable profit (or reversing deferred tax liabilities) will be available against which the temporary differences can be utilized.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.17. Leases

2.17.1. Operating lease – Company as lessor

Assets leased to customers under operating leases are included in Property, plant and equipment in the statement of financial position. They are depreciated over their expected useful lives on a basis consistent with similar fixed assets. Rental income is recognized on a straight-line basis over the lease term.

2.17.2. Operating lease – Company as lessee

Costs in respect of operating leases are charged to the Profit for the year on a straight-line basis over the lease term.

2.18. Earnings per share

Basic earnings per share is calculated by dividing profit attributable to the equity holders of the Company for the period by the weighted average number of common stocks outstanding.

2.19. Dividend distribution

Dividends are recognized as a liability and debited against equity in the Company’s financial statements in the period in which they are approved by the Company’s shareholders.

2.20. Segments

The operating segments of the Company are based on the business lines, residential, business, wholesale and other, which is consistent with the internal reporting provided to the chief operating decision makers, the Chief Executive Officer (CEO) and Chief Operating Officer (COO), who are advised by the Management Committee (MC) of the Company. The CEO and COO are responsible for allocating resources to, and assessing the performance of, the operating segments. The accounting policies and measurement principles of the operating segments are the same as those applied for the Company described in the Significant accounting policies (see note 2). In the financial statements, the segments are reported in a manner consistent with the internal reporting.

The operating segments’ revenues include revenues from external customers and there are no internal revenues generated from other segments.

The operating segments’ results are monitored by the CEO and COO and the MC to Direct margin, which is defined by the Company as revenues less direct costs less Impairment losses on trade and other receivables.

The CEO, COO and the MC do not monitor the assets and liabilities at segment level.

2.21. Comparative information

In order to maintain consistency with the current year presentation, certain items may have been reclassified for comparative purposes. No material changes have been made for comparative purposes, except those described in detail in the relevant notes, if any.

3. FINANCIAL RISK MANAGEMENT

3.1. Financial risk factors

The Company does not apply hedge accounting for its financial instruments, all gains and losses are recognized in the Profit for the year except financial assets classified as available for sale that are recognized in Other comprehensive income. The Company is exposed in particular to credit risks related to its financial assets and risks from movements in exchange rates, interest rates, and market prices that affect the fair value and/or the cash flows arising from financial assets and liabilities. Financial risk management aims to limit these market and credit risks through ongoing operational and finance activities.

The detailed descriptions of risks, the management thereof as well as sensitivity analyses are provided below. Sensitivity analyses include potential changes in profit before tax. The potential impacts disclosed (less tax) are also applicable to the Company's Equity.

3.1.1. Market risk

Market risk is defined as the 'risk that the fair value or value of future cash flows of a financial instrument will fluctuate because of changes in market prices' and includes interest rate risk, currency risk and other price risk.

As the vast majority of the revenues and expenses of the Company arise in MKD, the functional currency of the Company is MKD, and as a result, the Company objective is to minimize the level of its financial risk in MKD terms.

For the presentation of market risks, IFRS 7 requires sensitivity analyses that show the effects of hypothetical changes of relevant risk variables on profit or loss and shareholders' equity. The periodic effects are determined by relating the hypothetical changes in the risk variables to the balance of financial instruments at the financial statement date. The balances at the end of the reporting period are usually representative for the year as a whole, therefore the impacts are calculated using the year end balances as though the balances had been constant throughout the reporting period. The methods and assumptions used in the sensitivity calculations have been updated to reflect the current economic situation.

a) Foreign currency risk

The functional currency of the Company is the Macedonian denar.
The foreign exchange risk exposure of the Company is related to holding foreign currency cash balances, and operating activities through revenues from and payments to international telecommunications carriers as well as capital expenditure contracted with vendors in foreign currency.
The currency giving rise to this risk is primarily the EUR. The Company uses cash deposits in foreign currency, predominantly in EUR, and cash deposits in denars linked to foreign currency, to economically hedge its foreign currency risk in accordance with the available banks offers. The Company manages net liability foreign exchange risk through maintaining higher amount of deposits in EUR.
The foreign currency risk sensitivity information required by IFRS 7 is limited to the risks that arise on financial instruments denominated in currencies other than the functional currency in which they are measured.
At 31 December 2017, if MKD would have been 1% weaker or stronger against EUR, profit would have been MKD 8,251 thousand in net balance lower or higher, respectively. At 31 December 2016, if MKD would have been 1% weaker or stronger against EUR, profit would have been MKD 14,509 thousand in net balance lower or higher, respectively. At 31 December 2017, if MKD would have been 10% weaker or stronger against USD, profit would have been MKD 2,466 thousand in net balance higher or lower, respectively. At 31 December 2016, if MKD would have been 10% weaker or stronger against USD, profit would have been MKD 31,865 thousand in net balance higher or lower, respectively.

b) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Change in the interest rates and interest margins may influence financing costs and returns on financial investments.
The Company is minimizing interest rate risk through defining of fixed interest rates in the period of the validity of certain financial investments. On the other hand fix term deposits may be prematurely terminated, since the contracts contain a clause that, the bank will calculate and pay interest by interest rate which is valid on the nearest maturity period of the deposit in accordance with the interest rates given in the offer.

In case of significant increase of the market interest rates, deposit may be terminated and replaced by new deposit with interest rate more favorable for the Company at lowest possible cost.

The investments are limited to relatively low risk financial investment forms in anticipation of earning a fair return relative to the risk being assumed.

The Company has no floating interest bearing liabilities, while it incurs interest rate risk on cash deposits with banks and loans to employees. No policy to hedge the interest rate risk is in place. Changes in market interest rates affect the interest income on deposits with banks.

The Company had MKD 1,185,636 thousand deposits (including call deposits) and cash in bank as at 31 December 2017, 1% rise in market interest rate would have caused (ceteris paribus) the interest received to increase with approximately MKD 11,856 thousand annually, while similar decrease would have caused the same decrease in interest received. The amount of deposits (including call deposits) and cash in bank is MKD 1,111,256 thousand as at 31 December 2016, therefore 1% rise in market interest rate would have caused (ceteris paribus) the interest received to increase with approximately MKD 11,113 thousand annually, while similar decrease would have caused the same decrease in interest received.

c) Other price risk

The Company's investments are in equity of other entities that are publically traded on the Macedonian Stock Exchange, both on its Official and Regular market. The management continuously monitors the portfolio equity investments based on fundamental and technical analysis of the shares. All buy and sell decisions are subject to approval by the relevant

Company's bodies. In line with the Company strategy, the investments within portfolio are kept until there are favorable market conditions for their sale.
As part of the presentation of market risks, IFRS 7 also requires disclosures on how hypothetical changes in risk variables affect the price of financial instruments. As at 31 December 2017 and 31 December 2016, the Company holds investments, which could be affected by risk variables such as stock exchange prices.
The Company had MKD 63,925 thousand investments in equity of other entities that are publically traded on the Macedonian Stock Exchange as at 31 December 2017, 20% rise in market price would have caused (ceteris paribus) MKD 12,785 thousand gain, while similar decrease would have caused the same loss in the Profit for the year. The amount of the investments in equity of other entities that are publically traded on the Macedonian Stock Exchange is MKD 60,366 thousand as at 31 December 2016, therefore 20% rise in market price would have caused (ceteris paribus) MKD 12,073 thousand gain, while similar decrease would have caused the same loss in the Profit for the year.

3.1.2. Credit risk

Credit risk is defined as the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

The Company is exposed to credit risk from its operating activities and certain financing activities.

Counterparty limits are determined based on the provided Letter of guarantees in accordance with the market conditions of those banks willing to issue a bank guarantee. The total amount of bank guarantees that will be provided should cover the amount of the projected free cash of the Company.

With regard to financing activities, transactions are primarily to be concluded with counterparties (banks) that have at least a credit rating of BBB+ (or equivalent) or where the counterparty has provided a guarantee where the guarantor has to be at least BBB+ (or equivalent).

The depositing decisions are made based on the following priorities:

- To deposit in banks (Deutsche Telekom core banks, if possible) with provided bank guarantee from the banks with the best rating and the best quality wording of the bank guarantee.
- To deposit in banks with provided bank guarantee from the banks with lower rating and poorer quality wording of the bank guarantee.
- Upon harmonization and agreement with the parent company these rules can be altered for ensuring full credit risk coverage. If the total amount of deposits cannot be placed in banks covered with bank guarantees with at least BBB+ rating (or equivalent credit rating), then depositing will be performed in local banks without bank guarantee.

The process of managing the credit risk from operating activities includes preventive measures such as creditability checking and prevention barring, corrective measures during legal relationship for example reminding and disconnection activities, collaboration with collection agencies and collection after legal relationship as litigation process and court proceedings. The overdue payments are monitored based on customer's type amount of debt, average invoiced amount and number of disconnections.

The credit risk is controlled through credibility checking – which determines that the customer is not indebted and the customer's credit worthiness and through preventive barring – which determinates the credit limit based on the customer's previous traffic revenues.

The Company has no significant concentration of credit risk with any single counter party or group of counter parties having similar characteristics.

The Company's procedures ensure on a permanent basis that sales are made to customers with an appropriate credit history and not exceed an acceptable credit exposure limit.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position. Consequently, the Company considers that its maximum exposure is reflected by the amount of debtors net of provisions for impairment recognized and the amount of cash deposits in banks at the financial statement date.
Largest amount of one deposit in 2017 is MKD 430,435 thousand, denominated in EUR 7,000 thousand, (2016: MKD 178,295 thousand denominated in EUR 2,900 thousand). In addition, the Company has deposits with 1 domestic bank (2016: 1 domestic bank). The Company has obtained collateral (guarantee) that mitigate the credit risk for the extent of the deposited amount in the respective bank.

3.1.3. Liquidity risk

Liquidity risk is the risk that an entity may encounter difficulty in meeting obligations associated with financial liabilities. Liquidity risk is defined as the risk that the Company could not be able to settle or meet its obligations on time.

The investment portfolio should remain sufficiently liquid to meet all operating requirements that can be reasonably anticipated. This is accomplished by structuring the portfolio so that financial instruments mature concurrently with cash needs to meet anticipated demands.

The Company's policy is to maintain sufficient cash and cash equivalents to meet its commitments in the foreseeable future. Any excess cash is mostly deposited in commercial banks.

The Company's liquidity management process includes projecting cash flows by major currencies and considering the level of necessary liquid assets, considering business plan, historical collection and outflow data. Monthly, semi-annually and annually cash projections are prepared and updated on a daily basis.

The tables below show liabilities at 31 December 2017 and 2016 by their remaining contractual maturity. The amounts disclosed in the maturity table are the contractual undiscounted cash flows. Such undiscounted cash flows differ from the amount included in the statement of financial position because the statement of financial position amount is based on discounted cash flows. As the financial liabilities are paid from the cash generated from the ongoing operations, the maturity analysis of the financial assets as at the end of the reporting periods (in comparison with the financial liabilities) would not be useful, therefore, is not included in the tables below.

The maturity structure of the Company's financial liabilities as at 31 December 2017 is as follows:

In thousands of denars	Total	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 12 months to 5 years
Trade payables	1,077,565	588,357	489,208	-	-
Liabilities to related parties	313,798	301,480	12,318	-	-
Other financial liabilities	1,044,150	142,820	83,529	261,226	556,575
	2,435,513	1,032,657	585,055	261,226	556,575

The maturity structure of the Company's financial liabilities as at 31 December 2016 is as follows:

In thousands of denars	Total	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 12 months to 5 years
Trade payables	1,075,843	345,188	730,655	-	-
Liabilities to related parties	507,701	505,209	2,492	-	-
Other financial liabilities	703,165	134,582	53,007	324,571	191,005
	2,286,709	984,979	786,154	324,571	191,005

3.2. Capital management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The total amount of equity managed by the Company, as at 31 December 2017, is MKD 14,163,409 thousand, as per local GAAP (2016: MKD 13,830,156 thousand). Out of this amount MKD 9,583,888 thousand (2016: MKD 9,583,888 thousand) represent share capital and MKD 958,389 thousand (2016: MKD 958,389 thousand) represent statutory reserves, which are not distributable (see note 2.12). The Company has also acquired treasury shares (see notes 2.11 and 16.1). The transaction is in compliance with the local legal requirements that by acquiring treasury shares the total equity of the Company shall not be less than the amount of the share capital and reserves which are not distributable to shareholders by law or by Company's statute. In addition, according the local legal requirements dividends can be paid out to the shareholders in amount that shall not exceed the net profit for the year as presented in the local GAAP financial statements of the Company, increased for the undistributed net profit from previous years or increased for the other distributable reserves, i.e. reserves that exceed the statutory reserves and other reserves defined by the Company's statute. The Company is in compliance with all statutory capital requirements.

3.3. Fair value estimation

Cash and cash equivalents, trade receivables and other current financial assets mainly have short term maturity. For this reason, their carrying amounts at the reporting date approximate their fair values.

The fair value of the non-current portion of trade receivables comprising of employee loans is determined by using discounted cash-flow valuation technique.

Financial assets available for sale include investment in equity instruments that are measured at fair value.
The fair value of publicly traded financial assets at fair value through profit and loss is based on quoted market prices at the financial statement date.

Financial liabilities included in the category Trade and other payables mainly have short term maturity. For this reason, their carrying amounts at the reporting date approximate their fair values.
The fair value of the long term financial liabilities is determined by using discounted cash-flow valuation technique.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The Company makes estimates and assumptions concerning the future. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The most critical estimates and assumptions are outlined below.

4.1. Useful lives of assets

The determination of the useful lives of assets is based on historical experience with similar assets as well as any anticipated technological development and changes in broad economic or industry factors. The appropriateness of the estimated useful lives is reviewed annually, or whenever there is an indication of significant changes in the underlying assumptions. We believe that the accounting estimate related to the determination of the useful lives of assets is a critical accounting estimate since it involves assumptions about technological development in an innovative industry and heavily dependent on the investment plans of the Company. Further, due to the significant weight of depreciable assets in our total assets, the impact of any changes in these assumptions could be material to our financial position, and results of operations. As an example, if the Company was to shorten the average useful life of its assets by 10%, this would result in additional annual depreciation and amortization expense of approximately MKD 267,868 thousand (2016: MKD 282,286 thousand). See note 11 and 12 for the changes made to useful lives in 2017.

The Company constantly introduces a number of new services or platforms including, but not limited to, the Universal Mobile Telecommunications System (UMTS) and the Long Term Evolution (LTE) based broadband services in the mobile communications and the fiber-to-the-home rollout in the fixed line operations. In case of the introduction of such new services, the Company conducts a revision of useful lives of the already existing platforms, but in the vast majority of the cases these new services are designed to co-exist with the existing platforms, resulting in no change-over to the new technology. Consequently, the useful lives of the existing platforms usually do not require shortening.

4.2. Estimated impairment of property, plant and equipment, and intangible assets

We assess the impairment of identifiable property, plant, equipment and intangibles whenever there is a reason to believe that the carrying value may materially exceed the recoverable amount and where impairment of value is anticipated. The calculations of recoverable amounts are primarily determined by value in use calculations, which use a broad range of estimates and factors affecting those. Among others, we typically consider future revenues and expenses, technological obsolescence, discontinuance of services and other changes in circumstances that may indicate impairment. If impairment is identified using the value in use calculations, we also determine the fair value less cost to sell (if determinable), to calculate the exact amount of impairment to be charged. As this exercise is highly judgmental, the amount of a potential impairment may be significantly different from that of the result of these calculations. Management has performed an impairment test based on a 10 years cash flow projection and used a perpetual growth rate of 2% (2016: 2%) to determine the terminal value after 10 years. The discount rate used was 8.39% (2016: 8.06%). The impairment test did not result in impairment.

4.3. Estimated impairment of trade and other receivables

We calculate impairment for doubtful accounts based on estimated losses resulting from the inability of our customers to make the required payments. For the largest customers, international customers and for customers under liquidation and bankruptcy proceedings impairment is calculated on an individual basis, while for other customers it is estimated on a portfolio basis, for which we base our estimate on the aging of our account receivables balance and our historical write-off experience, customer credit-worthiness and recent changes in our customer payment terms (see note 2.3.1 (b)). These factors are reviewed periodically, and changes are made to the calculations when necessary. In 2017 the Company carried out detailed analysis on the groups of customers on which collective assessment of impairment is performed which resulted in changes in the related impairment rates due to different payment behavior, resulting in new impairment rates of trade and other receivables in 2017. If the financial condition of our customers were to deteriorate, actual write-offs of currently existing receivables may be higher than expected and may exceed the level of the impairment losses recognized so far (see note 3.1.2).

4.4. Provisions

Provisions in general are highly judgmental, especially in case of legal disputes. The Company assesses the probability of an adverse event as a result of a past event and if the probability of an outflow of economic benefits is evaluated to be more than 50%, the Company fully provides for the total amount of the estimated liability (see note 2.9). As the assessment of the probability is highly judgmental, in some cases the evaluation may not prove to be in line with the eventual outcome of the case. In order to determine the probabilities of an adverse outcome, the Company uses internal and external legal counsel (see note 15 and 28).

4.5. Subscriber acquisition costs

Subscriber acquisition costs primarily include the loss on the equipment sales (revenues and costs presented on a gross basis) and fees paid to subcontractors that act as agents to acquire new customers or retain the existing subscribers. The Company's agents also spend a portion of their agent fees for marketing the Company's products, while a certain part of the Company's marketing costs could also be considered as part of the subscriber acquisition costs. The up-front fees collected from customers for activation or connection are marginal compared to the acquisition costs. These revenues and costs are recognized when the customer is connected to the Company's fixed or mobile networks. No such costs or revenues are capitalized or deferred. These acquisition costs (losses) are recognized immediately as expense (Other operating expenses) as they are not accurately separable from other marketing costs. The total amount of agent fees in 2017 is MKD 95,079 thousand (2016: MKD 98,083 thousand).

5. CASH AND CASH EQUIVALENTS

In thousands of denars	2017	2016
Call deposits	280,013	645,033
Cash in bank	225,117	287,766
Cash on hand	17,245	8,223
	522,375	941,022

The interest rate on call deposits is 0.35% p.a. (2016: 0.35% p.a.). These deposits have maturities of less than 3 months.

The carrying amounts of the cash and cash equivalents are denominated in the following currencies:

In thousands of denars	2017	2016
MKD	336,031	732,005
EUR	122,772	157,221
USD	63,572	51,796
	522,375	941,022

Following is the breakdown of call deposits and cash in bank with bank guarantee by credit rating of the Guarantor (see note 3.1.2):

In thousands of denars	2017	2016
Credit rating of the Guarantor: A	472,044	903,953
	472,044	903,953

Following is the breakdown of call deposits and cash in bank by credit rating in local banks without bank guarantee (see note 3.1.2):

In thousands of denars	2017	2016
Credit rating: A-	387	-
Credit rating: BBB+	-	304
Credit rating: BBB-	-	3,684
Credit rating: BB+	5,003	-
Credit rating: BB	942	-

57

Credit rating: BB-	-	2,969
Credit rating: RD	19,176	20,884
Call deposits in local banks without rating	7,578	1,005
	33,086	28,846

The credit ratings in the table above represent either the credit rating of the local bank or the credit rating of the parent bank if no rating is available for the local bank.

6. DEPOSITS WITH BANKS

In 2017 deposits with banks represent cash deposits in domestic bank, with interest rate from 0.25% p.a. to 0.27% p.a. (2016: from 0.90% p.a. to 1.20% p.a.) and with maturity between 3 and 12 months.

The carrying amounts of the deposits with banks are denominated in the following currencies:

In thousands of denars	2017	2016
MKD	250,041	-
EUR	430,465	178,457
	680,506	178,457

Following is the breakdown of deposits with banks by categories and by credit rating of the Guarantor (see note 3.1.2):

In thousands of denars	2017	2016
Credit rating of the Guarantor: A	680,506	178,457
	680,506	178,457

7. TRADE AND OTHER RECEIVABLES

In thousands of denars	2017	2016
Trade debtors – domestic	4,387,015	4,494,769
Less: allowance for impairment	(1,919,797)	(1,839,150)
Trade debtors – domestic – net	2,467,218	2.655,619
Trade debtors – foreign	77,945	173,744
Less: allowance for impairment	(27,554)	(12,776)
Trade debtors – foreign – net	50,391	160,968
Receivables from related parties	222,454	392,513
Loans to employees	56,107	66,920
Other receivables	17,266	16,187
Financial assets	2,813,436	3,292,207
Advances given to suppliers	117,978	137,227
Less: allowance for impairment	(62,923)	(62,923)
Advances given to suppliers – net	55,055	74,304
Prepayments and accrued income	356,093	321,763
	3,224,584	3,688,274
Less non-current portion: Loans to employees	(44,792)	(54,261)
Less non-current portion: Trade debtors – domestic	(285,843)	(291,782)
Current portion	2,893,949	3,342,231

Receivables from related parties represent receivables from members of Magyar Telekom Group and Deutsche Telekom Group (see note 29).

Loans to employees are collateralized by mortgages over real estate or with promissory note.
Loans granted to employees carry effective interest rate of 4.55% p.a. (2016: 4.55% p.a.).
The non-current portion of Loans to employees represents receivables that are due within 10 years of the financial statement date. The non-current portion of domestic trade receivables represents receivables that are due within 4 years of the financial statement date.

As at 31 December 2017, domestic trade debtors of MKD 2,386,311 thousand (2016: MKD 2,406,375 thousand) are impaired. The aging of these receivables is as follows:

In thousands of denars	2017	2016
Less than 30 days	253,872	219,180
Between 31 and 180 days	163,725	234,794
Between 181 and 360 days	139,064	205,951
More than 360 days	1,829,650	1,746,450
	2,386,311	2,406,375

As at 31 December 2017, domestic trade receivables in amount of MKD 141,407 thousand (2016: MKD 138,608 thousand) were past due but not impaired. These are mainly related to specified business and governmental customers that belong to certain age bands and are past due but not impaired, based on past experience of payment behavior, as well as the domestic trade receivables whose terms have been renegotiated and it is not impaired since the collectability of the renegotiated cash flows is considered ensured, and customers for interconnection services assessed on individual basis in accordance with past Company experience and current expectations (see notes 2.3 and 4.3).

The analysis of these past due domestic trade receivables is as follows:

In thousands of denars	2017	2016
Less than 30 days	13,716	73,953
Between 31 and 60 days	21,922	9,728
Between 61 and 90 days	7,305	13,625
Between 91 and 180 days	25,673	14,967
Between 181 and 360 days	32,479	6,359
More than 360 days	40,312	19,976
	141,407	138,608

The total amount of the provision for domestic trade debtors is MKD 1,919,797 thousand (2016: MKD 1,839,150 thousand). Out of this amount MKD 1,711,668 thousand (2016: MKD 1,643,242 thousand) relate to provision made according the aging structure of the above receivables, while the amount of MKD 74,800 thousand (2016: MKD 60,971 thousand) is from customers under liquidation and bankruptcy which are fully impaired. In addition, the Company has a specific provision calculated in respect of a certain group of customers in amount of MKD 133,329 thousand (2016: MKD 134,937 thousand). The total amount of the provision for foreign trade debtors is MKD 27,554 thousand (2016: MKD 12,776 thousand).

The amount of impairment is mainly a result of receivables which are overdue more than 720 days. The total amount of fully impaired receivables is MKD 1,695,593 thousand (2016: MKD 1,640,519 thousand). These receivables are mainly from two way disconnected customers, dismantled customers, litigated customers and customers that are no longer using the Company services.

The fair values of financial assets within trade and other receivables category are as follows:

In thousands of denars	2017	2016
Trade debtors – domestic	2,467,218	2,655,619
Trade debtors – foreign	50,391	160,968
Receivables from related parties	222,454	392,513
Loans to employees	56,107	66,920
Other receivables	17,266	16,187
	2,813,436	3,292,207

Movement in allowance for impairment of domestic trade debtors:

In thousands of denars	2017	2016
Impairment losses at 1 January	1,839,150	1,799,273
Charge for the year	139,204	58,025
Write off	(58,557)	(18,148)
Impairment losses at 31 December	1,919,797	1,839,150

In 2016 and 2017 there is no movement in allowance for impairment of advances given to suppliers.

Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.
As at 31 December 2017, foreign trade debtors of MKD 27,554 thousand (2016: MKD 12,776 thousand) are impaired. The aging of these receivables is as follows:

In thousands of denars	2017	2016
More than 360 days	27,554	12,776
	27,554	12,776

As at 31 December 2017, foreign trade receivables in amount of MKD 42,611 thousand (2016: MKD 136,146 thousand) were past due but not impaired. These relate to a number of international customers assessed on individual basis in accordance with past Company experience and current expectations.

The analysis of these past due but not impaired foreign trade receivables is as follows:

In thousands of denars	2017	2016
Less than 30 days	7,329	3,492
Between 31 and 60 days	431	14,063
Between 61 and 90 days	13,896	4,554
Between 91 and 180 days	4,322	53,893
Between 181 and 360 days	1,202	11,053
More than 360 days	15,431	49,091
	42,611	136,146

The Company has renegotiated domestic trade receivables in carrying amount of MKD 19,566 thousand (2016: MKD 25,403 thousand). The carrying amount of loans and receivables, which would otherwise be past due, whose terms have been renegotiated is not impaired if the collectability of the renegotiated cash flows are considered ensured.

The carrying amounts of the Company's non-current trade and other receivables are denominated in MKD.

The carrying amounts of the Company's current trade and other receivables are denominated in the following currencies:

In thousands of denars	2017	2016
MKD	2,347,174	2,566,837
EUR	435,005	301,591
USD	109,525	471,429
Other	2,245	2,374
	2,893,949	3,342,231

The credit quality of trade receivables that are neither past due nor impaired is assessed based on historical information about counterparty default rates.

Following are the credit quality categories of neither past due nor impaired domestic trade receivables:

In thousands of denars	2017	2016
Group 1	1,438,065	1,459,891
Group 2	102,269	116,229
Group 3	33,120	81,884
	1,573,454	1,658,004

Following are the credit quality categories of neither past due nor impaired foreign trade receivables:

In thousands of denars	2017	2016
Group 1	7,780	24,822
	7,780	24,822

Group 1 – fixed line related customers that on average are paying their bills before due date and mobile related customers with no disconnections in the last 12 month.

Group 2 – fixed line related customers that on average are paying their bills on due date and mobile related customers with up to 3 disconnections in the last 12 month.

Group 3 – fixed line related customers that on average are paying their bills after due date and mobile related customers with more than 3 disconnections in the last 12 month.

8. TAXES

Commencing from 1 January 2014 the profit tax law was amended whereby the income tax is payable at the moment of dividend distribution regardless of the ownership structure. In accordance with these changes applicable as of January 2014, the income tax in Macedonia ceased to have the characteristics of withholding taxes. Consequently, as per IAS 12, the income tax arising from the payment of dividends was accounted for as a liability and expense in the period in which dividends were declared, regardless of the actual payment date or the period for which the dividends were paid. This resulted in recognition of income tax expense on the dividends distributed in 2014 in amount of MKD 502,623 thousand in the first quarter of 2014 (see note 23).

As of 1 August 2014, profit tax law came into force being applicable from 1 January 2015 for the net income for 2014, with which the base for income tax computation had been shifted from income “distribution” concept to the profit before taxes. According to the provisions of the law, the tax base is the profit generated during the fiscal year increased for non-deductible expenses and reduced for deductible revenue (i.e. dividends already taxed at the payer) and the income tax rate is 10%. In line with these changes income tax for the year was calculated and recorded in the statement of comprehensive income. In addition, following the changes in the law, the tax on the tax base adjusting items (the non-deductable expenses and tax credits) is presented as part of income tax expense in the statement of comprehensive income (see note 2.16).

Up to now the tax authorities had carried out a full-scope tax audits at the Company for 2005 and the years preceding. Additionally, audit of personal income tax was carried out by the tax authorities for the period 1 January 2005 to 31 March 2006. During 2010 there was tax audit conducted by the Public revenue office for Profit tax and VAT for the period 2005 - 2009, as well as, withholding tax for years 2007 and 2008. In addition, in 2011 the Public revenue office conducted tax audit for withholding tax for 2010 and tax audit over certain service contracts from Transfer pricing perspective. In 2012 the Public revenue office conducted specific tax audit for VAT for August 2012 for the Company. In 2012 the Public revenue office carried out a tax audit in the Company for Profit tax for the years 2005-2011, as well as tax audit for VAT for 2005-2009. During 2016 and 2017 Public revenue office conducted tax audit for Profit tax for period 2013-2015. The tax authorities may at any time inspect the books and records within 5 years subsequent to the reported tax year, and may impose additional tax assessments and penalties. In a case of tax evasion or tax fraud the statute of limitations may be extended up to 10 years. The Company’s management is not aware of any circumstances, which may give rise to a potential material liability in this respect other than those provided for in these financial statements.

8.1. Other taxes receivable

In thousands of denars	2017	2016
VAT receivable	13,247	11,839
Other taxes receivable	928	1,006
	14,175	12,845

8.2. Other taxes payable

In thousands of denars	2017	2016
VAT and other tax payables	48,608	39,255
	48,608	39,255

9. INVENTORIES

In thousands of denars	2017	2016
Materials	110,604	121,106
Inventories for resale	257,206	336,491
Allowance for inventories	(29,689)	(19,277)
	338,121	438,320

Movement in allowance for inventories:

In thousands of denars	2017	2016
Allowance at 1 January	19,277	20,918
Write down of inventories to net realizable value	11,228	(444)
Write down of inventories	21,649	24,497
Write off	(22,465)	(25,694)
Состојба на 31 декември	29,689	19,277

Allowance for inventory mainly relates to inventories for resale and obsolete materials. Write down of inventories to net realizable value is based on the analysis of the lower of cost and net realizable value at the financial statement dates.

10. ASSETS HELD FOR SALE

During 2016, the Company brought decision for selling one building. The carrying amount of the affected asset was reclassified to assets held for sale in the statement of financial position. As at 31 December 2016 the balance of asset held for sale includes affected building with carrying amount of MKD 3,296 thousand.

During 2017, the Company brought decision for selling one additional building and several other assets. The carrying amounts of the affected assets in amount of MKD 3,358 thousand were reclassified to assets held for sale in the statement of financial position. These assets together with building classified as held for sale at 31 December 2016, were sold during 2017. As at 31 December 2017 there are no assets categorized as asset held for sale.

In accordance with IFRS 5, the assets presented as held for sale at the balance sheet date are accounted for at the lower of carrying value or fair value less cost to sell. The fair value less cost to sell is dominantly within level 3 of the fair value hierarchy.

11. PROPERTY, PLANT AND EQUIPMENT

In thousands of denars	Land	Buildings	Teleco-mmunication equipment	Other	Assets under construction	Total
Cost						
At 1 January 2016	10,670	5,441,443	23,687,870	4,150,246	1,699,979	34,990,208
Additions	17	845	345,898	66,377	1,038,611	1,451,748
Transfer from assets under construction (see note 12)	-	36,050	184,292	69,383	(607,227)	(317,502)
Disposals	-	-	(1,945,640)	(220,860)	-	(2,166,500)
Transfer from/to assets held for sale	-	85,323	-	10,798	-	96,121
At 31 December 2016	10,687	5,563,661	22,272,420	4,075,944	2,131,363	34,054,075
Depreciation						
At 1 January 2016	-	1,975,192	16,744,658	3,217,346	-	21,937,196
Charge for the year	-	148,146	1,236,658	336,788	-	1,721,592
Disposals	-	-	(1,945,640)	(199,358)	-	(2,144,998)
Transfer from/to assets held for sale	-	37,384	-	5,236	-	42,620
At 31 December 2016	-	2,160,722	16,035,676	3,360,012	-	21,556,410
Carrying amount						
At 1 January 2016	10,670	3,466,251	6,943,212	932,900	1,699,979	13,053,012
At 31 December 2016	10,687	3,402,939	6,236,744	715,932	2,131,363	12,497,665

In thousands of denars	Land	Buildings	Teleco-mmunication equipment	Other	Assets under construction	Total
Cost						
At 1 January 2017	10,687	5,563,661	22,272,420	4,075,944	2,131,363	34,054,075
Additions	46	3,403	370,529	129,881	847,062	1,350,921
Transfer from assets under construction (see note 12)	-	8,283	193,615	108,993	(396,355)	(85,464)
Disposals	-	(6,246)	(856,124)	(162,014)	-	(1,024,384)
Transfer to assets held for sale	-	(15,526)	-	(238)	-	(15,764)
At 31 December 2017	10,733	5,553,575	21,980,440	4,152,566	2,582,070	34,279,384
Depreciation						
At 1 January 2017	-	2,160,722	16,035,676	3,360,012	-	21,556,410
Charge for the year	-	146,044	1,120,375	285,596	-	1,552,015
Disposals	-	(5,369)	(856,124)	(136,286)	-	(997,779)
Transfer to assets held for sale	-	(12,168)	-	(238)	-	(12,406)
Transfer between group of assets	-	-	(8)	462	-	454
At 31 December 2017	-	2,289,229	16,299,919	3,509,546	-	22,098,694
Carrying amount						
At 1 January 2017	10,687	3,402,939	6,236,744	715,932	2,131,363	12,497,665
At 31 December 2017	10,733	3,264,346	5,680,521	643,020	2,582,070	12,180,690

In 2017, the Company capitalized MKD 36 thousand (2016: MKD 87 thousand) expenditures related to obtaining complete documentation for base stations and MKD 8,040 thousand (2016: MKD 19,658 thousand) expenditures related to obtaining complete documentation for fixed line infrastructure in accordance to applicable laws in Republic of Macedonia (see note 2.6).

The reviews of the useful lives and residual values of property, plant and equipment during 2017 affected the lives of a several types of assets, mainly base stations, optical cables, other transitions systems and IT equipment. The change of the useful life on the affected assets was made due to technological changes and business plans of the Company (see note 4.1).

The reviews resulted in the following change in the original trend of depreciation in the current and future years.

In thousands of denars	2017	2018	2019	2020	After 2020
(Decrease)/increase in depreciation	(28,530)	(26,155)	751	16,590	37,344
	(28,530)	(26,155)	751	16,590	37,344

12. INTANGIBLE ASSETS

In thousands of denars	Software and software licenses	Concession, 2G 3G and 4G license	Other	Assets under construction	Total
Cost					
At 1 January 2016	4,740,200	1,525,417	480,558	57,919	6,804,094
Additions	236,214	-	176,783	172,111	585,108
Transfer from assets under construction (see note 11)	361,145	-	-	(43,643)	317,502
Disposals	(483,349)	-	-	-	(483,349)
At 31 December 2016	4,854,210	1,525,417	657,341	186,387	7,223,355
Amortization					
At 1 January 2016	3,729,076	694,829	142,667	-	4,566,572
Charge for the year	512,140	117,194	189,650	-	818,984
Disposals	(483,349)	-	-	-	(483,349)
At 31 December 2016	3,757,867	812,023	332,317	-	4,902,207
Carrying amount					
At 1 January 2016	1,011,124	830,588	337,891	57,919	2,237,522
At 31 December 2016	1,096,343	713,394	325,024	186,387	2,321,148

In 2016 review of the TV content rights contracts was performed and two contracts were identified as qualifying for capitalization. Accordingly, these rights were recognized in 2016 in Intangible assets, category Other, at the net present value of future payments in amount of MKD 176,783 thousand and will be amortized over the contracts term, which is 3 years (see note 13 and 21).

In thousands of denars	Software and software licenses	Concession, 2G 3G and 4G license	Other	Assets under construction	Total
Cost					
At 1 January 2017	4,854,210	1,525,417	657,341	186,387	7,223,355
Additions	118,387	-	828,853	195,967	1,143,207
Transfer from assets under construction (see note 11)	246,064	-	-	(160,600)	85,464
Disposals	(624,130)	-	-	-	(624,130)
At 31 December 2017	4,594,531	1,525,417	1,486,194	221,754	7,827,896
Amortization					
At 1 January 2017	3,757,867	812,023	332,317	-	4,902,207
Charge for the year	448,740	117,194	292,867	-	858,801
Disposals	(624,130)	-	-	-	(624,130)
Transfer between group of assets	(454)	-	-	-	(454)
At 31 December 2017	3,582,023	929,217	625,184	-	5,136,424
Carrying amount					
At 1 January 2017	1,096,343	713,394	325,024	186,387	2,321,148
At 31 December 2017	1,012,508	596,200	861,010	221,754	2,691,472

In 2017 review of the TV content rights contracts was performed and five contracts were identified as qualifying for capitalization. Accordingly, these rights were recognized in 2017 in Intangible assets, category Other, at the net present value of future payments in amount of MKD 823,273 thousand and will be amortized over the contracts term (see note 13 and 21).

The reviews of the useful lives of intangible assets during 2017 affected the lives of a number of assets, mainly software. The change on the useful life of the affected assets was made according to technological changes and business plans of the Company. The reviews resulted in the following change in the original trend of amortization in the current and future years.

In thousands of denars	2017	2018	2019	2020	After 2020
(Decrease)/increase in amortization	(32,291)	(28,549)	23,053	20,395	17,392
	(32,291)	(28,549)	23,053	20,395	17,392

13. TRADE AND OTHER PAYABLES

In thousands of denars	2017	2016
Trade payables - domestic	816,835	845,162
Trade payables - foreign	260,730	230,681
Liabilities to related parties	313,798	507,701
Dividends payable	2,422	2,263
Other financial liabilities	975,521	652,008
Financial liabilities	2,369,306	2,237,815
Accrued expenses	1,168,271	1,706,818
Deferred revenue	228,968	280,151
Advances received	80,709	71,128
Other	135,787	211,626
	3,983,041	4,507,538
Less non-current portion:		
Deferred revenue	(5,550)	(8,834)
Other financial liabilities	(513,714)	(159,787)
Current portion	3,463,777	4,338,917

Liabilities to related parties represent liabilities to members Magyar Telekom Group and Deutsche Telekom Group (see note 29).

Non-current deferred revenues have maturity up to 8 years from the date of the statement of financial position.

In the category Other financial liabilities MKD 3,075 thousand (2016: MKD 187,872 thousand) represent the carrying amount of long term payables related to the transaction for purchase and sale of buildings with an exchange completed in 2012. These liabilities are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method. Financial liabilities of MKD 885,645 thousand (2016: MKD 368,866 thousand) represent the carrying amount of long term payables related to the capitalization of certain content right contracts in 2014, 2015, 2016 and 2017 (see note 12). These liabilities are recognized initially at the net present value of future payments and subsequently measured at amortized cost using the effective interest method. The unwinding of the discount is being recognized in Interest expense in Profit and loss (see note 21). The carrying amount of these liabilities approximates their fair value as the related cash flows are discounted with an interest rate of 3.25% and 6% p.a. which is the observable at the market for similar long term financial liabilities. The remaining balance of other financial liabilities arises from contractual obligations for various transactions, from the ordinary course of business of the Company.
The carrying amounts of the current portion of trade and other payables are denominated in the following currencies:

In thousands of denars	2017	2016
MKD	1,495,600	2,040,547
EUR	1,813,356	2,088,175
USD	148,433	204,579
Other	6,388	5,616
	3,463,777	4,338,917

At the regular Board of Directors meeting as of 13 September 2016 the Board of Directors adopted the Resolution on the conclusion of a Credit Facility Agreement between the Company, as the Borrower, and Magyar Telekom Plc., as the Lender, with the following main terms and conditions: Magyar Telekom Plc shall lend to the Company frame loan for maximum amount up to EUR 6 million (excluding interest), the disbursement of the loan shall be made based on the Credit Facility Agreement and on the need to need basis, followed by signing of Utilization Notice to the Credit Facility Agreement specifying the value date of the disbursement and the amount of the loan and the loan should be repaid in accordance with the available cash and considering the operational liquidity of the Company up to 31 March 2017. The Company has not utilized any amount from the Credit Facility Agreement.

14. DEFERRED INCOME TAX

Recognized deferred income tax (assets)/liabilities are attributable to the following items:

	Assets		Liabilities		Net	
In thousands of denars	2017	2016	2017	2016	2017	2016
Property, plant and equipment	-	-	128,123	150,102	128,123	150,102
Intangible assets	-	-	805	1,493	805	1,493
Tax (assets)/liabilities	-	-	128,928	151,595	128,928	151,595
Net tax liabilities	-	-	128,928	151,595	128,928	151,595

Movement in temporary differences during the year

In thousands of denars	Balance 1 January 2017	Recognized in income	Balance 31 December 2017
Property, plant and equipment	150,102	(21,979)	128,123
Intangible assets	1,493	(688)	805
	151,595	(22,667)	128,928

In thousands of denars	Balance 1 January 2016	Recognized in income	Balance 31 December 2016
Property, plant and equipment	173,389	(23,287)	150,102
Intangible assets	2,168	(675)	1,493
	175,557	(23,962)	151,595

The temporary differences relate to different carrying amount of property, plant and equipment and intangible assets as these assets were restated in accordance with statutory requirements in previous years at the year-end using official revaluation coefficients based on the general manufactured goods price increase index.

15. PROVISION FOR LIABILITIES AND CHARGES

In thousands of denars	Legal cases	Other	Total
1 January 2016	164,788	67,991	232,779
Additional provision	15,324	20,153	35,477
Unused amount reversed	(10,720)	(10,583)	(21,303)
Used during period	(3,398)	(11,753)	(15,151)
31 December 2016	165,994	65,808	231,802

In thousands of denars	Legal cases	Other	Total
1 January 2017	165,994	65,808	231,802
Additional provision	14,509	18,378	32,887
Unused amount reversed	(19,257)	(20,435)	(39,692)
Used during period	(7,339)	(6,411)	(13,750)
31 December 2017	153,907	57,340	211,247

Analysis of total provisions:

In thousands of denars	2017	2016
Non-current (Other)	57,340	65,808
Current	153,907	165,994
	211,247	231,802

Provisions for legal cases relate to certain legal and regulatory claims brought against the Company.

There are a number of legal cases for which provisions were recognized. Management recognizes a provision for its best estimate of the obligation but does not disclose the information required by paragraph 85 of IAS 37 because the management believes that to do so would seriously prejudice the outcome of the case. Management does not expect that the outcome of these legal claims will give rise to any significant loss beyond the amounts provided at 31 December 2017.

Other includes provision made for the legal or contractual obligation of the Company to pay to employees three average monthly salaries in Republic of Macedonia at their retirement date (see note 2.14.1) and provision for long-term incentive programs (see note 30). The provision is recognized against Personnel expenses in the Profit for the year.

16. CAPITAL AND RESERVES

Share capital consists of the following:

In thousands of denars	2017	2016
Ordinary shares	9,583,878	9,583,878
Golden share	10	10
	9,583,888	9,583,888

Share capital consists of one golden share with a nominal value of MKD 9,733 and 95,838,780 ordinary shares with a nominal value of MKD 100 each.

The golden share with a nominal value of MKD 9,733 is held by the Government of the Republic of Macedonia. In accordance with Article 16 of the Statute, the golden shareholder has additional rights not vested in the holders of ordinary shares. Namely, no decision or resolution of the Shareholders' Assembly related to: generating, distributing or issuing of share capital; integration, merging, separation, consolidation, transformation, reconstruction, termination or liquidation of the Company; alteration of the Company's principal business activities or the scope thereof; sale or abandonment either of the principal business activities or of significant assets of the Company; amendment of the Statute of the Company in such a way so as to modify or cancel the rights arising from the golden share; or change of the brand name of the Company; is valid if the holder of the golden share, votes against the respective resolution or decision. The rights vested in the holder of the golden share are given in details in the Company's Statute.

As at 31 December 2017 and 2016, the shares of the Company were held as follows:

In thousands of denars	2017	%	2016	%
Stonebridge AD Skopje	4,887,778	51.00	4,887,778	51.00
Government of the Republic of Macedonia	3,336,497	34.81	3,336,497	34.81
The Company (treasury shares)	958,388	10.00	958,388	10.00
International Finance Corporation (IFC)	139,220	1.45	139,220	1.45
Other minority shareholders	262,005	2.74	262,005	2.74
	9,583,888	100.00	9,583,888	100.00

16.1. Treasury shares

The Company acquired 9,583,878 of its own shares, representing 10% of its shares, through the Macedonian Stock Exchange during June 2006. The total amount paid to acquire the shares, net of income tax, was MKD 3,843,505 thousand. The shares are held as treasury shares. As a result of the findings of the Investigation, for one consultancy contract, the payments of which was erroneously capitalized as part of treasury shares in 2006 has been retrospectively derecognized from treasury shares (see note 1.4).
The amount of treasury shares of MKD 3,738,358 thousand (after restatement), has been deducted from shareholders' equity. The Company has the right to reissue these shares at a later date. All shares issued by the Company were fully paid.

16.2. Other reserves

The Shareholders' Assembly of the Company, at its meeting, held on 12 April 2016 adopted a Resolution for distribution of MKD 279,145 thousand, that exceeds the legally defined obligatory general reserve of the Company as a result of the accession of T-Mobile Macedonia towards the Company, in the retained earnings of the Company.

17. REVENUES

In thousands of denars	2017	2016
Revenues from fixed line operations		
Internet	1,182,764	1,228,667
Voice retail	1,083,488	1,195,956
TV	679,485	600,147
Wholesale	439,034	546,844
Data	274,682	300,240
Equipment	79,692	122,002
Other	159,437	151,446
	3,898,582	4,145,302
Revenues from mobile operations		
Voice retail	2,776,069	2,771,223
Internet	1,162,643	920,508
Equipment	888,304	804,596
Wholesale	632,722	837,700
Data	405,794	373,186
Content	88,037	76,978
Voice visitor	73,382	68,274
Other	179,240	200,070
	6,206,191	6,052,535
SI/IT revenues	213,603	359,758
	10,318,376	10,557,595

18. PERSONNEL EXPENSES

In thousands of denars	2017	2016
Salaries	677,209	725,833
Contributions on salaries	242,596	255,700
Other staff costs	151,687	430,391
Bonus payments	103,216	86,965
Capitalized personnel costs	(84,375)	(74,840)
	1,090,333	1,424,049

Other staff costs include termination benefits, holiday's allowance and other benefits for employees, managers and Board of Directors members who have left the Company during 2017 in amount MKD 85,613 thousand for 27 persons (2016: MKD 366,332 thousand for 360 persons). As of 1 July 2016, 244 employees continue to carry out their tasks in Ericsson as a result of signed Managed service agreement between the Company and Ericsson as a managed services partner in Macedonia. Under the Agreement, Ericsson has responsibility for network operations, second line operations, field operations and passive networks, as well as infrastructure maintenance services for fixed and mobile networks of the Company.
Bonus payments also include the cost for long-term incentive programs (see note 30).

19. OTHER OPERATING EXPENSES

In thousands of denars	2017	2016
Purchase cost of goods sold	1,657,119	1,712,426
Services	611,872	651,150
Materials and maintenance	507,254	429,058
Marketing and donations	308,630	300,435
Fees, levies and local taxes	280,807	276,203
Subcontractors	229,255	278,475
Royalty payments	190,864	242,091
Energy	179,505	166,704
Impairment losses on trade and other receivables	153,982	58,025
Rental fees	138,451	142,975
Consultancy	42,445	47,117
Write down of inventories	21,649	24,497
Insurance	15,177	12,574
Write down of inventories to net realizable value	11,228	(444)
Other	10,786	3,136
	4,359,024	4,344,422

Services mainly include agent commissions, expenses for content services, postal expenses, services for support and maintenance of IT equipment, security, cleaning, and utilities. In category materials and maintenance included are costs for Managed service agreement between the Company and Ericsson as a managed services partner in Macedonia (see note 18).

20. OTHER OPERATING INCOME

In thousands of denars	2017	2016
Net gain on sale of PPE	5,157	14,017
Other	44,502	26,600
	49,659	40,617

In 2017 amount of MKD 5,408 thousand (2016: MKD 8,564 thousand) included in the category Net gain on sale of PPE represents gain from sales of two administrative buildings.

21. FINANCE EXPENSES

In thousands of denars	2017	2016
Interest expense	35,050	48,252
Net foreign exchange loss	21,211	-
Bank charges and other commissions	14,223	14,121
	70,484	62,373

Interest expense in amount of MKD 2,279 thousand (2016: MKD 17,521 thousand) represents the unwinding of the discount related to the carrying amount of long term payables from the transaction for purchase and sale of buildings with an exchange completed in 2012, recognized initially at fair value and subsequently measured at amortized cost using the effective interest method. Interest expense in amount of MKD 18,408 thousand (2016: MKD 13,619 thousand) represents the unwinding of the discount related to the carrying amount of long term payables from the content right contracts capitalized, recognized initially at the net present value of future payments and subsequently measured at amortized cost using the effective interest method (see note 13).

22. FINANCE INCOME

In thousands of denars	2017	2016
Interest income	39,674	15,693
Fair value trough profit and loss	3,559	7,254
Dividend income	2,749	2,841
Net foreign exchange gain	-	14,306
	45,982	40,094

Interest income is mainly generated from financial assets classified as loans and receivables. In 2017 amount of MKD 19,048 included in the category Interest income represents release of interest from one closed legal case, being previously provided for. Dividend income is from financial asset at fair value through profit and loss.

23. INCOME TAX EXPENSE

Recognized in the statement of comprehensive income:

In thousands of denars	2017	2016
Current tax expense		
Current year	230,924	211,334
Deferred tax expense		
Origination and reversal of timing differences	(22,667)	(23,962)
Total income tax in the statement of comprehensive income	208,257	187,372

Reconciliation of effective tax rate:

In thousands of denars		2017		2016
Profit before tax		1,589,105		1,223,314
Income tax	10.00%	158,910	10.00%	122,331
Non-deductible expenses	2.86%	45,455	5.47%	66,916
Income tax increase from previous years	0.30%	4,831	-	-
Tax exempt revenues	(0.06%)	(939)	(0.15%)	(1,875)
	13.10%	208,257	15.32%	187,372

Commencing from January 2014 the profit tax law was amended whereby the income tax is payable at the moment of dividend distribution regardless of the ownership structure. In accordance with these changes applicable as of January 2014, the income tax in Macedonia ceased to have the characteristics of withholding taxes. Consequently, as per IAS 12, the income tax arising from the payment of dividends was accounted for as a liability and expense in the period in which dividends were declared, regardless of the actual payment date or the period for which the dividends were paid. This resulted in recognition of income tax expense on the dividends distributed in 2014 in amount of MKD 502,623 thousand in the first quarter of 2014.

As of 1 August 2014, profit tax law came into force being applicable from 1 January 2015 for the net income for 2014 with which the base for income tax computation had been shifted from income “distribution” concept to the profit before taxes. According to the provisions of this new law the tax base is the profit generated during the fiscal year increased for non-deductible expenses and reduced for deductible revenue (i.e. dividends already taxed at the payer), with income tax at rate of 10%. In line with these changes income tax for the year and deferred tax were calculated and recorded in the Statement of comprehensive income (see note 2.16 and 8).

24. DIVIDENDS

The Shareholders’ Assembly of the Company, at its meeting, held on 24 April 2017 adopted a Resolution for the dividend payment for the year 2016. The Resolution on dividend payment for 2016 is in the gross amount of MKD 1,251,598 thousand from the net profit generated as per the Financial Statements of the Company for the year 2016 as per the local GAAP. The dividend was paid out in September 2017. Up to date of issuing of these financial statements, no dividends have been declared for 2017.

25. REPORTABLE SEGMENTS AND INFORMATION

25.1. Reportable segments

The Company’s reportable segments are: business, residential, wholesale segments and other.
Residential segment is consisted of consumer subscribers which are all directly owned human subscribers without business subscribers (i.e. self-employed individuals or legal entities offering chargeable products and/or services to

customers, non-profit organizations and public organizations). Business segment is consisted of business subscribers which are all directly owned human subscribers who are either self employed individuals or employees of a legal entity that offers chargeable products and/or services to customers. Employees or members of non-profit and public organizations are also business subscribers. Wholesale comprises all services with telecommunication carriers for both mobile and fixed line, i.e. carrier services, mobile VNO and visitors.

25.2. Information regularly provided to the chief operating decision maker

The following tables present the segment information by reportable segment regularly provided to the Chief operating decision maker of the Company. The information regularly provided to the MC (Management Committee) includes several measures of profit which are considered for the purposes of assessing performance and allocating resources. Management believes that direct margin which is defined as revenues less direct costs less Impairment losses on trade and other receivables is the segment measure that is most consistent with the measurement principles used in measuring the corresponding amounts in these financial statements.

Another important KPI monitored at Company level is EBITDA adjusted for the impact of certain items considered as "special influence". These items vary year-over-year in nature and magnitude.

Revenues

In thousands of denars	2017	2016
Residential segment revenues	6,677,404	6,614,632
Business segment revenues	2,654,791	2,813,875
Wholesale segment revenues	936,436	1,087,717
Other	49,745	41,371
	10,318,376	10,557,595

None of the Company's external customers represent a significant source of revenue.

Segment results (Direct margin)

In thousands of denars	2017	2016
Direct margin		
Residential segment	4,720,100	4,704,126
Business segment	1,785,080	1,815,013
Wholesale segment	613,433	720,862
Other	43,512	40,792
Total direct margin of the Company	7,162,125	7,280,793
Indirect costs		
Personal expenses	(1,090,333)	(1,424,049)
Other operating expenses	(2,097,028)	(2,111,192)
Total Indirect costs of the Company	(3,187,361)	(3,535,241)
Other operating income	49,659	40,617
EBITDA	4,024,423	3,786,169
Depreciation and amortization	(2,410,816)	(2,540,576)
Total operating profit	1,613,607	1,245,593
Finance expense – net	(24,502)	(22,279)
Profit before tax	1,589,105	1,223,314
Income tax expense	(208,257)	(187,372)
Net profit for the year	1,380,848	1,035,942

26. LEASES AND OTHER COMMITMENTS

26.1. Operating lease commitments – where the Company is the lessee:

Operating lease commitments – where the Company is the lessee, are mainly from lease of business premises, locations for base telecommunication stations and other telecommunications facilities.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

In thousands of denars	2017	2016
Not later than 1 year	101,799	103,205
Later than 1 year and not later than 5 years	164,690	173,654
Later than 5 years	39,803	21,009
	306,292	297,868

26.2. Operating lease commitments – where the Company is the lessor:

Operating lease commitments, concluded on temporary bases – where the Company is the lessor are mainly from lease of land sites for base stations.

The future aggregate minimum lease receivables under non-cancellable operating leases are as follows:

In thousands of denars	2017	2016
Not later than 1 year	7,704	17,277
Later than 1 year and not later than 5 years	10,841	12,420
Later than 5 years	1,925	3,336
	20,470	33,033

26.3. Capital commitments

The amount authorized for capital expenditure as at 31 December 2017 was MKD 667,058 thousand (2016: MKD 293,784 thousand). The amount authorized for capital expenditure as at 31 December 2016 and 2017 mainly relates to telecommunication assets.

27. ADDITIONAL DISCLOSURES ON FINANCIAL ASSETS

The Company classifies fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

a) quoted prices (unadjusted) in active markets for identical assets (Level 1);
b) inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly (Level 2); and
c) inputs for the asset that are not based on observable market data (Level 3).

The level in the fair value hierarchy within which the fair value measurement is categorized in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. The significance of an input is assessed against the fair value measurement in its entirety.

The fair values in level 2 and level 3 of fair value hierarchy were estimated using the discounted cash flows valuation technique. The fair value of floating rate instruments that are not quoted in an active market was estimated to be equal to their carrying amount. The fair value of unquoted fixed interest rate instruments was estimated based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity.

Financial assets carried at amortized cost

The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on credit risk of the counterparty.

Liabilities carried at amortized cost

Fair values of financial liabilities were determined using valuation techniques. The estimated fair value of fixed interest rate instruments with stated maturity was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity.
There was no transfer between Level 1 and Level 2 financial assets. Loans and receivables and the financial liabilities are measured at amortized cost, but fair value information is also provided for these. The fair values of these assets and liabilities were determined using level 3 type information. There are no assets or liabilities carried at fair value where the fair value was determined using level 3 type information.

27.1. Financial assets – Carrying amounts and fair values

The table below shows the categorization of financial assets as at 31 December 2016.

Assets In thousands of denars	Financial assets				
	Loans and receivables	Available for sale (Level 2)	At fair value through profit and loss (Level 1)	Carrying amount	Fair value
Cash and cash equivalents	941,022	-	-	941,022	941,022
Deposits with banks	178,457	-	-	178,457	178,457
Trade and other receivables	3,292,207	-	-	3,292,207	3,292,207
Other non-current assets	-	612	-	612	612
Financial assets at fair value through profit and loss	-	-	60,366	60,366	60,366

The table below shows the categorization of financial assets as at 31 December 2017.

Assets In thousands of denars	Financial assets				
	Loans and receivables	Available for sale (Level 2)	At fair value through profit and loss (Level 1)	Carrying amount	Fair value
Cash and cash equivalents	522,375	-	-	522,375	522,375
Deposits with banks	680,506	-	-	680,506	680,506
Trade and other receivables	2,813,436	-	-	2,813,436	2,813,436
Other non-current assets	-	612	-	612	612
Financial assets at fair value through profit and loss	-	-	63,925	63,925	63,925

Loans and receivables are measured at amortized cost, while available-for-sale and held-for-trading assets are measured at fair value.

Cash and cash equivalents, deposits, trade receivables and other current financial assets mainly have short times to maturity. For this reason, their carrying amounts at the end of the reporting period approximate their fair values.
Financial assets available for sale include insignificant investment in equity instruments, measured at fair value.
Financial assets at fair value through profit or loss include investments in equity instruments in the amount of MKD 63,925 thousand (2016: MKD 60,366 thousand) calculated with reference to the Macedonian Stock Exchange quoted bid prices. Changes in fair values of other financial assets at fair value through profit or loss are recorded in finance income/expenses in the Profit for the year (see note 21 and 22). The cost of these equity investments is MKD 31,786 thousand (2016: MKD 31,786 thousand).

27.2. Offsetting financial assets and financial liabilities

For the financial assets and liabilities subject to enforceable netting arrangements, each agreement between the Company and the counterparty (typically roaming and interconnect partners) allows for net settlement of the relevant trade receivable and payable when both elect to settle on a net basis. In the absence of such an election, the trade receivables and payables will be settled on a gross basis, however, each party to the netting agreement will have the option to settle all such amounts on a net basis in the event of default of the other party.

The following trade receivables and trade payables are subject to offsetting agreements, and are presented after netting in the statements of financial position as at 31 December 2017:

In thousands of denars	Trade and other receivables	Trade payables
Gross amounts of recognized financial instruments	2,912,461	2,468,331
Gross amounts of financial instruments set off	(99,025)	(99,025)
Net amounts of recognized financial instruments	2,813,436	2,369,306

The following trade receivables and trade payables are subject to offsetting agreements, and are presented after netting in the statements of financial position as at 31 December 2016:

In thousands of denars	Trade and other receivables	Trade payables
Gross amounts of recognized financial instruments	3,393,228	2,338,836
Gross amounts of financial instruments set off	(101,021)	(101,021)
Net amounts of recognized financial instruments	3,292,207	2,237,815

27.3. Other disclosures about financial instruments

There were no financial assets or liabilities, which were reclassified into another financial instrument category.
No financial assets were transferred in such a way that part or all of the financial assets did not qualify for de-recognition.

28. CONTINGENCIES

The Company has contingent liabilities in respect of legal and regulatory claims arising in the ordinary course of business. The major part of the contingent liabilities relates to 3 requests for initiating misdemeanor procedures from regulatory bodies for alleged breach of deadlines for provision of certain services, number portability and failure to comply with the obligations for allowing access and use of specific network assets. The maximum possible fine for each individual case is 7% to 10% of the annual revenue from the previous year, in accordance with the applicable local legislation. Management believes, based on legal advice, that it is not probable that a significant liability will arise from these claims because of unsubstantial basis for initiating these misdemeanor procedures. It is not anticipated by the management that any material liabilities will arise from the contingent liabilities other than those provided for (see note 15).

29. RELATED PARTY TRANSACTIONS

All transactions with related parties arise in the normal course of business and their value is not materially different from prevailing market terms and conditions.

The Government of the Republic of Macedonia has 34.81% ownership in the Company (see note 16). Apart from payment of taxes, fees to Regulatory authorities according to local legislation and dividends (see note 24), in 2017 and 2016, the Company did not execute transactions with the Government of Republic of Macedonia, or any companies controlled or significantly influenced by it, that were outside normal day-to-day business operations of the Company.

Transactions with related parties mainly include provision and supply of telecommunication services. The amounts receivable and payable are disclosed in the appropriate notes (see note 7 and 13).

The revenues and expenses with the Company's related parties are as follows:

In thousands of denars	2017		2016	
	Revenues	Expenses	Revenues	Expenses
Controlling owner Magyar Telekom Plc	2,305	21,021	1,344	19,766
Subsidiaries of the controlling owner	12,779	2,508	16,189	3,894
Ultimate parent company Deutsche Telekom AG	575,875	230,832	618,569	212,862
Subsidiaries of the ultimate parent company	78,825	51,406	49,076	13,457
Entity controlled by key management personnel				
Mobico Dooel	199	1,314	1,046	1,404

In addition to the above presented revenues and expenses from transactions with the related party Mobico Dooel, trading goods and assets in amount of MKD 2,562 thousand (2016: MKD 59,732 thousand), excluding VAT, were purchased. Due to the change in management personnel of the Company amounts presented for Mobico Dooel in 2017 relates only to the period from 1 January to 30 June 2017.

The receivables and payables with the Company's related parties are as follows:

In thousands of denars	2017		2016	
	Receivables	Payables	Receivables	Payables
Controlling owner Magyar Telekom Plc	5,858	9,845	3,717	8,893
Subsidiaries of the controlling owner	3,461	595	27,036	3,458
Ultimate parent company Deutsche Telekom AG	96,100	241,953	91,785	197,603
Subsidiaries of the ultimate parent company	117,035	61,405	269,727	297,747
Entity controlled by key management personnel				
Mobico Dooel	-	-	248	-

Due to the change in management personnel of the Company as of 1 July 2017 Mobico Dooel is not entity controlled by key management personnel of the Company. In that relation amounts for receivables and payables in 2017 are not presented above.

30. KEY MANAGEMENT COMPENSATION

The compensation of the key management of the Company, including taxation charges and contributions, is presented below:

In thousands of denars	2017	2016
Short-term employee benefits (including taxation)	78,588	116,245
Termination benefits	47,024	2,899
State contributions on short-term employee benefits	10,292	13,377
Long-term incentive programs	10,965	17,018
Other payments	5,510	5,309
	152,379	154,848

The remuneration of the members of the Company's Board of Directors and its committees, which amounted to MKD 6,706 thousand (2016: MKD 10,173 thousand) is included in Short-term employee benefits. These are included in Personnel expenses (see note 18).

A variable performance-based long-term-incentive program, named Variable II Program, was launched in 2012 as part of the global DT Group-wide compensation tool for the companies, which promotes the medium and long-term value enhancement of DT Group, aligning the interests of management and shareholders.

The Variable II Program for 2013 is applicable from 1 January 2013 until 31 December 2016 and after the evaluation of the targets payment was executed in June 2017. The Variable II Program for 2014 is applicable from 1 January 2014 until 31 December 2017 and after its evaluation the payments will be executed in 2018.

The Variable II is measured based on the fulfillment of four equally weighted Company long term performance parameters (adjusted earnings per share (EPS); adjusted return on capital employed (ROCE); customer satisfaction and employee satisfaction). Each parameter determines a quarter of the award amount. Levels of target achievement are capped at 150% and target achievement levels greater than 150% are disregarded in all four performance parameters. The assessment period is four years and is based on average target achievement across the four years planned.

In 2015 a new performance-based long-term-incentive (LTI) program was launched as part of the global DT Group-wide compensation tool for the companies. The program is a cash settled share-based program. Executives receive virtual shares depending on their individual performance. The number of virtual shares at the end of the term is determined by the target achievement of KPIs. The value and quantity of shares fluctuates during the term of the plan on the basis of two indicators: development of the DT share price and target achievement in connection with 4 company targets: (adjusted earnings per share (EPS); adjusted return on capital employed (ROCE); customer satisfaction and employee satisfaction).

The target achievement is measured at the end of each annual cycle and the number of virtual shares determined on this basis is fixed as the result of the annual cycle (non-forfeitable). At the end of the plan's term, the results from the four annual cycles are totaled and paid out in cash. In 2016 new cycle of long-term-incentive (LTI) program was launched, as well as in 2017.

Additionally, as a part of the adopted Lead to Win programme, DT Group-wide Virtual Share Matching Plan (VSMP) was adopted with aim to lead the executives to manage and control the company with entrepreneurial spirit in accordance with the defined corporate strategy. It is separate from the Deutsche Telekom Group's Share Matching Plan, yet within the framework of the local legal regulations in the Republic of Macedonia and it adheres to the same principles.

The eligible executives have a possibility to participate in the Plan by allocating part of their Short Term Incentive in the amount from 10% to 33%. This amount is converted into a number of virtual DT shares (original virtual shares) for calculation purposes. The final amount of the incentive payable to the executives depends on the value of the DT shares at the end of the Plan. The executives are entitled to a cash equivalent for the so-called virtual matching shares, which are additional virtual free-of-charge shares based on their Performance dialog rating, as well as to a cash equivalent in the amount of the dividends payments, calculated on the original virtual shares.

The Company's VSMP is designed as a four years' cash plan intended for the executives of the Company, which uses virtual shares of DT for the purposes of calculation only.

The VSMP is introduced for 2016 and 2017. The 2016 VSMP also includes a possibility for the executives to voluntary participate in the Substitute for 2015 VSMP, with the aim to fully implement alternative solution for the Company as in the other companies within the DT Group.

Programs participants are Company's top managers who fulfilled the program criteria and have accepted participation in the designated time frame.

The expenses incurred by the Company related to the programs described above are shown within Long-term incentive programs (see note 15 and 18).

31. EVENTS AFTER THE FINANCIAL STATEMENT DATE

There are no events after the financial statement date that would have impact on the 2017 profit for the year, statement of financial position or cash flows.

CONTACTS:
CORPORATE COMMUNICATION, SPONSORSHIP
AND DONATION UNIT
E-MAIL: **PRESS@TELEKOM.MK**
TEL: **+ 389 2 3242564**
„KEJ 13 NOEMVRI" NO 6, 1000 SKOPJE

PLEASE REFER ALL THE QUESTIONS RELATED
TO THE FINANCIAL FISCAL YEAR 2017 AND THE
COMPANY SHARES TO:
INVESTOR.RELATIONS@TELEKOM.MK
TEL: **+ 38923242258**

LIFE IS FOR SHARING.