ANNUAL REPORT 2012
Makedonski Telekom AD – Skopje
& T-Mobile Macedonia AD Skopje

We generate ideas
We turn them into reality
We create better living

LIFE IS FOR SHARING.

IMAGINE A REALITY WITHOUT
BEAUTY AND HAPPINESS
IMAGE A DREAM WITHOUT A COLOR ...

IMAGINE A VILLAGE, CITY, A COUNTRY,
A WORLD WITHOUT THE MEANS
OF COMMUNICATION...

It’s impossible, not in the 21st century, not when the communication and technology have come so deeply into our lives ...When everybody runs somewhere, chases people, places, carriers, better living, more comfortable life.

**THIS IS WHERE WE STEP IN ...
SO, WE CAN CREATE ADDITIONAL VALUE TO LIVES OF THE PEOPLE.**

WE ARE HERE AND WE DO OUR BEST TO:

- make the world an even better place for our customers
- create better careers, to enrich the days with moments worth of sharing
- make life easier
- we offer content and entertainement
- to innovate for better future of all the citizens

AND WE DO THIS WITH YOUR SUPPORT... WITH OUR SHAREHOLDERS, WITH OUR EMPLOYEES, PARTNERS, OUR MOST VALUABLE CUSTOMERS!

TOGETHER WITH YOU...

WE ARE LEADING THE MACEDONIAN MARKET TOWARDS THE NEW ERA OF TELECOMMUNICATION

CONTENTS

CORPORATE GOVERNANCE

MANAGEMENT AND GOVERNANCE OF MAKEDONSKI TELEKOM AD– SKOPJE

Under Macedonian law and Statute of Makedonski Telekom AD – Skopje (Makedonski Telekom/Company), the bodies of Makedonski Telekom are the Shareholders' Assembly and the Board of Directors.
Corporate governance of Makedonski Telekom aims to be more transparent by providing information as follows:

- Competences of the Shareholders' Assembly of Makedonski Telekom
- 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

In accordance with the Law on Trade Companies and the Statute of Makedonski Telekom AD - Skopje, the Shareholders' Assembly, the Board of Directors and the Chief Executive Officer of the Company are authorized to adopt resolutions within their competence.
T – Mobile Macedonia (TM MK) is 100% fully owned subsidiary of Makedonski Telekom AD - Skopje.

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, AND IN PARTICULAR THE:

1. Modifications to the Statute of the Company
2. Approval of the Annual Account, 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 releasing of the members of the Board of Directors and determining the remuneration which will 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 Account 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 article 51-55 of this 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 percents (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. Adopting 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's operation, which fall within the competence of the Board of Directors.

Makedonski Telekom’s share capital consists of 95,838,780 ordinary shares and one preference cumulative share (golden share). Makedonski Telekom’s ordinary shares are not listed on the Official market and are traded on the Makedonski Stock Exchange - Regular market (Market of joint stock companies with special reporting obligations).

MAKEDONSKI TELEKOM’S SHARES	PREFERENCE SHARES	ORDINARY SHARES
Issuer	Makedonski Telekom AD	Makedonski Telekom AD
ISIN	MKMTSK121017	MKMTSK101019
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
Ticker symbol	-	TEL
Voting rights	One voting right and special rights	One voting right per share

* Out of total number of shares with voting rights - 86,254,903 for 3,361 shares which are part of 2% of shares which the Government of the Republic of Macedonia granted to the Makedonski Telekom’s employees, the owners are either not identified in the shareholders book of MKT due to lack of personal data (3,320 shares), or they are not distributed yet (41 shares).
** Preference cumulative share (golden share) owned by the Government of the Republic of Macedonia has one voting right and special rights in accordance with the Company Statute. It has restriction on tradable and non-tradable transfer.
*** Decreased for the treasury shares owned by Makedonski Telekom which rights in accordance with the Law on Trading Companies (reference article 338) are suspended.

DIVIDEND CALENDAR

YEAR	GROSS DIVIDEND PER SHARE IN MKD	FIRST DATE OF PAYMENT	ANNOUNCEMENT DATE
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

SHAREHOLDERS' STRUCTURE

SHAREHOLDERS OF MAKEDONSKI TELEKOM AD – SKOPJE

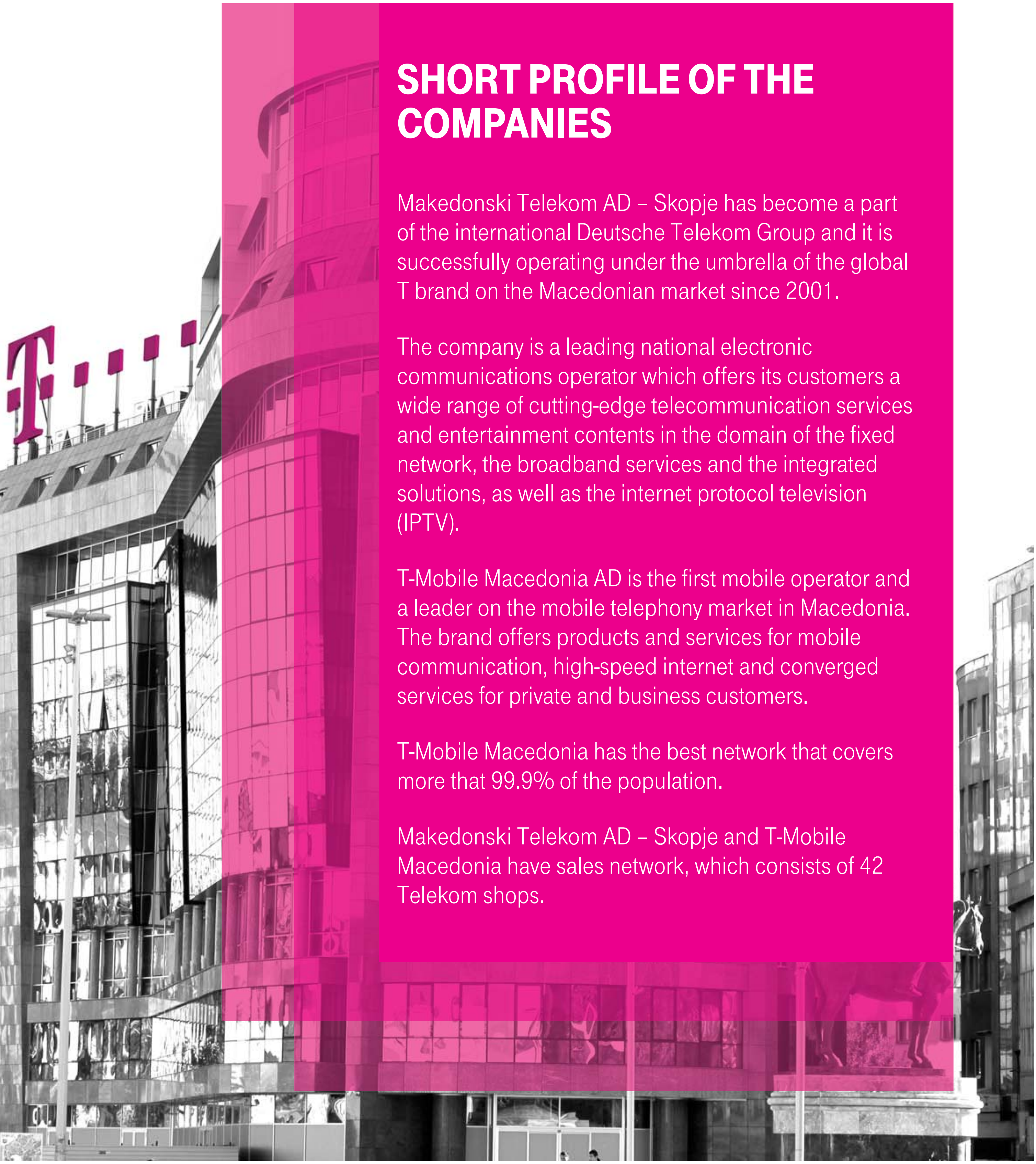
NAME OF OWNER	NUMBER OF SHARES	AS %
Stonebridge AD Skopje (in liquidation)	48,877,780	51.00
Government of RoM	33,364,875*	34.81
Makedonski Telekom AD (Treasury Shares)	9,583,878**	10.00
IFC	1,796,980	1.88
Other minority shareholders	2,215,268	2.31
Total	**95,838,781**	**100.00**

* Including the preference cumulative share (golden share) with par value of MKD 9,733 owned by the Government of the Republic of Macedonia.
The golden share has one voting right and special rights in accordance with the Company Statute. It has restriction on tradable and non-tradable transfer.
** In accordance with the Law on Trading Companies (reference article 338) all rights attached to treasury shares are suspended.

CALENDAR OF EVENTS

MEETINGS OF THE SHAREHOLDERS' ASSEMBLY OF MAKEDONSKI TELEKOM IN 2012

DATE	EVENT
04.04.2012	Annual meeting of the Shareholders' Assembly of Makedonski Telekom
07.09.2012	Shareholders' Assembly meeting of Makedonski Telekom



SHORT PROFILE OF THE COMPANIES

Makedonski Telekom AD – Skopje has become a part of the international Deutsche Telekom Group and it is successfully operating under the umbrella of the global T brand on the Macedonian market since 2001.

The company is a leading national electronic communications operator which offers its customers a wide range of cutting-edge telecommunication services and entertainment contents in the domain of the fixed network, the broadband services and the integrated solutions, as well as the internet protocol television (IPTV).

T-Mobile Macedonia AD is the first mobile operator and a leader on the mobile telephony market in Macedonia. The brand offers products and services for mobile communication, high-speed internet and converged services for private and business customers.

T-Mobile Macedonia has the best network that covers more that 99.9% of the population.

Makedonski Telekom AD – Skopje and T-Mobile Macedonia have sales network, which consists of 42 Telekom shops.

“ONE MORE SUCCESSFUL YEAR IS BEHIND US, A YEAR IN WHICH WE ACHIEVED EXCELLENT RESULTS”

OUR 2012 STORY

**The story brings enthusiastic beginnings, great plans, wishes and ambitions...
It continues with the need for overcoming huge challenges,
most of them unpredictable, but faceable.**

**It ends with an year of success, a lots of dedication and long hours of work,
a team work that stands behind everything...**

Dear Shareholders,

It was said long ago, but there are no doubts that everybody will agree it is still valid today – the telecommunications industry is changing every day with a breathtaking speed. Is there any pause in between?
For sure not! Only during the past several years we have witnessed enough growth for a decade; we applied easily usable smart phones, control on the devices at home even while we are on the move, electronic payments, calls to distant transoceanic countries with audio and video, etc.

The inventors do not sleep at all. They are thinking how to make up something new, how to improve their lives and the lives of the people all around the world. The Companies want to be the first to get to the new telecom eureka, to launch it on the market, to enter the homes of the customers and to stay leaders. It's not easy to run such companies that do this on a daily basis, that employ thousands of people, have millions of customers, provide endless possibilities for fun and entertainment, for information exchange and for communication -because these are companies that have a clear vision and stick to it, no matter the difficulties coming from the competition.

We are running such companies with your help, and this year we did it once again. Makedonski Telekom and T-Mobile closed 2012 among the most successful and profitable companies in Macedonia.

What we achieved?

- Leaders on the TV market: 66% growth in the IPTV segment, which resulted in 67 thousand MaxTV customers
- Increased revenues from internet and digital television by 3%
- 172 thousand DSL customers, which represents a growth of 7% compared to 2011
- The total revenues of the Makedonski Telekom and T-Mobile Group are in the amount of MKD 13.8 billion
- The net profit is in the amount of MKD 3.8 billion
- We were bravely pushing the activities during the entire year in order to reach the goal: Macedonia to be the first all-IP country in 2013

How we did it?

At the beginning of the year we set up seven focuses – the goals we wanted to achieve. When evaluating them at the end of the year – most of the targets were met and some were even overachieved. This should make us proud and motivate us for further successes.

We had a turbulent year and each and every one of us had to work harder!
In 2012 Makedonski Telekom retained its leading position with 73% market share in the fixed segment and 54% share in the broadband internet segment. The revenues from internet and digital television in 2012 increased by 3% compared to 2011.

The number of internet customers last year increased by 7% compared to the previous year of 2011, as a result of the focus on the double and triple play packages which resulted in 172 thousand DSL customers at the end of 2012. Despite the fact that the revenues from the voice services in the fixed segment decreased by 6% compared to 2011, with 296 thousand customers, Makedonski Telekom retained its leading market position in 2012.

The IP project - for all of us, it is a historic moment that made us a leader in the TV segment. In 2012, Makedonski Telekom marked excellent results in the digital television segment. Hence, last year the number of MaxTV customers increased by 66% compared to 2011, resulting in a total number of 67 thousand subscribers of the IPTV service. Makedonski Telekom became a market leader with its MaxTV service. The increase of the MaxTV customers is a result of the exclusive TV contents, high-quality service, interactivity, large number of channels suited to the needs of the different family members, as well as the unique TV experience that provides a crystal-clear picture in HD.
It should give us confidence in the future, when introducing new services on the market, that we can overcome any challenge.

If we made it with the TV we will make it with any other product.

The flow of IMS with 160 000 and the FTTH project with 8000 customers operating on it...We modernized the telecommunications infrastructure by investing more than EUR 40 million in 2012. We are proud to be the first and the best in the transformation of the fixed network at DT level. These projects are important for the modernization of our company and our services. We are leading this modernization. That is revitalizing the network and it will give us opportunities for the future... for broadband and for broadcasting services.

One more successful year is behind us, a year in which we achieved excellent results, especially in the broadband internet and the digital television segment. While others are waiting for the crisis to pass, we use the time effectively.
What differentiates us from the others is the fact that we are always ready to learn, to change and to improve.

The intense competition in the mobile telephony segment caused revenue decrease in the mobile telephony which is a result of the decrease of the customer base. Nevertheless, despite the severe price war, with 1.2 million subscribers in 2012 T-Mobile Macedonia is a leader in the mobile telephony, reaching a market share of nearly 50%.

We worked on the modernization of the mobile network during the whole year. We modernized the radio network for unparalleled quality and new services.
It gave us opportunity to bring new services on the market. We were the first on the market to offer integrated fixed and mobile services

We brought the best Apple product for 2012 – iPhone 5.

T-Mobile Macedonia increased the sale of smart phones by 80% compared to 2011. According to the data, approximately 45% of the smart phone users are also active users of mobile internet. In 2012, the number of mobile internet users increased by 130%. The expansion was caused by the company's policy to provide smart phones and mobile internet at prices affordable for every customer. 20% of the mobile internet is used by the customers on modern devices. The Macedonian customers show an increasing demand for data transfer in line with the world trends.

On the other side, the external economic events also had a big impact on our operations. The last few years, including the last one, were marked by an increase of the costs of living and by decreased consumption. Thus, although telecommunications are a dynamic and perspective industry, this sector did not remain immune to the crisis. The impact is not as big as in the other industries, but the low purchasing power of the citizens is reflected with a limited demand even of telecommunications services. In such conditions, the low price is more and more often a decisive factor when choosing the product compared to the contents of the offer and the quality of the service.

Having in mind all these external factors, MKT, as a Group, adjusted itself to the market circumstances. We strengthened the cost management and we significantly enhanced the overall company efficiency; we invested. In 2012 we made MKD 5.2 billion capital investments because we are aware that only in that way we will manage to strengthen our position of technology leaders and to gain additional competitive advantage. Thus, we managed to over-achieve the planned profit.

This was a year of great results and successes, a year in which we also moved into a new modern building which merged many areas and departments of the Companies.

The trends and habits of the customers are hard to change, whereas the competitive environment becomes more severe. Nevertheless, we must focus on the future and move forward. It is not always easy, but we have the courage to above all identify our own weaknesses and we have the capacity to face all challenges on the market. It is only in that way that we will remain where we are – on the top.

How shall we keep the leadership?

The achievement of the plan for 2012 is a factor that will motivate us in 2013, but at the same time it will constitute a solid basis for the undertaking of strategic steps by which we will be able to face the challenges. We will be prudent and we will be predicting the potential risks. We will focus on the strengthening of the segments of the operation that will ensure not only growth and development but also additional revenues that will compensate the segments in which there are actual losses.

2013 is about stabilization and growth.

The first means the core business that we are providing to the customers - the fixed telephony and the broadband – to maintain the service level and the number of customers.

Speaking about growth - we need to bring new services. We are entering new areas where the companies have not been so far.

This refers primarily to the potentials of the B2B&ICT segment or the mobile payment – we will enjoy it and the customers will do it together with us. Also, in this part we should mention the interactive contents, the interactive applications and the increased IPTV contents.

We need to innovate and to motivate the innovation by using all the available resources in order to improve our efficiency. Therefore, in 2013 we will use all the available capacities in order to strengthen all the segments of our operation. We will focus on the provision of new and attractive TV contents, we will complete the network modernisation, we will work on the extension of the optics, we will offer new B2B and ICT solutions in accordance with the world trends, and adjusted to the needs of the consumers.

We plan to continue with investments and innovations because they will help us to achieve our vision for Connected Life and Work. From the customers' aspect, we will follow the needs of the customers and we will continuously improve. Our focus for this year is to additionally encourage the use of the mobile internet and that is why we will introduce new and attractive offers and services, as well as modern devices that will provide impeccable communication in every aspect. Last but not least, in order to bring more positive changes, we need to change as well. We want to be even more focused on the customers and many of our corporate projects, such as the guiding principles and the culture-related projects, are part of this program. We believe in our success and we will aim to achieve it, together with your help, as well as with our employees, partners and customers.

Daniel Szasz, Chief Executive Officer
of Makedonski Telekom AD - Skopje

Zarko Lukovski, Chief Executive Officer
of T-Mobile Macedonia AD Skopje

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, election, 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 and Remuneration Committee
- The members of the Audit Committee and Remuneration Committee are appointed and released by the Board of Directors of Makedonski Telekom.
- The operation of these body 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 thirteen (13) are non-executive members and one is an executive member and bears the title Chief Executive Officer. 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 law and the Statute of Makedonski Telekom AD.

Members of the Board of Directors on 31.12.2012

Makedonski Telekom AD – Skopje

Oliver Kosturanov, President and Non-Executive BoD member as of 01.05.2010 until 01.05.2014

Daniel Szász, Executive BoD member and Chief Executive Officer as of 01.07.2011 until 01.07.2015

Nazim Busi, Vice President and Non-Executive BoD member as of 01.05.2010 until 01.05.2014

Christopher Mattheisen, Non-Executive BoD member as of 04.11.2009 until 04.11.2013

Robert Pataki, Non-Executive BoD member as of 01.01.2012 until 01.01.2016

Janos Szabó, Non-Executive BoD member as of 31.07.2007 and re-appointed as of 31.07.2011 until 31.07.2015

Aleksandar Stojkov, Independent BoD member as of 18.05.2011 until 18.05.2015

Susanne Krogmann, Non-Executive BoD member as of 01.04.2012 until 01.04.2016

Manojil Jakovleski, Independent BoD member as of 18.05.2011 until 18.05.2015

Thomas Panhans, Non-Executive BoD member as of 01.04.2012 until 01.04.2016

Goran Ivanovski, Non-Executive BoD member as of 29.11.2006 and re-appointed as of 29.11.2010 until 29.11.2014

Tamás Vágány, Independent BoD member as of 01.01.2011 until 01.01.2015

Miklos Vaszily, Independent BoD member as of 01.08.2010 until 01.08.2014

T-Mobile Macedonia AD Skopje

Daniel Szász, President and Non-Executive BoD member as of 01.07.2011 until 01.07.2015

Zarko Lukovski, Executive BoD member and Chief Executive Officer as of 12.12.2006 and re-appointed on 10.12.2010 until 10.12.2014

Tibor Vidos, Executive BoD member and Chief Operating Officer as of 01.10.2011 until 01.10.2015

Christopher Mattheisen, Non-Executive BoD member as of 13.10.2009 until 13.10.2013

Susanne Krogmann, Non-Executive BoD member as of 01.04.2012 until 01.04.2016

Robert Pataki, Non-Executive BoD member as of 01.01.2012 until 01.01.2016

Janos Szabó, Non-Executive BoD member as of 01.01.2010 until 01.01.2014

Nebojsa Stajkovic, Non-Executive BoD member as of 14.12.2009 until 14.12.2013

Irena Miseva, Non-Executive BoD member as of 12.12.2006 and re-appointed as of 10.12.2010 until 10.12.2014

Ivanco Vucevski, Non-Executive BoD member as of 09.03.2011 until 09.03.2015

Thomas Panhans, Independent BoD member as of 01.04.2012 until 01.04.2016

Tamás Vágány, Independent BoD member as of 01.01.2011 until 01.01.2015

Vladimir Zdravev, Independent BoD member as of 13.12.2010 until 13.12.2014

Gzim Ostreni, Non-Executive BoD member as of 16.09.2008 and re-appointed as of 17.09.2012 until 17.09.2016

Members of the BoD of Makedonski Telekom AD – Skopje, who have resigned / have been released during 2012:

1. Klaus Nitschke, Non-Executive BoD member, with a mandate by 31.03.2012 inclusive
2. Guenter Mossal, Non-Executive BoD member, with a mandate by 31.03.2012 inclusive
3. Boris Stavrov, Non-Executive BoD member, with a mandate by 04.12.2012 inclusive

Members of the BoD of T-Mobile Macedonia during 2012, who have resigned / have been released:

1. Klaus Nitschke, Non-Executive BoD member, with a mandate by 31.03.2012 inclusive
2. Guenter Mossal, Independent BoD member, with a mandate by 31.03.2012 inclusive

FROM LEFT TO RIGHT:
ROBERT PATAKI, SUSANNE KROGMANN , NAZIM BUSI, MANOJIL JAKOVLESKI , DANIEL SZÁSZ , CHRISTOPHER MATTHEISEN, JANOS SZABÓ, OLIVER KOSTURANOV, ALEKSANDAR STOJKOV

BOARD OF DIRECTORS OF MAKEDONSKI TELEKOM AD – SKOPJE

MEMBERS OF THE BOARD OF DIRECTORS OF MAKEDONSKI TELEKOM ON 31.12.2012

FROM LEFT TO RIGHT:
VLADIMIR ZDRAVEV, ROBERT PATAKI , SUSANNE KROGMANN , DANIEL SZÁSZ,
IRENA MISEVA, CHRISTOPHER MATTHEISEN , TIBOR VIDOS, JANOS SZABÓ,
ZARKO LUKOVSKI, NEBOJSA STAJKOVIC, GZIM OSTRENI

BOARD OF DIRECTORS OF T-MOBILE MACEDONIA AD SKOPJE

MEMBERS OF THE BOARD OF DIRECTORS OF T-MOBILE MACEDONIA ON 31.12.2012

MARKET – REGULATION AND PRICING

Macedonian law concerning electronic communications (Law on Electronic Communications - "LEC") was enacted on 5 March 2005. Thus, by means of certain transitional provisions, the country's telecommunication regulations were harmonized with the European Union ("EU") regulatory framework. Furthermore, a number of strict obligations for the existing operators were stipulated.

On 29 June 2011 MKT was designated as Universal service ("US") providers. MKT was designated as US provider for fixed telephone services, public payphones and equivalent access for disabled end users. MKT based on US designation was obliged to start providing the services from 1January 2012 and to do so for the next five years.

The amendments of the LEC published in the Official Gazette of RoM No.13/2012 on 27 January 2012 comprised the following: obligation for presentation Calling Line Identification Presentation ("CLIP") and location data for emergency call, obligation for free of charge SMS for promotion of cultural heritage of Republic of Macedonia, discretion right of the Agency for Electronic Communications ("the Agency") to impose accounting separation obligation to certain operators with Significant Market Power ("SMP"), creation of electronic register for the telecommunication terminal equipment for mobile communication services by the Agency, control and measurement of the quality parameters of the public communications services by the Agency which should be in line with the recommendations and standards of the EU and fostering the IP exchange development. Also annual fees to the Agency should be in line with the Agency's annual budget.

The amendments of LEC published in the Official Gazette of RoM No.59/2012 on 11 May 2012 introduced auctioning procedure for assignment of radiofrequencies. The amendments of LEC published in the Official Gazette of RoM No.123/2012 on 2 October 2012 imposed obligation to mobile operators for free of charge transmission of SMS messages of the Ministry of Education and Science's project E-School Diary. On 5 April 2012 the Agency published the general Regulatory strategy for the period of the next 5 years (2012-2016). The official document is "Five years regulatory strategy of AEC". Main focuses of the strategy are: fostering of wholesale and retail services regulation, introduction of methodology of pure Long Run Incremental Costs ("LRIC") for fixed and mobile voice services, SMS, etc, Next Generation Access ("NGA") and Fibre To The Home ("FTTH") regulation in line with NGA recommendation and refarming and frequency allocation for 4G services.

In December 2012, the Agency has announced starting of the new round market analysis on wholesale markets: 4-Call origination, 5- Call termination and 6- Call transit services in public telephone networks on fix location. Final document is expected to be published in the first quarter of 2013.

REGULATION OF FIXED LINE BUSINESS

In line with the new notification procedure introduced by the Agency in November 2009 and the obligation for re-notification of the entities, until 31 December 2012 the Agency had registered 45 providers of public fixed telephone services. Under the LEC, MKT has been designated as a SMP operator on the market of fixed line voice telephone networks and services, including the market of access to the networks for data transmission and leased lines. MKT as an 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.

According to current by-laws, MKT has an obligation to publish reference offers for the wholesale products for interconnection, Unbundling Local Loop ("ULL"), local Bit-stream Access ("BSA"), Wholesale Line Rental ("WLR") and wholesale leased lines. Furthermore, a new Rulebook on access and use of specific network assets was published by the Agency on 7 December 2010, by which an obligation was imposed on MKT to offer access to ducts and dark fibre. Initial Fibre to the "x" ("FTTx") regulation was introduced in the second quarter of 2011 with the obligation for Referent Access Offer ("RAO") for ducts and dark fibre imposed on MKT by the Agency. The approved reference offer was published on 5 December 2011and is fully in line with the introduced Rulebook for specific network access and elements and applicable as of 1 January 2012.

In 2012 most of the existing Rulebooks were implemented or amended by the Agency for Electronic Communications : retail price regulation; technical, usage and other conditions for relevant types of electronic communication networks and infrastructure, associate infrastructure capacities and facilities; determination of calculation method for number usage and annual fees; assignment of numbers and series of numbers from the numbering plan; general terms and conditions; cultural SMS; educations (school info) SMS; “underground cabling”; Local Bit-stream access; wholesale leased lines; minimal set of leased lines.

In August 2012 the Agency published draft results from its own developed LRIC Bottom-up costing model for Local Bit-stream (cost based) and for retail and wholesale Leased Lines, ducts and dark fiber and minimal set of leased lines (cost based). As a result, the Agency brought a decision for decrease of fees and approved the changed Reference offer for provision of physical access and usage of electronic communication infrastructure and associated facilities (ducts and dark fibre). New fees will be implemented from 1 February 2013.

The Reference offers for Wholesale digital leased lines (“WS DLL”), Local Bit-stream access and Minimal set of leased lines were also approved by the Agency and new changed methodologies of calculation of prices (length dependent) were implemented. WS DLL and Local Bit-stream access fees are decreased from 1 December 2012 and fees for minimal set of leased lines from 1 January 2013.

The latest changes in the Referent Unbundled Offer (“RUO”) were published on 10 April 2012 in which Local Loop Unbundling fees were reduced and again on 25 September 2012 in line with the decrease of cost for provisioning LLU and cancelation of unnecessary test for LLU. In September 2011 new Number Portability (“NP”) procedures were applied for all operators in Macedonia. The entire exchange of the data on NP between the operators is implemented through the central database (“CDB”) with shorter deadlines for porting - two days in fixed network and one day in mobile network. As of 1 September 2011 MKT and TMMK introduced beep signal which informs the customers that their call is toward ported number. The signal is unified for all operators.

Based on the new amended changes in ECL from 27 January 2012 not all SMP operators are obliged to keep separate accounting records for their wholesale and retail activities.

REGULATED RETAIL PRICES

The Agency started process for development and implementation of the methodology for retail price regulation. Applied methodology shall be price squeeze. For that purpose, the Agency has engaged Analysis Mason as consultants to develop methodology for price squeeze testing.

With amendments of the Rulebook for retail regulation, the Agency specified the manner and procedure for regulation of the retail prices for fixed voice telephone networks and services of the operator with significant market power on relevant retail markets. Ex-ante retail regulation is based on price squeeze methodology. These activities have resulted in price decrease of some wholesale and retail services of MKT. On retail side, standard monthly subscription for business customers was decreased (on equal level with residential one). On wholesale side there were changes in fees for interconnection (termination and origination), Unbundled Local Loop, Bit-stream access and wholesale line rental.

The Agency publicly announced the Final Document for implementation of LRIC Bottom-up model for regulated retail process for Minimal set of leased lines. The Minimal set is linked to the Wholesale Leased lines new monthly fees according LRIC Bottom-up model with additional mark up from 11 to 20%.

Retail ADSL service on standalone basis (so called Naked DSL) was launched in November 2011.

Regarding the individual pricing offers, especially tenders, both for fixed and mobile telephony, MKT and TMMK are faced with a constant pressure from the competitors which are in position to offer lower prices usually below costs in order to increase their customer base as a result of under regulation.

REGULATED WHOLESALE PRICES

MKT has a cost based price obligation for the Regulated wholesale services, using LRIC. The results from the Bottom - up LRIC costing model are implemented as of 1 April 2011 which resulted in reduction of the monthly fee for ULL and interconnection rates (for origination, termination and transit), as well as reduction of the monthly fees for interconnection links and collocation. On 21 November 2011 MKT published its Referent Interconnection Offer ("RIO") changes in line with the Agency decision for LRIC based monthly fees for leasing of physical collocation and virtual collocation. The Agency also approved new monthly fees for managing, maintenance and support of signalling link and administration and maintenance of interconnection agreements. RIO changes are applicable from 1 December 2011 for all Interconnection Partners.

As of 1 November 2011 MKT stopped offering PSTN and ISDN services for its customers as well as for its Wholesale Partners and all newly committed services are based on Internet Protocol ("IP") technology. In line with the PSTN migration of MKT network, the Agency approved proposed modifications of MKT WLR Reference Offer and BSA Offer applicable as of 1 January 2012. The IP MATERIO (Internet Protocol Reference Interconnection offer of MKT) is in phase of preparation and submission to the Agency, in advance to the process of introduction of IP Interconnection. Other fixed operators are ready for IP Interconnection, mobile operators cause certain delay in introduction of IP Interconnection with mobile network.

Along with the retail price repositioning of bundle packages, in May 2012, the monthly fees for ULL decreased to MKD 210.

On 5 December 2011 MKT published its amended BSA offer. The terminology of all services in the offer is harmonised with MKT retail terminology and PSTN migration of MKT network. In line with this a possibility for migration towards other BSA levels or Standalone BSA was introduced. All wholesale customers are obliged to have Integrated Access Device ("IAD") due to the fact that all MKT services will be IP based. Amended offer is applied from 1 January 2012.

On the public meeting held on 14 October 2011 the Agency presented detailed plan for Bottom - up LRIC model developed by consultants which is expected to result in changes of BSA pricing models and will modify service description.

On 29 December 2011, the Agency published inception report for development of a Bottom - up LRIC Model for Bit-stream Services. By the end of January 2012 MKT submitted to the Agency all data requested in details for development of a Bottom - up LRIC Model for Bit-stream Services.

In October 2012 the Agency publicly announced the Final Documents for implementation of Bottom - up LRIC modelled regulated wholesale services, as of:

- Wholesale Leased lines (terminating and backbone parts)
- Bit- stream Access (level 2, 3 and 4)
- Specific network elements ducts and dark fibre.

The new prices are based on costs as described in the Bottom - up LRIC model, the impact is lower monthly fees (cost based) than previously set. The monthly fees from Level 4 of Bit-stream access retain at retail minus approach as resale offer.

REGULATION OF MOBILE BUSINESS

The retail services provided by the mobile network operators in Macedonia are currently not subject to price regulation. Since 2007, TMMK and ONE have been designated with an SMP status on the market for voice call termination services in mobile communication networks, whereby several obligations were imposed on them, such as: interconnection and access, non-discrimination in interconnection and access, accounting separation and price control and cost accounting.

TMMK's first RIO was approved by the Agency in July 2008. Based on the second round analysis of call termination services in public mobile communication networks on 30 July 2010, TMMK received a Decision for changing the RIO by which the Mobile Termination Rate ("MTR") was defined with a glide path decrease in a timeframe of four years (until 2013). In September 2011, the price for the national MTR was decreased to 3.1 MKD/min. and was planned to continue decreasing by 0.1 MKD/min. each year down to 2.9 MKD/min. by September 2013. At the same time, the Agency regulated the MTRs for ONE and VIP (VIP was designated with SMP on this market in the second round analysis) with a four year glide path.

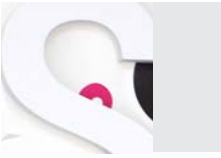
In May 2012, the Agency made a revision of the calculation of MTR of all three mobile operators and imposed new glide path. As from 1 June 2012 until 31 August 2013, TMMK's MTR were set at 3.0 MKD/min., while ONE and VIP Operator's MTR were set at 4.0 MKD/min. MTR symmetry to 1.2 MKD/min. calculated using Bottom-up LRIC+ will be applied from 1 September 2013, and a further decrease to 0.9 MKD/min. calculated using Bottom-up pure LRIC will be applied from 1 September 2014.

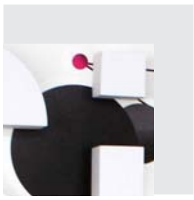
In July 2010, the Agency concluded market analysis of the market for access and call origination service in public mobile communication networks and brought a decision by which TMMK was designated with SMP status on this market. As a result of the SMP designation, TMMK was obliged to prepare and publish RAO (Referent Access Offer). TMMK's RAO was approved by the Agency on 27 November 2010.

According to the information from the Agency published on 11 November 2010 and the analyses of the access and call origination market, a virtual mobile operator was announced with the assignment of 100,000 numbers to WTI Macedonia for the provision of services.

ONE won the first tender for 3G radiofrequencies published by the Agency in November 2007 and started 3G commercial operations on 12 August 2008. TMMK won a license for 3G radiofrequencies on the second tender published by the Agency in September 2008 and started 3G commercial operations on 11 June 2009.

On 6 June 2009, TMMK acquired a 2G license in 1800 MHz band, on a public tender published by the Agency on 10 January 2009, thus obtaining additional spectrum for 2G services.
In March 2011, the Agency concluded a market analysis of the market of SMS termination ser-





vices, and in May 2011 all three mobile operators TMMK ONE and VIP, were designated with SMP status on the SMS termination market. In June 2011 all three mobile operators submitted draft RIOs (Referent Interconnection Offers) with the SMS termination service included, and in July 2011 the RIOs were approved by the Agency.

In October 2011, the Agency announced a public call for submission of requests for acquiring a radiofrequency license for mobile services in 790 – 862 MHz as well as in the 1800 MHz. In accordance with the national radiofrequency assignment plan, the 790 – 862 MHz shall be used for Long Term Evolution (“LTE”), and the Global System for Mobile Communications (“GSM”) frequency bands at 900 MHz and 1800 MHz may be used for Universal Mobile Telecommunications System (“UMTS”) (3G) technology.

Based on the received requests by interested parties, in August 2012, a Public Tender with Public Auction for one radiofrequency license of 2 x 10 MHz in 790 - 862 MHz band (LTE) for public mobile services was published. Since the minimum number of two interested operators for the auction to take place was not met, in September 2012 the tender was re-opened under a procedure without public auction. The due date for submission of bids was 24 October 2012. The tender was unsuccessful because no existing or new operator submitted a bid.
Also based on the received requests by interested parties, in July 2012, a Public Tender for radiofrequencies of 2 x 10 MHz at 1800 MHz (GSM, DCS and IMT-2000/UMTS) for public mobile services was published and concluded in September 2012. VIP Operator won the license.

Approximately at the same time, VIP Operator acquired modification of the existing licences for mobile services at 900 MHz and 1800 MHz allowing implementation of UMTS in these bands.
In October 2012, TMMK acquired modification of the existing radiofrequency licences for mobile services at 900 MHz and 1800 MHz allowing implementation of UMTS in these bands.

In October 2012, Agency requested changes of subsidiary’s RIO in direction of allowing termination of transited traffic into subsidiary network. This Agency intervention was made in the RIOs of all operators in order to enable wider space for transit of traffic.

MACEDONIA AND THE EUROPEAN UNION

The Republic of Macedonia signed the Stabilization and Association Agreement with the EU and its Member States on 9 April 2001. The Macedonian Parliament ratified the Agreement on 12 April 2001, reaffirming the strategic interest and the political commitment to the integration with the EU. The Stabilization and Association Agreement was ratified and it has been in force since 1 April 2004.
On 17 December 2005, the EU decided to grant the Republic of Macedonia an EU candidate status.
Following the candidate status, the EU must set a date for the start of the negotiations regarding the full accession, encompassing all aspects of the EU membership, including trade, environment, competition and health. Macedonia, as a candidate country, should harmonize its legislation with the EU.

On 14 October 2009, the European Commission issued the 2009 Progress Report. Macedonia received a recommendation from the European Commission for the opening of the accession negotiations. The country made significant progress and substantially addressed the key reform priorities, known as eight plus one benchmarks. Based on the Progress Report issued in October 2012, Progress can be reported on the information society and media, notably in the area of electronic communications and information society services. In the case of audiovisual policy, the activities of the Broadcasting Council increased, but a non-discriminatory approach needs to be ensured. Adoption of a media law in line with EU acquis remains a priority. The country partly meets its priorities in the area of the information society and media. Overall, preparations in this area are moderately advanced.

COMPETITION

The competition in the telecommunications business is well-developed in almost all segments. Several main players shape the telecommunications market in Macedonia.

Telekom Slovenia is offering various services under the brand name ONE: mobile and fixed voice, mobile and fixed broadband internet and TV. In May 2012 ONE launched prepaid mobile offer followed with an aggressive marketing campaign and significantly increased their customer base, as well as market share to 23.3% (source: Report for electronic communication development Q3 2012, the Agency). In the fixed segment ONE offered low price triple play bundles (fix voice/internet/TV). However, the number of their TV customers declined to 37,862 in Q3 2012 compared to 49,003 in Q3 2011(source: Report for electronic communication development Q3 2012, the Agency).

Other major competitor is the mobile operator VIP which has limited its services to mobile based services only. With an aggressive pricing policy, which continued in 2012 as well, they have achieved a significant market share of 27.2% (source: Report for electronic communication development Q3 2012, the Agency). VIP purchased 3G licence in August 2012, and added 3G services to their portfolio, which enables them to be more competitive on the mobile Internet market.

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. Telekabel and Blizoo are the biggest cable providers among over 70 active cable operators. Blizoo offers Hybrid Fibre Coaxial ("HFC") services – optic near your home with very high data rate for internet services and digital television. With aggressive marketing approach and low pricing schemes and discounts, currently Blizoo has positioned itself on the market as an operator with very attractive service portfolio and has reached significant market growth.
The product portfolio of all operators is driven by bundle products. 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 cable operators are charging very low access fee or presenting the fixed voice service as free of charge and including also free traffic in their own network bundled in the offer. 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 in terms of prices. The trend of NP increased in 2012, for both mobile and fixed numbers. By the end of 2012 there were 102,095 fixed ported numbers and 90,109 mobile ported numbers in total (source: The Agency official web site).

With all the main telecommunication services of MKT and TMMK, such as providing different bundle offers – a combination of different services, MKT and TMMK still have the biggest market share. As at 31 December 2012 MKT has fixed voice market share (including wholesale) of 72.8%, fixed broadband internet market share (including wholesale) of 54% and TV market share of 17% (source: internal best expert estimates). In the third quarter of 2012 the market share of TMMK was 49.5% (source: Report for electronic communication development in the third quarter of 2012, the Agency). The Agency uses the market share calculation method based on the total number of active SIM cards which were used in the previous three months.

MANAGEMENT COMMITTEE OF MAKEDONSKI TELEKOM AD – SKOPJE AND T-MOBILE MACEDONIA AD SKOPJE

FROM LEFT TO RIGHT:
MATHIAS HANEL, EFTIM BETINSKI, TIBOR VIDOSH, DANIEL SZASZ, ZARKO LUKOVSKI, SLAVKO PROJKOSKI, THORSTEN ALBERS, MIROSLAV JOVANOVIK, OGNEN FIRFOV

MANAGEMENT COMMITTEE OF Makedonski Telekom AD – Skopje and T-Mobile Macedonia AD Skopje

ZARKO LUKOVSKI, CHIEF EXECUTIVE OFFICER OF T-MOBILE MACEDONIA

Mr. Lukovski possesses an extensive experience in the sphere of computer science and telecommunications integration. His know-how also derives from his work on the International and the Macedonian market.
He had an active role in the many project that make active role in determination today's ICT Industry. Mr. Lukovski is a graduate electrical engineer with a great experience in the IT and Telecommunications industry and was leading several relevant Companies in the field of IT. For a long period, he has worked with various world brands, wherein he acquired an extensive international expertise. He was appointed as a member of the Board of the Directors of Makedonski Telekom AD - Skopje in November 2006 as President of the Board of Directors. Mr. Zarko Lukovski held the position of Chief Operating Officer at T-Mobile Macedonia from September 2007 until 1 April 2010.

SLAVKO PROJKOSKI, CHIEF FINANCIAL OFFICER OF MAKEDONSKI TELEKOM AND T-MOBILE MACEDONIA

Mr. Projkoski started his career in Makedonski Telekom in 1995, where he was appointed to several managerial positions mainly in the finance area, Executive Director of the Controlling Area and later on as Chief Financial Director. Due to the performance demonstrated in the course of his career in Makedonski Telekom, he was appointed to the position of Chief Financial Officer on 1 October 2007. He holds a BSc degree in electrical engineering and
has an extensive experience in the telecommunications industry. As of 15 March 2010, he has held the position of Chief Financial Officer of Makedonski Telekom and T-Mobile Macedonia.

DANIEL SZASZ – CHIEF EXECUTIVE OFFCIER OF MAKEDONSKI TELEKOM AD – SKOPJE AND PRESIDENT OF T-MOBILE MACEDONIA BOD

He came at the position of the Chief Executive Officer of Makedonski Telekom and President of the Board of Directors of T-Mobile Macedonia on July 1, 2011. He started his career at General Motors Group, having various managerial and finance leadership positions at the Opel companies in Hungary and Germany. He was appointed as the Chief Financial Officer of T-Online Hungary Plc. in January, 2004. During this period he obtained a rich professional expertise in the telecommunications market and company governance. In 2007 he became Chairman of the Board of Directors and the Management Committee of Crnogorski Telekom and later he was appointed as Chief Executive Officer as well. He acted as Chairman of the Montenegrin Foreign Investors' Council and the Vice- Chairman of the Montenegrin-Hungarian Business Council.

TIBOR VIDOS – CHIEF OPERATING OFFICER OF T-MOBILE MACEDONIA AND CHIEF DIRECTOR OF KEY ISSUES AT MAKEDONSKI TELEKOM AD - SKOPJE

He is the Chief Director of Key Issues of Makedonski Telekom with a mandate as of 6 September 2012 at the same time, he is an Executive Member of the Board of Directors of T-Mobile, in the function of the Chief Operating Officer of T-Mobile, appointed on 1 October, 2011. Tibor Vidos has an extensive professional experience in several international corporations. In the course of his rich career, he has managed corporate communications, government relations, as well as regulatory activities of several companies among which Invitel Telecommunication, Hungary's second largest fixed line telephony company. In Crnogorski Telekom, where he was professionally engaged for more than five years, he was in charge of the Regulatory and Legal Area and he was a member of the Management Committee of the incumbent fixed line and mobile operator in Montenegro.

MATHIAS HANEL, CHIEF MARKETING OFFICER OF MAKEDONSKI TELEKOM AND T-MOBILE MACEDONIA

Mr. Hanel has spent his entire career in the telecoms industry in various marketing and sales related positions in several countries in Europe and Asia. He joined Makedonski Telekom as Chief Marketing and Sales Director on 15 August, wherein as of 1 October 2008 he assumed the position of the Chief Marketing Officer. On 15 March 2010 he was
appointed to the position of Chief Marketing Officer of Makedonski Telekom and T-Mobile Macedonia. Mr. Hanel holds a degree in Business Administration obtained in England and Germany. Since 1997 he has been part of the Deutsche Telekom Group and held several managerial positions in T-Mobile Germany and T-Mobile International in Bonn and London.

THORSTEN ALBERS, CHIEF TECHNICAL OFFICER OF MAKEDONSKI TELEKOM AND T-MOBILE MACEDONIA

Thorsten Albers joined Makedonski Telekom on 1 October 2008 as the Chief Technical Officer and on 15 October 2011, he was appointed as Chief Technical officer of T-Mobile Macedonia. He holds a degree in electrical engineering, specialized in communication and information technology, as well as various Cisco and Nortel/Bay certificates in the relevant areas. Mr. Albers gained his professional experience and expertise while holding various positions in the technical area in Germany and Hungary. Since 2003, he has been a part of Magyar Telekom, responsible for the coordination of projects under the competence of the Chief Technical Officer at the level of Deutsche Telekom.

GABOR ALTMANN, CHIEF SALES OFFICER OF MAKEDONSKI TELEKOM AND T-MOBILE MACEDONIA

Mr. Altmann holds a Ph.D. degree in computer science and has an MBA degree in the field of International Management from the eminent Case Western Reserve University in Cleveland, USA. His professional growth started at the Research Institute for Telecommunications in Budapest, and continued at Schrack Telecom in Austria, C.E.R.M.P. (Centre European de la Resource de Mode Protégé) in France, Ericsson in Budapest, Makedonski Telekom, Magyar Telekom as a Deputy Director for Business, Strategy and Marketing in T-Systems. His long experience in the area of marketing and sales yields a basis for facing the challenge of increasing the market share, but most of all, increasing the customer satisfaction of the retained customers. Gabor Altmann came to the position of Chief Marketing and Sales Officer of T-Mobile in August 2008 and on 15 March 2010 he was appointed to the position of Chief Sales Officer of Makedonski Telekom and T-Mobile Macedonia, with a mandate by 31December 2012.

OGNEN FIRFOV, CHIEF SALES DIRECTOR OF MAKEDONSKI TELEKOM

He is the Chief Sales Director of Makedonski Telekom, a position to which he was appointed on 1 October 2008, when he became a member of the Management Team.
Mr. Firfov holds a BSc degree in electrical engineering, MSc in computer sciences from the Ss. Cyril and Methodius University and an MBA in marketing from the Sheffield University. Prior to assuming the position of Chief Sales Director, he held the position of Sales Executive Director in Makedonski Telekom. He has extensive professional experience within Makedonski Telekom, acquired at many different managerial positions. During many years of work in the telecommunications area, he has demonstrated exceptional results in many important and large projects.

BRANKA PAVOSHEVIC, CHIEF HUMAN RESOURCES OFFICER OF MAKEDONSKI TELEKOM AND T-MOBILE MACEDONIA

Branka Pavoshevic is the Chief Human Resources Officer of Makedonski Telekom and T-Mobile Macedonia. As of 1 June 2009, Ms. Branka Pavoshevic assumed the position of the Chief Human Resources Officer in Makedonski Telekom and on 15 March 2010 she was appointed to the position Chief Human Resources Officer of Makedonski Telekom and T-Mobile Macedonia, with a mandate until 24 December 2012. Ms. Pavoshevic is an organization engineer and holds a Master's Degree in economy. She has acquired her rich professional experience at several managerial positions in the sphere of human resources in Croatia and Central and Eastern Europe. Her professional efforts were dedicated to human resources strategy development and management and overall human resources organization. Ms. Pavoshevic came to the position of Chief Human Resources Officer in Makedonski Telekom from the Jupiter Adria Group from Croatia.

MIROSLAV JOVANOVIK, CHIEF IT OFFICER OF MAKEDONSKI TELEKOM AND T-MOBILE MACEDONIA

Mr. Jovanovic is an expert in the sphere of information technologies with an engineer's degree in computer science and IT. In the course of his engagement at various managerial positions both in Macedonia and in Serbia, he was dedicated to the IT management and implementation of large ICT systems in the public sector, while in the position of Chief Informatics Director at the Ministry of Finance he was meritorious for the successful implementation of several projects, including also the e-budget project. Prior to his appointment as the Chief Technical Director of Makedonski Telekom in April 2009, Mr. Jovanovic worked as a Key Long-Term Issues Expert - Financial Management Information Systems in Serbia, an EU project. He was appointed to the position of Chief IT Officer of T-Mobile Macedonia on 15 March 2010 and as Chief IT Officer of Makedonski Telekom on 15 October, 2011.

EFTIM BETINSKI, CHIEF NETWORK DEVELOPMENT DIRECTOR OF MAKEDONSKI TELEKOM AND T-MOBILE MACEDONIA

He began his career as an operations and maintenance engineer in 1991, and made headway to the position of Chief Technical Officer of T-Mobile in 2001 until 15 October 2011 when he was appointed as Chief Director for Network development. His rich carrier in the telecommunications industry is highlighted with the main introduction of the first digital switch in the country (EWSD), as well as the GSM/UMTS networks. In the course of his work within the Company he has established and developed several departments and innovative and unique technologies. Some of them are the MSC blade servers, the data speed of 42 Mb/s in the modernized radio network with multi standard radio capabilities, in-house departments for development and optimization of radio network, etc. Also in the period of 2011/2012 he become responsible for development of fix access network where he achieve best ever numbers of FTTH. Mr. Betinski is a telecommunications engineer and he obtained his degree at the Moscow Telecommunications University in 1990.

STRATEGY FOR THE PERIOD 2012-2015 "CHANGE-INNOVATE-TEAM"

The strategy of the Makedonski Telekom Group for the period 2012-2015 is created in a manner so as to provide a comprehensive state-of–the-art performance, thus ensuring the companies' leading position on the Macedonian market and also acknowledging our superiority as providers of telecommunications services.

One team – one goal

CHANGE

We stand for change in terms of actually changing the market shape, while introducing the latest and revolutionary trends in our business and serving our customers with the best-in-class portfolio that will engender an amazingly new and delightful experience for them.
The changes first need to start from ourselves - we should change our work habits and become more dynamic. Changes should be made in order to ensure better fulfilment of the customer needs. Our customers are our greatest value. They are changing and demand better services. Therefore, we need to constantly change, be creative and always innovate.

INNOVATE

We will innovate in new businesses and new solutions. We will innovate in "Connected life and work". We will grow in the IPTV segment with innovative products and applications, as well as with innovative content. Innovations are in our essence. We will extend the business with innovations in e-payment, but also in some other new areas such as e-Health, e-Governance, e-Energy, e-Car... We have already started working on these issues, and we are expecting more during the next years. These ambitious plans require extra efforts and extra staff.

TEAM

As a team, we need to be quick and modern from inside and deliver quick and modern services for the customers. And this is where we should start the change – inside the Team. Implementing a new organizational culture is one of our challenges. Therefore, each and every one of us should think, act and measure the success in the same way and according to the same criteria. That will show our focus on the same goals, our synchronized behaviour inside and outside the working environment and setting up equal highest standards that we can accept as relevant for us as part of the MKT Group.

WE WANT TO CONTRIBUTE TO THE IMPROVEMENT OF THE QUALITY OF LIFE OF OUR CUSTOMERS AND THE CITIZENS OF THE ROM BY DEVELOPING OUR INDUSTRY AND OFFERING UNIQUE SERVICES.

SMART COMPANIES SEEK FOR INNOVATIVE IDEAS & SOLUTIONS

The Macedonian Telco Market, influenced by the global trends, is moving to a much broader and interactive communications market encompassing voice, data, broadband Internet and TV services. Significant investments into new technologies will be made in order to ensure a sustainable future for the Company, supporting also the technological advancement of Macedonia. These measures will also secure continuous good long-term financial results for the shareholders.

Strategy overview

Makedonski Telekom is facing serious challenges in the saturated telecommunications business and strong competitive market from one side, at the same time aspiring to remain the market leadership and to put the company's future operation at a sustainable level. Our main strategic focuses on the way to achieve being customers' first choice for connected life and work are:

- Fix the Core Business - Stabilize the revenues and shift the focus to broadband & mobile; conduct a lean cost take-out;
- Transformation - Drive into a fully integrated company, change the company's culture and enable open approach.
- Business Extension - Shift the value to non-core and new revenue streams; enable innovation through cooperation.

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 streaming services. The further roll-out of mobile broadband technology, the improvement of the customer management and billing processes and the investment in value added services are planned to ensure market competitiveness.

At the beginning of 2012 we have set up our goals, our focuses and a clear strategy path for achieving the Company targets.

Overall Strategy Implementation Project Objectives:

- Active Contribution to achieve the iPF targets;
- Sustain the customer base, the revenues and the market position as No.1 operator and a Macedonian market leader in connected life & work;
- Develop convergent and intelligent solutions and attractive content via all devices and develop new businesses and new revenue streams;
- Strengthen the contribution of Makedonski Telekom in the DT's EU portfolio.

Project contribution:

- Filling in of the potential gaps in iPF 2011-2015 and faster utilization of synergies;
- Faster identification of the potentials for further revenue growth aimed at changing the revenue mix and assuring long-term revenue flattening;
- Streamline all the initiatives in a most effective way:
- Reduce complexity;
- Improve transparency & monitoring;
- Motivating innovativeness;
- Maximizing the results with optimization of the resources.

Implementation:

- The strategy implementation process considered all the aspects for future company development, in the frame of the DT and MT group.
- The implementation of the Strategy included all the initiatives in one joint strategic project - OSIP.
- The top-down targets of the project sustained the revenue results and opened the gate for further growth.
- The management was prepared and committed for accepting the challenges and for further execution and implementation of the overall strategy implementation project.

DURING THE 2012, THE YEAR OF HUGE COUNTRY ECONOMIC CHANGES, CHALLENGES AND BUSINESS AMBITIONS, WE SET UP SEVEN FOCUSES FOR ACHIEVING THE COMPANY TARGETS

Re-defining the business basics:
- We redefined the portfolio of fixed and mobile services
- We became leaders on the TV services market with MaxTV
- We introduced new attractive offers in the mobile telephony
- We brought the best Apple product for 2012 – iPhone

Integration of fix and mobile services:
- We were the first on the market to offer integrated fixed and mobile services
- We reached the target in the integrated services for the residential customers segment

Internet for everybody
- We provided ultra-fast internet access of 42 Mb/s
- We have significantly over-achieved the projected number of broadband internet and mobile internet users
- We generated excellent revenues in the business segment
- We improved the quality and the access to the services for the business customers

Growth of B2B/ ICT
- We enriched our ICT portfolio

Optimization of technologies
- We were first and the best in the transformation of the fixed network
- Almost 70% of the customer base was migrated to the All-IP networks and services
- We have over 80.000 passed homes and over 12.000 connected users to FTTH
- We modernized the radio network for unmatched quality and new services

Improving of efficiency
- We strengthened the cost management
- We significantly strengthened the entire company efficiency
- We over-achieved the planned income

Customer oriented culture
- We achieved the first visible results from the Corporate Culture project
- The customer remains the main focus of our operation

AND WE MANAGED TO ACHIEVE THIS... WITH LOTS OF WORK, TOP COMMUNICATION AND INNOVATIVE SERVICES

INNOVATION PARTNER COMPETITION

Our idea of tomorrow

Tomorrow is always how we want it to be. Continuously striving for better tomorrow, we always engage our efforts in order to find out how communications can improve the future. In which way can communications improve everyday life and shared experiences among people and businesses? in 2012, Makedonski Telekom and T-Mobile Macedonia launched an Innovation Partner Competition in order to open the innovation doors and invite all the creative and innovative individuals, businesses and start-ups to jointly build better future through advanced connected life and work. Innovation Partner Competition aims to gradually make this vision more of a reality. In this competition, everybody can contribute towards this vision with their idea and create both personal benefit and reputation.

The purpose of the competition is to elaborate new ideas and concepts which can be used within interactive media applications, applications and services for the e-government, social networks and mobility. The focus is on the new forms of interactivity and digital entertainment, as well as on the communications and services for improving the triviality.

“We believe that there are creative people in Macedonia whose ideas can be emphasized and which can contribute both to the promotion of Macedonia and in the making of better tomorrow for all Macedonian citizens. Only together and by joining all social subjects can we create something good for all of us. Therefore, we decided to unite the business sector, the citizens, the Government of the Republic of Macedonia and the non-governmental sector in our action.”

THE EMPLOYEES ARE THE STEWARDS OF THE COMPANY

WE PROVIDE CLEAR PATHS FOR PROGRESS AND GROWTH, BUSINESS AND PERSONAL, WE GENERATE VIABLE OPPORTUNITIES.

Its up to all of us!

The opportunities come from our people and they are taken and realized by them. They are each little sound of the Company's hearth.
They create the network of partners and customers by getting the support they need from the Company every day. They need to be inspired and motivated, they need to feel that somebody is taking care of them and giving them possibilities that provide them the lead.
The Company stands behind its employees and creates a culture of openness and trust, an area where the employee can feel as an important part of the complete chain which leads towards the final success. We nurture a cross-functional, collaborative culture within the Company. We engage the employees in intellectual debates and together we solve problems with an open dialogue about the company and its future.

The employees are the stewards of the Company.
There are good times but there are difficult times as well and our employees are pretty much aware of this. That is why we foster an open communication and an environment where people are expected to tell their opinion.

THE EMPLOYEES JUSTIFY THE COMPANY'S NAME "NUMBER 1" IN THE COUNTRY EACH DAY!

CORPORATE CULTURE PROJECT
2012 was a successful year for advancing our corporate culture. We have worked a lot in order to merge the cultures of two companies under one.

DEFINING FEEDBACK CULTURE MAIN FOCUS IN 2012
Employee engagement and business success benefit from a culture of feedback at the workplace. A company with a strong culture is not only good for the employees, but it also has a direct impact on the company's results. This is the belief which served as the basis of our key internal focuses in 2012:
1. Defining a new Corporate Culture that will unite us as one strong team, and
2. Pursuing the motto set up for 2012 One team – one goal.

It is as equally important to work on the spreading a CULTUREthat will unite us in pursuing the same goal for the benefit of the company and within the DT family. To that end, we remained consistent with the DT Group performance as well as communication but adding local flavor to running all projects.

"IT'S UP TO ALL OF US!"
OUR NEW CORPORATE CULTURE
To live with the organization and to know what motivates the employees is definitely the starting point of every successful company.
Technology cannot function without people and innovations cannot be created without creative minds! Innovations certainly cannot be implemented without the support of a management that believes in the work of its people, a management that is open for communication and easy to approach.
Motivation leads to productivity and better ideas, and consequently success and improved results. Bottom line, it is the corporate culture that is the foundation of a successful company, not the other way around.
We are oriented towards changes that strengthen the team spirit and bring values to our company. This brings us even closer to our customers, who are our biggest value.
"It's up to all of us!" is the title of the new project of Makedonski Telekom and T-Mobile Macedonia, whose aim is to provide a positive and customer oriented working environment where teamwork and collaborative environment enable people to trust each other and work more efficiently for the benefit of the company.

"Success Driven", "Customer Oriented" and "Our Company" are the three focuses on which we are laying the foundation of our future culture
It is designed so as to detect the weaknesses and the initiatives for their overcoming, and it specifies that the specific activities are to come "from the base" i.e. from the employees at operational level in both companies, who are distributed in five working teams.
In fact, this project came as a result of people's opinion, both employees and management, to make changes inside the company that will have impact on all of us and ultimately on the customers. Bottom line, the project aims to push a company that is innovative, dynamic, success driven and of course customer oriented.

THERE ARE NO QUICK SOLUTIONS FOR CULTURE TRANSFORMATION

The careful handling and the meticulous attention to the culture change can accelerate the organizational change, but it should not be considered in isolation because culture change always takes time to implement. To that end, there are five working streams identified to work on delivering productive changes within the company. One of the working streams is dedicated to initiating productivity, improved management culture and reporting behaviour from the top-down. In fact, it is one of the key milestones of this project to create a pleasant and stimulating working environment, through non-hierarchical behaviour, loyalty, learning, and talent management, accountability, supporting employee growth, adaptability and sharing of information.In this direction, some of the undertaken activities were directed towards eliminating the lack of clarity of the 'broader meaning', i.e. towards a clear strategy in all activities we undertake.

Another important focus is to move the company from "Inner focused" to more "Customer oriented" company, as customer focus is crucial for success. In this line, we were making use of the interrelation of two very important aspects in terms of service concept i.e. the correlation of internal customers, employees and partners and the external customers, customers that purchase and use our products and services. Enhancing the Internal Service Quality, which actually means equipping the employees with the skills and power to serve customers, raises the employee satisfaction that fuels employees' loyalty and productivity. This consequently boosts the External Service Value which adds to increased customer satisfaction and loyalty. In a sentence, it's a connected circle and its chains affect each other.

Being more customer focused, we detected that we need to make our processes more streamline and simpler that would make us more efficient and more open towards customer demands.
In this we ensured commitment to activities that would foster better communication in the company and thus ensure a working environment where people mutually cooperate, are open and trust each other. We aimed at promotion of culture of union, no division among colleagues into two organization; instead, we are one team that speaks common language and has the same goal.

THE MOST IMPORTANT THING IS TO HAVE AN INNOVATION CLIMATE

A new and more productive culture should stimulate innovation in all we do. Innovation is products we create, in the way we treat our customer, how we act. Innovation in all our performance.
We started from one definition of innovation, which reads:
"All innovation begins with a creative idea. Innovativeness means the successful implementation of ideas generated within an organization."

IDEA GENERATION

In this sense, we have put our focus on actions that will contribute to intensifying the generation of ideas within the company, utilizing both the internal and the external resources for idea generation, exploiting the global innovation practices that involve training for managers and employees who will encourage innovative thinking and behaviour, as well as creating a climate where things are done differently, where risks are taken, the work is dynamical and with a daily commitment to achieving results.
A very important element of the project is motivating the colleagues to participate in the whole process of innovation and creating an atmosphere of equality, where the dynamic flow of ideas will be encouraged, and the attempts to do things differently are valued and rewarded.

At the end, it is of utmost importance for the success of each company to have a corporate culture that will lead employees to a successful self-realization first, and by so, to achievements of company's targets.

INTERNAL SERVICE QUALITY AND EXTERNAL SERVICE VALUE

The project for improvement of the corporate culture in the company is without any doubt a great chance to start some actions and improve the overall perception of the organizational behaviour: moving our Company from long-time "Inner focused" to more "Customer oriented" culture.

To this end, two types of customers were defined:
- Internal customers, employees and partners, and
- External customers, customers that purchase and use our products and services.

Enhancing the Internal Service Quality, which actually means equipping the employees with the skills and power to serve customers, raises the employee satisfaction that fuels employees' loyalty and productivity. This consequently boosts the External Service Value which brings about increased customer satisfaction and loyalty.

COMMUNICATION AS DRIVER OF CHANGE

Changing the company's culture is a continuous process, it is not something that is happening over night and whose impact is immediately visible. The aim ahead of the Team was how to improve the communication in the company, ensure a working environment where people mutually cooperate, are open and trust each other.
The activities that were defined are aimed at the promotion of the culture of union and removing the division among colleagues into two organizations. Instead, the aim was to create one team that speaks a common language and has the same goal.
When defining our activities, we were led by four thematic categories:
- Improvement of the communication channels, as tools that will contribute to better communication in the company and will ease our everyday work.

Publishing news through several communication channels: Team News, TeamNet,
Internal Magazine @lo – with the involvement of the employees, e-newsletter on certain topics, as well as the initiation of the Social media with special blogs on the Intranet - is regular way of informing accurately and in- time the employees about the news, events and changes within both companies. The companies also took part in promoting TSN - the first social media of the DT Group, and Macedonia was a pilot country. TSN aims to provide the employees with a communication flow with no boundaries.

- The top-down communication that will lead us to the right goals, will support us by providing clear and in-time information about the key strategic issues and will keep us motivated and more productive.
- Engagement of the employees in corporate activities or events that would help building team spirit and raise interest in a given activity or simply put it best fits with the saying "Involve me and I will learn".
- The corporate events, formal or informal gatherings and occasions for being together are doubtlessly of big importance for each organization as inducers of cooperation and building of powerful team that mutually communicates.

CHANGE OF PROCEDURES BASED ON THE KISS PRINCIPLE

The procedures that regulate the company's processes reflect the personality of the organisation and define its "circulation". The changes in the procedures that we strive for and that would reflect the new improved corporate culture are certainly aimed at their simplification and the best way to describe them is through the commitment for change of the procedures based on the KISS principle (keep it simple stupid (and short).

Official opening of the new HQ – The employees, together with the management, were at the spot of the event which was run along with the 3rd in a row Guiding Principle Day. The physical proximity affords even closer mutual collaboration and develops our relationship on the bases of mutual respect and sharing of know–how, a behaviour which is fully consistent with the new company culture philosophy.
Guiding Principles Day – The employees were engaged in the project from its beginning and were informed accordingly. Their eager involvement in the activities planned for that day showed that the corporate culture based on our Five Guiding Principles is very much "alive" in practice.
Employees in action: Donation of books – on the occasion of the Day of our Guiding Principles, the employees from Makedonski Telekom and T-Mobile have donated 1000 books for the libraries in the rural areas. Another activity was volunteering for the T-Mobile Foundation - New Year packages made by the employees for the children in the orphanage house of Skopje, as well as distribution of packages to the centres for children throughout Macedonia. Humanity in action: Blood donation action in 2012 - in which 166 blood units were collected.
The companies have put at disposal all the channels for cascading and for two-way communication with the employees, for the purposes of strengthening the corporate culture.
In order to spread the company's strategy and the focuses to all the employees in a direct manner a Kick-off Meeting was organized in 2012 for the first time within the Company. During this event the main strategic business focuses were announced in front of all employees, as well as the strategic direction of the company for the upcoming period.
Technology week - The purpose of this event (organized for the second time
in our company) is to bring the fixed and mobile network technology, as well as our IT resources and new and innovative services, closer to the employees in an educational and fun manner. To that aim, many presentations and site visits were planned, as well as online and interactive quizzes with numerous and valuable rewards.

WE PROVIDE CLEAR PATHS FOR PROGRESS AND GROWTH, BUSINESS AND PERSONAL, WE GENERATE VIABLE OPPORTUNITIES

The Companies constantly make efforts to genuinely show appreciation for the great behaviour of the amazing employees, so that they would feel valued and motivated to grow to their full potential. It is of utmost importance for the success of each company to have a corporate culture that will lead its employees to a successful self-realization first, and consequently, to the achievement of the company's targets.

PERFORMANCE AND POTENTIAL REVIEW (PPR)

PPR is a tool that provides structured and clear insight in the available potentials and talents, which serves as a basis for programmes for structured development of the employees. PPR is a support for the managers, as well as a tool for establishment of the key job positions and improvement of the career of the employees with high potential.

The focus of PPR is on the potential of the respective individual and the needs for further development.

After the existing Performance and Potential Review for managers was extended with PPR for all employees in the company in 2011, in 2012 the first complete evaluation was finished. Based on the results from the evaluation, a series of trainings was conducted in order for the employees to improve their knowledge and skills (competences) for successful performance of the working tasks. In the fourth quarter of 2012, the second process of Performance and Potential Review was initiated.

COMPETENCY MODEL

Within the Project for Establishing a Competency Model, the necessary professional competencies for each job position, as well as the level of fulfilment each competence, were identified. Based on the foregoing, the catalogue of professional competencies was created.

Therefore, today we have an insight in the necessary skills and knowledge, as well as in the levels of fulfilment of every job position in the company which is crucial for the structured access for development of the employees and managers. This also contributes to the other processes, such as the process of recruitment and selection, etc.

The Competency Model for employees and managers in the company was completely planned and realized in 2012.

TOTAL WORKFORCE MANAGEMENT (TWM)

We are aiming for a proactive management of our companies' workforce structure in order to push the productivity to the highest possible level.

The Total Workforce Management is the framework for quantitative and qualitative planning of the internal and external workforce. This planning will ensure maximum utilization of the human resources (employees) with regard to the costs, capacity, skills, demographical data and location.

As a first step in 2012, all job descriptions within the Group were mapped to the DT AG Group-wide consistently defined standard task catalogue. That was the basis for the start of the TWM implementation within the Technical Area in the 2nd half of the year.

WE HAVE A MIXTURE OF EXPERIENCE AND INNOVATION

Our people adapt quickly and take on different challenges; they know how to make an impact on the market that changes on a daily basis. The employees are aware of the challenges that the companies are facing and they are here to see how they can help. They follow the long-term mission of the T brand.

COOPERATION WITH UNIVERSITIES

Not only that we hire young talents, but we also have cooperation with the Universities so that we can offer the needed practice for the students. We provide possibilities for exchange of ideas.
From the beginning of February until May 2012 we had several expert lessons for more than 30 students, on one of our highlight topics, launching new multimedia services in the IP network, with the Faculty for Electrical Engineering and Information Technologies.
Another topic was the SAP modules, a basis for partnership with the Faculty for Information and Computers, where we had more than 20 students.
The program for students - volunteers continued during the whole year.

BEING PART OF THE WORLDWIDE T BRAND OPENS NEW PATHS AND MAKES US INTERNATIONAL

As part of the Deutsche Telekom Group, we started the implementation of the program "Be More International", with the aim of exchanging experiences and opening the doors even more widely for the employees of the Group. We had 11 exchanges during 2012 in companies in different countries within the Group.

WE CREATE A CULTURE OF OPENNESS AND INNOVATION BY SUPPORTING OUT-OF-THE-BOX THINKING AND ACTING

We take care of our employees because they are at the heart of our success!
Each day they face different challenges. In order to overcome those challenges and to produce the needed results, the company is making efforts to make the processes and the procedures easier.
The employees need to stay informed about all that concerns them, not only in terms of businesses, but in terms of their personal achievements.
We developed different platforms where the employees can learn, stay focused, develop their skills in line with the technology development and we have created the HR4me with all their personal data in one place, available for them at any time they have need for it.
During this process we also created and launched an electronic platform for information access and advancement of the professional development of the employees.
At the same time, such kinds of platforms contribute to the optimization of the processes and the increase of the efficiency of the Human Resource Area. It saves the company resources.
Our employees understand how much their knowledge and dedication is needed for the final success. We are aware that they are dedicated on a daily basis to the learning of different areas of the business in order to positively impact multiple segments of the company. That is why we invest in materials and seminars on business basics so that all the employees would have easy access to learn and grow.

DEVELOPMENT CONCEPT – ELECTRONIC LEARNING PLATFORM

The E –learning platform is an open source application customized for usage in the company and intended for all employees. The platform is an online place where the employees can directly work on the development of their skills via their personal computers.
It is consisted of several types of tools: E-learning, Learning via video material, Electronic library with access to over 130 electronic books with various contents , which is enriched on a daily basis, Self-learning – Personal development, Blogs and discussions and Virtual classroom.
The electronic platform is a virtual space where, in addition to the e-trainings, the employees can find other tools for improvement of their professional development.

WE DEMONSTRATE HIGH STANDARDS WHEN TAKING CARE OF THE HEALTH OF OUR PEOPLE, BY PROVIDING THEM SAFETY, AS WELL AS GOOD WORKING AND HEALTHY ENVIRONMENT

The usage of the most modern and environment friendly technologies helps us in preventing the anomalies in the working environment of the employees. It is our goal, but also our duty to help the employees have a comfortable and effective working day.
Our priority is to choose tools and equipment which are ergonomic, easy to manage, anti-allergenic, transportable and durable. We provide the best for the people who achieve their goals thus helping the company to stay at the top at the end of one more fiscal year.
At the same time we train the employees for the usage of such tools and equipment, always primarily having in mind their safety. That is why we even enabled health checks for the employees in different medical institutions, as well as in several recreational centres.

PRODUCTS AND SERVICES FOR OUR CONSUMERS

INCREASE THE CUSTOMER SATISFACTION IN ALL MARKET SEGMENTS

The main goal of the company's annual marketing and sales plan was to:

- INCREASE THE CUSTOMER SATISFACTION IN ALL MARKET SEGMENTS
- MAINTAIN "BEST IN CLASS" CUSTOMER PERCEPTION, ESPECIALLY IN TERMS OF THE SERVICE RELIABILITY IN THE BUSINESS SEGMENT
- MAINTAIN QUALITY CONTROL AND CONSTANT IMPROVEMENT OF THE CUSTOMER SERVICES

Operating in a highly competitive environment in all telecommunication segments, Makedonski Telekom and T-Mobile are focused on new services, on the retention of the existing customers and on acquisition of new ones. Marketing activities based on customer needs and habits are implemented in order to build strong customer relations. Loyalty schemes and handset upgrade programs are also intensively used in order to increase the customer satisfaction.

Makedonski Telekom is the primary fixed-line service provider in Macedonia. The Company's objectives for the forthcoming years comprise being a leading provider of technology in Macedonia and providing quality services with attractive prices in order to be prepared for the increasing competition.

The main focus in 2012 on the fixed market was put on the repositioning of the fixed portfolio by introducing more benefits for the customers within the bundled double and triple play services, as well as in the single voice product tariff options.
Makedonski Telekom provides traditional fixed line telecommunication services and content services within the scope of the fixed line network, as well as broadband services and integrated solutions, including TV over Internet Protocol ("IPTV"). At the end of 2012, Makedonski Telekom had 296,592 PSTN lines and 33,660 ISDN channels. The fixed line penetration was marked with a similar movement, stabilizing at 14.9% at the end of 2012. The number of ADSL connections increased to 169,798 at the end of 2012, compared to 161,705 as of 31 December 2011.

The number of IPTV customers at the end of 2012 reached 67,475 customers (including 3 Play, IPTV only and 2 MAX) compared to 40,722 customers at the end of 2011.
The IPTV services are continuously extended with new content and features – exclusive UEFA content, TV library, etc. In the fourth quarter of 2012, Makedonski Telekom became the operator with the highest market share on the pay-TV market in Macedonia, achieving largest number of TV customers.
The IPTV revenues have grown mainly due to the growing number of IPTV subscribers. 3 Max Start proved that the customers can recognize value for money and not always decide for the cheapest price. Customers have started to appreciate MaxTV as a full TV service with all its functionalities instead of as a linear TV service. According to the annual research, majority of the users (78%) have excellent or good impressions about the Max TV service. The additional functionalities of Max TV are perceived as very easy to use by more than 85% of customers.

In 2012, approximately 19.7% of the total revenues of the Group were comprised of the voice revenues from domestic fixed line telecommunications services.
The mobile service revenues contributed with 47.7%, while the fixed line international telecommunications services contributed with 10.4% of the total revenues. The fixed line internet and data services contributed with 12.1% of the total revenues, while 10.1% of the total fixed and mobile revenues were derived from other services.
Fixed Voice services remained one of the major revenue drivers in 2012 despite the decreasing trend and the very strong competition. We managed to achieve this through promotions of the free voice services to the Makedonski Telekom community, through extensions of the loyalty programmes, through proven campaigns and constant enrichment of the equipment portfolio and through sales in instalments as a good retention mechanism. There was a slight decrease of the Makedonski Telekom revenues from international incoming traffic, mainly as a result of the lower incoming minutes from fixed and mobile termination.
The development of the network with FTTH continues to be one of the key focuses and one of the biggest investments of Makedonski Telekom. At the end of December 2012, the FTTH was available to more than 88.000 customers in 11 cities in the RM. In 2012, the Company introduced a new portfolio of services based on Fiber-to-the-Home. The increased FTTH coverage and the benefits of the fibre-based product offers had a huge positive impact on improvement on the customer base over fibre. The customers had a possibility to use ultra fast internet with symmetrical incoming and outgoing speed, TV channels in HD, possibility to connect more than two media receivers, as well as some other benefits. Based on this, more than 12,000 customers connected their homes on fiber in 2012.

Multichannel mix:
FTTH Action plan for RPC YE target successfully executed by using of multichannel push with following share :Push sales agents -41%, Own shops-21%,Technitions-28%, SME-3%, Contact Center-7%)

In 2012, Makedonski Telekom continued to develop the Telekom HotSpot network as well, creating a total of more than 500 HotSpot locations throughout the country.

T-Mobile MK is the leading mobile service provider in Macedonia, dedicated to provide up-to-date technologies and advanced service offerings commensurate to the highest technological and service standards.

T-Mobile had a customer base of 1,181,437 at the end of 2012, compared to 1,265,243 at the end of 2011. The mobile market penetration in Macedonia is over 108 percent, which shows the trend of individuals to own multiple SIM cards. The Macedonian mobile market was characterized by highly competitive campaigns and offers in 2012. As a result of the market saturation, the Company especially focuses on aquisition of newcustomers.

Due to the increased competitiveness and in order to prevent the churn and encourage the usage, T-Mobile launched various campaigns, price plans and additional services specially designed to meet the subscribers' needs, with a focus on the value instead of the price. These offers are targeting different customer segments. As a response to the aggressive price movements of the competition, new concepts and offers for the post-paid and prepaid segment were created (Option "0", weekly packages containing voice, SMS and Internet).

One of the main focuses in 2012 was the mobile data segment, where the voice data bundles for both residential and business customers were enriched with additional value: more minutes within own network and increased Internet traffic volume. The attractive handsets offers contribute to the gross additions and to the retention in both the prepaid and the post-paid segment.
Several major campaigns were launched for achieving the planned sales results and for increasing the awareness of the benefits provided with the services. In addition, mobile internet service was introduced as part of the bundles.
T-Mobile was the first on the market to introduce the concept of "worry-free mobile internet", which provides a possibility for the customers to control their internet costs. By doing this, T-Mobile achieved a growth of 159% of customers who started to use some of the tariff models that include mobile internet. Back in May 2012, the portfolio of packages with mobile internet was repositioned, which led to a sales increase which was 6 times bigger in December compared to the same month in 2011.

T-Mobile is continuously working on the creation of market demand for mobile Internet and is stimulating the mobile data usage via device/data price plans. The Company is constantly working on generating new ways for getting in touch with the customers and for finding new revenue driven methods. Reffering this the internal teams have been working on developing new services:

- Instant info@ T-Mobile
- Internet marketing @ Idividi
- Web'n'walk portal and mobile portal @ Idividi
- The magazine Tvoj klub
- Advertising displays at the Telekom shops

During the 2012, 30 campaigns have been realized for 10 different brands and nearly 52.000 SMS were sent to the final customers.
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 streaming services. Further roll-out of mobile broadband technology, improvement of customer management and billing processes and investment in value added services are planned to ensure market competitiveness.

Sales channel strategy for optimization of sales and service channels

It's within the focus of the Companies to constantly develop the sales channel strategy in order to strengthen the opportunities for effective and efficient sales through different sales channels.

Makedonski Telekom and T-Mobile have developed different sales channels in order to serve the customers from different segments. The Companies use a direct sales channel, such as own retail network, direct sales agents, account managers (for Small and Medium Enterprises ("SME") and VIP residential customers), and key account managers (for large business customers). They also use indirect sales channel based on indirect master dealers with their own network of shops, partner shops and freelancers, as well as on-line sales channel and call centre which performs telesales.

Since November 2011, the Makedonski Telekom call centre started to operationally perform sales activity (with pre-arranged delivery at home). During 2012, the same process was established for the mobile portfolio. Also, IP Multimedia Subsystem ("IMS") migration and activities related to it were performed by the call centre.

The number of sales transactions in 2012 increased by 24% due to the repositioning in the fixed and mobile product lines and the extended activities under the Mobile Stabilization Scenario.

Overall Channel KPI's were improved YoY;
Telesales was conducted as a separate channel in Customer Service with a huge effect on the x-sale, up-sale and proactive retention;
Overall, Web and Self-care channels will account for 15-20% of the sales channels (inc. retention) and service transactions by 2016.

In September 2012, a Save Desk program was created in T-Mobile as a tool for decreasing the number of voluntary churners. Subscribers are contacted after their request for contract termination and special offers/services for contract prolongation are proposed.

The main sales channels are the Makedonski Telekom and T-Mobile shops.
There are 42 joint shops (41 shops and 1 kiosk). On 4 October 2012 a new shop was opened in Skopje City Mall (in line with the latest DT 2010+ shop concept). The City Mall shop is the only one of its kind in the region, and it was third of the kind within the entire Deutsche Telekom Group. This point of sale brings dynamism and a unique multimedia experience, and at the same time it provides us with comfort and solutions adapted to the daily functioning.
The point of sale is equipped with the most modern technology that takes customers a step forward in the evolution of the mobile data services. All other shops are offering the complete Makedonski Telekom and T-Mobile product portfolio under the same conditions and with the same customer service level.

MAY 2012 - ACCESS TO THE FASTEST INTERNET, WHEREVER YOU ARE!

As part of the Internet Everywhere project, Makedonski Telekom and T-Mobile Macedonia created a network of more than 500 HotSpot locations across Macedonia. The customers also have a unique opportunity to surf the internet with the speed of light at 40 HotSpot locations connected with optics.

The internet access via the HotSpot locations was promotional, free and unlimited for all customers. The citizens were able to enjoy the free localized mobile applications such as the MaxTV Guide, Idividi Dictionary, Idividi Horoscope and Golden Book.

For the promotional purposes of the hot spot project, for the first time in Macedonia, on 7 May, the citizens, regardless of whether they are at home or on the move, were able to watch the first live online concert of Macedonian hits played by the Macedonian Philharmonic Orchestra.

AUGUST 2012 - EXCLUSIVE FOOTBALL EXPERIENCE WITH MAXTV

Makedonski Telekom enriched the MaxTV offer with new sports contents in order to provide the passionate football fans with a new and exclusive football experience. From the beginning of the season 2012/2013 until the end of 2015 the customers of Makedonski Telekom can watch the matches of the Champions League and Europa League on MaxTV. For the current season alone, a total of 210 matches for both competitions will be available and up to 4 matches can be watched in parallel. This means that the football fans can watch more UEFA Champions League and Europe League matches than ever before.

Another channel of the distribution network is the cooperation with the dealers. At the end of 2012, the network consisted of 10 master dealers with 60 shops as T-Mobile partners and 8 master dealers with 70 shops as Makedonski Telekom partners. The majority of the master dealers' shops are joint shops offering the full Makedonski Telekom and T-Mobileportfolio, except for cash collection. T-Mobile's prepaid and post-paid packages (with or without handsets) are available in all dealers' shops.
In addition, prepaid vouchers are also available in more than 4,000 kiosks which sell prepaid packages without handsets. Since May 2011, the customers have an opportunity to renew their contracts in the dealers' shops.
Technicians took active role as salesmen for the fixed portfolio in the last quarter of 2012.
During 2012 this channel was established as a regular sales channel after piloting in 2010 and 2011.

A part of the Makedonski Telekom product portfolio (e.g. telephone sets, TV sets, computers, printers, network equipment) is available to the customers using payment by instalments through their telephone bill.
In addition, T-Mobile is using the subsidized handsets and the high quality service as strong tools for customer retention and churn prevention both in the residential and the business segment.

In 2012, the direct agents put a strong emphasis on the sale of FTTH products for the residential and Small-Office- Home-Office ("SOHO") customers. The account managers and the key account managers are deeply involved in the sales of telecommunication and Internet services with customized Information and Communication Technologies ("ICT") solutions and data services. Since September 2011, they have been working as joint agents/account managers offering the complete Makedonski Telekom and T-Mobile portfolio.

The business segment is an important part for achieving the Companies' goals. Biggest growth potential in terms of revenue is expected in the IT and Cloud services. The IT market in Macedonia is highly competitive with domination of the hardware sales, while the software and the services are on a much lower level compared to the global trends. One of the main focuses for the next year is the extension of the current B2B capabilities,retention of the customers and the development of the ICT projects.
Some of the key business projects for 2012 are: Hosting of core business application on a hybrid cloud infrastructure, In sourcing of Disaster Recovery Center, Hosting (platform as a service), Virtual data center (infrastructure as a service), Hosted Business Mail.

Small and medium enterprises are an important segment for the Companies sales achievements, as well as the SoHo customer segment. Cross sale and X -sale activities through Push sales channel in SoHo customer segment became part of Revenue Revival Project 2012 with 45% overachievement of target revenue.

As a part of Cloud computing strategy, Makedonski Telekom has introduced a pilot VPS product in order to examine the market awareness and potential customer base, before higher investment is done based on real expectation The pilot project was established on already existing x86 (Intel) CPU architecture virtual platform purchased for Makedonski Telekom's purposes using the remaining unused resources from the platform.

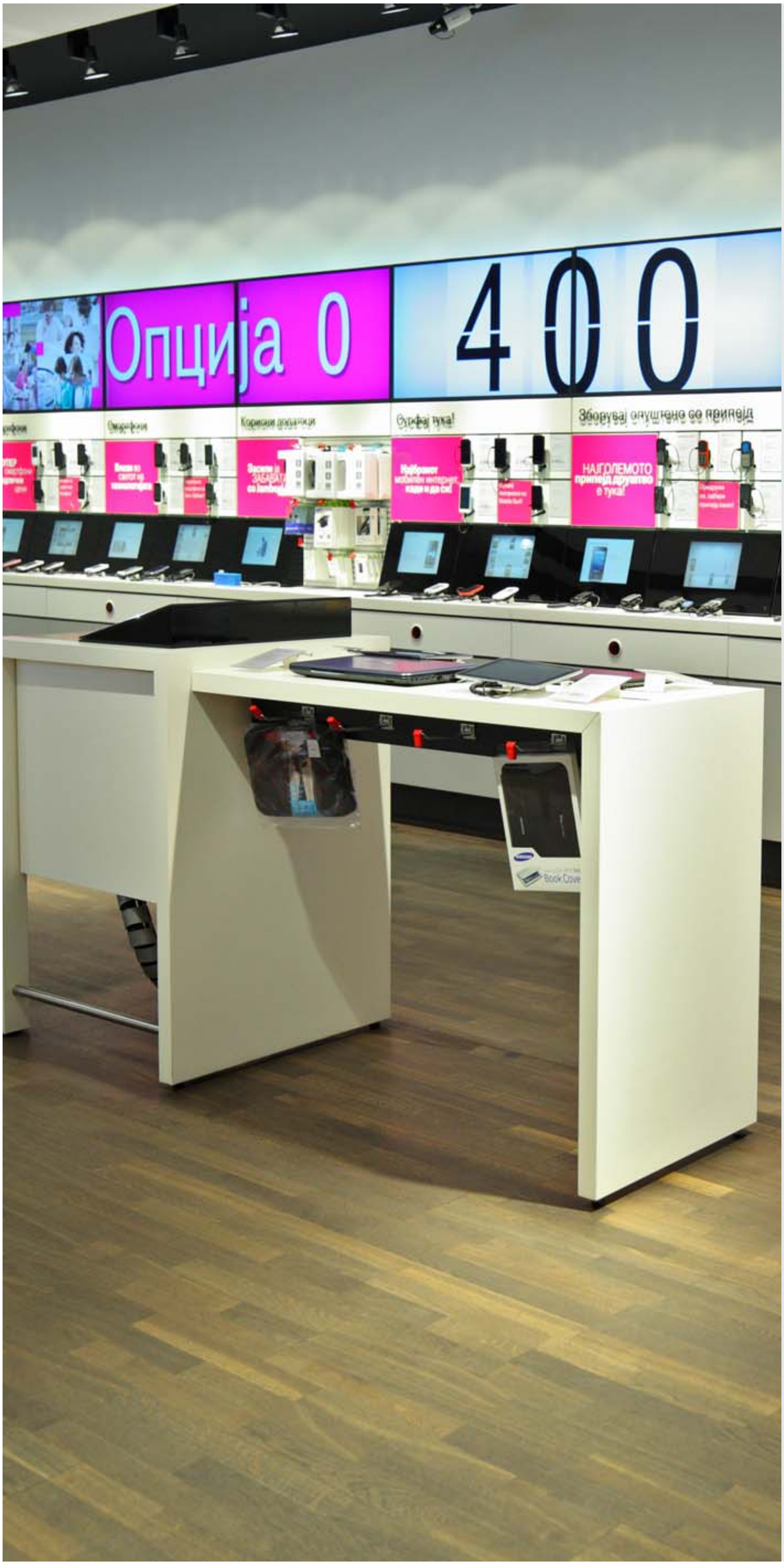
Actual results per sales channel:

- Own Shop with contribution in all services in Fix portfolio of approximately 65%
- Development of Telesales – Proactive group with delivery process to home with contribution of more than 20% in the fix segment, only in the last months of 2012
- Technicians like sales channel had a contribution of 5% for BB and IPTV sales
- Agent Sales sales channel was focused on sales of optic package with contribution of 60% from total sales.
- On- line sales with delivery to home produce 127 contract for IPTV in 2012.

T-numbers – one contact point for our customers:

Instead of all of the former customer support numbers, two new joint numbers have been introduced for all calls coming from Makedonski Telekom and T-Mobile customer

- 122 for residential customers
- 120 for business customers



OCTOBER 2012 - DECREASED SUBSCRIPTION BY MORE THAN 40% AND INCREASED BENEFITS FOR THE BUSINESS CUSTOMERS OF MAKEDONSKI TELEKOM

Starting with the October bills, the standard monthly subscription for telephone services for the business customers was decreased by more than 40%. In addition, attractive novelties were introduced within the Office Complete and Office Complete Optic packages, whereby the companies were able to get more benefits.

DECEMBER 2012 - T-MOBILE BRINGS THE NEW IPHONE 5 TO MACEDONIA

T-Mobile Macedonia prepared a holiday surprise for its customers. On 14.12.2012, T-Mobile Macedonia brought the new iPhone 5 on the Macedonian market. “We bring the iPhone 5 to Macedonia as the latest innovative solution in the segment of the mobile telephony. That is why T-Mobile is the leader on the market – it constantly keeps pace with the global technological trends, making them available for the Macedonian citizens.” – said Mr. Zarko Lukovski, CEO of T-Mobile MK.

2012, OTHER NOVELTIES:

In 2012, the new version of the MaxTV guide application was launched, which includes viewing of the TV channels alive, as well as the cameras posted at the attractive locations in Macedonia. Web.maxtv.mk was developed, which provides a possibility for watching the games of the Champions League and the Europa League through the internet. For that purpose purchasing option of all Football program packages including Web Max Football package was implemented on My Telekom portal.

The Idividi portal was redesigned with completely new content parts and functionalities.
The Idividi portal got the Superbrand award for 2012 competing with 1000 brands.

BOOST PRODUCTIVITY - MORE SALES AND LESS ADMINISTRATION

It is a project whose implementation should enable the shop managers of Telekom to spend most of the time among their colleagues in the shop, and through work on the spot and enhanced monitoring to train the employees from the first sales lines in certain sales skills, thus raising the proactive approach in the sales, which implies more offers to each customer, more sales and also more calls to the customers after their visit of the Telecom shop. That will require a different organisation of the working hours by these managers, i.e. less administrative work in the back office and more work in the front office, in the shop together with their colleagues.
During 2012 and within the frames of the Winners Circle programme, two push campaigns for all sales channels were implemented for motivating the Sales. The focus was to increase the sales of IPTV, data products from the mobile portfolio and the sales of the Samsung products. In order to motivate the sales even more, award winning games were organized. Samsung campaign for increased sales was implemented, with simple criteria, for selling as many Samsung products from the fix and mobile portfolio as possible.

Winners' Circle and other Internal Channel Competition
Organized 30 Sales push campaign for all sales channels, with total incentive award of 50 000 euro, which resulted in sales increase of Fix &Mobile Broadband services, FTTH, Acquisition and retention of Postpaid, Sales of Insurance, as well as increase of the sales of Samsung mobile, TVs and other equipment, HTC mobile and Nokia mobile.

New incentive system
Value Based incentive system in order to drive values instead of volumes developed with three months pilot prior introduction. VBS concept used as a base in terms of incentivizing most valuable transaction and stimulate employees to make UP-Sales and X-sales.New system will enhance employees satisfaction because of transparency and on time incentive calculation.

THE NG ICCA MEANS MORE SATISFIED CUSTOMERS

The NG ICCA (New Generation International Customer Contact Analysis) was introduced at the end of 2011, as a tool for Customer service measurements, micro-training, Improved agent knowledge and awarenesss and improvement of the overall customer satisfaction. The usage of the NG ICCA helps to have a direct personal feedback from the customer.

The New Generation International Customer Contact Analysis, (NG ICCA) is a tool that is used in the frames of the DT Group. Unlike CATI ICCA, which was used in Makedonski Telekom andT-Mobile since 2009, NG ICCA provides measurement of the satisfaction of as many customers as possible, based on a truly cost effective method. The project was successfully realized in November, 2012, having the following advantages: a bigger sample of customers, direct contact with the customer, immediate measurement of the satisfaction, transparent results – published on web portal.

The Company is continuously trying to stay in line with the market trends and, by using different and modern research methodologies, to follow the customer satisfaction and their needs so to be able to fulfil them completely.

Customer relationship management (CRM) programme

The projects includes implementation of a joint CRM system for Makedonski Telekom and T-Mobile Macedonia.

The implementation means introduction of a new systems in the IT architectures of Makedonski Telekom & T-Mobile Makedonija which shall support the customer facing process in Sales and Customer Service, as well a campaign execution for support of marketing activities in the area of campaigning and analytics. The fragmented CRM functions available in different systems shall be united in the one CRM system and discontinued in the different systems where they reside at the moment.

CATI ICCA Overall satisfaction YE 2012:

- Overall: 137%, first place in DT Europe ,
- CC 141%, Second place on DT Europe level,
- Retail 150% first on DT Group,
- SeSe 126%;
- WEB 81%

AT THE REACH OF THE CUSTOMERS

As a technological leader and a customer-oriented company, in line with the latest communication trends, we have provided our customers with a possibility to realize their needs and contacts with
T-Home and T-Mobile online, from the comfort of their homes or offices. With the services that we
introduced in the past years, the web communication gets a new, interactive dimension.

In addition to the possibility to get all information on the products and services via our web pages, our customers now have a unique possibility to take action and top-up a voucher, activate services and benefits, pay bills and edit their customer profile completely by themselves. All of this is provided on Moj Telekom or My T-Mobile portal where the customers now can also activate an e-account and get full control of the costs with a display of the spending of the packages and services they have activated.

In 2012 we designed the mobile version of My T-Mobile that provides a review of the bill status on the move and a possibility for activation of services and packages from any place. A big novelty introduced in 2012 is the first online transactional interactive banner in Macedonia for top-up of vouchers, placed on the IDIVIDI portal and on the web page of T-Mobile and here the customers can top-up vouchers directly on their prepaid account with pay cards.

In line with the requests for registration of pre-paid customers, we have provided an online solution for registration/entering of customer data via three online channels - On the main page www.t-mobile.mk, on the My T-Mobile Portal and a special mobile application for entering data via mobile.

During 2012, in order to improve the users experience and simplify the login process to Moj Telekom portal, we created and implemented a new registration model for Moj Telekom account which in the future will provide higher level of customer personalization and a possibility for further features development.

The website for business customers of Makedonski Telekom was fully redesigned so as to enable better clarity of the products and services, thus rendering them more visible and also enabling easier browsing. The presentation of the services which has been used on the new website for business customers complies with the latest commitments of the company for development and promotion of top services, especially in the ICT segment.
Our focus in 2013 will be the provision of a sophisticated solution for online purchase on the sites, as well as preparation of applications that will provide them with useful information on our offer, as well as a possibility for ordering via a mobile device. The portals will be upgraded with new useful services.
The online strategy that we build in accordance with the customer needs contributed to our website being among the best business and corporate websites in Macedonia for several years in a row.

In the segment of digital marketing, we have prepared sophisticated solutions for interactive presentation of telephones and getting acquainted our customers with our offer in an innovative manner, via modern technological e-media solutions, of which we can especially sort out the e-media contents in the newly opened Telekom point of sale in City Mall.

The marketing channel management is focused on the strategy for best marketing mix (a combination of marketing channels and techniques) that are to reach the customers via our products and services. The company has its own channels that are used for contacts with the customers on a daily basis. The marketing channels proved to be one of the best ways to reach the customers. The most used tools for direct communication are: SMS campaigns, direct mail (inserters in bills, letters, My Club Magazine), online direct marketing (recommendations for use of services and extension of the contracts on the portals).

TO INNOVATE & CREATE, WE HAVE TO SUPPORT, INITIATE & HELP

RESPONSIBLE CITIZEN OF THE SOCIETY

Nowadays, stakeholders expect more from a company than a good bottom line - a responsibility beyond the main goal of staying profitable and functional. In Macedonia, these expectations are even more pronounced when it comes to the large companies that mark high profits in their balance sheet. Hence, being one of the most significant players in the Macedonian business environment, it is very important for the Makedonski Telekom Group to engage in corporate responsibility activities. We must work on our CSR agenda so as to set the required courses of action. However, we must not present our responsible role only via sponsorship and donation activities, as CR is mostly perceived in the local market, but we should also educate the public and the local environment that CR should be related to community involvement, fairness to employees, ethical business operations and concern for the environmental impact by applying the practice and the experience of the DT Group. Finally, our job is not only to deliver the products and services, but also to deliver what our customers demand – a high quality of life.

(a dedication of the Management of the two Companies)

In 2012, Makedonski Telekom and T-Mobile strengthened their commitment to the different areas within the Macedonian community. The focus was not only one area, but the support was spread in the area of culture, music, sport and to all those in need.

The sponsorship and donation strategy of Makedonski Telekom and T-Mobile supports:

- Access to arts and cultural experiences for the broadest spectrum of audiences, regardless of the income levels
- Sport events which promote team spirit and healthy lifestyles and bring individuals and communities closer together
- Activities referring to academia engaging the community involved in higher education and research
- Essential services that promote social and emotional health and well-being

But that doesn't mean that it is a fixed strategy. It means that we are flexible and we are moving according to the needs of the citizens and the society. 2012 was a year filled with many projects and activities that put smiles on the faces of many people in the Country.

As companies that always endeavour to recognize true value, Makedonski Telekom and T-Mobile always extend their unselfish support to the cultural events in the country. That is why for several years we have a true partnership with the Vevcani Carnival in the capacity of a general sponsor. During the period of the Vasilica celebration at the beginning of the year, in January - Vevcani, with its unique masks, is an open theatre for all the guests and it ensures extraordinary pleasure for all who are a part of this incredible experience.

In addition to the support of tradition, music and culture, T-Home and T-Mobile, as traditional promoters of the sports in Macedonia, also supported the implementation of the Sar Planina Ski Cup. This sporting event is one of the most important and oldest in the country with an international character and this year it took place for the 39th time. The Cup was attended by 35 competitors from 14 countries.

The biggest partner of the Macedonian culture, the T brand, in 2012 continued to support the most significant cultural event in Macedonia and the region - the Ohrid Summer Festival. This partnership lasts for 15 years now and it is aimed at continuous and quality organisation of this festival, which is one of the most prominent ambassadors of the Macedonian culture, art and music. It gathers approximately 1000 artists from over 14 countries around the world.

August 2012 was the month of sports, music, theatre and poetry filled with AKTO, Balkan Music Square, Strumica Open Festival and Struga Poetry Evenings which entertained thousands of citizens across Macedonia.
In the course of August, the T brand in Macedonia supported several different activities and events across several towns in Macedonia. The month started very actively, with the several-day long AKTO Festival in Bitola organ-

Supporting music, sport and education

ized for the seventh time, and it continued with the Balkan Music Square supported for the fifth time by the T brand in Macedonia. Each year the festival is held in the open, at the Antique Theatre in Ohrid, and the guests have the opportunity to enjoy the music of our famous musicians, stars from the former Yugoslavia and from wider Europe.

For the 26th year in a row, August is reserved for the biggest sporting event in our country, the Ohrid Swimming Marathon, in which about twenty marathon swimmers swim the 30 km long lane Klime Savin. This year it was held on 19 August in Ohrid.

Investing in the development and promotion of young people is part of the strategy for social and corporate responsibility of the T brand. It is exactly due to that reason that the cooperation with the School of Young Leaders of the President of the Republic of Macedonia, has been lasting for two years now and it aims to enable the young and talented people from Macedonia to upgrade and advance their skills, as well as to develop their creativity and managerial skills. The school is held in Ohrid and, so far, in the course of the ten-day stay, more than 100 young people have had the opportunity to attend the free trainings for development and promotion.

As part of the T brand project for support of the municipalities across Macedonia, which project began in 2011, in August of this year, the municipality of Strumica organized a several-day long event filled with a variety of artistic and cultural entertainment activities.

The T brand wrapped up the summer of 2012 with the 51st Struga Poetry Evenings, devoted to poetry and attended by a number of poets with their presentations.
The summer of 2012 was marked by lots of music, exhibitions, poetry evenings and theatre productions realized with the support of Makedonski Telekom and T-Mobile.

The traditional Ney Year's eve is a traditional partnership with the City of Skopje and the celebration was powered for many years in the past by the T brand. It provides lots of fun and entertainment, a night to be remembered by good things for all Macedonian citizens who celebrate the New Year at the city square.

Environmental-friendly attitude

Being a Company that needs a large fleet of vehicles – for maintenance, customer service and other related purposes, we recognized the potential for further savings and introducing more environmental friendly solutions for transport.

At Makedonski Telekom, for example, GPS systems in the company car fleet are helping to save fuel. During the past year, GPS systems were installed in 330 cars in the two companies, Makedonski Telekom and T-Mobile Macedonia.
In March 2012, Makedonski Telekom and T-Mobile participated in the global action for environmental protection "Earth Hour" organized for the sixth time this year.
Within the action, the electricity in all shops and the administrative buildings of Makedonski Telekom and T-Mobile were turned off in the period from 20:30 to 21:30 hrs. Only the devices and lights necessary for realization of uninterrupted telecommunication traffic in the country remained turned on during this period.

With actions of this type, the companies, as part of the Deutsche Telekom Group, actively contribute towards raising the public awareness of environmental protection through efficient use of the electricity. Besides the participation in this global action, Makedonski Telekom and T-Mobile undertake activities for saving and sustainability of the natural resources in their daily operation.
The action "Earth Hour" was initiated in 2007 in order to indicate the disastrous consequences of the excessive spending of the energy and to encourage use of renewable sources of energy at the same time. Last year, more than 5,200 cities in 135 countries worldwide joined the action and turned off the lights, thus indicating the need to raise the awareness of efficient spending of the energy.
The movement to a new office in an energy-efficient building, which is expected to lead to reduced energy consumption in 2013, is one more proof of the care of the Companies and investing into the society.

Sustainability performance

During the reporting period, Makedonski Telekom's Procurement Department introduced a vendor management system project with the aim of improving the relationship between the company and its suppliers through more regular and optimized communication. One of the project's specific goals is to evaluate the performance of suppliers from a sustainability perspective. This includes a company-wide evaluation of a supplier's sustainability, financial, technical, commercial and administrative performance.

Helping to those in need

We are aware that our services are of need to everybody, i.e. to the different groups within the society. It is part of our policy to help those in need in many different ways. Having in mind the requests and the needs of the vulnerable groups, as Companies recognized by their responsibility, during 2012, Makedonski Telekom and T-Mobile introduced a social tariff model for the vulnerable people. For example, the social welfare beneficiaries who only need voice services can now obtain a free prepaid fixed telephone line. Moreover, the two brands have special offers for elderly people, pensioners and individuals with special needs.

Simplyfing life of our customers

Not only that there is an internal program for paper use reduction, but the Companies introduced the online billing system in order to contribute even more in reducing paper consumption. It is trendy, fast, simple, it saves time and it guarantees 100% security. It is available 24x7 from everywhere around the world. The e-payment method offers delivery of the bills in electronic format, and by using the e-bill option the customers have online access to their information any time they need it.

Investments into the modernization of the infrastructure

In the reporting period, Makedonski Telekom extended its IP-based network and aims to have completed the modernization of this network by the end of 2013 – at a total capital investment of EUR 14 million. In the first nine months of the project, 100,000 customers had migrated to the IP network and can now enjoy the benefits offered by the new IP-based multimedia platform. By replacing the existing digital telephone exchanges, the company is simplifying the everyday lives of its customers through the superior quality of the new converged multimedia services. Besides, the new IP-based technology will significantly reduce the network's overall energy consumption once the old digital equipment has been switched off. Thanks to the company's investment in this new technology, Macedonia will be the first country in Southeast Europe to have a fully IP-based network. The same path is followed by the project for replacement of the copper with fibre, which contributed for 14% of the households to start using it and feeling its high quality benefits in 2012.

Innovation means responsibility

The innovation does not mean only being the first on the market or launching revenue-driven products. It means initiating something which will help people to have easier life and which will be cost saving and environmental friendly at the same time. For that purpose, at the end of 2012, the Companies announced an investment of 100.000 EUR and an open call for Innovation Partner, applicable for everybody who can come up with an innovative and advanced solution.

Responsible citizen of the society

2012 ACTIVITIES OF THE T-MOBILE FOR MACEDONIA FOUNDATION

T-Mobile Macedonia is one of the pioneers in corporate responsibility, both in economic and environmental, as well as in a social sense. The philanthropic CR model which is being implemented through the T-Mobile for Macedonia Foundation is very important for the Macedonian society, and it has been on the rise in the past two years. At the moment, on the market there is an increasing number of companies that give their contribution, but this growing trend still lacks strategic approach and focus. The role of the Foundation is to be a model that will direct the business sector in the right direction in the future. Its goal is to make a real difference and it manages to achieve that only with strategically sustainable projects that bring a long-term benefit for as large as possible target groups. The children and the improvement of their quality of life are still in the focus of the work, but the cooperation has also been expanded with the humanitarian organizations, the NGO and the government sector, as well as with the business sector. In that manner, the T-Mobile for Macedonia Foundation contributes to the development of the Macedonian economy. That is the plan for the years to come.

T-MOBILE FOR MACEDONIA FOUNDATION INVOLVED IN HUMANITARIAN PROJECTS

During 2012, the T-Mobile for Macedonia Foundation was involved in the following humanitarian projects:

For the ninth year in succession, T-Mobile and Makedonski Telekom employees took part in the New Year Caravan project, organizing plays and distributing presents – personal New Year packages they had put together – to 1,000 children in need throughout Macedonia during the last week of December.

This year for the first time, in addition to the packages, the employees, together with their families additionally prepared special New Year's presents for all children from the 11 Oktomvri Children's Home. Over 150 volunteers, employees in T-Mobile and Makedonski Telekom participated in the organization of the caravan.

In 2012, the T-Mobile and Makedonski Telekom employees once again took part in a Humanitarian Giant Slalom where their participation fees were donated to an NGO known as "Give us Wings", which helps people with dysfunctions, handicaps, rare diseases and special needs.

CHOCOLATE AUCTION IN MACEDONIA HELPS VISUALLY IMPAIRED YOUNGSTERS

Pozitivo, the T-Mobile for Macedonia Foundation and Tea Moderna organized the third Chocolate Auction in Skopje. 400 guests participated and placed bids for unique chocolate exhibits that were made especially for this occasion. The funds from the auction were donated to the reconstruction of the Dimitar Vlahov School for visually impaired children and young people in Skopje. The T-Mobile for Macedonia Foundation donated a total of EUR 5,000 to the auction and additional EUR 3,000 for Braille machines. Another EUR 5,000 were raised through the Chocolate Auction itself and an auction of pictures so the sum of EUR 13,000 was ultimately donated to the Dimitar Vlahov School.

SPRING ACTIVITY

The Foundation T-Mobile for Macedonia was one of the partners for the realization of the spring auction initiated by the NGO "Samosvest". The auction, second in a row under the motto "Come, bring joy" took place in the open air, at the Macedonia Square in Skopje at the end of May, 2012. The auction contained clothes, books, toys, CDs and other useful items that were previously collected. Famous Macedonian public persons were also part of this auction where they participated with their own items for which there was a big interest. The funds that were collected this year were donated to the Psychiatric Clinic in Skopje.

SUPPORT IN THE FIGHT AGAINST BREAST CANCER – GO PINK 2012

The Foundation T-Mobile for Macedonia joined the fight against breast cancer, in cooperation with the association "Borka – For Each New Day". The event – the biggest march with more than 1500 participants from all over Macedonia, was held on 19 May. The procession of participants walked 3 kilometres through the city for the purpose of sending a message on the importance of the early diagnosis and support of the patients, as a basic precondition for victory over the breast cancer. In addition to the march, a music happening, social activities of educational character, social games whose purpose is to provide people, i.e. fighters against breast cancer a possibility to get closer, to get together and to celebrate life.

E-MAKEDONIJA FOUNDATION OF MAKEDONSKI TELEKOM – AD SKOPJE

In 2012, the “e-Macedonia” Foundation of Makedonski Telekom started with a new programme and donations for development of the information society. The Foundation was established in 2004 in the honour of the late President Boris Trajkovski and its basic goal is creating digital society and enabling the vulnerable groups of citizens to use the new technologies and to be effectively included in the digital society.
The goal of the Foundation remains the same. However, the number of projects and the amount of the donation increases. In 2012, opening of computer workshops and educational centres, awarding scholarships for top students from the IT field, supporting inventions in the field of IT and IT software and increase of the awareness for the Internet and the information technology was planned. The financial support for 2012 was around EUR 50,000.

E-CLASSROOMS

The Foundation started the implementation of its program in March 2012, with the project “e-Classrooms”. The Project was aimed at enabling the socially deprived citizens to acquire basic computer skills free of charge. “e-Classrooms started the implementation through three centres in Macedonia (in Skopje, in Eastern and Western Macedonia) where the socially deprived citizens are able to attend a course for learning Word, Excel, e-mail and Internet. The donation of the Foundation was in the amount of EUR 12,000 (EUR 4,000 for each centre) and providing the entire equipment for implementation of the course in the amount of EUR15.000.
Makedonski Telekom, through the e-Macedonia Foundation, is creating the necessary bases of technology and media skills to ensure that as many people as possible can take advantage of these opportunities — from the expansion of high-speed DSL networks to special technology products. By implementing such kind of activities, the Company has the opportunity to significantly increase its commitment towards the community in which it acts.
These e-classrooms enable a total of 300 socially vulnerable people to obtain basic computer skills free of charge, e.g. learning how to use Word, Excel, e-mail and the internet. These skills can help those attending the e-classes in getting a job and in their everyday lives.

E-BONTON: HELPING TO PROMOTE GOOD MANNERS IN E-COMMUNICATIONS

In recent years, the social networks, and in particular Facebook, have become very popular in Macedonia. Unfortunately, the online behaviour is not always the way it should be. This is why the e-Macedonia Foundation has launched an e-Bonton project with the aim of promoting good manners in online communications and raising public awareness of how to best communicate via the social networks. The program involves the creation of an e-Bonton manual for electronic communications, where anybody who is involved in online communications is able to get involved. This manual is expected to consist of a set of rules for ethical conduct and communications. The project is also supported by the NGO Metamorphosis, the Youth Education Forum and the School of Journalism and Public Relations in Macedonia.

FIRST WE DO RESEARCH, THAN WE DEVELOP, APPLY AND REFINE!

MAKEDONSKI TELEKOM AND T-MOBILE, AS TECHNOLOGICAL LEADERS AT THE TELECOMMUNICATIONS MARKET IN MACEDONIA, CONTINUOUSLY STRIVE TO BUILD AND MAINTAIN A NETWORK THAT IS TECHNOLOGICALLY ADVANCED, FLEXIBLE AND COST EFFICIENT, WITH A DETERMINED OBJECTIVE TO SATISFY ALL THE DEMANDS AND EXPECTATIONS OF OUR USERS.

In 2012, the Companies proceeded with development of all network segments: Access, Core and Transport Networks, as well as Service Platforms. Seeing the path towards a sustainable future in the FTTH as a powerful network, we continued with its expanding. FTTH Network enables greater efficiency, and stands as a foundation for profitable growth in growth areas such as cloud computing, entertainment, business services, etc.

It was a busy and tough year. Yet, we have finished 2012 with 88,068 FTTH Homes Passed, covering 15% of the households in Macedonia.

It means that compared to 2011, we finished 2012 with a 54% increase of passed homes.

OUR HIGHLIGHTS REFERRING TO FTTH IN 2012:

- FTTH HOMES PASSED: 88,068, 54% INCREASE IN 2012 VS. 2011
- FTTH HOMES CONNECTED: 12,333, 161% INCREASE IN 2012 VS. 2011
- FTTH HOMES CONNECTED VS. PASSED RATIO – 14% (WHICH IS MORE THAN THE DETERMINED PLAN OF 12.64%)

Due to the increased customers needs in regards to the data communications, we invested into developing technologies that enable faster data transmission. The ADSL capacities were also extended during 2012, covering 45% of the households with installed ports. The constantly increasing demand for video and data services requires extension of the transport network capacity. Therefore, during 2012, the capacities of the IP/MPLS network were extended according to the traffic increase.

In terms of the service platforms, the main focus in Makedonski Telekom AD - Skopje was the development of the IPTV with new applications and support of the rapid growth of IPTV customers. In the course of 2012, Makedonski Telekom AD – Skopje expanded its footprint in the TV business, activated Pay-per-View services (per match/monthly/season) and a dedicated studio was built-up for this purpose. UEFA content was delivered in HD quality. The number of TV customers increased enormously and this made us the leaders on the TV market in Macedonia.

HIGHLIGHTS REGARDING THE DEVELOPMENT OF IPTV:

- IN 2008 WE HAD 0 CUSTOMERS
- IN ONLY 4 YEARS WE GAINED MORE THAN 60,000 CUSTOMERS

Back in November 2011, Makedonski Telekom started a project for modernization of the network through a new fully internet-based multimedia platform of the new generation.
The IMS Platform is used for the provision of VoIP as part of the 2Play and 3Play services and as a base for the PSTN network migration towards the all-IP network.
In less than nine months, as of November 2011 until June 2012, 100,000 Telekom users already used the new platform, i.e. were migrated on it.

This platform replaces the existing digital telephone exchanges and is a preparation for the services of the new generation and the unlimited communication possibilities offered by the internet.
In order to use the platform, a free device is to be installed with the users who have not used broadband internet. All the communication devices that can be used at home – home telephone, MaxTV, PC, laptop, smart-phone and all new types of TV sets, webcams and internet radios are connected to the device. In future, it will be possible to manage or control all such home devices via the internet, similarly to the way in which at the moment the MaxTV users can schedule recording from their computer of mobile phone from any place at which there is an internet connection.

The IP Transformation ensures technical leadership: new paradigm for a telecommunication business with higher service and quality standards.

At the end of 2012, the total number of migrated customers was 165,860, i.e. more than 50% of the voice customers were migrated.

IMS HIGHLIGHTS:

- IN JUNE 2012, 100,000 TELEKOM USERS MIGRATED TO THE NEW INTERNET PLATFORM
- THE INVESTMENT WORTH EUR 14 MILLION WILL BE COMPLETED IN 2013
- THE AREA OF HOST GEVGELIJA WAS THE FIRST MIGRATED PSTN AREA TO ALL-IP IN 2012.

In 2012, Makedonski Telekom continued with the extension of Ethernet over the copper and optic cable capacities for provision of data services for thebusiness customers. This extension enabled support of new business customers, modernization of the Time Division Multiplex ("TDM") network with migration of the existing business users towards "All-IP" network.
During 2012, the RAN Modernization trial project was successfully realized. Additionally, the modernization of the microwave links was in the focus during 2012 and the network got bigger capacity.

As of 1 October, 2012 all T-Mobile customers were transferred to new MSC Blade Cluster servers, which means that the capacity of the network for calls and SMS was increased up to four times. The project started in July 2012 and in a record time of 2 months the whole T-Mobile customer base was transferred from the old to the new servers.
This project is a step forward towards the complete modernization of the network and it is in line with the modernization of the fixed network, a project with which, by the end of 2013, all fixed customers are to be migrated to completely internet based services.
After the end of this project, the T-Mobile and T-Home customers will have access to converged services in the mobile and fixed telephony and internet of the latest technology. With the migration to the new servers, T-Mobile became one of the few operators in the world that own this advanced technology.

In the Core network:

- All T-Mobile subscribers migrated to the new MSC Blade Cluster servers
- Big improvements in the local node service availability and stability mechanisms
- Increased capacity
- 70% less space
- 80% reduction of energy consumption

This led to big improvements in the service availability and the stability mechanisms of the local node.

In 2011, the implementation of the M-Wallet project started as a base for the mobile payment services and it continued with full steam ahead in 2012. The commercial lunch is planned for 2013. Additionally, new services/features are implemented such as Smart SMS, Intelligent Border roaming, etc.

Internet everywhere across Macedonia

As part of the "Internet Everywhere" project, Makedonski Telekom and T-Mobile MK extended the network reaching 500 Hot Spot locations across Macedonia. At these locations, in an easy and simple manner via Wi-Fi, the citizens can connect to the best and fastest internet from their favourite places: coffee bars, restaurants, hotels, beaches, shopping malls, taxi vehicles and in the public city transport.

NGOSS is a solid base for optimization of the operational costs and automated process for provision of the whole service portfolio leading to an increase of the quality and efficiency of doing business.

In order to increase the operational efficiency, the implementation of Alarm Umbrella and Trouble Ticketing System started in 2011 and continued during 2012. At the end of the year, 37 systems were integrated with Alarm Umbrella and 6 systems were integrated with Trouble Ticketing.
The number of row alarms decreased by 98%!

GIVEN BELOW ARE THE TOP PROJECTS IN WHICH WE WILL INVEST OUR RESOURCES IN 2013:

- FTTH NETWORK ROLLOUT EXTENSION
- IPTV PLATFORM UPGRADE
- PSTN MIGRATION
- NGOSS
- MOBILE CORE NETWORK MODERNIZATION
- RAN EXTENSION

In line with the determination to be a technology leader in the Country and even broader in the region, in 2013 the companies will continue with the development of the network in order to provide

- high quality services,
- increased customer satisfaction,
- increased network availability,
- increased operational efficiency, and
- secure long-term evolution.

JUNE 2012 – 100,000 TELEKOM USERS MIGRATED TO THE NEW INTERNET PLATFORM

- The investment worth EUR 14 million will be completed in 2013
- The platform enables internet-based services of the new generation

Last year in November, Makedonski Telekom started a project for modernization of the network through a new fully internet-based multimedia platform of the new generation. In less than nine months, as of November 2011 until June 2012, 100,000 Telekom users already use the new platform, i.e. have been migrated on it.
This platform which will replace the existing digital telephone exchanges is a preparation for the services of the new generation and the unlimited communication possibilities offered by the internet.

In order to use the platform, a free device is to be installed with the users who have not used broadband internet. All the communication devices that can be used at home – home telephone, MaxTV, PC, laptop, smart-phone and all new types of TV sets, webcams and internet radios are connected to the device. In future, it will be possible to manage or control all such home devices via internet, similarly to the way in which at the moment the MaxTV users can schedule recording from their computer of mobile phone from any place at which there is an internet connection.
"With this investment of EUR 14 million, Macedonia will become the first country in Southeast Europe that will have a network fully based on internet protocol. In less than nine months, 100,000 users were migrated to the platform. That means that we are on the right track to keep our promise – by the end of 2013, all the users to use the new internet platform. In the upcoming years, the largest investments will be focused on the modernization of the networks – in the amount of EUR 150 million just in the fixed network. That means that our users will continue to get the best value for their money" - Daniel Szasz, Chief Executive Officer of Makedonski Telekom.

INFORMATION TECHNOLOGY

Consolidation and modernization of the IT systems and infrastructure, while reducing the complexity of the IT architecture and improving the IT security standards was the main focus in 2012. The goal was to improve the support and the automation of the corporate processes and improve the One Company customer experience.

The integration of the IT infrastructure and architecture is a prerequisite for the implementation of common processes at Makedonski Telekom Group level and for increasing the process efficiency.

IT has taken a significant role in the implementation of the new of Fix/Mobile converged products/services and development of ICT concept. In 2012, the Makedonski Telekom Group developed an ICT strategy concept focusing on the development of ICT revenues, with performed market analysis and strategic positioning. The execution of this strategy concept began in 2012 with several successful implementations of Custom Cloud solutions mainly for the public sector and identified a potential for additional customers in the large enterprise sector, as well as implementation of pilot “cloud” products for the general SME and residential market segments. Within this initiative we have enlarged our resource pools with implementation of virtualization technologies and we are continuing with the implementation of automation and self-service layers in the upcoming period.

The IT security standards have been improved by implementing several security relevant systems that decrease the operational risks and improve the customer and personal data protection.

During 2012 the companies continued with the activities on the project for implementation of a new consolidated CRM system. This system should enable a comprehensive view of the customers and further sharpen the customer focus of Makedonski Telekom and T-Mobile MK.

THE MAIN ACHIEVEMENTS IN 2012 WERE:

- **CONSOLIDATION OF SAP SYSTEMS FOR MAKEDONSKI TELEKOM AND T-MOBILE MK** - Migration (rollout) of the T-Mobile system into separate organizational elements in the existing SAP system of MKT thus enabling functional and process alignment between the two legal entities.
- **IMPLEMENTATION OF T-NUMBER IN THE CALL CENTER** - Consolidation of all Call Centre numbers to one number for residential and one number for business customers, which leads to improvement of the customer experience as they should remember only one number and can be served for all information and services with one call.
- **UPGRADE OF RETAIL BILLING SYSTEM FOR FIX CUSTOMERS AND CONSOLIDATION OF HW PLATFORMS WITH THE MOBILE RETAIL BILLING** – The main benefits of this project are lower maintenance costs, possibility to implement the additional functionalities introduced in the latest Rating and Billing Manager version, as well as possibility to replace the customized enhancements by core functionalities present in the latest Rating and Billing Manager version.
- **IMPLEMENTATION OF THE FIX AND MOBILE PORTFOLIO** Repositioning in the Makedonski Telekom and T-MobileBusiness support systems (Builng and Customer care systems)
- **THE CONSOLIDATION OF THE DATA CENTER INFRASTRUCTURE** Continues in the direction of virtualization of server, storage and network resources, thus enabling a solid ground for implementation of cloud concepts for internal use, as well as for product offering for externa customers

CONSOLIDATED FINANCIAL STATEMENTS

MAKEDONSKI TELEKOM AD - SKOPJE
CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED
31 DECEMBER 2012
WITH THE REPORT OF THE AUDITOR THEREON

CONTENTS

Independent auditor's report

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

We have audited the accompanying consolidated financial statements of Makedonski Telekom AD – Skopje (the "Company") and its subsidieries T-Mobile Macedonia AD Skopje and E-Makedonija foundation – Skopje (together "the Group"), which comprise the consolidated statement of financial position as of 31 December 2012 and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the consolidated financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated financial statements in order to design audit procedures that are appropriate in 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 consolidated financial statements.

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 accompanying consolidated financial statements give a true and fair view of the financial position of the Group as of 31 December 2012, and of its financial performance and its cash flows for the year than ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers Revizija DOO

PricewaterhouseCoopers REVIZIJA DOO

Skopje,

18 February 2013

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December

In thousands of denars	Note	2012	2011
Assets			
Current assets			
Cash and cash equivalents	5	425,234	1,078,115
Deposits with banks	6	6,369,058	7,943,462
Trade and other receivables	7	3,048,777	3,079,753
Other taxes receivable	8	26,269	59,850
Inventories	9	423,025	579,450
Assets held for sale	10	36,001	628,252
Total current assets		10,328,364	13,368,882
Non-current assets			
Property, plant and equipment	11	14,794,283	12,924,131
Advances for property, plant and equipment		22,925	24,149
Intangible assets	12	2,069,223	2,519,139
Trade and other receivables	7	358,763	329,634
Financial assets at fair value through profit and loss		50,828	54,083
Other non-current assets		612	612
Total non-current assets		17,296,634	15,851,748
Total assets		27,624,998	29,220,630
Liabilities			
Current liabilities			
Trade and other payables	13	3,472,172	3,082,231
Other taxes payable	8	74,288	53,324
Provision for other liabilities and charges	14	123,529	132,349
Total current liabilities		3,669,989	3,267,904
Non-current liabilities			
Trade and other payables	13	726,681	85,275
Provision for other liabilities and charges	14	113,821	369,583
Total non-current liabilities		840,502	454,858
Total liabilities		4,510,491	3,722,762
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		2,475,068	2,475,068
Retained earnings		14,253,250	16,636,611
Total equity	15	23,114,507	25,497,868
Total equity and liabilities		27,624,998	29,220,630

The consolidated financial statements set out on pages 62 to 102 were authorised for issue on 18 February 2013 by the Management of Makedonski Telekom AD - Skopje, and are subject to review and approval by the Board of Directors on 25 February 2013 and by the shareholders on date that will be subsequently agreed.

Daniel Szasz
Chief Executive Officer

Slavko Projkoski
Chief Finance Officer

Consolidated statement of comprehensive income

In thousands of denars	Note	Year ended 31 December 2012	2011
Revenues	16	13,814,872	15,694,588
Depreciation and amortisation		(3,753,492)	(3,610,804)
Personnel expenses	17	(1,549,605)	(1,538,747)
Payments to other network operators		(1,548,379)	(1,566,762)
Other operating expenses	18	(4,401,452)	(4,406,611)
Operating expenses		(11,252,928)	(11,122,924)
Other operating income	19	1,103,275	199,505
Operating profit		3,665,219	4,771,169
Finance expenses	20	(98,833)	(92,568)
Finance income	21	213,810	238,603
Finance income - net		114,977	146,035
Profit for the year		3,780,196	4,917,204
Total comprehensive income for the year		3,780,196	4,917,204
Earnings per share (EPS) information:			
Basic and diluted earnings per share (in denars)		43.83	57.01

The notes od pages 66 to 102 are an integral part of these consolidated financial statements

Consolidated statement of cash flows

Year ended 31 December

In thousands of denars	Note	2012	2011
Operating activities			
Profit before tax		3,780,196	4,917,204
Adjustments for:			
Depreciation and amortisation		3,753,492	3,610,804
(Recovery)/write down of inventories to net realisable value		(4,886)	9,245
Fair value losses on financial assets	20	3,254	11,425
Impairment losses on trade and other receivables	18	64,560	595
Reversal of impairment on advances given to suppliers		(11,233)	-
Net release of provisions	14	(106,039)	(133,214)
Net gain on disposal of property, plant and equipment	19	(839,731)	(22,544)
Dividend income	21	(3,285)	(3,282)
Interest expense	20	63,974	42,408
Interest income	21	(210,525)	(231,004)
Effect of foreign exchange rate changes on cash and cash equivalents		2,136	(344)
Cash generated from operations before changes in working capital		6,491,913	8,201,293
Decrease/(increase) in inventories		161,310	(83,701)
(Increase)/decrease in receivables		(20,486)	70,082
Decrease in payables		(146,482)	(643,382)
Cash generated from operations		6,486,255	7,544,292
Interest paid		(694)	(1,494)
Income taxes received		-	8,882
Cash flows generated from operating activities		6,485,561	7,551,680
Investing activities			
Acquisition of property, plant and equipment		(2,653,832)	(1,863,018)
Acquisition of intangible assets		(143,701)	(631,358)
Loans collected/(granted)		812	(17,158)
Deposits collected from banks		8,357,056	11,066,115
Deposits placed with banks		(6,778,369)	(10,804,232)
Dividends received		3,285	3,282
Proceeds from sale of property, plant and equipment		33,984	68,207
Interest received		208,016	237,660
Cash flows used in investing activities		(972,749)	(1,940,502)
Financing activities			
Dividends paid		(6,163,557)	(5,947,479)
Cash flows used in financing activities		(6,163,557)	(5,947,479)
Net decrease in cash and cash equivalents		(650,745)	(336,301)
Cash and cash equivalents at 1 January		1,078,115	1,414,072
Effect of foreign exchange rate changes on cash and cash equivalents		(2,136)	344
Cash and cash equivalents at 31 December	5	425,234	1,078,115

The notes od pages 66 to 102 are an integral part of these consolidated financial statements

Consolidated 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 2011		9,583,888	540,659	(3,738,358)	2,475,068	17,666,886	26,528,143
Total comprehensive income for the year		-	-	-	-	4,917,204	4,917,204
Dividend payment		-	-	-	-	(5,947,479)	(5,947,479)
Balance at 31 December 2011	15	9,583,888	540,659	(3,738,358)	2,475,068	16,636,611	25,497,868
Balance at 1 January 2012		9,583,888	540,659	(3,738,358)	2,475,068	16,636,611	25,497,868
Total comprehensive income for the year		-	-	-	-	3,780,196	3,780,196
Dividend payment		-	-	-	-	(6,163,557)	(6,163,557)
Balance at 31 December 2012	15	9,583,888	540,659	(3,738,358)	2,475,068	14,253,250	23,114,507

The notes od pages 66 to 102 are an integral part of these consolidated financial statements

1. GENERAL INFORMATION
1.1. About the Company

These consolidated financial statements relate to the group of Makedonski Telekom AD - Skopje, which includes Makedonski Telekom AD - Skopje, T-Mobile Macedonia AD Skopje and e-Makedonija foundation – Skopje (hereinafter referred as: "the Group").

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

The Group's immediate parent company is AD Stonebridge Communications – Skopje, under voluntary liquidation, solely owned by Magyar Telekom Plc. registered in Hungary. The ultimate parent company is Deutsche Telekom AG registered in Federal Republic of Germany.

The Company is the leading fixed line service provider while T-Mobile Macedonia AD (hereinafter referred as: "the subsidiary") is the leading mobile service provider in Macedonia. e-Makedonija is a foundation, established to support application and development of information technology in Macedonia.

The Macedonian telecommunications sector is regulated by the Electronic Communications Law ("ECL") enacted in March 2005. Under the ECL, the Company has been designated as a Significant Market Power operator ("SMP") in the market for fixed line voice telephone networks and services, including the market for access to the networks for data transmission and leased lines.

During 2012, there were several amendments in the ECL and also most of the existing Rulebooks were implemented or amended by the Agency for Electronic Communications (the "Agency"): retail price regulation; technical, usage and other conditions for relevant types of electronic communication networks and infrastructure, associate infrastructure capacities and facilities; determination of calculation method for number usage and annual fees; assignment of numbers and series of numbers from the numbering plan; general terms and conditions; cultural SMS; educations (school info) SMS; "underground cabling"; Local bit-stream access; wholesale leased lines; minimal set of leased lines.

Several by-laws were enacted in the third quarter of 2012 amendments of the bylaw for free-of-charge provision of SMSs for promotion of the national and cultural heritage of a relevant state body; bylaw on general terms and conditions for usage of electronic communication services was modified in the quality of service domain; bylaw on control and measurement of quality of services parameters by the Agency. Up to date, there are no activities with state bodies regarding free-of-charge provision of SMSs for promotion of the national and cultural heritage; accordingly there is no financial impact on these financial statements.

In December 2012, the Agency has announced starting of the new round market analysis on wholesale markets: 4 – Call origination, 5 – Call termination and 6 – Call transit services in public telephone networks on fix location. The final document is expected to be published in the first quarter of 2013.

On 5 April 2012, The Agency developed and published general Regulatory strategy for the period of next 5 years (2012-2016). The official document is "Five years regulatory strategy of AEC". Main focuses of the strategy are: fostering of wholesale and retail services regulation, introduction of pure LRIC (for fixed and mobile voices, SMS etc), NGA and FTTH regulation in line with NGA recommendation and refarming and frequency allocation for 4 G services.

Domestic electronic communication market is highly competitive and there is trend of price decreasing, both for fixed and mobile services. With amendments of the Rulebook for retail regulation, the Agency specified the manner and procedure for regulation of the retail prices for fixed voice telephone networks and services of the operator with significant market power on relevant retail markets. Ex-ante retail regulation shall be based on price squeeze methodology.

These activities resulted in price decrease of some wholesale and retail services of the Company. On retail side, standard monthly subscription for business customers was decreased (on equal level with residential one). On wholesale side there were changes in fees for interconnection (termination and origination), ULL, Bit-stream access and wholesale line rental (WLR).

The Company has a cost based price obligation for the Regulated wholesale services, using Long Run Incremental Costs methodology ("LRIC"). In August 2012, the Agency published the draft results from its own developed LRIC Bottom – up costing model for Local Bit Stream (cost based) and for retail and wholesale Leased Lines, ducts and dark fibre and minimal set of leased lines (cost based). As a result, on 15 January 2013, the Agency brought a decision for decrease of the fees and approved the changed Reference offer for provision of physical access and usage of electronic communication infrastructure and associated facilities (ducts and dark fibre). The new fees will be implemented as of 1 February 2013.

In line with the PSTN migration of the Company's network, process that will last until end of 2013, the Agency approved proposed modifications of the Company's Wholesale Offers (processes, technical conditions and prices) applicable as of 1 January 2012.

In addition, the Agency approved the Reference offers for WS DLL, Local Bit-stream access and Minimal set of leased lines and new changed methodologies of calculation of prices (length-dependent) were implemented. The WS DLL and Local

Bit-stream access fees have been decreased as of 1 December 2012 and the fees for minimal set of leased lines as of 1 January 2013.

Based on the second round analysis on Market 16 and LRIC cost model, Mobile Termination Rate ("MTR") has been defined with a glide path decrease in a timeframe of four years (until 2013). In September 2011, the price for the national MTR was decreased to 3.1 MKD and was planned to continue decreasing by 0.1 MKD/min each year down to 2.9 MKD/min by September 2013. At the same time, the Agency regulated the MTRs for ONE and VIP (VIP was designated with SMP on this market in the second round analysis) with a four year glide path. In May 2012, the Agency made a revision of the calculation of MTR of all three mobile operators and imposed new glide path. As from 1 June 2012 until 31 August 2013, the subsidiary's MTR were set at 3.0 MKD/min, while ONE and VIP Operator's MTR were set at 4.0 MKD/min. MTR symmetry to 1.2 MKD/min calculated using Bottom-up LRIC+ will be applied from 1 September 2013, and a further decrease to 0.9 MKD/min calculated using Bottom-up pure LRIC will be applied from 1 September 2014.

In October 2011 the Agency announced public call for submission of requests for acquiring a radiofrequency license for mobile services in 790 – 862 MHz frequency band, as well as in the 1800 MHz. In August 2012, a Public Tender with a Public Auction for one radiofrequency license of 2 x 10 MHz in 790 - 862 MHz band (LTE) for public mobile services was published. Since the minimum number of two interested operators for the auction to take place was not met, in September 2012 the tender was re-opened under a procedure without public auction. The due date for submission of bids was 24 October 2012. The tender was unsuccessful because no existing or new operator submitted a bid.
In August 2012, a Public Tender for radiofrequencies of 2 x 10 MHz at 1800 MHz (GSM, DCS and IMT-2000/UMTS) for public mobile services was published and concluded in September 2012. VIP Operator won the license.

In October 2012, the Agency requested changes of subsidiary's RIO in the direction of allowing termination of transited traffic into a subsidiary network. This intervention of the Agency was made in the RIOs of all operators in order to enable wider space for transit of traffic.

Starting with August 2006, the Company has more than 100 shareholders, as a result of the sale of Governmental shares through auction organized by the Government during June 2006. According to the Law on securities it qualifies as company with special reporting obligations, which mainly, encompasses provision of quarterly, semi-annual and annual financial information to the Securities Exchange Commission of the Republic of Macedonia. The Company's registered address is "Kej 13 Noemvri" No 6, 1000, Skopje, Republic of Macedonia. The average number of employees based on the working hours during 2012 was 1,655 (2011: 1,670).

1.2. Investigation into certain consultancy contracts

On 13 February 2006, Magyar Telekom Plc., the controlling owner of the Company, (via Stonebridge Communications AD - Skopje (under liquidation), 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 totalled 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. For further information about the internal investigation, please refer to the financial statements of the Company for the previous years.

In 2011, Magyar Telekom 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 has entered into a two-year deferred prosecution agreement (the "DPA") with the DOJ, under which Magyar Telekom was charged with a violation of the anti-bribery provisions of the FCPA and two violations of the books and records provisions of the FCPA. In accordance with the DPA, on 29 December 2011, the DOJ filed a criminal information (the "Information") setting out these charges in the U.S. District Court for the Eastern District of Virginia. Magyar Telekom has agreed to admit to the DOJ's allegations and to acknowledge responsibility for the acts as charged in the Information. Magyar Telekom has agreed to pay a criminal penalty of USD 59.6 million to cooperate with the DOJ in future investigations, to refrain from any violations of U.S. federal criminal law, to continue to operate a compliance program and to report to the DOJ annually regarding the compliance program during the term of the DPA. The DOJ will seek to dismiss the charges upon conclusion of the two-year term, unless Magyar Telekom violates the terms of the DPA.

On 29 December 2011, the SEC filed in the U.S. District Court for the Southern District of New York a Complaint (the "Complaint") and a proposed Final Judgment against Magyar Telekom (the "Final Judgment"). Without admitting or denying the allegations in the Complaint, Magyar Telekom consented to the filing of the Complaint and entry of the Final Judgment to resolve the SEC's investigation. The Complaint alleged civil violations of the FCPA's anti-bribery, books and records and internal control provisions. The Final Judgment, which was approved by the U.S. District Court for the Southern District of New York on 3 January 2012, permanently enjoined Magyar Telekom from violating these provisions and required Magyar Telekom to pay USD 25.2 million for disgorgement of profits and USD 6.0 million of prejudgment interest thereon. The final settlements recognize the DOJ's and the SEC's consideration of Magyar Telekom's self-reporting, thorough internal investigation, remediation and cooperation with the DOJ's and the SEC's investigations. Magyar Telekom has undertaken several remedial measures to address the issues identified during the course of these investigations. These measures include steps designed to revise and enhance Magyar Telekom's internal controls, as well as the establishment of the Corporate Compliance Program. The Corporate Compliance Program promotes awareness of Magyar Telekom's compliance policies and procedures through training, the operation of a whistleblower hotline, and monitoring of, and communications with, employees and subsidiaries of Magyar Telekom. Magyar Telekom remains fully committed to responsible corporate behaviour.

On 6 January 2012 Magyar Telekom paid a criminal penalty of USD 59.6 million pursuant to the settlement with the DOJ and on 23 January 2012 Magyar Telekom paid USD 25.2 million for disgorgement of profits and USD 6.0 million of prejudgment interest pursuant to the settlement with the SEC, totalling USD 90.8 million paid with respect to the settlements with the DOJ and the SEC.

The above-referenced settlement by Magyar Telekom and associated liability was not recorded in the consolidated financial statements of the Group. These amounts were reflected in the consolidated financial statements of Magyar Telekom and are not reflected in the consolidated financial statements of the Company.

According the information provided to the Company by Magyar Telekom Plc., on 2 December 2009, the Audit Committee of Magyar Telekom Plc., provided the Magyar Telekom's Board of Directors with a "Report of Investigation to the Audit Committee of Magyar Telekom Plc." dated 30 November 2009 (the "Final Report").

In relation to the issuance of the Final Report and the information provided to the Company by Magyar Telekom, in January 2010 the Chairman of the Company's Board of Directors requested third party legal and tax expertise for assessment of the potential accounting and tax implications arising from the transactions conducted by the Company and its subsidiary subject to the Final Report.

The external experts prepared reports (the "Reports") on their assessment and submitted the Reports to the Chairman of the Company's BoD and the Management of the Company and its subsidiary accordingly. As a result, based on the analysis of the Tax and Legal experts and information available to the Management related to the transactions subject of the Final Report, amount of MKD 248,379 thousand has been identified as potential tax impact, together with related penalty interest, as of 31 December 2009 arising from the transactions conducted by the Company and its subsidiary subject to the Final Report. In 2010 the amount related to the identified potential tax impact, together with related penalty interest, amounted to MKD 261,834 thousand out of which MKD 227,972 thousand related to the Company were paid in 2010 upon an executive decision issued by the Public Revenue Office. In 2012 the amount of MKD 36,724 thousand related to the identified potential tax impact, together with related penalty interest, in the subsidiary was paid upon an executive decision issued by the Public Revenue Office (see note 14). In addition, the value of one contract of MKD 105,147 thousand capitalised within treasury shares was corrected in 2009 consolidated financial statements and was accounted for as though these payments had been expensed in 2006 rather than capitalized as part of treasury shares as originally reported. The other contracts that were identified by the Final Report and the reports of the tax and legal experts related to transactions undertaken by the Company and its subsidiary were expensed in the related periods (2001-2007).

In May 2008, the Ministry of Interior ("MOI") of the Republic of Macedonia ("RoM") submitted to the Company an official written request for information and documentation regarding certain payments for consultancy services and advance dividend, as well as certain procurements and contracts. In June 2008 the Company submitted copies from the requested documents. In the same period, T-Mobile Macedonia has also received similar requests for provision of certain documentation to the Ministry of Interior of RM and they were submitted accordingly. In October 2008 the Investigation Judge from the Primary Court Skopje 1 – Skopje (the criminal court), has issued an official written order to the

Company to handover certain original documentation. Later in October 2008, the Company officially and personally handed over the requested documentation. Additional MOI requests in written were submitted and the Company provided the requested documentation.

We understand, based on public information available as of 10 December 2008, that the MOI Organized Crime Department submitted the files to the Basic Public Prosecution Office of Organized Crime and Corruption, with a proposal to bring criminal charges against Attila Szendrei (former CEO of Makedonski Telekom AD - Skopje), Rolf Plath (former CFO of Makedonski Telekom AD - Skopje), Mihail Kefaloyannis (former member of the Board of Directors in Stonebridge and former member of the Board of Directors in Telemacedonia) and Zoltan Kisjuhász (former CEO of Stonebridge and former non-executive member of the Board of Directors of Makedonski Telekom AD - Skopje) on the account of a reasonable doubt for committed criminal act. These individuals are proposed to be charged with having "abuse of office and authorizations" in their position in Makedonski Telekom AD - Skopje by concluding consultancy contracts for which there was no intention or need for any services in return. The Primary Court Skopje 1 in Skopje, Investigative Department for Organized Crime delivered a summon to the Company in connection with the criminal charges against the above stated persons and asked for a statement whether the Company has suffered any damages on the basis of the said consultancy contracts.

After several postponements of the court hearing related to the investigation procedure handled in the Primary Court Skopje 1 Skopje, on the hearing held on 13 April 2009, the representatives of Makedonski Telekom AD Skopje declared the position of the Company that taking into consideration the ongoing independent internal investigation conducted by White & Case, approved by the Company's BoD, it was premature to preannounce any damage which may be caused by means of the implementation of the mentioned contracts or with reference to them. An expertise was performed on 11 May 2010 and the experts from Ministry of Justice of the Republic of Macedonia – Court Expertise Office – Skopje, asked for some additional documents from Company's side in order to prepare the expertise. The experts asked additional information related to certain agreements concluded in 2005 and 2006, and related invoices. The Company has collected and submitted requested information/documentation to the Court Expertise Office on 1 November 2010.

On 14 March 2011, the Company received from the Primary Court Skopje 1 a copy of the "Finding and Opinion", dated November 2010, issued by the Bureau of Judicial Expertise to the Primary Court Skopje 1 as a result of the expertise procedure. The "Finding and Opinion" addresses and contains conclusions regarding five contracts entered into with Chaptex and Cosmotelco in 2005 and 2006 and formerly reviewed by the Audit Committee of Magyar Telekom. The "Finding and Opinion" concludes that, based on these contracts, expenditures in the amount of EUR 3.975 million were made by the Company and Stonebridge to Chaptex "without evidence for performed services"; accordingly, shareholders of the Company and Stonebridge in the proportion of their shareholding, suffered damages in the aforementioned aggregate amount as result of decreased proceeds for payment of dividend in 2005 and 2006.

Based on publically available information, we understand that the Public Prosecutor has filed an indictment in 2011 against Mr. Szendrei, Mr. Kisjuhász and Mr. Plath, but not against Mr. Kefaloyannis. The court hearing has taken place at the end of 2011, but it was postponed since the court could not provide presence of any of the defendants. The Company, as damaged party in this case, has not received official court invitation for the hearing. Pursuant to the questions posed by the investigative judge, it could be concluded that the public prosecutor has addressed the Company as party damaged by the actions of the defendants. However, based on the content of the order for expertise issued by the investigative judge, and on the basis of the expert opinion, it can be concluded that now damaged parties are shareholders of the Company (Stonebridge AD Skopje, Republic of Macedonia and minority shareholders) and therefore the state budget, as the Republic of Macedonia is a shareholder in the Company. Therefore, the public prosecutor should clear out who is considered as damage party in this particular case, which is of significant importance for the position of the Company in this proceeding and its further actions. At the moment there aren't any indications that the Company could be found liable and made to pay any penalties or fines for the criminal procedure which is initiated against the individuals and accordingly the Group did not record any provision.
On 23 February 2012 the Company received a request for documentation from the Financial Police Office of the Ministry of Finance of RoM related to certain consultancy contract and underlying documentation, which were also provided to White & Case during the internal investigation. The Company responded to the request accordingly.
We have not become aware of any information as a result of a request from any regulators or other external parties, other than as described above, 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 consolidated 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 consolidated financial statements of Makedonski Telekom AD – Skopje have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The consolidated 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 Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated 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 Group in 2012

- IFRS 7 (amended). The IASB published an amendment to IFRS 7 Amendments to IFRS 7 Financial Instruments: Disclosures in October 2010. The amendment requires quantitative and qualitative disclosures regarding transfers of financial assets that do not result in entire derecognition, or that result in continuing involvement. This is intended to allow users of financial statements to improve their understanding of such transactions (for example, securitizations), including understanding the possible effects of any risks that may remain with the entity that transferred the assets. The amendments also require additional disclosures if a disproportionate amount of such transactions are undertaken around the end of a reporting period. The application of the amendment is required for annual periods beginning on or after 1 July 2011. An earlier application is permitted. The adoption of the amended standard did not result in significant changes in the financial statements disclosures of the Group.

2.1.2. Standards, amendments and interpretations effective in 2012 but not relevant for the Group

- IFRS 1 (amended). The IASB amended IFRS 1 in January 2010 and in December 2010. As the Group has been reporting according to IFRS for many years, neither the original standard, nor any revision to that is relevant for the Group.
- IAS 12 (amended). In December 2010, the IASB issued the pronouncement „Deferred Tax: Recovry of Underlying Assets - Amendments to IAS 12". The new pronouncement „Deferred Tax: Recovery of Underlying Assets - Amendments to IAS 12" sets presumptions for the recovery (e.g. use or sale) of certain assets. This is relevant in cases where the type of recovery has different tax consequences. The pronouncement sets the rebuttable presumption that the carrying amount of investment property that is measured using the fair value model in IAS 40 will be recovered through sale. Moreover, the carrying amount of a non-depreciable asset measured using the revaluation model in IAS 16 is always deemed to be recovered through sale. The amendment supersedes SIC 21 and shall be applied for annual periods beginning on or after 1 January 2012. Earlier application is permitted. As the Group does not have investment properties or non-depreciable asset measured using the revaluation model in IAS 16, the amended standard did not have any impact on the Group's financial statements.

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

- IAS 1 (amended). The IASB published amendments to IAS 1 Presentation of Financial Statements in June 2011. The amendments to IAS 1 retain the ‚one or two statement' approach at the option of the entity and only revise the way other comprehensive income is presented: requiring separate subtotals for those elements which may be reclassified to the profit or loss section of the income statement (recycled) and those elements that will not. The application of the amendment is required for annual periods beginning on or after 1 July 2012.

- IAS 19 (amended). The IASB published amendments to IAS 19 - Employee Benefits in June 2011. The amendments focus on the following key areas:
  - Recognition (only defined benefit plans)
  - elimination of the „corridor approach"
  - Presentation (only defined benefit plans) - gains and losses that arises from re-measurements should be presented (only) in other comprehensive income (elimination of the remaining options)
  - Disclosures - enhancing of disclosure requirements, e.g.
    - the characteristics of a company's defined benefit plans,
    - amounts recognized in the financial statements,
    - risks arising from defined benefit plans and
    - participation in multi-employer plans
  - Improved / clarified guidance relating to several areas of the standard, e.g.
    - classification of benefits,
    - recognition of termination benefits and
    - interest rate relating to the expected return on the plan assets

  The application of the amendment is required for annual periods beginning on or after 1 January

2013. We do not expect that the adoption of the amended standard would result in significant changes in the financial statements of the Group.

- IFRS 7 (amended). In December 2011 the IASB issued Disclosures – Offsetting Financial Assets and Financial Liabilities – Amendments to IFRS 7. The amendments clarify the accounting require ments for offsetting financial instruments and introduce new disclosure requirements that aim to improve the comparability of financial statements prepared in accordance with IFRS and US GAAP. The application of the amendment is required for annual periods beginning on or after 1 January 2013. The Group is currently analysing the possi ble changes in the disclosures in the financial statements of the Group.

- IFRS 9 Financial Instruments. The standard forms the first part of a three-phase project to replace IAS 39 (Financial Instruments: Recognition and Measurement) with a new standard, to be known as IFRS 9 Financial Instruments. IFRS 9 prescribes the classification and measurement of financial assets and liabilities. The remaining phases of this project, dealing with the impairment of financial instruments and hedge accounting, as well as a further project regarding derecognition, are in progress.

Financial assets – At initial recognition, IFRS 9 requires financial assets to be measured at fair value. After initial recognition, financial assets continue to be measured in accordance with their classification under IFRS 9. Where a financial asset is classified and measured at amortized cost, it is required to be tested for impairment in accordance with the impairment requirements in IAS 39. IFRS 9 defines the below rules for classifi cation.

- IFRS 9 requires that financial assets are classi fied as subsequently measured at either amor tized cost or fair value. There are two conditions needed to be satisfied to classify financial assets at amortized cost: (1) The objective of an entity's business model for managing financial assets has to be to hold assets in order to collect con tractual cash flows; and (2) The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of princi pal and interest on the principal amount outstan ding. Where either of these conditions is not satisfied, financial assets are classified at fair value.
- Fair Value Option: IFRS 9 permits an entity to designate an instrument, that would otherwise have been classified in the amortized cost cate gory, to be at fair value through profit or loss if that designation eliminates or significantly redu ces a measurement or recognition inconsistency ('accounting mismatch').
- Equity instruments: The default category for equity instruments is at fair value through profit or loss. However, the standard states that an entity can make an irrevocable election at initial recognition to present all fair value changes for equity investments not held for trading in other comprehensive income. These fair value gains or losses are not reported as part of a reporting entity's profit or loss, even when a gain or loss is realized. Only dividends received from these investments are reported in profit or loss.
- Embedded derivatives: The requirements in IAS 39 for embedded derivatives have been changed by no longer requiring that embedded deriva tives be separated from financial asset host contracts.
- Reclassification: IFRS 9 requires reclassification between fair value and amortized cost when, and only when there is a change in the entity's busi ness model. The ‚tainting rules' in IAS 39 have been eliminated.

Financial liabilities – IFRS 9 "Financial Instru ments" sets the requirements on the accounting for financial liabilities and replaces the respec tive rules in IAS 39 "Financial Instruments: Reco gnition and Measurement". The new pronounce ment:

- Carries forward the IAS 39 rules for the recogni tion and derecognition unchanged.
- Carries forward most of the requirements in IAS 39 for classification and measurement.
- Eliminates the exception from fair value measurement for derivative liabilities that are linked to and must be settled by delivery of an unquoted equity instrument.
- Changes the requirements related to the fair value option for financial liabilities to address own credit risk.

An entity shall apply IFRS 9 for annual periods beginning on or after 1 January 2015. Earlier adoption is permitted. A reporting entity must apply IFRS 9 retrospectively. For entities that adopt IFRS 9 for periods before 1 January 2012 the IFRS provides transition relief from restating comparative information. The Group is currently analysing the possible changes in the financial statements of the Group that will be a result of the adoption of the new standard.

- IFRS 10, IFRS 11, IFRS 12, IAS 27 (amended) and IAS28 (amended). The IASB published IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, IFRS 12 Disclosures of Interests in Other Entities and amendments to IAS 27 Sepa rate Financial Statements and IAS 28 Investments in Associates and Joint Ventures in May 2011. IFRS 10 replaces the consolidation guidance in IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation — Special Purpose Entities by introducing a single consoli dation model for all entities based on control, irrespective of the nature of the investee (i.e., whether an entity is controlled through voting rights of investors or through other contractual arrangements as is common in special purpose entities). Under IFRS 10, control is based on whether an investor has:
- power over the investee;
- exposure, or rights, to variable returns from its involvement with the investee; and
- the ability to use its power over the investee to affect the amount of the returns.

IFRS 11 introduces new accounting requirements for joint arrangements, replacing IAS 31Interests in Joint Ventures. The option to apply the proporti onal consolidation method when accounting for jointly controlled entities is removed. Additionally, IFRS 11 eliminates jointly controlled assets to now only differentiate between joint operations and joint ventures. A joint operation is a joint arrange ment whereby the parties that have joint control have rights to the assets and obligations for the liabilities. A joint venture is a joint arrangement, whereby the parties that have joint control have rights to the net assets.
IFRS 12 will require enhanced disclosures about both consolidated entities and unconsolidated entities in which an entity has involvement. The objective of IFRS 12 is to require information so that financial statement users may evaluate the basis of control, any restrictions on consolidated assets and liabilities, risk exposures arising from involvements with unconsolidated structured entities and non-controlling interest holders' involvement in the activities of consolidated entities.
The requirements relating to separate financial statements are unchanged and are included in the amended IAS 27 Separate Financial Statements. The other portions of IAS 27 are replaced by IFRS 10.

IAS 28 Investments in Associates and Joint Ven tures is amended for conforming changes based on the issuance of IFRS 10, IFRS 11 and IFRS 12. In June 2012 the IASB published amendments to IFRS 10, IFRS 11 and IFRS 12 on transition gui dance. These amendments provide additional transition relief to IFRSs 10, 11 and 12, limiting the requirement to provide adjusted comparative information to only the preceding comparative period. For disclosures related to unconsolidated structured entities, the amendments will remove the requirement to present comparative informati on for periods before IFRS 12 is first applied.
An entity shall apply this package of five new and revised standards (including the amendments) for annual periods beginning on or after 1 January 2013. We do not expect that their adoption would result in significant changes in the financial state ments of the Group.

- IFRS 13 The IASB published IFRS 13 Fair Value Measurement in May 2011in order to replace the guidance on fair value measurement in existing IFRS accounting literature with a single standard. The IFRS is the result of joint efforts by the IASB and FASB to develop a converged fair value framework. IFRS 13 defines fair value, provides guidance on how to determine fair value and requires disclosures about fair value measure ments. However, IFRS 13 does not change the requirements regarding which items should be measured or disclosed at fair value. IFRS 13 seeks to increase consistency and comparability in fair value measurements and related disclosures through a ‚fair value hierarchy'. The hierarchy categorizes the inputs used in valuation tech niques into three levels. The hierarchy gives the highest priority to (unadjusted) quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. If the inputs used to measure fair value are categorized into different levels of the fair value hierarchy, the fair value measurement is categorized in its entire ty in the level of the lowest level input that is signi ficant to the entire measurement (based on the application of judgment). The new standard should be applied for annual periods beginning on or after 1 January 2013. Earlier application is permitted. We do not expect that the adoption of the new standard would result in significant changes in the financial statements of the Group.
- IAS 32 (amended). In December 2011 the IASB issued Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32). These amend ments are to the application guidance in IAS 32, 'Financial instruments: Presentati on', and clarify some of the requirements for offsetting financial assets and financial liabilities on the balance sheet. The application of the amendment is re quired for annual periods beginning on or after 1 January 2014. The Group is currently analy sing the possible changes in the disclosures in the financial statements of the Group that will be a result of the amendment of the standard.

2.1.4. Standards, amendments and interpretations that are not yet effective and not relevant for the Group's operations

- IFRIC 20 In October 2011, the IASB published IFRIC 20 Stripping Costs in the Produc- tion Phase of a Surface Mine. The interpretation shall be applied for annual periods beginning on or after 1 January 2013. Earlier application is permit- ted. As the Group does not have mining activity, the interpretation will not have any impact on the Group's financial statements.

- IFRS 1 The IASB amended IFRS 1 in March 2012 and in May 2012. The amendments should be applied for annual periods beginning on or after 1 January 2013. As the Group has been reporting according to IFRS for many years, neither the origi nal standard, nor any revision to that is relevant for the Group.

- IFRS 10, IFRS 12 and IAS 27 (amended) Invest ment Entities. In October 2012, the IASB issued Investment Entities (Amend ments to IFRS 10, IFRS 12 and IAS 27). These amendments include: the creation of a definition of an invest ment entity; the requirement that such entities measure investments in subsidi aries at fair value through profit or loss instead of consolidating them; new disclosure requirements for investment entities; and requirements for an investment entity's separate financial state ments. The amendments are effec tive from 1 January 2014 with early adopti on permitted. As the Group does not have investment entities, the amendment will not have any impact on the Group's financial statements.

2.2. Consolidation
2.2.1. Subsidiaries

Subsidiaries are those enterprises controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise, generally accompanying a shareholding of more than half of the voting rights, so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

The subsidiaries of the Company and the ownership interest are presented below:

	Country of incorporation	Ownership interest As at 31 December 2012	Ownership interest As at 31 December 2011
T-Mobile Macedonia AD	Macedonia	100	100
e-Makedonija	Macedonia	100	100

2.3. Foreign currency translation
2.3.1. Functional and presentation currency

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

2.3.2. 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 Group are predominantly EURO (EUR) and United States Dollars (USD), based. The exchange rates used for translation at 31 December 2012 and 31 December 2011 were as follows:

	2012 MKD	2011 MKD
1 USD	46.65	47.53
1 EUR	61.50	61.51

2.4. 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 Group 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 Group 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.

2.4.1. Financial assets

The Group 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.

Regular way purchases and sales of financial assets are recognized on the trade-date, the date on which the Group 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 within Profit or Loss.

The Group 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 the derecognition of the financial asset, when the net carrying amount (including any allowance for impairment) is derecognized from the Consolidated 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 Group 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 Group manages such asset and makes purchase and sale decisions based on its fair value in accordance with the Group investment strategy for keeping investments within portfolio until there are favourable 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/expenses) 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 Group'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 with bank
- trade receivables
- other receivables
- employee loans
- receivables and loans to third parties

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, call deposits held with banks and other short-term highly liquid investments with original maturities of three months or less.

Should an 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 Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments 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 Group's policy for collective assessment of impairment is based on the ageing of the receivables due to the large number of relatively similar type of customers.

Individual valuation is carried out for the largest customers and international customers and also for customers under litigation and bankruptcy proceedings. In 2011 the Group performed detailed analysis of the customers' portfolios and included in the individual valuation also the customers of interconnection services. Itemized valuation is also performed in special circumstances.

When a trade receivable is established to be uncollectible, it is written off against the 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. 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 Group 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 favourable 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 Group 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 any 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).

2.4.2. 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.

2.5. Inventories

Inventories are stated at the lower of cost or net realisable value. Net realisable 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 realisable value).

2.6. Non-current assets held for sale

An asset is classified as held for sale if it is no longer needed for the future operations of the Group, 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 amortisation) as an impairment loss.

2.7. Property, plant and equipment (PPE)

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see note 2.9).

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.

In 2011, Law on acting with illegally built facilities was enacted, according to which the Group 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 Group capitalises those expenditures as incurred. The capitalised expenditures are included within Property, plant and equipment (see note 11).

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

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 Group 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).

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:

	2012 Years	2011 Years
Buildings	20-40	20-40
Aerial and cable lines	20-25	20-25
Telephone exchanges	7-10	10
Base stations	10	10
Computers	4	4
Furniture and fittings	4-10	4-10
Vehicles	4-10	4-10
Other	2-15	2-15

2.8. Intangible assets

Intangible assets that are acquired by the Group are stated at cost less accumulated amortisation and impairment losses (see note 2.9).

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

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).

The estimated useful lives are as follows:

	2012 Years	2011 Years
Software and software licences	2 - 5	2 - 5
Concession	18	18
3G licence and 2G 1800 MHz licence	10	10

Amortisation is charged to the Profit for the year on a straight-line basis over the estimated useful lives of intangible assets. Intangible assets are amortised from the date they are available for use. The assets useful lives are reviewed, and adjusted if appropriate, at least once a year.

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.

2.9. Impairment of PPE and intangible assets

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

Assets that are subject to amortisation 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 amortisation). Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.10. Provisions and contingent liabilities

Provisions are recognized when the Group 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 expenditure 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.

2.11. Share capital

Ordinary shares are classified as equity.

2.12. Treasury shares

When the Group purchases its equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to the Group's equity holders until the shares are cancelled or reissued. When such shares are subsequently reissued, any consideration received (net of any directly attributable incremental transaction costs and the related income tax effects) is included in equity attributable to the Group's equity holders.

2.13. Other reserves

Under local statutory legislation, the Group members are required to set aside 15 percent of its net statutory profit for the year in a statutory reserve until the level of the reserve reaches 1/5 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 Group members.

2.14. Revenues

Revenues for all services and equipment sales (see note 16) are shown net of VAT, discounts and after elimination of sales within the Group. 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 Group and specific criteria of IAS18 on the sale of goods and rendering of services are met for the provision of each of the Group's services and sale of goods.

Customers of the Group are granted loyalty awards (credit points) based on their usage of the Group'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 Group. 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 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.

2.14.1. Fixed line and mobile telecommunications revenues

Revenue is primarily derived from services provided to customer 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 Group 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 Group 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 Group 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.

Revenue 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 Group, the Group 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 consolidated financial statements as the Group 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.

2.14.2. 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 Consolidated statement of financial position as Trade and other receivables.

2.15. Employee benefits

2.15.1. Short term employee benefits and pensions

The Group, 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 Group 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 Group policy and according the historical data employees use their annual holiday within the one year legal limit. The Group does not operate any other pension scheme or post retirement benefits plan and consequently, has no obligation in respect of pensions. The Group has a legal obligation to pay to employees two average monthly salaries in Republic of Macedonia at their retirement date, for which appropriate liability is recognized in the consolidated financial statements measured at the present value of two average monthly salaries together with adjustments incorporated in the actuarial calculation. Further to the legal obligation 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. Accordingly, appropriate liability for one additional salary for the Company's employees is recognized in the consolidated financial statements measured at the present value of one average monthly salary 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 Group is not obligated to provide further benefits to current and former employees.

2.15.2. Bonus plans

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

2.15.3. 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 Group 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.

2.16. Marketing expenses

Marketing costs are expensed as incurred. Marketing expenses are disclosed in note 18.

2.17. Taxes

2.17.1. Income tax

Companies do not have to pay income tax on their profit before tax (earned since 1 January 2009) until that profit is distributed in a form of dividend or other forms of profit distributions. If dividend is paid, 10% income tax is payable at the moment of the dividend payment, regardless of whether in monetary or non-monetary form, to the foreign non resident legal entities and, foreign and domestic individuals. The dividends paid out to the resident legal entities are tax exempted. Apart of distribution of dividends, the tax is still payable on the non-deductable expenses incurred in that fiscal year, decreased by the amount of tax credits and other tax reliefs (see note 2.18).

2.17.2. Deferred income tax

Due to the changes in the Macedonian tax legislation effective from 1 January 2009, the tax rate for undistributed profits was effectively reduced to zero, as tax is only payable when profits are distributed. According IAS 12.52A, deferred tax assets and liabilities should be measured using the undistributed rate. This resulted in reversal of part of the deferred tax asset and all deferred tax liability balances as of 31 December 2009, and reversal of all deferred tax assets as of 31 December 2010. In line with the requirements of SIC 25, the Group accounted the impact of this change in the profit and loss in 2009 and 2010, respectively.

2.18. Tax on non-deductable expenses

At the end of fiscal year companies are liable to pay tax on non deductible expenses, regardless of their financial results. The basis is expenses which are not within the scope of the company business i.e. non deductible expenses (representation expenses, gifts etc) less tax credits and other tax reliefs. The tax on non-deductable expenses is recognized in the Profit for the year (Other operating expenses) against Other taxes (see note 8).

2.19. Leases

2.19.1. Operating lease – Group as lessor

Assets leased to customers under operating leases are included in Property, plant and equipment in the Consolidated 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.

2.19.2. Operating lease – Group 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.

2.20. 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.

2.21. Dividend distribution

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

2.22. Segments

The operating segments of the Group are based on the business lines, fixed line and mobile, which is consistent with the internal reporting provided to the chief operating decision maker, the Chief Executive Officer (CEO), who is advised by the Group Management Committee (GMC) of the Company. The CEO is 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 Group described in the Significant accounting policies (see note 2). In the financial statements, the Group's segments are reported in a manner consistent with the internal reporting. The two operating segments, fixed line and mobile, are represented by the two separate legal entities, Makedonski Telekom AD – Skopje and T-Mobile AD Skopje, respectively.

The operating segments' revenues include revenues from external customers as well as the internal revenues generated from other segments. The operating segments, being two separate legal entities, charge revenues for the services delivered to the other operating segments identically as for external customers.

The operating segments' results are monitored by the CEO and the GMC to EBITDA (Earnings before interest, tax, depreciation and amortisation), which is defined by the Group as Operating profit without Depreciation and amortisation expense.

Another important KPI monitored at segment level is capital expenditure (Capex), which is determined as the additions to PPE and Intangible assets.

2.23. Comparative information

In order to maintain consistency with the current year presentation, certain items may have been reclassified for comparative purposes. Material changes in disclosures, if any, are described in detail in the relevant notes.

3. FINANCIAL RISK MANAGEMENT

3.1. Financial risk factors

The Group 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 Group 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 its assets and liabilities. Financial risk management aims to limit these market 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 Group'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 Group arise in MKD, the functional currency of the Company and of all Group entities is MKD, and as a result, the Group 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 and of the Group is the Macedonian denar.

The foreign exchange risk exposure of the Group 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 Group 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 Group manages the foreign exchange risk exposure through maintaining higher amount of deposits in EUR as a proven stable currency.

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.

The Group accumulated more cash in EUR and USD than its trade payables in EUR and USD. At 31 December 2012, if MKD would have been 1% (2011: 1%) weaker or stronger against EUR, profit would have been MKD 40,463 thousand (2011: 49,188 MKD thousand) in net balance higher or lower, respectively. At 31 December 2012, if MKD would have been 1% (2011: 1%) weaker or stronger against USD, profit would have been MKD 404 thousand (2011: MKD 677 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 interest rate risk and return on investment is of secondary importance compared to the safety and liquidity objectives described above. The Group 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 favourable for the Group 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 Group has no 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 Group had MKD 6,788,159 thousand deposits (including call deposits) as at 31 December 2012, 1% rise in market interest rate would have caused (ceteris paribus) the interest received to increase with approximately MKD 67,882 thousand annually, while similar decrease would have caused the same decrease in interest received. Amount of deposit is MKD 9,013,304 thousand (including call deposits) as at 31 December 2011, therefore 1% rise in market interest rate would have caused (ceteris paribus) the interest received to increase with approximately MKD 90,133 thousand annually, while similar decrease would have caused the same decrease in interest received.

c) Other price risk

The Group'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 Group strategy, the investments within portfolio are kept until there are favourable 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 2012 and 31 December 2011, the Group holds investments, which could be affected by risk variables such as stock exchange prices.

The Group had MKD 50,828 thousand investments in equity of other entities that are publically traded on the Macedonian Stock Exchange as at 31 December 2012, 20% rise in market price would have caused (ceteris paribus) MKD 10,166 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 54,083 thousand as at 31 December 2011, therefore 20% rise in market price would have caused (ceteris paribus) MKD 10,817 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 Group 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 Group.

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).

In cases where Group's available funds are exceeding the total amount of the provided bank guarantees mentioned above, the financial investment of the available free cash is to be performed in accordance to the evaluation of the bank risk based on CAEL methodology ratings as an off – site rating system.

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.
- 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 wit hout bank guarantee. In this case, the determination of counterparty limits per banks shall be performed in accordance with CAEL methodology (evaluation of bank risk components – capital, assets, earning and liquidity).

CAEL methodology evaluates banks' financial ratios as an integral part of the four CAEL components - Capital, Assets, Earnings and Liquidity. The final score of the banks (on a scale from 1 to 5) is related to the banks' operations and performance for the analysed period. The Group policy is to invest in banks, which final score varies within following 3 ranges:

A - Banks with evaluation from 1.84 to 2.45 – investments not exceeding 80% from the bank shareholder's capital.

B - Banks with evaluation from 2.46 to 3.07 – investments not exceeding 70% from the bank shareholder's capital.

C - Banks with evaluation from 3.08 to 3.69 – investments not exceeding 60% from the bank shareholder's capital.

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, court proceedings, involvement of the executive unit and factoring. The overdue payments are followed through a debt escalation procedure based on customer's type, credit class and amount of debt. 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 Group has no significant concentration of credit risk with any single counter party or group of counter parties having similar characteristics.
The Group'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 Consolidated statement of financial position. Consequently, the Group 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 2012 is MKD 1,699,245 thousand, denominated in EUR 27,630 thousand, (2011: MKD 1,383,862 thousand). In addition, the Group has deposits with 4 domestic banks (2011: 4 domestic banks).

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 Group could not be able to settle or meet its obligations on time.

The investment portfolio shall 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 Group'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 Group'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 by the Cash Management Department.

The tables below show liabilities at 31 December 2012 and 2011 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 Group's financial liabilities as at 31 December 2012 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	1,061,792	600,921	459,006	1,865	-
Liabilities to related parties	230,402	128,131	102,097	174	-
Other financial liabilities	1,115,064	138,393	-	195,334	781,337
	2,407,258	867,445	561,103	197,373	781,337

The maturity structure of the Group's financial liabilities as at 31 December 2011 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	1,299,188	892,508	378,713	27,967	-
Liabilities to related parties	191,561	125,516	66,045	-	-
Other financial liabilities	42,291	42,291	-	-	-
	1,533,040	1,060,315	444,758	27,967	-

3.2. Capital risk management

The Group's objectives when managing capital are to safeguard the Group'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 2012, is MKD 17,169,567 thousand, as per local GAAP (2011: MKD 17,686,517 thousand). Out of this amount MKD 9,583,888 thousand (2011: MKD 9,583,888 thousand) represent share capital and MKD 1,916,777 thousand (2011: MKD 1,916,777 thousand) represent statutory reserves, which are not distributable (see note 2.13). The Company has also acquired treasury shares (see notes 2.12 and 15.1). 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 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 Group 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 Group. 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 Group was to shorten the average useful life of its assets by 10%, this would result in additional annual depreciation and amortisation expense of approximately MKD 417,055 thousand (2011: MKD 395,068 thousand). See note 11 and 12 for the changes made to useful lives in the reported years. The Group constantly introduces a number of new services or platforms including, but not limited to, the Universal Mobile Telecommunications System (UMTS) based broadband services in the mobile communications and the fibre-to-the-home rollout. In case of the introduction of such new services, the Group 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 old platforms, resulting in no change-over to the new technology. Consequently, the useful lives of the older platforms usually do not require shortening.

In 2011 the Group started a major project for Radio Access Network modernization in the mobile segment. The Group conducted an item by item revision of the useful life of the related assets, which in general resulted in shortening of their useful life. In 2012 the Group also conducted an item by item revision of the useful life of assets affected by the PSTN migration project of the Company, which in general resulted in shortening of their useful life.

4.2. Estimated impairment of property, plant and equipment, and intangibles

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% (2011: 2%) to determine the terminal value after 10 years. The Group uses fair values less cost to sell calculation. The discount rate used was 9.46% (2011: 9.39%). 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 litigation 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 ageing of our account receivables balance and our historical write-off experience, customer credit-worthiness and recent changes in our customer payment terms (see note 2.4.1 (b)). These factors are reviewed periodically, and changes are made to the calculations when necessary. In 2011 the Group performed detailed analysis of the customers' portfolios and included in the individual valuation also the customers of interconnection services. In addition, the Group analysed the nature of the business (residential, business, fixed line, mobile etc.) as well as the collection efficiency, which resulted in changes in the calculations and lower impairment of trade and other receivables in 2011. In 2012 the Group carried out detailed analysis on the groups of customers on which collective assessment of impairment is performed which resulted in further segmentation of the business customers as well as changes in the related impairment rates due to different payment behaviour, resulting in lower impairment of trade and other receivables in 2012. 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 Group 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 Group fully provides for the total amount of the estimated liability (see note 2.10). 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 Group uses internal and external legal counsel.

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. The Group's agents also spend a portion of their agent fees for marketing the Group's products, while a certain part of the Group'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 Group's fixed or mobile networks. No such costs or revenues are capitalized or deferred. These acquisition costs (losses) are recognized immediately as they are not accurately separable from other marketing costs. The total amount of agent fees in 2012 is MKD 212,873 thousand (2011: MKD 277,286 thousand).

5. CASH AND CASH EQUIVALENTS

In thousands of denars	2012	2011
Call deposits	419,101	1,069,842
Cash on hand	6,133	8,273
	425,234	1,078,115

The interest rate on call deposits is in range from 0.30% p.a. to 1.27% p.a. (2011: from 0.30% p.a. to 2.25% 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	2012	2011
MKD	305,539	636,070
EUR	92,180	409,035
USD	27,402	32,871
Other	113	139
	425,234	1,078,115

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

In thousands of denars	2012	2011
Credit rating of the Guarantor : A+	205,406	9,669
Credit rating of the Guarantor : A	115,400	267,511
Credit rating of the Guarantor : BBB	-	761,641
Credit rating of the Guarantor : BBB-	75,535	-
Credit rating of the Guarantor : B-	-	31,021
Credit rating of the Guarantor : CCC	22,760	-
	419,101	1,069,842

6. DEPOSITS WITH BANKS

Deposits with banks represent cash deposits in reputable domestic banks, with interest rates in range from 1.10% p.a. to 2.70% p.a. (2011: from 1.30% p.a. to 4.35% 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	2012	2011
MKD	1,748,591	3,097,200
EUR	4,620,467	4,846,262
	6,369,058	7,943,462

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	2012	2011
Credit rating of the Guarantor : A+	5,994,020	4,550,660
Credit rating of the Guarantor : A	375,038	2,474,898
Credit rating of the Guarantor : BBB	-	917,886
Credit rating of the Guarantor : B-	-	18
	6,369,058	7,943,462

7. TRADE AND OTHER RECEIVABLES

In thousands of denars	2012	2011
Trade debtors – domestic	3,978,526	4,244,740
Less: allowance for impairment	(1,719,381)	(1,736,823)
Trade debtors – domestic – net	2,259,145	2,507,917
Trade debtors – foreign	93,014	125,720
Receivables from related parties	460,052	345,731
Loans to third parties	3,500	3,470
Less: allowance for impairment	(3,500)	(3,470)
Loans to third parties– net	-	-
Loans to employees	139,030	140,360
Other receivables	17,495	7,367
Financial assets	2,968,736	3,127,095
Advances given to suppliers	119,365	106,495
Less: allowance for impairment	(62,923)	(74,156)
Advances given to suppliers – net	56,442	32,339
Prepayments and accrued income	382,362	249,953
	3,407,540	3,409,387
Less non-current portion: Other receivables	-	(1,774)
Less non-current portion: Loans to employees	(115,709)	(116,521)
Less non-current portion: Trade debtors – domestic	(243,054)	(211,339)
Current portion	3,048,777	3,079,753

Receivables from related parties represent receivables from Magyar Telekom Group and Deutsche Telekom Group (see note 27).

Loans to employees are collateralised by mortgages over real estate or with promissory note.

Loans to third parties represent loan with reference interest rate of 6 months EURIBOR with margin of 0.3%. Loans granted to employees carry effective interest rates of 6.25% p.a. and 9.45% p.a. (2011: 6.25% p.a. and 9.45% p.a.). Other receivables contain restricted cash in amount of MKD 1,987 thousand, as at 31 December 2011, representing performance guarantees issued for sales projects. As at 31 December 2012 there are no such types of guarantees.
All non-current receivables are due within 15 years of the financial statement date.

As at 31 December 2012, domestic trade debtors of MKD 2,098,075 thousand (2011: MKD 2,324,981 thousand) are impaired. The ageing of these receivables is as follows:

In thousands of denars	2012	2011
Less than 30 days	213,589	330,152
Between 31 and 180 days	185,852	292,736
Between 181 and 360 days	87,970	108,830
More than 360 days	1,610,664	1,593,263
	2,098,075	2,324,981

As at 31 December 2012, domestic trade receivables in amount of MKD 193,029 thousand were past due but not impaired (2011: MKD 150,863). These are mainly related to customers for interconnection services assessed on individual basis in accordance with past Group experience and current expectations. In 2012 with the detailed analysis on the groups of customers on which collective assessment of impairment is performed, specified business and governmental customers that belong to certain age bands are past due but not impaired based on past experience of payment behaviour (see notes 2.4.1 and 4.3).

In thousands of denars	2012	2011
Less than 30 days	67,654	103,899
Between 31 and 60 days	38,016	21,456
Between 61 and 90 days	21,570	5,886
Between 91 and 180 days	35,914	17,420
Between 181 and 360 days	27,296	1,586
More than 360 days	2,579	616
	193,029	150,863

The total amount of the provision for domestic trade debtors is MKD 1,719,381 thousand (2011: MKD 1,736,823 thousand). Out of this amount MKD 1,529,962 thousand (2011: MKD 1,450,377 thousand) relate to provision made according the ageing structure of the above receivables, while the amount of MKD 37,817 thousand (2011: MKD 119,221 thousand) is from customers under liquidation and bankruptcy which are fully impaired. In addition, the Group has a specific provision calculated in respect of a certain group of customers in amounting to MKD 151,602 thousand (2011: MKD 167,225 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 1,514,762 thousand (2011: MKD 1,518,106 thousand). These receivables are mainly from two way disconnected customers, dismantled customers, litigated customers and customers that are no longer using the Group services.

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

In thousands of denars	2012	2011
Trade debtors – domestic	2,259,145	2,507,917
Trade debtors – foreign	93,014	125,720
Receivables from related parties	460,052	345,731
Loans to employees	139,030	140,360
Other receivables	17,495	7,367
	2,968,736	3,127,095

Movement in allowance for impairment of domestic trade debtors:

In thousands of denars	2012	2011
Impairment losses at 1 January	1,736,823	1,853,221
Charged to expense	64,560	595
Write off	(82,002)	(116,993)
Impairment losses at 31 December	1,719,381	1,736,823

Movement in allowance for impairment of advances given to suppliers

In thousands of denars	2012	2011
Impairment losses at 1 January	74,156	74,156
Reversal of impairment losses	(11,233)	-
Impairment losses at 31 December	62,923	74,156

Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

As at 31 December 2012, foreign trade receivables in amount of MKD 60,695 thousand (2011: MKD 110,651 thousand) were past due but not impaired. These relate to a number of international customers assessed on individual basis in accordance with past Group experience and current expectations. The analysis of these past due foreign trade receivables is as follows:

In thousands of denars	2012	2011
Less than 30 days	21,483	27,800
Between 31 and 60 days	6,337	13,808
Between 61 and 90 days	20,931	7,323
Between 91 and 180 days	359	18,478
Between 181 and 360 days	604	438
More than 360 days	10,981	42,804
	60,695	110,651

The Group has renegotiated domestic trade receivables in carrying amount of MKD 46,019 thousand (2011: MKD 41,102 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 Group's non-current trade and other receivables are denominated in MKD.

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

In thousands of denars	2012	2011
MKD	2,305,260	2,558,923
EUR	732,708	508,414
USD	8,505	6,721
Other	2,304	5,695
	3,048,777	3,079,753

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

In thousands of denars	2012	2011
Group 1	993,116	1,093,918
Group 2	275,040	300,597
Group 3	176,212	163,042
	1,444,368	1,557,557

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

In thousands of denars	2012	2011
Group 1	26,162	12,929
Group 2	6,157	2,140
	32,319	15,069

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. OTHER TAXES

Commencing from 1 January 2009 and during 2010 the Government of the Republic of Macedonia has introduced several modifications and changes in the Profit Tax Law. According these changes the base for computation of income tax are non-deductible expenses incurred during the fiscal year, while the income tax is payable at the moment of profit distribution in a form of dividend to a foreign legal entities, foreign and domestic individuals. Dividend distribution among domestic companies is tax exempted. Therefore as of 31 December 2011 the tax computed on non-deductable expenses are presented as part of Other operating expenses in the Profit for the year and Other taxes in the Financial position statement (see note 18).

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 income tax for 2008 and 2009, withholding tax for 2007 and 2008 and VAT for 2009. 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 which were without any findings. In 2012 the Public revenue office conducted tax audit for VAT for August 2012 at the Company which was without findings.

In 2012 the Public revenue office carried out a tax audit in the subsidiary for income tax (including tax on non-deductable expenses) for the years 2009 to 2011 and tax audit for VAT for 2009. No significant findings were identified, except those explained in note 1.2.

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 consolidated financial statements.

8.1. Other taxes receivable

In thousands of denars	2012	2011
VAT receivable	9,395	556
Receivable for tax on non-deductable expenses	16,874	59,294
	26,269	59,850

8.2. Other taxes payable

In thousands of denars	2012	2011
VAT payable	68,861	52,654
Other taxes payable	2,228	670
Payable for monthly advance payment for tax on non-deductable expenses	3,199	-
	74,288	53,324

9. INVENTORIES

In thousands of denars	2012	2011
Materials	162,622	178,810
Inventory for resale	270,804	418,100
Write down of inventories to net realisable value	(10,401)	(17,460)
	423,025	579,450

Movement in allowance for inventories to net realizable value:

In thousands of denars	2012	2011
Allowance at 1 January	17,460	10,847
Charged to expense	(4,886)	9,245
Write off	(2,173)	(2,632)
Allowance at 31 December	10,401	17,460

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

10. NON-CURRENT ASSETS HELD FOR SALE

Non-current assets held for sale represent property, plant and equipment, mainly buildings and technical equipment, within the Group which carrying amount will be recovered principally through sale transaction or exchange rather than through continuing use which is not considered by management to be probable. Management intentions are to sell these assets within one year, subject to extension in certain circumstances. There is a plan to sell or exchange these assets and either the management has started to actively market them at a reasonable price or there is already an arrangement for sale with a specific customer. Out of the total amount of MKD 36,001 thousand (2011: MKD 628,252 thousand) presented as assets held for sale in the Consolidated statement of financial position MKD 1,715 thousand (2011: MKD 549,115 thousand) are part of the fixed line segment and MKD 34,286 thousand (2011: MKD 79,137 thousand) are part of the mobile segment. In 2011 the Group signed an agreement to provide four of its administrative buildings and cash consideration in exchange for one new building in 2012. Accordingly, the carrying amounts of these four buildings in amount of MKD 615,690 thousand were reclassified to assets held for sale in the Consolidated statement of financial position as at 31 December 2011. Out of this amount MKD 536,553 thousand were part of the fixed line segment while MKD 79,137 thousand were part of the mobile segment. In 2012 the transaction was completed and the new acquired building in amount of MKD 2,294,230 thousand was recognized as PPE (see note 11) while the sold administrative buildings were derecognized with carrying amount of MKD 626,164 thousand at the moment of derecognition, resulting in a net gain of MKD 828,481 thousand recognized in Other operating income (see note 13 and 19). The amount of MKD 34,286 thousand that are part of the mobile segment represents old equipment swapped under the RAN modernization project started in 2011 (see note 4.1). As the management's intention is to recover the carrying amount of these assets through sale and there is plan to sell these assets, the carrying amount of the swapped assets was reclassified to assets held for sale in the Statement of financial position as at 31 December 2012.

11. PROPERTY, PLANT AND EQUIPMENT

In thousands of denars	Land	Buildings	Telecommunication equipment	Other	Assets under construction	Total
Cost						
At 1 January 2011	6,353	4,196,917	28,438,703	4,079,615	1,116,089	37,837,677
Additions	990	22,861	902,004	289,942	436,146	1,651,943
Transfer from assets under construction (see note 12)	-	6,769	428,974	274,377	(935,565)	(225,445)
Disposals	-	(1,529)	(390,417)	(378,610)	(466)	(771,022)
Transfer to assets held for sale	-	(784,612)	-	(87,923)	-	(872,535)
At 31 December 2011	7,343	3,440,406	29,379,264	4,177,401	616,204	37,620,618
Depreciation						
At 1 January 2011	-	1,643,604	18,488,530	2,793,357	-	22,925,491
Charge for the year	-	105,383	2,213,243	428,434	-	2,747,060
Disposals	-	(1,522)	(361,907)	(358,514)	-	(721,943)
Transfer to assets held for sale	-	(168,922)	-	(85,199)	-	(254,121)
At 31 December 2011	-	1,578,543	20,339,866	2,778,078	-	24,696,487
Carrying amount						
At 1 January 2011	6,353	2,553,313	9,950,173	1,286,258	1,116,089	14,912,186
At 31 December 2011	7,343	1,861,863	9,039,398	1,399,323	616,204	12,924,131

In thousands of denars	Land	Buildings	Telecommunication equipment	Other	Assets under construction	Total
Cost						
At 1 January 2012	7,343	3,440,406	29,379,264	4,177,401	616,204	37,620,618
Additions	702	2,096,733	1,090,913	388,443	1,482,215	5,059,006
Transfer from assets under construction (see note 12)	-	222,844	481,012	38,722	(1,105,930)	(363,352)
Transfer between group of assets (see note 12)	(4)	(37,031)	18,083	(1,635)	341	(20,246)
Disposals	(12)	(6,859)	(2,412,103)	(230,831)	-	(2,649,805)
Transfer to assets held for sale	-	(11,510)	(1,418,545)	(55,438)	-	(1,485,493)
At 31 December 2012	8,029	5,704,583	27,138,624	4,316,662	992,830	38,160,728
Depreciation						
At 1 January 2012	-	1,578,543	20,339,866	2,778,078	-	24,696,487
Charge for the year	-	105,589	2,091,634	457,666	-	2,654,889
Disposals	-	(6,859)	(2,411,875)	(215,753)	-	(2,634,487)
Transfer to assets held for sale	-	(10,262)	(1,384,259)	(49,644)	-	(1,444,165)
Transfer between group of assets (see note 12)	-	69,148	176,527	(151,954)	-	93,721
At 31 December 2012	-	1,736,159	18,811,893	2,818,393	-	23,366,445
Carrying amount						
At 1 January 2012	7,343	1,861,863	9,039,398	1,399,323	616,204	12,924,131
At 31 December 2012	8,029	3,968,424	8,326,731	1,498,269	992,830	14,794,283

In 2011, the Group signed an agreement to provide four of its administrative buildings and cash consideration in exchange for one new building in 2012. The Company will pay the difference between the purchase price of the new building and the selling price of the existing buildings in six equal yearly instalments starting from the moment the whole transaction is completed. The transaction was accounted for under IAS 16 as asset exchange transaction with commercial substance as the configuration (risk, timing and amount) of the cash flows of the asset received differs from the configuration of the cash flows of the asset transferred; the amount of the cash paid is showing that the fair values of the exchanged buildings are different and the assets exchanged are used in the ordinary course of business and are not idle. Taking into account that the payment of the liability is deferred beyond normal credit terms the liability was discounted to its present value (see note 13). However, as the fair value of the new building can be considered to be more accurately and precisely determinable compared to the fair values of the old buildings the impact of the discounting was presented as affecting the fair value of the old assets and recognized as gain on sale of PPE in Profit for the year (see note 19), which derives also from observable market data for the fair value of the old buildings. In 2012, the Group completed the transaction for purchase and sale of buildings with an exchange which resulted in recognition of the acquired building in PPE at fair value in amount of MKD 2,294,230 thousand (see note 10). The selling price for the four old buildings was MKD 1,300,791 thousand and the trade-in value of these buildings did not and will not result in cash received.

In 2012, the Group capitalised MKD 40,384 thousand expenditures related to obtaining complete documentation for base stations in accordance to applicable laws in Republic of Macedonia (see note 2.7).

The reviews of the useful lives and residual values of property, plant and equipment during 2012 affected the lives and residual values of a several types of assets. The assets affected by the change of useful life were mainly vehicles, mobile exchanges as well as equipment under the PSTN migration project where the useful life of all assets affected by the migration was shortened to reflect the planned dynamic of the migration. The change of the useful life on the affected assets was made due to technological changes and business plans of the Group member companies.

The review results in the following change in the original trend of depreciation in the current and future years.

In thousands of denars	2012	2013	2014	2015	After 2015
Increase/(decrease) in depreciation	106,544	54,541	(43,976)	6,401	(91,375)
	106,544	54,541	(43,976)	6,401	(91,375)

12. INTANGIBLE ASSETS

In thousands of denars	Software and software licences	Concession, 2G and 3G licence	Other	Total
Cost				
At 1 January 2011	6,857,727	891,406	32,155	7,781,288
Additions	535,583	-	-	535,583
Transfer from assets under construction (see note 11)	225,445	-	-	225,445
Disposals	(408,362)	-	-	(408,362)
At 31 December 2011	7,210,393	891,406	32,155	8,133,954
Amortisation				
At 1 January 2011	4,959,487	201,319	30,344	5,191,150
Charge for the year	722,381	85,494	675	808,550
Disposals	(384,885)	-	-	(384,885)
At 31 December 2011	5,296,983	286,813	31,019	5,614,815
Carrying amount				
At 1 January 2011	1,898,240	690,087	1,811	2,590,138
At 31 December 2011	1,913,410	604,593	1,136	2,519,139

In thousands of denars	Software and software licences	Concession, 2G and 3G licence	Other	Total
Cost				
At 1 January 2012	7,210,393	891,406	32,155	8,133,954
Additions	171,368	-	-	171,368
Transfer from assets under construction (see note 11)	363,352	-	-	363,352
Disposals	(1,653,782)	-	-	(1,653,782)
Transfer between group of assets (see note 11)	20,246	-	-	20,246
At 31 December 2012	6,111,577	891,406	32,155	7,035,138
Amortisation				
At 1 January 2012	5,296,983	286,813	31,019	5,614,815
Charge for the year	1,011,975	85,492	1,136	1,098,603
Disposals	(1,653,782)	-	-	(1,653,782)
Transfer between group of assets (see note 11)	(93,721)	-	-	(93,721)
At 31 December 2012	4,561,455	372,305	32,155	4,965,915
Carrying amount				
At 1 January 2012	1,913,410	604,593	1,136	2,519,139
At 31 December 2012	1,550,122	519,101	-	2,069,223

The reviews of the useful lives of intangible assets during 2012 affected the lives of a number of assets, mainly including software. The change on the useful life of the affected assets was made according to technological changes and business plans of the Group member companies.

The reviews result in the following change in the original trend of amortisation in the current and future years.

In thousands of denars	2012	2013	2014	2015	After 2015
(Decrease)/increase in amortisation	22,309	(38,312)	22,144	31,372	(37,513)
	22,309	(38,312)	22,144	31,372	(37,513)

13. TRADE AND OTHER PAYABLES

In thousands of denars	2012	2011
Trade payables		
-Domestic	731,161	648,678
-Foreign	330,631	650,510
Liabilities to related parties	230,402	191,561
Other financial liabilities	974,284	42,291
Financial liabilities	2,266,478	1,533,040
Accrued expenses	1,395,974	1,055,990
Deferred revenue	444,851	489,109
Advances received	56,562	54,600
Other	34,988	34,767
	4,198,853	3,167,506
Less non-current portion:		
Deferred revenue	(77,836)	(85,275)
Other financial liabilities	(648,845)	-
Current portion	3,472,172	3,082,231

Liabilities to related parties represent liabilities to Magyar Telekom Group and Deutsche Telekom Group (see note 27).

Non-current deferred revenues have maturity up to 10 years from the date of the Consolidated statement of financial position.

In the category Other financial liabilities MKD 835,887 thousand (2011: nil) represent the carrying amount of long term payables related to the transaction for purchase and sale of buildings with an exchange (see note 10, 11 and 19). These liabilities are recognized initially at fair value 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. The carrying amount of these liabilities approximates their fair value as the related cash flows are discounted with an interest rate of 6% p.a. which is the observable at the market for similar long term financial liabilities. Given that the fair value of the newly acquired building is more accurately and precisely determined compared to the fair values of the sold buildings the impact of the discounting affects the fair value of the old assets and is presented as part of the net gain in Other operating income in amount of MKD 153,854 thousand.

The carrying amounts of the current portion of trade and other payables are denominated in the following currencies:

In thousands of denars	2012	2011
MKD	1,988,223	2,110,773
EUR	1,399,098	844,881
USD	76,303	107,282
Other	8,548	19,295
	3,472,172	3,082,231

14. PROVISION FOR OTHER LIABILITIES AND CHARGES

In thousands of denars	Legal cases	Other	Total
1 January 2011	854,401	61,141	915,542
Additional provision	42,465	21,517	63,982
Unused amount reversed	(194,763)	(2,433)	(197,196)
Used during period	(271,880)	(8,516)	(280,396)
31 December 2011	430,223	71,709	501,932

In thousands of denars	Legal cases	Other	Total
1 January 2012	430,223	71,709	501,932
Additional provision	91,150	25,511	116,661
Unused amount reversed	(217,239)	(5,461)	(222,700)
Used during period	(108,343)	(50,200)	(158,543)
31 December 2012	195,791	41,559	237,350

Analysis of total provisions:

In thousands of denars	2012	2011
Non-current (legal cases and other)	113,821	369,583
Current	123,529	132,349
	237,350	501,932

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

One legal case is in process against the Company relating to a dispute with a competitor, which alleges that the Company has abused its dominant position on the market and is seeking damages of MKD 100,521 thousand. The information usually required by IAS 37 is not disclosed. 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. In addition, there are numerous legal cases for which provisions were recognized, none of which are individually material, therefore not disclosed.

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 2012.

Other includes provision made for the legal or contractual obligation of the Group to pay to employees certain amounts at their retirement date (see note 2.15.1) and provision made for the Variable II incentive program (see note 28). The provision is recognized against Personnel expenses in the Profit for the year. In addition, as a result of the findings of the Investigation, the identified impact was recognized under Provision for other liabilities and charges in amount of MKD 36,019 thousand as at 31 December 2011, which provision was used during 2012 (see note 1.2).

15. CAPITAL AND RESERVES

Share capital consists of the following:

In thousands of denars	2012	2011
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 2012 and 2011, the ordinary shares of the Company were held as follows:

In thousands of denars	2012	%	2011	%
Stonebridge AD Skopje, in liquidation	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)	179,698	1.88	179,698	1.88
Other minority shareholders	221,527	2.31	221,527	2.31
	9,583,888	100.00	9,583,888	100.00

15.1. 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 1.2).

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. REVENUES

In thousands of denars	2012	2011
Fixed line revenues		
Voice retail	2,277,680	2,925,866
Voice wholesale	1,890,069	1,950,786
Internet	1,205,191	1,253,675
Data	442,220	553,817
TV	416,715	316,043
Equipment	318,209	313,990
Other fixed line revenues	103,566	87,421
	6,653,650	7,401,598
Mobile revenues		
Voice retail	4,312,346	5,201,450
Voice wholesale	1,094,772	1,125,927
Data	809,426	992,935
Equipment	359,888	425,788
Internet	266,595	193,411
Content	75,364	118,769
Other mobile revenues	149,609	117,661
Voice visitor	93,222	117,049
	7,161,222	8,292,990
	13,814,872	15,694,588

17. PERSONNEL EXPENSES

In thousands of denars	2012	2011
Salaries	976,310	1,000,458
Contributions on salaries	330,316	320,087
Bonus payments	231,855	235,705
Other staff costs	173,579	102,195
Capitalised personnel costs	(162,455)	(119,698)
	1,549,605	1,538,747

Other staff costs mainly include termination benefits for 43 employees leaving the Group in 2012 (2011: 9 employees), holiday's allowance and other benefits.

Bonus payments also include the cost for MTIP and Variable II program (see note 28).

18. OTHER OPERATING EXPENSES

In thousands of denars	2012	2011
Purchase cost of goods sold	1,404,611	1,495,422
Services	792,577	888,681
Marketing and donations	404,295	466,432
Materials and maintenance	339,201	318,490
Subcontractors	276,934	302,569
Energy	326,742	298,663
Fees, levies and local taxes	305,785	244,366
Royalty payments for IPTV programs	158,147	107,397
Rental fees	134,241	131,410
Consultancy	106,166	69,891
Tax on non-deductable expenses	34,034	29,381
Insurance	18,231	21,011
Impairment losses on trade and other receivables	64,560	595
Write down of inventories to net realisable value	-	9,246
Write off of inventories	14,347	1,506
Other	21,581	21,551
	4,401,452	4,406,611

Services mainly include agent commissions, postal expenses, expenses for maintenance of IT equipment and other service fees (such as cleaning, security and other).
In order to maintain consistency with the current year presentation expenses presented in 2011 as Other in the amount of MKD 176,961 thousand were excluded from the Other operating expenses category in these financial statements and reclassified to Other operating income (see note 19). The reclassification had no impact on equity or net profit.

19. OTHER OPERATING INCOME

In thousands of denars	2012	2011
Net gain on sale of PPE	839,731	22,544
Other	263,544	176,961
	1,103,275	199,505

Other mainly includes net income from release of provisions.

In 2012 the Group completed the transaction for purchase and sale of buildings with an exchange which resulted in a gain on sale of its four administrative buildings in amount of MKD 828,481 thousand (see note 10).

In order to maintain consistency with the current year presentation expenses presented in 2011 as Other in the amount of MKD 176,961 thousand were excluded from the Other operating expenses category in these financial statements and reclassified to Other operating income (see note 18). The reclassification had no impact on equity or net profit.

20. FINANCE EXPENSES

In thousands of denars	2012	2011
Interest expense	63,974	42,408
Bank charges and other commissions	28,095	38,735
Fair value trough profit and loss	3,254	11,425
Net foreign exchange loss	3,510	-
	98,833	92,568

21. FINANCE INCOME

In thousands of denars	2012	2011
Interest income	210,525	231,004
Net foreign exchange gain	-	4,317
Dividend income	3,285	3,282
	213,810	238,603

Dividend income is from financial asset at fair value through profit and loss. Interest income is generated from financial assets classified as loans and receivables.

22. DIVIDENDS

The Shareholders' Assembly of the Company, at its meeting, held on 4 April 2012 adopted a Resolution for the dividend payment for the year 2011. The Resolution on dividend payment for 2011 is in the amount of MKD 6,163,557 thousand from the net profit for the year 2011. The dividend was paid out in April 2012. Up to date of issuing of these consolidated financial statements, no dividends have been declared for 2012.

23. REPORTABLE SEGMENTS AND INFORMATION

23.1. Reportable segments

The Group's reportable segments are: fixed line and mobile segment.
The fixed line segment provides local, national and international long distance telephone services, VoIP services, leased line services, Internet services and TV distribution services under the T-Home brand.

The mobile segment provides mobile telecommunication services under the T-Mobile brand.

23.2. 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, reconciled to the corresponding Group numbers. The information regularly provided to the GMC includes several measures of profit which are considered for the purposes of assessing performance and allocating resources, including EBITDA adjusted for the impact of certain items considered as „special influence".

These items vary year-over-year in nature and magnitude. Management believes that EBITDA is the segment measure that is most consistent with the measurement principles used in measuring the corresponding amounts in these financial statements.

Revenues

In thousands of denars	2012	2011
Total Fixed Line segment revenues	7,352,808	8,097,102
Less: Fixed Line segment revenues from other segment	(705,465)	(708,430)
Fixed Line segment revenues from external customers	6,647,343	7,388,672
Total Mobile segment revenues	8,278,894	9,509,271
Less: Mobile segment revenues from other segment	(1,111,365)	(1,203,355)
Mobile segment revenues from external customers	7,167,529	8,305,916
Total revenues of the Group	13,814,872	15,694,588

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

Segment results (EBITDA)

In thousands of denars	2012	2011
Fixed Line segment	3,927,850	3,997,906
Mobile segment	3,490,861	4,384,067
Total EBITDA of the Group	7,418,711	8,381,973
Depreciation and amortisation of the Group	3,753,492	3,610,804
Total operating profit of the Group	3,665,219	4,771,169
Finance income – net	114,977	146,035
Profit before income tax of the Group	3,780,196	4,917,204

Capital expenditure (CAPEX) on PPE and Intangible assets

In thousands of denars	2012	2011
Fixed Line segment	4,112,856	1,385,538
Mobile segment	1,117,517	801,988
Total capital expenditure on PPE and Intangible assets of the Group	5,230,373	2,187,526

The amounts disclosed as "Capital expenditure on PPE and Intangible assets" correspond to the "Investment" line disclosed in notes 11 and 12.

24. LEASES AND OTHER COMMITMENTS

24.1. Operating lease commitments – where the Group is the lessee:

Operating lease commitments – where the Group is the lessee, are mainly from lease of business premises and other telecommunications facilities.

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

In thousands of denars	2012	2011
Not later than 1 year	116,538	118,174
Later than 1 year and not later than 5 years	251,442	274,788
Later than 5 years	68,680	93,054
	436,660	486,016

24.2. Operating lease commitments – where the Group is the lessor:

Operating lease commitments – where the Group 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	2012	2011
Not later than 1 year	24,215	22,340
Later than 1 year and not later than 5 years	95,834	87,381
Later than 5 years	30,664	45,418
	150,713	155,139

24.3. Capital commitments

The amount authorized for capital expenditure as at 31 December 2012 was MKD 429,598 thousand (2011: MKD 2,742,054 thousand). In 2011 the Group signed an agreement to exchange 4 of its administrative buildings along with cash consideration for one new building in 2012, which resulted in an amount authorized for capital expenditure as at 31 December 2011 of MKD 2,294,323 thousand (see note 10). The amount authorized for capital expenditure as at 31 December 2012 mainly relates to telecommunication assets.

25. ADDITIONAL DISCLOSURES ON FINANCIAL ASSETS

The Group 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.

There was no transfer between Level 1 and Level 2 financial assets.

25.1. Financial assets – Carrying amounts and fair values

The table below shows the categorization of financial assets as at 31 December 2011.

	Financial assets					
Assets In thousands of denars	Loans and receivables	Held- to-maturity	Available-for-sale (Level 2)	At fair value through profit and loss (Level 1)	Carrying amount	Fair value
Cash and cash equivalents	1,078,115	-	-	-	1,078,115	1,078,115
Deposits with banks	7,943,462	-	-	-	7,943,462	7,943,462
Trade and other receivables	3,127,095	-	-	-	3,127,095	3,127,095
Other non-current assets	-	-	612	-	612	612
Financial assets at fair value through profit and loss	-	-	-	54,083	54,083	54,083

The table below shows the categorization of financial assets as at 31 December 2012.

	Financial assets					
Assets In thousands of denars	Loans and receivables	Held- to-maturity	Available-for-sale (Level 2)	At fair value through profit and loss (Level 1)	Carrying amount	Fair value
Cash and cash equivalents	425,234	-	-	-	425,234	425,234
Deposits with banks	6,369,058	-	-	-	6,369,058	6,369,058
Trade and other receivables	2,968,736	-	-	-	2,968,736	2,968,736
Other non-current assets	-	-	612	-	612	612
Financial assets at fair value through profit and loss	-	-	-	50,828	50,828	50,828

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, bank 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 50,828 thousand (2011: MKD 54,083 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 20 and 21). The cost of these equity investments is MKD 31,786 thousand (2011: MKD 31,786 thousand).

25.2. Other disclosures about financial instruments

The Group was exposed to risks that arise from the possible drawdown of guarantees in a nominal amount of MKD 1,987 thousand as at 31 December 2011. These guarantees were issued by Macedonian banks on behalf of the Company, or its subsidiary, as collaterals to secure the fulfilment of the Group's certain contractual obligations. The Group has been delivering on its contractual obligations and expects to continue doing so in the future, therefore no drawdown of the guarantees has happened so far, and is not expected to happen in the future. As at 31 December 2012 there are no such types of guarantees.

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.

26. CONTINGENCIES

The Company and the subsidiary have contingent liabilities in respect of legal and regulatory claims arising in the ordinary course of business. The major part of the contingent liabilities relate to 18 requests for initiating misdemeanour procedures from regulatory bodies for alleged breach of certain deadlines for decision upon subscriber's request and related to alleged abuse of dominant position on the market. The maximum possible fine for each individual case is 4% in 15 cases; 7% in 1 case and 10% in 2 cases of the annual revenue from the previous year, in accordance with the 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 of these misdemeanour procedures. One contingent liability in amount of MKD 978,661 thousand relate to legal case with Newsphone S DOO Skopje for possible damage compensation with regards to lost future profits as a result of termination of contract by the subsidiary. It is not anticipated by the management that any material liabilities will arise from the contingent liabilities other than those provided for (see note 14).

27. RELATED PARTY TRANSACTIONS

All transactions with related parties arise in the normal course of business and their value is not materially different from the terms and conditions that would prevail in arms-length transactions.
Transactions with related parties include provision and supply of telecommunication services and equipment, loans granted and supply of management consultancy 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:

	2012		2011	
In thousands of denars	Revenues	Expenses	Revenues	Expenses
Magyar Telekom Group				
Magyar Telekom Plc	5,767	46,456	22,448	51,764
IQSYS Magyar Telekom	-	2,770	-	7,481
T-Systems Magyarország Zrt.	-	923	-	-
Telemakedonija AD	181	-	249	-
Crnogorski Telekom	543	2,361	569	2,658
Novatel	2,289	-	3,438	-
Deutsche Telekom Group				
Deutsche Telekom AG	1,447,652	249,748	1,475,886	274,134
Hrvatski Telekom	2,834	39,227	5,856	11,779
Slovak Telekom	240	352	200	393
Polska Telefonia Cyfrowa	342	486	332	570
T-Mobile Czech Republic	369	746	453	1,215
T-Mobile Austria	3,786	5,857	4,784	6,102
Everything Everywhere Limited	173	1,387	1,176	1,515
T-Mobile USA	4	1,233	438	1,685
T-Systems	11,138	14,038	9,856	4,517
T-Mobile Netherlands BV	1,241	1,161	1,232	1,360
T-Mobile International UK Limited	-	616	-	803
Detecon	-	8,845	-	5,359
OTE Globe	22,509	30,435	19,712	32,173
Romtelekom	-	913	-	1,814
Cosmo Bulgaria Mobile	865	5,428	697	5,824
Albanian Mobile Communications	954	5,685	718	5,427
Cosmote Romanian Mobile Telecommunications	50	367	22	455
COSMOTE-Mobile Telecom. S.A.	3,125	11,653	3,106	14,874
Entity controlled by subsidiary's key management personnel				
Mobico DOOEL	343	161	582	107

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

	2012		2011	
In thousands of denars	Receivables	Payables	Receivables	Payables
Magyar Telekom Group				
Magyar Telekom Plc	8,526	7,084	4,728	38,549
T-Systems Magyarország Zrt.	-	1,845	-	1,845
Telemakedonija AD	6	-	23	-
Crnogorski Telekom	6,395	-	-	1,324
Novatel	389	378	565	489
Deutsche Telekom Group				
Deutsche Telekom AG	247,057	172,147	244,418	102,541
Hrvatski Telekom	13,205	33	-	4,221
Slovak Telekom	457	4,400	287	7,872
Polska Telefonia Cyfrowa	9	-	-	440
T-Mobile Czech Republic	298	-	-	144
T-Mobile Austria	15,623	-	4,819	-
Everything Everywhere Limited	-	4,110	-	3,875
T-Mobile USA	2,217	-	-	262
T-Systems	5,094	9,636	2,546	8,667
T-Mobile Netherlands BV	-	6,880	-	7,617
T-mobile International UK Limited	-	138	-	185
Detecon	-	8,845	-	535
OTE Globe	8,842	8,800	7,608	11,181
Romtelekom	-	6,054	-	1,814
Cosmo Bulgaria Mobile	56,875	-	25,673	-
Albanian Mobile Communications	15,641	-	8,078	-
Cosmote Romanian Mobile Telecommunications	376	-	831	-
COSMOTE-Mobile Telecom. S.A.	78,937	-	46,041	-
Entity controlled by subsidiary's key management personnel				
Mobico DOOEL	105	52	114	-

28. KEY MANAGEMENT COMPENSATION

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

In thousands of denars	2012	2011
Short-term employee benefits (including taxation)	99,244	124,237
State contributions on short-term employee benefits	8,201	6,005
Share-based payments	4,870	10,030
	112,315	140,272

The remuneration of the members of the Company's Board of Directors amounted to MKD 6,140 thousand (2011: MKD 6,200 thousand) included in Short-term employee benefits.

The share-based payments represent compensation of key management from the Company as part of a Mid Term Incentive Plan (MTIP) launched by Magyar Telekom Plc., whereby the targets to be achieved are based on the performance of the Magyar Telekom Plc. shares. Participants include top and senior managers of the Magyar Telekom Group.

The MTIP is operated by Magyar Telekom Plc. while the compensation of key management from the Company related to the MTIP is incurred by the Company (for MTIP programs launched 2008, 2009 and 2010) and is included in Personnel expenses (Bonus Payments) recognized against Other provisions (see notes 17 and 14).

A new 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 that promotes the medium and long-term value enhancement of DT Group, aligning the interests of management and shareholders.

The Variable II Program for 2012 is applicable from 1 January 2012 until 31 December 2015, with two bridging programs: Variable II Bridging program I, with implementation period from 1 January 2012 to 31 December 2013 and Variable II Bridging program II, with implementation period from 1 January 2012 to 31 December 2014.

The Variable II is measured based on the fulfilment of four equally weighted Group 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.

Program participants are Company's top managers who have accepted participation in the designated time frame.

The expenses incurred by the Company related to the Variable II program are shown within share-based payments.

29. EVENTS AFTER THE FINANCIAL STATEMENT DATE

There are no events after the financial statement date that would have impact on the 2012 profit for the year, consolidated statement of financial position or cash flows.

2013 ROADMAP

HOW DO WE SUSTAIN OUR REVENUE & STRENGTHEN OUR LEADERSHIP POSITION?

- We‘re paving our way towards a strong TV Market Leadership!
- We will provide the best content offer in the market (exclusive sports, HD content, segment content)
- We will achieve even bigger market share in payTV and we will use the TV leadership to increase the fixed BB revenues and stimulate the mobile internet uptake.
- We will implement a radical product portfolio simplification with specific segment offers – segment customers' revenue, rather than service segmentation!
- Fix & Mobile convergence, integrated offerings is our key differentiator. We need to put a stronger focus on it and increase the level of ambition!
- We will optimize the market investments; provide innovative Voice&Data tariffs and best handset offerings.

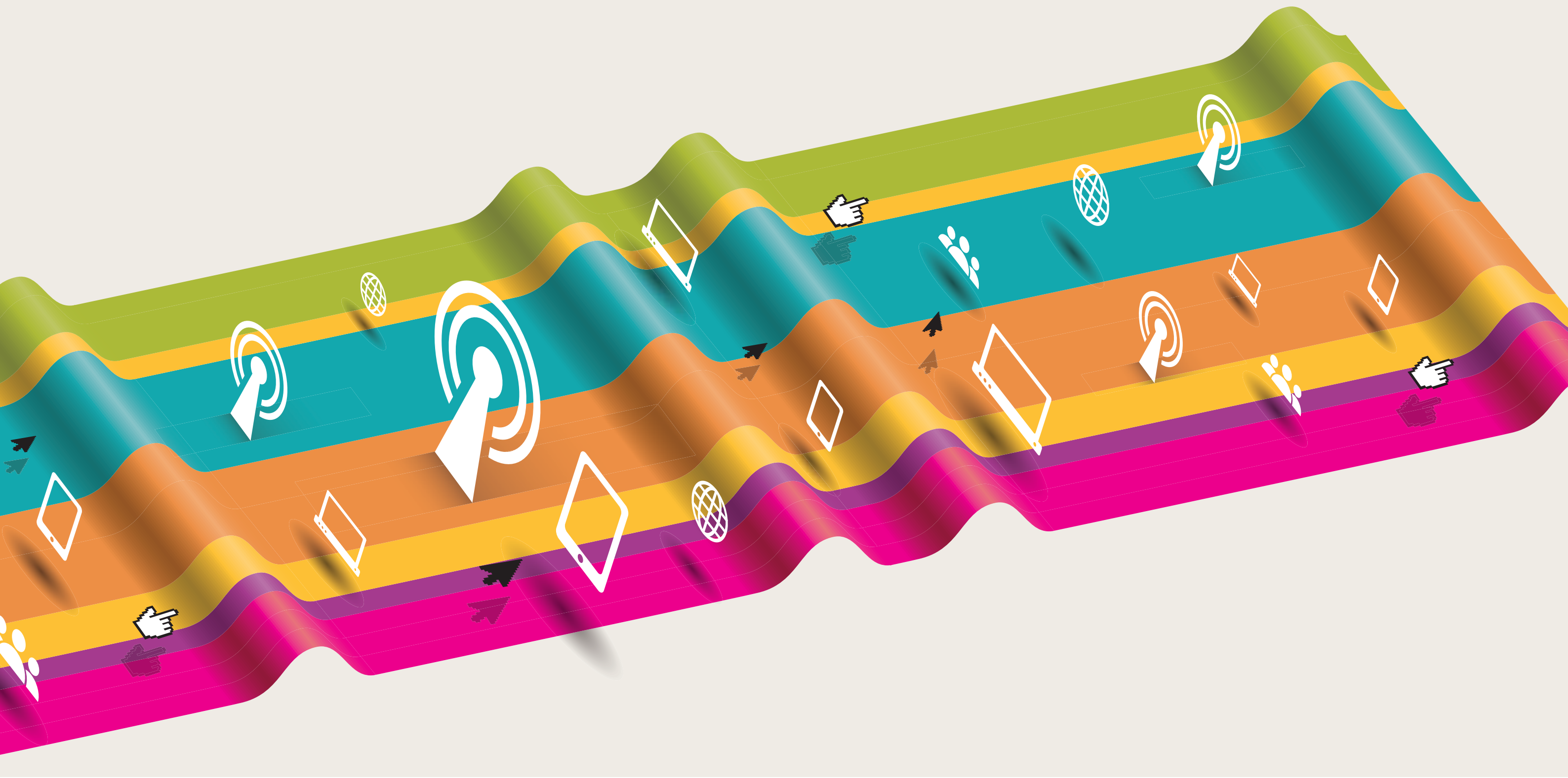
WE'RE COMMITTED TO B2B & ICT GROWTH! HOW DO WE ACHIEVE IT?

There are no more successful businesses without reliable ICT solutions. Businesses need reliable partners. We are a reliable partner.

- We must capture the growth potential in the B2B&ICT segment
- We will introduce sophisticated solutions and new IT services!
- We can grow horizontally in other industries starting with core B2B & ICT offerings and continue to widen the value chain verticals in those industries, smartly identifying new business development opportunities.

WE ARE COMMITTED TO CREATING NEW VALUES! HOW CAN WE GROW WITH INNOVATIONS?

- Innovation is a key differentiator and the most essential substance in the creation of growth, new product categories, services or business models. This is changing the game! This generates a significant new value for con sumers, customers and the corporation. Innovation must become an integral part of our identity to keep abreast of the global changes taking place in the sector.
- We must intensify the radical e-transformation! We need to shift to "e" to ensure our readiness to compete!
- We will commit to delivering highly personalized offers and content across all screens.



WE WILL BE LEADERS IN PROVIDING FINANCIAL SERVICES THROUGH ELECTRONIC COMMUNICATIONS

- We must all commit to making the multi-market innovation work to secure our long-term future.

Companies cannot grow through cost reduction and reengineering alone. Innovation is the key element! It is crucial in providing aggressive top-line growth and for increasing the bottom-line results.

- In order to lead the change and set the organizational reputation for innovation, we must align corporate strategy, culture, processes and systems. We must open up for both internal and external innovation, establishing a 360o innovation point in the center.
- We will introduce new businesses & products, through own developments, partnering and ventures.
- We will develop future-proof e-Capabilities to increase flexibility and fast time-to-market.
- We will redefine our company basics, improving organization, processes, steering and optimization.

WE ARE THE TECHNOLOGY LEADERS! WHAT SHOULD WE EXPECT FROM TECHNOLOGY IN 2013?

- We must be the engine in providing seamless end2end cross-channel superior customer experience, becoming one online touch point for all customer demands.
- We will support the micro segmentation of products and the transformation of the customer-centric process
- We will be prepared for integration with ngCRM and consolidate all Contact Centre numbers to a single number for residential and business customers
- We will support the billing consolidation and commit to execution of SAP consolidation phase and ongoing local and group-wide projects
- We will support B2B&ICT strategic positioning and new Cloud services offerings.
- We will provide reliable and easy to consume connectivity and services for a modern gigabit-society.
- We are committed to technology based leadership and innovative and lean production for an optimized network coverage and a superior customer experience.
- We will achieve and be leaders in Europe in full IP transformation - Radically improve our e-capabilities and drive the IP transformation across the Group.
- We will commit and align all our efforts in bringing the Quality of Service – top of the class!
- We will extend the FTTH network, upgrade the IPTV Platform, migrate PSTN to NGOSS, modernize the Mobile Core Network, introduce the best mobile throughput on the market and extend the Radio Access Network (RAN)!

WHERE IS THE MODERNIZATION LEADING US?

- We will have a modern, but more efficient technology
- We will invest now to secure and optimize the future
- We must introduce transparent and lean operations over ad-hoc cost containment.
- We must further leverage our group potential and utilize our resources and potential more dynamically, both from internal & external sources.
- Leverage cross-NatCo operating model: share, bundle, and use our knowledge and experience to establish ONE business of DT Europe and create benefits for the whole Group.
- We all must work together to increase the operational efficiency!
- We all must understand that the long-term EBITDA sustainability cannot be attained with one-off effects.
- We must revolutionize our cost structure!
- In 2013 we will focus on:
- Indirect cost decrease which is a part of the DT ONE (Europe) program
- Customer credit scoring
- Paperless procurement – archiving solution
- Reduction of energy consumption
- Real Estate optimization
- TK Center reconstruction

WE NEED INTEGRATION! IT IS A STRONG AND CLEAR MARKET REQUIREMENT! WHAT ARE WE DOING IN 2013?

- We must be one team, both externally and internally! This will require an active participation of everybody.
- It is about working as ONE Winning Team!
- We must radically change our business model and focus on e-business, accelerating e-bill payment, customer self administration, web shops, e customer care, etc.
- We must create a truly customer oriented corporate culture as our key to success will be the way we treat our customers!

We follow the motto:

Together for our Customers

LIST OF ABBREVIATIONS

· **AEK**	AGENCY FOR ELECTRONIC COMMUNICATION
· **ADSL**	ASYMMETRIC DIGITAL SUBSCRIBER LINE,
· **ARPU**	AVERAGE REVENUE PER UNIT/USER.
· **BB**	BROADBAND
· **CATV**	CABLE TELEVISION
· **CPI**	CONSUMER PRICE INDEX.
· **CRM**	CUSTOMER RELEATIONSHIP MANAGEMENT
· **DLL**	DIGITAL LEASED LINE
· **DOUBLE PLAY**	REFERRERS TO SERVICES PACKAGES COMBINING INTERNET AND VOICE COMMUNICATION
· **DVBT**	DIGITAL VIDEO BROADCAST VIA TERRESTRIAL
· **LEC**	LAW ON ELECTRONIC COMMUNICATION
· **NG ICCA**	NEW GENERATION INTERNATIONAL CUSTOMER CONTACT ANALYSIS
· **NGN**	NEXT GENERATION NETWORK
· **KPI**	KEY PERFORMANCE INDICATORS
· **NGA**	NEXT GENERATION ACCESS
· **HDTV**	HIGH DEFINITION TELEVISION
· **DSL**	DIGITAL SUBSCRIBER LINE
· **EBITDA**	EARNINGS BEFORE INTEREST, TAXATION, DEPRECIATION AND AMORTISATION
· **F2M**	FIXED TO MOBILE
· **FDI**	FOREIGN DIRECT INVESTMENT
· **FTTB**	FIBER TO THE BUSINESS
· **FTTH**	FIBRE-TO-THE-HOME
· **GAAP**	GENERALLY ACCEPTED ACCOUNTING PRINCIPLES
· **HDTV**	HIGH DEFINITION TELEVISION
· **HSNS**	HIGH-SPEED NETWORK SERVICE
· **ICT**	INFORMATION AND COMMUNICATION TECHNOLOGIES
· **IDC**	INTERNATIONAL DATA CORPORATION

IFRS	INTERNATIONAL FINANCIAL REPORTING STANDARDS
IP	INTERNET PROTOCOL
IP-VPN	INTERNET PROTOCOL-VIRTUAL PRIVATE NETWORK
ISDN	INTEGRATED SERVICES DIGITAL NETWORK,.
ISP	INTERNET SERVICE PROVIDER.
IT	INFORMATION TECHNOLOGY
LAN	LOCAL AREA NETWORK
LTE	LONG TERM EVOLUTION, A FOURTH-GENERATION FULLY PACKET BASED MOBILE NETWORK TECHNOLOGY THAT IS CAPABLE OF PROVIDING MORE EFFICIENT AND FASTER DATA TRANSFER THAN 3G.
PSTN	PUBLIC SWITCHED TELEPHONE NETWORK
RIO	REFERENCE INTERCONNECTION OFFER
RUO	REFERENCE UNBUNDLING OFFER
SME	SMALL AND MEDIUM-SIZED ENTERPRISES.
SMS	SHORT MESSAGE SERVICE.
SMP	SIGNIFICANT MARKET POWER
TRIPLE PLAY	SERVICE PACKAGES COMBINING INTERNET, TV AND VOICE COMMUNICATION
UMTS	UNIVERSAL MOBILE TELECOMMUNICATION SYSTEM
ULL	UNBUNDLED LOCAL LOOP
VOD	VIDEO ON DEMAND
VOIP	VOICE OVER INTERNET PROTOCOL, A TERM USED IN IP TELEPHONY FOR MANAGING THE DELIVERY OF VOICE INFORMATION USING THE IP.
VPN	VIRTUAL PRIVATE NETWORK, A CARRIER-PROVIDED SERVICE IN WHICH THE PUBLIC NETWORK PROVIDES THE EQUIVALENT OF A PRIVATELY ESTABLISHED CUSTOMER NETWORK.
3G	THIRD-GENERATION MOBILE NETWORK
WLAN	WIRELESS LOCAL AREA NETWORK
WLR	WHOLESALE LINE RENTAL
WS	WHOLESALE

CONTACTS AND PRODUCTION:

Group Communication Area
of Makedonski Telekom AD – Skopje
and T-Mobile Macedonia AD

e-mail: press@telekom.mk or
tel: + 389 2 3242564
Kej 13 Noemvri, bb, 1000 Skopje

Please refer all the questions related to the financial fiscal year 2012 and the Company shares to: **Investor.relations@telekom.mk or tel: + 38923242258**

The online version of the 2012 Annual report of the two Companies is available at: **www.telekom.mk** and **www.t-mobile.com.mk**

DESIGN:

Karma DS, Studio for graphic design

PHOTOS MADE BY:

Imagebase of DT
and photographer Ljupco Smokovski

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