



LIFE IS FOR SHARING

**Makedonski Telekom AD - Skopje**  
Financial Statements  
For the year ended  
31 December 2013  
With the Report of the Auditor Thereon

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## INDEPENDENT AUDITOR'S REPORT

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

### *Report on the Financial Statements*

We have audited the accompanying standalone financial statements of Makedonski Telekom AD - Skopje, which comprise the statement of financial position as of 31 December 2013, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### *Management's responsibility for the stand alone financial statements*

Management is responsible for the preparation and fair presentation of these standalone financial statements in accordance with Accounting Standards applicable in the Republic of Macedonia and for such internal control as management determines is necessary to enable the preparation of standalone 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 standalone 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 stand alone financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the stand alone financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the standalone 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 standalone 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 standalone 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 standalone financial statements give a true and fair view of the financial position of Makedonski Telekom AD – Skopje as of 31 December 2013, and of its financial performance and its cash flows for the year than ended in accordance with Accounting Standards applicable in the Republic of Macedonia.

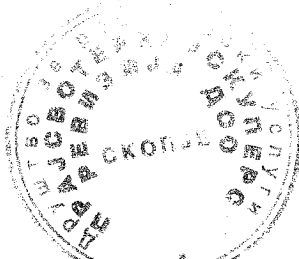
### **Report on Other Legal and Regulatory Requirements**


Annual Report prepared by the Management in accordance with the requirement of the Company Law, article 384.

Management is responsible for the preparation of the Annual Accounts and Annual Report of the Company, which are approved by the Board of Directors of the Company.

As required by the Audit Law, we report that the historical information presented in the Annual Report prepared by the Management of the Company in accordance with article 384 of the Company Law is consistent in all material respects with the financial information presented in the Annual Accounts and audited Financial Statements of the Company, as of and for the year ended 31 December 2013.

  
Ljube Gjorgjievski  
General Manager



  
Ljube Gjorgjievski  
Certified Auditor

PricewaterhouseCoopers REVIZIJA DOO - Skopje

Skopje 14 February 2014

**Statement of financial position**

In thousands of denars	Note	As at 31 December	
		2013	2012
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	5	782,696	237,874
Deposits with banks	6	430,607	4,266,310
Trade and other receivables	7	2,051,802	1,922,470
Other taxes receivable	8	7,780	7,406
Income tax receivable		-	3,343
Inventories	9	139,363	178,442
<b>Total current assets</b>		<b>3,412,248</b>	<b>6,615,845</b>
<b>Assets held for sale</b>	10	<b>11,265</b>	<b>14</b>
<b>Non-current assets</b>			
Property, plant and equipment	11	10,165,906	10,034,862
Advances for property, plant and equipment		2,657	12,024
Intangible assets	12	672,011	646,272
Investment in subsidiaries	13	2,797,591	2,797,591
Trade and other receivables	7	321,254	328,608
Financial assets at fair value through profit and loss		43,762	50,828
<b>Total non-current assets</b>		<b>14,003,181</b>	<b>13,870,185</b>
<b>Total assets</b>		<b>17,426,694</b>	<b>20,486,044</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	14	2,530,551	2,482,587
Other taxes payable	8	20,322	20,603
Income tax payable		44,613	221
Provision for other liabilities and charges	15	47,661	57,144
<b>Total current liabilities</b>		<b>2,643,147</b>	<b>2,560,555</b>
<b>Non-current liabilities</b>			
Trade and other payables	14	502,874	648,845
Provision for other liabilities and charges	15	41,460	107,077
<b>Total non-current liabilities</b>		<b>544,334</b>	<b>755,922</b>
<b>Total liabilities</b>		<b>3,187,481</b>	<b>3,316,477</b>
<b>Equity</b>			
Share capital		9,583,888	9,583,888
Share premium		540,659	540,659
Treasury shares		(3,738,358)	(3,738,358)
Statutory reserves		958,389	1,916,777
Revaluation reserves		872,863	873,088
Other reserves		22,291	22,291
Retained earnings		5,999,481	7,971,222
<b>Total equity</b>	16	<b>14,239,213</b>	<b>17,169,567</b>
<b>Total equity and liabilities</b>		<b>17,426,694</b>	<b>20,486,044</b>

These financial statements were authorized for issue on 14 February 2014 by the Management of Makedonski Telekom AD - Skopje, and are subject to review and approval by the Board of Directors on 26 February 2014 and by the shareholders on date that will be subsequently agreed.

Andreas Maierhofer  
Chief Executive Officer

Slavko Projkoski  
Chief Finance Officer

Goran Tilovski  
Accounting and Tax Director  
Certified Accountant  
Reg. No. 11-2504/2

**Statement of comprehensive income**

In thousands of denars	Note	Year ended 31 December	
		2013	2012
<b>Revenues</b>	17	6,699,431	7,397,565
Depreciation and amortization		(1,599,199)	(1,346,007)
Personnel expenses	18	(1,329,809)	(1,092,687)
Payments to other network operators		(1,541,248)	(1,714,814)
Other operating expenses	19	(1,978,764)	(1,949,935)
<b>Operating expenses</b>		<u>(6,449,020)</u>	<u>(6,103,443)</u>
Other operating income	20	<u>57,535</u>	<u>930,845</u>
<b>Operating profit</b>		307,946	2,224,967
Finance expenses	21	(70,346)	(50,956)
Finance income	22	<u>2,524,352</u>	<u>3,473,622</u>
<b>Finance income - net</b>		<u>2,454,006</u>	<u>3,422,666</u>
<b>Profit before income tax</b>		2,761,952	5,647,633
Income tax expense	23	<u>(45,699)</u>	<u>(1,026)</u>
<b>Profit for the year</b>		<u>2,716,253</u>	<u>5,646,607</u>
<b>Total comprehensive income for the year</b>		<u>2,716,253</u>	<u>5,646,607</u>
<b>Earnings per share (EPS) information:</b>			
Basic and diluted earnings per share (in denars)		<u>31.49</u>	<u>65.46</u>

**Statement of cash flows**

In thousands of denars	Note	Year ended 31 December	
		2013	2012
<b>Operating activities</b>			
Profit before tax		2,761,952	5,647,633
Adjustments for:			
Depreciation and amortization		1,599,199	1,346,007
Write down of inventories to net realizable value	19	44	1,195
Fair value losses on financial assets	21	7,073	3,254
Impairment on trade and other receivables	7	27,753	5,334
Reversal of impairment on advances given to suppliers		-	(11,233)
Net release of provisions	15	(2,018)	(138,920)
Net gain on disposal of property, plant and equipment	20	(19,650)	(708,183)
Dividend income	22	(2,464,210)	(3,358,784)
Interest expense	21	54,121	28,636
Interest income	22	(56,594)	(114,838)
Effect of foreign exchange rate changes on cash and cash equivalents		1,216	1,155
<b>Cash generated from operations before changes in working capital</b>		<b>1,908,886</b>	<b>2,701,256</b>
Decrease/(increase) in inventories		39,035	(10,784)
(Increase)/decrease in receivables		(172,314)	48,912
Decrease in payables		(46,078)	(74,587)
<b>Cash generated from operations</b>		<b>1,729,529</b>	<b>2,664,797</b>
Interest paid		(52,397)	(57)
Income taxes received		2,036	16,597
<b>Cash flows generated from operating activities</b>		<b>1,679,168</b>	<b>2,681,337</b>
<b>Investing activities</b>			
Acquisition of property, plant and equipment		(1,729,321)	(1,709,613)
Acquisition of intangible assets		(48,439)	(63,743)
Loans collected		22,201	2,354
Deposits collected from banks		4,265,828	5,707,181
Deposits placed with banks		(430,580)	(4,265,828)
Dividends received		2,464,210	3,358,784
Proceeds from sale of property, plant and equipment		55,545	35,477
Interest received		57,049	115,885
<b>Cash flows generated from investing activities</b>		<b>4,656,493</b>	<b>3,180,497</b>
<b>Financing activities</b>			
Dividends paid		(5,646,607)	(6,163,557)
Payments of other financial liabilities		(143,016)	-
<b>Cash flows used in financing activities</b>		<b>(5,789,623)</b>	<b>(6,163,557)</b>
Net increase/(decrease) in cash and cash equivalents		546,038	(301,723)
Cash and cash equivalents at 1 January		237,874	540,752
Effect of foreign exchange rate changes on cash and cash equivalents		(1,216)	(1,155)
<b>Cash and cash equivalents at 31 December</b>	5	<b>782,696</b>	<b>237,874</b>

**Statement of changes in equity**

In thousands of denars	Note	Share capital	Share premium	Treasury shares	Statutory reserve	Revaluation reserves	Other reserves	Retained earnings	Total
Balance at 1 January 2012		9,583,888	540,659	(3,738,358)	1,916,777	2,294,516	22,291	7,066,744	17,686,517
Total comprehensive income for the year		-	-	-	-	-	-	5,646,607	5,646,607
Transaction with owners in their capacity of owners (dividends paid)		-	-	-	-	-	-	(6,163,557)	(6,163,557)
Transfer (see note 2.13)		-	-	-	-	(1,421,428)	-	1,421,428	-
Balance at 31 December 2012	16	9,583,888	540,659	(3,738,358)	1,916,777	873,088	22,291	7,971,222	17,169,567
Balance at 1 January 2013		9,583,888	540,659	(3,738,358)	1,916,777	873,088	22,291	7,971,222	17,169,567
Total comprehensive income for the year		-	-	-	-	-	-	2,716,253	2,716,253
Transaction with owners in their capacity of owners (dividends paid)		-	-	-	-	-	-	(5,646,607)	(5,646,607)
Transfer (see note 2.12; 2.13 and 16)		-	-	-	(958,388)	(225)	-	958,613	-
Balance at 31 December 2013	16	9,583,888	540,659	(3,738,358)	958,389	872,863	22,291	5,999,481	14,239,213



Notes to the financial statements

## 1. GENERAL INFORMATION

### 1.1. About the Company

These financial statements relate to Makedonski Telekom AD - Skopje, (hereinafter referred as: "the Company") a joint stock company incorporated and domiciled in the Republic of Macedonia.

The Company's immediate parent company is AD Stonebridge Communications – Skopje, solely owned by Magyar Telekom Plc. registered in Hungary. AD Stonebridge Communications – Skopje was under voluntary liquidation by the end of 2013 and from January 2014 its status has changed and is no longer under liquidation procedure. The ultimate parent company is Deutsche Telekom AG registered in Federal Republic of Germany.

The Company is the leading fixed line service provider in Macedonia.

In January 2014 the Company successfully completed the All IP Transformation Project and the last customer on the public switched telephone network ("PSTN") was migrated to IP Multimedia Subsystem ("IMS") platform. The IMS platform enables the use of different advanced and innovative services in the fixed telephony.

The Macedonian telecommunications sector is regulated by the Law on Electronic Communications ("LEC") enacted in March 2005. Under the LEC, the Company has been designated as an SMP (significant market power) operator on the market of fixed line voice telephony networks and services, including the market of access to the networks for data transmission and leased lines. The Company, 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.

With amendments of the Rulebook for retail regulation, the Agency for Electronic Communications (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. The Company is an operator with SMP status on the relevant retail market 1 (access to the public telephone network at a fixed location) and market 2 (publically available telephone services at a fixed location). The prices for retail products offered on these two markets are subject of regulation by the Agency. The regulation of the retail prices is ex-ante, meaning that the Agency has to approve each price introduction, price change on every product or promotion prior to its being launched in retail. The ex-ante regulation is based on price squeeze methodology.

The Company has a cost based price obligation for the Regulated wholesale services, using LRIC methodology. 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 fiber 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 fiber). The new fees are implemented as of 1 February 2013.

In line with the PSTN migration of the Company's network, the Agency approved the proposed modifications of the Company's WLR Reference Offer and Bit-stream access Offer applicable as of 1 January 2012. The Reference Interconnection Offer of the Company ("MATERIO") was changed on the Company's initiative from 1 May 2012 and lower fixed termination rates (for origination, termination and transit) for 25% were approved by the Agency.

The Internet Protocol Reference Interconnection Offer of the Company ("IP MATERIO") was submitted for approval to the Agency in October 2013 on Company's initiative, in line with the conclusions of the market analyses for submission of MATERIO changes with description and conditions for IP interconnection. The Agency approved the IP MATERIO on 27 December 2013. The changes are effective from 1 January 2014.

In addition, the Agency approved the Reference offers for wholesale digital leased lines ("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.

On 18 January 2013 the Agency approved new prices for duct rental services decreasing the prices previously set by the Company by more than 50%. The prices were determined by the Agency according to the LRIC methodology.

The new measures in line with the Company's SMP obligation on wholesale markets for fixed call origination (market 4), termination (market 5) and transit (market 6) from the final document include: implementation of IP interconnection by 2016 at the latest for fixed and mobile operators, transitional period for IP interconnection for alternative fixed and mobile operators up to three years, submission of updated the MATERIO with IP IC description (service and fees) and conditions by 31 October

## Notes to the financial statements

2013 at the latest. The other measures for Market 4, 5 and 6 are the same as before (interconnection and access, access to specific network facilities, carrier selection ("CS") and carrier pre-selection ("CPS"), transparency, non discrimination, accounting separation, price control and cost accounting).

In June 2013, the Agency announced starting of the first analysis on the wholesale market number 13 (Transmission of broadcasting content to end users) and on 14 June 2013 announced starting of second analysis of market 9 and 10 (Transmission and termination segments of LL) and also on market 7 (Physical access to network infrastructure). The analysis is expected to be finished by the end of the first quarter in 2014 and published for public hearing.

In December 2013, the Company received a Resolution for approval of Reference offer for provision of physical access and usage of electronic communication infrastructure including associated infrastructure capacity. The changes are effective from 1 January 2014 and will provide easier provision of physical access and usage of electronic communication infrastructure including associated infrastructure capacity.

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

The Company's registered address is "Kej 13 Noemvri" No 6, 1000, Skopje, Republic of Macedonia. The average number of employees based on the working hours during 2013 was 1,165 (2012: 1,252).

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

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

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

According to 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

Notes to the financial statements

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 216,577 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 subject to the Final Report. In 2010 the amount related to the identified potential tax impact, together with related penalty interest, amounted to MKD 227,972 thousand, which were paid in 2010 upon an executive decision issued by the Public Revenue Office. In addition, the value of one contract of MKD 105,147 thousand capitalized within treasury shares was reclassified and derecognized against the Retained earnings. 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 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 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.

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 former CEO of Makedonski Telekom AD- Skopje, Mr. Szendrei, the former CFO of the company, Mr. Plath, the former member of the BoD in Stonebridge and former member of the BoD in Makedonski Telekom AD – Skopje, Mr. Kefaloyannis and the former CEO of the Stonebridge, Mr. Kisjuhász and asked for a statement whether the Company has suffered any damages on the basis of the said consultancy contracts.

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 Company has collected and submitted the requested information/documentation to the Court Expertise Office.

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 Company, as a damaged party in this case, has not received an 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 a 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, the 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 damaged 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 Company did not record any provision.

Notes to the financial statements

On 23 February 2012 the Company received a request for documentation from the Financial Police Office of the Ministry of Finance of the 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.

Notes to the financial statements

## 2. SIGNIFICANT ACCOUNTING POLICIES

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

### 2.1. Basis of preparation

These financial statements are prepared, in all material respects, in accordance with the Company Law (published in Official Gazette No. 28/04, 84/05, 25/07, 87/08, 42/10, 48/10, 24/11, 166/12 and 70/13) and Rule Book for Accounting (published in Official Gazette No.159/2009 and No.164/2010), whereby the International Financial Reporting Standards (IFRS) comprising IFRS 1 to IFRS 8, International Accounting Standards (IAS) comprising IAS 1 to IAS 41, International Financial Reporting Interpretations Committee (IFRIC) comprising IFRIC 1 to IFRIC 17 and Standing Interpretations Committee (SIC) Interpretations comprising SIC 7 to SIC 32, were published. IFRS 9, IFRS 10, IFRS 11, IFRS 12, IFRS 13, IFRIC 18, IFRIC 19 and IFRIC 20 are not included in the Rule Book for Accounting and are not applied by the Company. IFRS (including IFRS 1), were initially published in the Official Gazette in 1997, and since then several updates have followed. The last update was in December 2010.

The Company applies all relevant standards and the amendments and interpretations which were published in the Official Gazette.

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

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

### 2.2. Foreign currency translation

#### 2.2.1. Functional and presentation currency

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

#### 2.2.2. Transactions and balances

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

The foreign currencies deals of the Company are predominantly Euro (EUR) and United States Dollars (USD), based.

The exchange rates used for translation at 31 December 2013 and 31 December 2012 were as follows:

	2013	2012
	MKD	MKD
1 USD	44.63	46.65
1 EUR	61.51	61.50

### 2.3. Financial instruments

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

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

## Notes to the financial statements

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

### 2.3.1. Financial assets

The Company classifies its financial assets in the following categories:

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

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

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

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

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

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

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

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

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

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

- (b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except those with maturities over 12 months after the financial statement date. These are classified as non-current assets.

The following items are assigned to the "loans and receivables" measurement category.

- cash and cash equivalents
- deposits over 3 months
- trade receivables
- receivables and loans to third parties
- employee loans
- other receivables

## Notes to the financial statements

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

### **Cash and cash equivalents**

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

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

### **Trade and other receivables**

Trade and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the 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 Company's policy for collective assessment of impairment is based on the aging of the receivables due to the large number of relatively similar type of customers.

Individual valuation is carried out for the largest customers, international customers, customers of interconnection services and also for customers under liquidation and bankruptcy proceedings. Itemized valuation is also performed in special circumstances.

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

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

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

### **Employee loans**

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

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

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

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

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12

## Notes to the financial statements

months of the financial statement date. Purchases and sales of investments are recognized on the trade-date – the date on which the Company commits to purchase or sell the asset.

Subsequent to initial recognition all available-for-sale financial assets are measured at fair value, except that any instrument that does not have a quoted market price in an active market and whose fair value cannot be reliably measured is stated at cost, including transaction costs, less impairment losses. The intention of the Company is to dispose these assets when there are favorable market conditions for their sale. Changes in the fair value of financial assets classified as available for sale are recognized in Other comprehensive income. When financial assets classified as available for sale are sold or impaired, the accumulated fair value adjustments recognized in equity are included in the Profit for the year as gains and losses from investment securities.

The Company assesses at each financial statement date whether there is objective evidence that a financial asset is impaired. There is objective evidence of impairment if as a result of loss events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If such evidence exists for AFS financial assets, the cumulative unrealized gain (if any) is reclassified from Other comprehensive income to Profit for the year, and any remaining difference is also recognized in the Profit for the year (Finance income). Impairment losses recognized on equity instruments are not reversed through the Profit for the year.

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

### **2.3.2. Financial liabilities**

#### **Trade and other payables**

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

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

### **2.4. Inventories**

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

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

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

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

### **2.5. Assets held for sale**

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

### **2.6. Property, plant and equipment (PPE)**

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



## Notes to the financial statements

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

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

Items of property, plant and equipment were restated at the year-end using official revaluation coefficients based on the general manufactured goods price increase index. Such coefficients have been applied to historical cost or later valuation and to accumulated depreciation as to approximate replacement cost. The net effect of revaluation was recorded against revaluation reserves. The last revaluation of property, plant and equipment was made in year 2000.

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

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

When assets are sold, the cost and accumulated depreciation are removed from the accounts and any related gain or loss, determined by comparing proceeds with carrying amount, is recognized in the Profit for the year (Other operating income).

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:

	2013	2012
	Years	Years
Buildings	20-40	20-40
Aerial and cable lines	20-25	20-25
Telephone exchanges	10	10
Computers	4	4
Furniture and fittings	4-10	4-10
Vehicles	4-10	4-10
Other	2-15	2-15

### 2.7. Intangible assets

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

Items of intangible assets were restated at the year-end using official revaluation coefficients based on the general manufactured goods price increase index. Such coefficients have been applied to historical cost or later valuation and to accumulated depreciation as to approximate replacement cost. The net effect of revaluation was recorded against revaluation reserves. The last revaluation of intangible assets was made in year 2000.

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

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).

Notes to the financial statements

The estimated useful lives are as follows:

	2013	2012
	Years	Years
Software and licenses	2-5	2-5

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

In determining whether an asset that incorporates both intangible and tangible elements should be treated under IAS 16 - Property, Plant and Equipment or as an intangible asset under IAS 38 - Intangible Assets, management uses judgment to assess which element is more significant and recognizes the assets accordingly.

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

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

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

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

### 2.9. Provisions and contingent liabilities

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

Provisions are measured and recorded as the best estimate of the 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.

### 2.10. Share capital

Ordinary shares are classified as equity.

### 2.11. Treasury shares

When the Company 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 Company'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 Company's equity holders.

Notes to the financial statements

## **2.12. Statutory reserves**

Under local statutory legislation, the Company was 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. With the changes of the Law on Trading Companies effective from 1 January 2013, the Company is required to set aside 5 percent of its net statutory profit for the year in a statutory reserve until the level of the reserve reaches 1/10 of the share capital (see note 16). These reserves are used to cover losses and are not distributed to shareholders except in the case of bankruptcy of the Company.

## **2.13. Revaluation reserves**

The revaluation reserve relates to property, plant and equipment, and intangible assets and comprises the cumulative increased carrying value using official revaluation coefficients based on the general manufactured goods price increase index producers price index on the date of revaluation. The last revaluation of property, plant and equipment and intangible assets was made in year 2000. When the revaluated assets are fully depreciated or disposed the relevant portion of the revaluation reserve is transferred to Retained earnings.

## **2.14. Revenues**

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

Customers of the Company are granted loyalty awards (credit points) based on their usage of the Company's services including timely payment of their invoices. Loyalty awards can be accumulated and redeemed to obtain future benefits (e.g. handsets, telecommunication equipment, etc.) from the Company. When customers earn their credit points, the fair value of the credit points earned are deducted from the revenue invoiced to the customer, and recognized as Other liabilities (deferred revenue). On redemption (or expiry) of the points, the deferred revenue is released to revenue as the customer 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 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 Company considers the various elements of these arrangements to be separate earnings processes and recognizes the revenue for each of the deliverables using the residual method. These units are identified and separated, since they have value on a standalone basis and are sold not only in a bundle, but separately as well. Therefore the Company recognizes revenues for all of these elements using the residual method that is the amount of consideration allocated to the delivered elements of the arrangements equals the total consideration less the fair value of the undelivered elements.

The Company provides customers with narrow and broadband access to its fixed 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 Company, the Company establishes the prices of these services and bears substantial risks of these services, otherwise presented on a net basis.

Third parties using the telecommunications network include 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

## Notes to the financial statements

of the revenue received is often paid to other operators (interconnect) for the use of their networks, where applicable. The revenues and costs of these terminate or transit calls are stated gross in these financial statements as the Company is the principal supplier of these services using its own network freely defining the pricing of the service, and recognized in the period of related usage.

### **2.14.2. 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 Statement of financial position as Trade and other receivables.

## **2.15. Employee benefits**

### **2.15.1. Short term employee benefits and pensions**

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

### **2.15.2. Bonus plans**

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

### **2.15.3. 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 Company recognizes termination benefits when it is demonstrably committed to either terminate the employment of current employees according to a detailed formal plan without the possibility of withdrawal or to provide termination benefits as a result of an offer made to encourage voluntary redundancy.

Notes to the financial statements

## **2.16. Marketing expenses**

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

## **2.17. 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 nonresident 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.

## **2.18. Leases**

### **2.18.1. Operating lease – Company as lessor**

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

### **2.18.2. Operating lease – Company as lessee**

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

## **2.19. 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.

## **2.20. Dividend distribution**

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

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

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

Notes to the financial statements

**3.1.1. Market risk**

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

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

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

a) Foreign currency risk

The functional currency of the Company is the Macedonian denar.

The foreign exchange risk exposure of the Company is related to holding foreign currency cash balances, and operating activities through revenues from and payments to international telecommunications carriers as well as capital expenditure contracted with vendors in foreign currency.

The currency giving rise to this risk is primarily the EUR. The Company uses cash deposits in foreign currency, predominantly in EUR, and cash deposits in denars linked to foreign currency, to economically hedge its foreign currency risk in accordance with the available banks offers. The Company manages 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.

At 31 December 2013, if MKD would have been 1% (2012: 1%) weaker or stronger against EUR, profit would have been MKD 5,066 thousand (2012: 35,394 MKD thousand) in net balance higher or lower, respectively. At 31 December 2013, if MKD would have been 1% (2012: 1%) weaker or stronger against USD, profit would have been MKD 537 thousand (2012: MKD 513 thousand) in net balance lower or higher, respectively.

b) Interest rate risk

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

Change in the interest rates and interest margins may influence financing costs and returns on financial investments.

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

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

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

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

The Company had MKD 1,212,511 thousand deposits (including call deposits) and cash in bank as at 31 December 2013, 1% rise in market interest rate would have caused (ceteris paribus) the interest received to increase with approximately MKD 12,125 thousand annually, while similar decrease would have caused the same decrease in interest received. Amount of deposits is MKD 4,504,162 thousand (including call deposits) and cash in bank as at 31 December 2012, therefore 1% rise in market interest rate would have caused (ceteris paribus) the interest received to increase with approximately MKD 45,042 thousand annually, while similar decrease would have caused the same decrease in interest received.

## Notes to the financial statements

### c) Other price risk

The Company's investments are in equity of other entities that are publically traded on the Macedonian Stock Exchange, both on its Official and Regular market. The management continuously monitors the portfolio equity investments based on fundamental and technical analysis of the shares. All buy and sell decisions are subject to approval by the relevant Company's bodies. In line with the Company strategy, the investments within portfolio are kept until there are favorable market conditions for their sale.

As part of the presentation of market risks, IFRS 7 also requires disclosures on how hypothetical changes in risk variables affect the price of financial instruments. As at 31 December 2013 and 31 December 2012, the Company holds investments, which could be affected by risk variables such as stock exchange prices.

The Company had MKD 43,762 thousand investments in equity of other entities that are publically traded on the Macedonian Stock Exchange as at 31 December 2013, 20% rise in market price would have caused (ceteris paribus) MKD 8,752 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 50,828 thousand as at 31 December 2012, therefore 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.

### 3.1.2. Credit risk

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

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

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

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

In cases where Company'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.
- Upon harmonization and agreement with the parent company these rules can be altered for ensuring full credit risk coverage. If the total amount of deposits cannot be placed in banks covered with bank guarantees with at least BBB+ rating (or equivalent credit rating), then depositing will be performed in local banks without bank guarantee.

The process of managing the credit risk from operating activities includes preventive measures such as creditability checking and prevention barring, corrective measures during legal relationship for example reminding and disconnection activities, collaboration with collection agencies and collection after legal relationship as litigation process, 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 creditability checking – which determines that the customer is not indebted and the customer's credit worthiness and through preventive barring – which determinates the credit limit based on the customer's previous traffic revenues.

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

## Notes to the financial statements

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

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the Statement of financial position. Consequently, the Company considers that its maximum exposure is reflected by the amount of debtors net of provisions for impairment recognized and the amount of cash deposits in banks at the financial statement date.

Largest amount of one deposit in 2013 is MKD 430,579 thousand, denominated in EUR 7,000 thousand, (2012: MKD 1,699,245 thousand; denominated in EUR 27,630 thousand). In addition, the Company has deposits with 1 domestic bank (2012: 4 domestic banks). The Company has obtained collateral (guarantee) that mitigate the credit risk for the extent of the deposited amount in the respective bank.

### 3.1.3. Liquidity risk

Liquidity risk is the risk that an entity may encounter difficulty in meeting obligations associated with financial liabilities.

Liquidity risk is defined as the risk that the Company could not be able to settle or meet its obligations on time.

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

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

The tables below show liabilities at 31 December 2013 and 2012 by their remaining contractual maturity. The amounts disclosed in the maturity table are the contractual undiscounted cash flows. Such undiscounted cash flows differ from the amount included in the statement of financial position because the statement of financial position amount is based on discounted cash flows. As the financial liabilities are paid from the cash generated from the ongoing operations, the maturity analysis of the financial assets as at the end of the reporting periods (in comparison with the financial liabilities) would not be useful, therefore, is not included in the tables below.

The maturity structure of the Company's financial liabilities as at 31 December 2013 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	539,187	292,282	246,905	-	-
Liabilities to related parties	736,544	666,118	6,488	63,938	-
Other financial liabilities	835,430	54,093	-	195,334	586,003
	<u>2,111,161</u>	<u>1,012,493</u>	<u>253,393</u>	<u>259,272</u>	<u>586,003</u>

The maturity structure of the Company'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	677,296	306,761	370,337	198	-
Liabilities to related parties	672,400	575,066	97,160	174	-
Other financial liabilities	1,109,423	132,752	-	195,334	781,337
	<u>2,459,119</u>	<u>1,014,579</u>	<u>467,497</u>	<u>195,706</u>	<u>781,337</u>

### 3.2. Capital risk management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The total amount of equity managed by the Company, as at 31 December 2013, is MKD



## Notes to the financial statements

14,239,213 thousand, as per local GAAP (Generally accepted accounting principles) (2012: MKD 17,169,567 thousand). Out of this amount MKD 9,583,888 thousand (2012: MKD 9,583,888 thousand) represent share capital and MKD 958,389 thousand (2012: MKD 1,916,777 thousand) represent statutory reserves, which are not distributable (see note 2.12). The Company has also acquired treasury shares (see notes 2.11 and 16.1). The transaction is in compliance with the local legal requirements that by acquiring treasury shares the total equity of the Company shall not be less than the amount of the share capital and reserves which are not distributable to shareholders by law or by Company's statute. In addition, according the local legal requirements dividends can be paid out to the shareholders in amount that shall not exceed the net profit for the year as presented in the local GAAP financial statements of the Company, increased for the undistributed net profit from previous years or increased for the other distributable reserves, i.e. reserves that exceed the statutory reserves and other reserves defined by the Company's statute. The Company is in compliance with all statutory capital requirements.

### 3.3. Fair value estimation

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

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

Financial assets available for sale include investment in equity instruments that are measured at fair value.

The fair value of publicly traded financial assets at fair value through profit and loss is based on quoted market prices at the financial statement date.

Financial liabilities included in the category Trade and other payables mainly have short term maturity. For this reason, their carrying amounts at the reporting date approximate their fair values.

The fair value of the long term financial liabilities is determined by using discounted cash-flow valuation technique.

## 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

### 4.1. Useful lives of assets

The determination of the useful lives of assets is based on historical experience with similar assets as well as any anticipated technological development and changes in broad economic or industry factors. The appropriateness of the estimated useful lives is reviewed annually, or whenever there is an indication of significant changes in the underlying assumptions. We believe that the accounting estimate related to the determination of the useful lives of assets is a critical accounting estimate since it involves assumptions about technological development in an innovative industry and heavily dependent on the investment plans of the Company. Further, due to the significant weight of depreciable assets in our total assets, the impact of any changes in these assumptions could be material to our financial position, and results of operations. As an example, if the Company was to shorten the average useful life of its assets by 10%, this would result in additional annual depreciation and amortization expense of approximately MKD 177,689 thousand (2012: MKD 148,363 thousand). See note 11 and 12 for the changes made to useful lives in the reported years.

The Company constantly introduces a number of new services or platforms including, but not limited to the fiber-to-the-home rollout. In case of the introduction of such new services, the Company conducts a revision of useful lives of the already existing platforms, but in the vast majority of the cases these new services are designed to co-exist with the 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 2012 the Company 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. In January 2014 the Company performed the migration of the last PSTN customer thus completing the PSTN migration project (see note 10).

Notes to the financial statements

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

We assess the impairment of identifiable property, plant, equipment and intangibles whenever there is a reason to believe that the carrying value may materially exceed the recoverable amount and where impairment of value is anticipated. The calculations of recoverable amounts are primarily determined by value in use calculations, which use a broad range of estimates and factors affecting those. Among others, we typically consider future revenues and expenses, technological obsolescence, discontinuance of services and other changes in circumstances that may indicate impairment. If impairment is identified using the value in use calculations, we also determine the fair value less cost to sell (if determinable), to calculate the exact amount of impairment to be charged. As this exercise is highly judgmental, the amount of a potential impairment may be significantly different from that of the result of these calculations. Management has performed an impairment test based on a 10 years cash flow projection and used a perpetual growth rate of 2% (2012: 2%) to determine the terminal value after 10 years. The Company uses fair values less cost to sell calculation. The discount rate used was 9.64% (2012: 9.46%). The impairment test did not result in impairment.

#### **4.3. Estimated impairment of trade and other receivables**

We calculate impairment for doubtful accounts based on estimated losses resulting from the inability of our customers to make the required payments. For the largest customers, international customers and for customers under liquidation and bankruptcy proceedings impairment is calculated on an individual basis, while for other customers it is estimated on a portfolio basis, for which we base our estimate on the aging of our account receivables balance and our historical write-off experience, customer credit-worthiness and recent changes in our customer payment terms (see note 2.3.1 (b)). These factors are reviewed periodically, and changes are made to the calculations when necessary. In 2013 the Company 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 behavior, resulting in new impairment rates of trade and other receivables in 2013. If the financial condition of our customers were to deteriorate, actual write-offs of currently existing receivables may be higher than expected and may exceed the level of the impairment losses recognized so far (see note 3.1.2).

#### **4.4. Provisions**

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

#### **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 Company's agents also spend a portion of their agent fees for marketing the Company's products, while a certain part of the Company's marketing costs could also be considered as part of the subscriber acquisition costs. The up-front fees collected from customers for activation or connection are marginal compared to the acquisition costs. These revenues and costs are recognized when the customer is connected to the Company's fixed network. No such costs or revenues are capitalized or deferred. These acquisition costs (losses) are recognized immediately as expense (Other operating expenses) as they are not accurately separable from other marketing costs. The total amount of agent fees in 2013 is MKD 7,042 thousand (2012: MKD 13,512 thousand).

Notes to the financial statements

## 5. CASH AND CASH EQUIVALENTS

In thousands of denars	2013	2012
Call deposits	563,069	161,011
Cash in bank	218,835	76,841
Cash on hand	792	22
	<u>782,696</u>	<u>237,874</u>

The interest rate on call deposits is in range from 0.30% p.a. to 1.00% p.a. (2012: from 1.00% p.a. to 1.25% 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	2013	2012
MKD	580,447	174,022
EUR	201,832	62,468
USD	414	1,351
Other	3	33
	<u>782,696</u>	<u>237,874</u>

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

In thousands of denars	2013	2012
Credit rating of the Guarantor: A+	-	58,538
Credit rating of the Guarantor: A	746,692	115,400
Credit rating of the Guarantor: BBB-	-	50,627
Credit rating of the Guarantor: CCC	-	13,287
	<u>746,692</u>	<u>237,852</u>

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

In thousands of denars	2013	2012
Credit rating: BBB-	2,146	-
Credit rating: BB-	20,631	-
Credit rating: B-	12,435	-
	<u>35,212</u>	<u>-</u>

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

## 6. DEPOSITS WITH BANKS

Deposits with banks represent cash deposits in reputable domestic banks, with interest rate of 2.35% p.a. (2012: from 1.15% p.a. to 2.70% 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	2013	2012
MKD	-	350,026
EUR	430,607	3,916,284
	<u>430,607</u>	<u>4,266,310</u>

Notes to the financial statements

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	2013	2012
Credit rating of the Guarantor : A+	-	4,026,939
Credit rating of the Guarantor : A	430,607	239,371
	<u>430,607</u>	<u>4,266,310</u>

**7. TRADE AND OTHER RECEIVABLES**

In thousands of denars	2013	2012
Trade debtors – domestic	2,300,211	2,306,053
Less: allowance for impairment	<u>(951,615)</u>	<u>(947,741)</u>
Trade debtors – domestic – net	1,348,596	1,358,312
Trade debtors – foreign	26,287	27,566
Receivables from related parties	796,390	645,353
Loans given to companies	9,000	9,000
Less: allowance for impairment	<u>(9,000)</u>	<u>(9,000)</u>
Loans given to companies – net	-	-
Loans to third parties	3,518	3,500
Less: allowance for impairment	<u>(3,518)</u>	<u>(3,500)</u>
Loans to third parties– net	-	-
Loans to employees	90,878	116,055
Other receivables	10,333	13,393
Less: allowance for impairment	<u>(1,205)</u>	<u>(1,205)</u>
Other receivables – net	<u>9,128</u>	<u>12,188</u>
Financial assets	2,271,279	2,159,474
Advances given to suppliers	92,232	76,737
Less: allowance for impairment	<u>(62,817)</u>	<u>(62,817)</u>
Advances given to suppliers – net	29,415	13,920
Prepayments and accrued income	<u>72,362</u>	<u>77,684</u>
	<u>2,373,056</u>	<u>2,251,078</u>
Less non-current portion: Loans to employees	(74,017)	(96,218)
Less non-current portion: Trade debtors – domestic	<u>(247,237)</u>	<u>(232,390)</u>
Current portion	<u>2,051,802</u>	<u>1,922,470</u>

Receivables from related parties represent receivables from T-Mobile Macedonia AD Skopje and members of Magyar Telekom Group and Deutsche Telekom Group (see note 28).

Loans to employees are collateralized 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. (2012: 6.25% p.a. and 9.45% p.a.).

All non-current receivables are due within 15 years of the financial statement date.

As at 31 December 2013, domestic trade debtors of MKD 1,101,010 thousand (2012: MKD 1,156,605 thousand) are impaired. The aging of these receivables is as follows:

In thousands of denars	2013	2012
Less than 30 days	88,305	97,138
Between 31 and 180 days	31,737	85,711
Between 181 and 360 days	56,837	44,872
More than 360 days	924,131	928,884
	<u>1,101,010</u>	<u>1,156,605</u>

Notes to the financial statements

As at 31 December 2013, domestic trade receivables in amount of MKD 167,417 thousand (2012: MKD 117,659 thousand) were past due but not impaired. These are mainly related to customers for interconnection services assessed on individual basis in accordance with past Company experience and current expectations, as well as specified business and governmental customers that belong to certain age bands and are past due but not impaired, based on past experience of payment behavior (see notes 2.3.1 and 4.3). The analysis of these past due domestic trade receivables is as follows:

In thousands of denars	2013	2012
Less than 30 days	72,802	37,824
Between 31 and 60 days	31,212	28,763
Between 61 and 90 days	19,364	13,943
Between 91 and 180 days	27,566	18,707
Between 181 and 360 days	6,726	18,406
More than 360 days	9,747	16
	<u>167,417</u>	<u>117,659</u>

The total amount of the provision for domestic trade debtors is MKD 951,615 thousand (2012: MKD 947,741 thousand). Out of this amount MKD 896,113 thousand (2012: MKD 885,542 thousand) relate to provision made according the aging structure of the above receivables, while the amount of MKD 8,613 thousand (2012: MKD 4,037 thousand) is from customers under liquidation and bankruptcy which are fully impaired. In addition, the Company has a specific provision calculated in respect of a certain group of customers in amounting to MKD 46,889 thousand (2012: MKD 58,162 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 884,088 thousand (2012 MKD 859,670 thousand). These receivables are mainly from two way disconnected customers, dismantled customers, litigated customers and customers that are no longer using the Company services.

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

In thousands of denars	2013	2012
Trade debtors – domestic	1,348,596	1,358,312
Trade debtors – foreign	26,287	27,566
Receivables from related parties	796,390	645,353
Loans to employees	90,878	116,055
Other receivables	9,128	12,188
	<u>2,271,279</u>	<u>2,159,474</u>

Movement in allowance for impairment of domestic trade debtors:

In thousands of denars	2013	2012
Impairment losses at 1 January	947,741	987,740
Charge for the year	27,753	5,334
Write off	(23,879)	(45,333)
Impairment losses at 31 December	<u>951,615</u>	<u>947,741</u>

Movement in allowance for impairment of advances given to suppliers:

In thousands of denars	2013	2012
Impairment losses at 1 January	62,817	74,050
Reversal of impairment losses	-	(11,233)
Impairment losses at 31 December	<u>62,817</u>	<u>62,817</u>

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

As at 31 December 2013, foreign trade receivables in amount of MKD 18,337 thousand (2012: MKD 19,929 thousand) were past due but not impaired. These relate to a number of international customers assessed on individual basis in accordance

Notes to the financial statements

with past Company experience and current expectations. The analysis of these past due foreign trade receivables is as follows:

In thousands of denars	2013	2012
Less than 30 days	5,135	4,387
Between 31 and 60 days	4,715	2,212
Between 61 and 90 days	523	1,386
Between 91 and 180 days	470	359
Between 181 and 360 days	1	604
More than 360 days	7,493	10,981
	<u>18,337</u>	<u>19,929</u>

The Company has renegotiated domestic trade receivables in carrying amount of MKD 53,389 thousand (2012: MKD 35,888 thousand). The carrying amount of loans and receivables, which would otherwise be past due, whose terms have been renegotiated is not impaired if the collectability of the renegotiated cash flows are considered ensured.

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

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

In thousands of denars	2013	2012
MKD	1,718,686	1,571,843
EUR	330,160	349,366
USD	714	38
Other	2,242	1,223
	<u>2,051,802</u>	<u>1,922,470</u>

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	2013	2012
Group 1	497,016	502,811
Group 2	187,377	193,773
Group 3	100,154	102,815
	<u>784,547</u>	<u>799,399</u>

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

In thousands of denars	2013	2012
Group 1	1,540	1,480
Group 2	6,410	6,157
	<u>7,950</u>	<u>7,637</u>

Group 1 – customers that on average are paying their bills before due date.

Group 2 – customers that on average are paying their bills on due date.

Group 3 – customers that on average are paying their bills after due date.

Notes to the financial statements

## 8. OTHER TAXES

### 8.1. Other taxes receivable

In thousands of denars	2013	2012
VAT receivable	7,278	6,917
Other taxes receivable	502	489
	<u>7,780</u>	<u>7,406</u>

### 8.2. Other taxes payable

In thousands of denars	2013	2012
VAT and other taxes payable	20,322	20,603
	<u>20,322</u>	<u>20,603</u>

## 9. INVENTORIES

In thousands of denars	2013	2012
Materials	101,669	128,622
Inventories for resale	47,259	56,566
Allowance for inventories	(9,565)	(6,746)
	<u>139,363</u>	<u>178,442</u>

Movement in allowance for inventories:

In thousands of denars	2013	2012
Allowance at 1 January	6,746	7,724
Write down of inventories to net realizable value	44	1,195
Write down of inventories	9,002	3,014
Write off	(6,227)	(5,187)
Allowance at 31 December	<u>9,565</u>	<u>6,746</u>

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

## 10. ASSETS HELD FOR SALE

Assets held for sale represent property, plant and equipment, within the Company 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. In 2011 the Company signed an agreement to provide three of its administrative buildings and cash consideration in exchange for one new building in 2012. Accordingly, the carrying amounts of these three buildings in amount of MKD 547,485 thousand were reclassified to assets held for sale in the financial position as at 31 December 2011. In 2012 the transaction was completed and the new acquired building in amount of MKD 2,078,954 thousand was recognized as PPE (see note 11) while the sold administrative buildings were derecognized with carrying amount of MKD 548,223 thousand at the moment of derecognition, resulting in a net gain of MKD 691,161 thousand recognized in Other operating income (see note 14 and 20).

In December 2013, the Board of Directors of the Company brought a resolution for sale of the PSTN exchanges in line with the completion of the "All IP Transformation Project" where the Company migrated from PSTN to IP based services (see note 4.1). Accordingly, the carrying amount of these assets in amount of MKD 1,650 thousand was reclassified to assets held for sale in the Statement of financial position as at 31 December 2013.

Notes to the financial statements

In addition, during 2013, the Company brought decisions for selling a number of other assets. The carrying amounts of the affected assets were reclassified to assets held for sale in the Statement of financial position. As at 31 December 2013 the balance of assets held for sale also includes vehicles with carrying amount of MKD 7,143 thousand, storage equipment with carrying amount of MKD 1,181 thousand and building with carrying amount of MKD 1,291 thousand.

The assets presented as held for sale at the balance sheet date are accounted for at the lower of carrying value or fair value less cost to sell.

**11. PROPERTY, PLANT AND EQUIPMENT**

In thousands of denars	Land	Buildings	Telecommunication equipment	Other	Assets under construction	Total
<b>Cost</b>						
At 1 January 2012	24,432	4,031,278	23,817,717	4,266,251	375,717	32,515,395
Additions	702	2,096,702	901,256	350,922	608,308	3,957,890
Transfer from assets under construction (see note 12)	-	3,971	214,288	17,043	(327,918)	(92,616)
Disposals	(21)	(3,760)	(401,763)	(1,589,703)	-	(1,995,247)
Transfer to assets held for sale	-	-	-	(37,605)	-	(37,605)
At 31 December 2012	<u>25,113</u>	<u>6,128,191</u>	<u>24,531,498</u>	<u>3,006,908</u>	<u>656,107</u>	<u>34,347,817</u>
<b>Depreciation</b>						
At 1 January 2012	-	1,957,727	19,951,023	3,295,831	-	25,204,581
Charge for the year	-	124,590	759,677	268,056	-	1,152,323
Disposals	-	(1,812)	(394,292)	(1,581,175)	-	(1,977,279)
Transfer to assets held for sale	-	-	-	(36,867)	-	(36,867)
Transfer between group of assets (see note 12)	-	-	37	(29,840)	-	(29,803)
At 31 December 2012	<u>-</u>	<u>2,080,505</u>	<u>20,316,445</u>	<u>1,916,005</u>	<u>-</u>	<u>24,312,955</u>
<b>Carrying amount</b>						
At 1 January 2012	<u>24,432</u>	<u>2,073,551</u>	<u>3,866,694</u>	<u>970,420</u>	<u>375,717</u>	<u>7,310,814</u>
At 31 December 2012	<u>25,113</u>	<u>4,047,686</u>	<u>4,215,053</u>	<u>1,090,903</u>	<u>656,107</u>	<u>10,034,862</u>



Notes to the financial statements

In thousands of denars	Land	Buildings	Telecommunication equipment	Other	Assets under construction	Total
<b>Cost</b>						
At 1 January 2013	25,113	6,128,191	24,531,498	3,006,908	656,107	34,347,817
Additions	85	15,739	854,492	157,515	590,668	1,618,499
Transfer from assets under construction (see note 12)	-	2,528	227,700	40,756	(346,761)	(75,777)
Disposals	-	(29,934)	(97,783)	(269,129)	-	(396,846)
Transfer to assets held for sale	-	(3,624)	(6,540,638)	(181,064)	-	(6,725,326)
At 31 December 2013	25,198	6,112,900	18,975,269	2,754,986	900,014	28,768,367
<b>Depreciation</b>						
At 1 January 2013	-	2,080,505	20,316,445	1,916,005	-	24,312,955
Charge for the year	-	167,783	883,239	314,436	-	1,365,458
Disposals	-	(29,579)	(97,783)	(256,927)	-	(384,289)
Transfer to assets held for sale	-	(2,332)	(6,538,989)	(150,342)	-	(6,691,663)
At 31 December 2013	-	2,216,377	14,562,912	1,823,172	-	18,602,461
<b>Carrying amount</b>						
At 1 January 2013	25,113	4,047,686	4,215,053	1,090,903	656,107	10,034,862
At 31 December 2013	25,198	3,896,523	4,412,357	931,814	900,014	10,165,906

In 2011, the Company signed an agreement to provide three of its administrative buildings and cash consideration in exchange for 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 installments 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 14). 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 20), which derives also from observable market data for the fair value of the old buildings. In 2012, the Company 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 2,078,954 thousand (see note 10). The selling price for the three old buildings was MKD 1,085,530 thousand and the trade-in value of these buildings did not and will not result in cash received.

The reviews of the useful lives and residual values of property, plant and equipment during 2013 affected the lives of a several types of assets, mainly hardware and network equipment. The change of the useful life on the affected assets was made due to technological changes and business plans of the Company.

The reviews result in the following change in the original trend of depreciation in the current and future years:

In thousands of denars	2013	2014	2015	2016	After 2016
(Decrease)/increase in depreciation	(24,112)	(22,495)	4,682	36,506	5,419
	(24,112)	(22,495)	4,682	36,506	5,419

Notes to the financial statements

**12. INTANGIBLE ASSETS**

In thousands of denars	Software and licenses	Concession	Other	Total
<b>Cost</b>				
At 1 January 2012	2,551,158	154,757	32,153	2,738,068
Additions	154,967	-	-	154,967
Transfer from assets under construction (see note 11)	92,617	-	-	92,617
Disposal	(2,939)	-	-	(2,939)
At 31 December 2012	<u>2,795,803</u>	<u>154,757</u>	<u>32,153</u>	<u>2,982,713</u>
<b>Amortization</b>				
At 1 January 2012	1,940,042	154,757	31,835	2,126,634
Charge for the year	182,625	-	318	182,943
Disposal	(2,939)	-	-	(2,939)
Transfer between group of assets (see note 11)	29,803	-	-	29,803
At 31 December 2012	<u>2,149,531</u>	<u>154,757</u>	<u>32,153</u>	<u>2,336,441</u>
<b>Carrying amount</b>				
At 1 January 2012	<u>611,116</u>	-	318	611,434
At 31 December 2012	<u>646,272</u>	-	-	<u>646,272</u>

In thousands of denars	Software and licenses	Concession	Other	Total
<b>Cost</b>				
At 1 January 2013	2,795,803	154,757	32,153	2,982,713
Additions	184,629	-	-	184,629
Transfer from assets under construction (see note 11)	75,777	-	-	75,777
Disposal	(866,928)	-	(32,153)	(899,081)
Transfer to assets held for sale	(58,880)	-	-	(58,880)
At 31 December 2013	<u>2,130,401</u>	<u>154,757</u>	-	<u>2,285,158</u>
<b>Amortization</b>				
At 1 January 2013	2,149,531	154,757	32,153	2,336,441
Charge for the year	233,741	-	-	233,741
Disposal	(866,928)	-	(32,153)	(899,081)
Transfer to assets held for sale	(57,954)	-	-	(57,954)
At 31 December 2013	<u>1,458,390</u>	<u>154,757</u>	-	<u>1,613,147</u>
<b>Carrying amount</b>				
At 1 January 2013	<u>646,272</u>	-	-	646,272
At 31 December 2013	<u>672,011</u>	-	-	<u>672,011</u>

The reviews of the useful lives of intangible assets during 2013 affected the lives of a number of assets, mainly software. The change on the useful life of the affected assets was made according to technological changes and business plans of the Company.

Notes to the financial statements

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

In thousands of denars

	2013	2014	2015	2016	After 2016
(Decrease)/increase in amortization	(13,378)	(13,189)	(2,631)	26,676	2,522
	<u>(13,378)</u>	<u>(13,189)</u>	<u>(2,631)</u>	<u>26,676</u>	<u>2,522</u>

### 13. INVESTMENTS IN SUBSIDIARIES

In thousands of denars

	2013	2012
T-Mobile Macedonia AD Skopje	2,791,453	2,791,453
e-Makedonija	6,138	6,138
	<u>2,797,591</u>	<u>2,797,591</u>

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

	Country of incorporation	Ownership interest	Ownership interest
		2013	2012
T-Mobile Macedonia AD Skopje	Macedonia	100	100
e-Makedonija	Macedonia	100	100

During 2004, the Company established the e-Makedonija foundation with the main purpose support of information technology development in the Republic of Macedonia.

### 14. TRADE AND OTHER PAYABLES

In thousands of denars

	2013	2012
Trade payables		
-Domestic	471,092	577,690
-Foreign	68,095	99,606
Liabilities to related parties	736,544	672,400
Other financial liabilities	744,277	968,638
Financial liabilities	<u>2,020,008</u>	<u>2,318,334</u>
Accrued expenses	807,917	679,848
Deferred revenue	54,893	52,741
Advances received	47,888	45,523
Other	102,719	34,986
	<u>3,033,425</u>	<u>3,131,432</u>
Less non-current portion:		
Other financial liabilities	<u>(502,874)</u>	<u>(648,845)</u>
Current portion	<u>2,530,551</u>	<u>2,482,587</u>

Liabilities to related parties represent liabilities to T-Mobile Macedonia AD Skopje, members of Magyar Telekom Group and Deutsche Telekom Group (see note 28).

In the category Other financial liabilities MKD 690,184 thousand (2012: 835,887) 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 20). 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 (see note 21). The carrying amount of these liabilities approximates their fair value as the related cash flows are discounted with an interest rate of 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 2012 in the amount of MKD 153,854 thousand.

Notes to the financial statements

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

In thousands of denars	2013	2012
MKD	2,065,951	1,632,674
EUR	413,628	788,703
USD	44,872	52,662
Other	6,100	8,548
	<u>2,530,551</u>	<u>2,482,587</u>

**15. PROVISION FOR OTHER LIABILITIES AND CHARGES**

In thousands of denars	Legal cases	Other	Total
1 January 2012	378,210	26,842	405,052
Additional provision	25,975	19,217	45,192
Unused amount reversed	(175,230)	(8,882)	(184,112)
Used during period	(99,550)	(2,361)	(101,911)
31 December 2012	<u>129,405</u>	<u>34,816</u>	<u>164,221</u>

In thousands of denars	Legal cases	Other	Total
1 January 2013	129,405	34,816	164,221
Additional provision	3,054	29,069	32,123
Unused amount reversed	(27,496)	(6,645)	(34,141)
Used during period	(59,688)	(13,394)	(73,082)
31 December 2013	<u>45,275</u>	<u>43,846</u>	<u>89,121</u>

Analysis of total provisions:

In thousands of denars	2013	2012
Non-current (legal cases and other)	41,460	107,077
Current	<u>47,661</u>	<u>57,144</u>
	<u>89,121</u>	<u>164,221</u>

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

There are a number of legal cases for which provisions were recognized, none of which are individually material, therefore 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. 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 2013.

Other includes provision made for the contractual obligation of the Company to pay to employees three average monthly salaries in Republic of Macedonia at their retirement date (see note 2.15.1) and provision made for the Variable II incentive programs (see note 29). The provision is recognized against Personnel expenses in the Profit for the year.

**16. CAPITAL AND RESERVES**

Share capital consists of the following:

In thousands of denars	2013	2012
Ordinary shares	9,583,878	9,583,878
Golden share	10	10
	<u>9,583,888</u>	<u>9,583,888</u>

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.

Notes to the financial statements

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 2013 and 2012, the shares of the Company, were held as follows:

In thousands of denars	2013	%	2012	%
Stonebridge AD Skopje	4,887,778	51.00	4,887,778	51.00
Government of the Republic of Macedonia	3,336,497	34.81	3,336,497	34.81
The Company (treasury shares)	958,388	10.00	958,388	10.00
International Finance Corporation (IFC)	171,122	1.79	179,698	1.88
Other minority shareholders	230,103	2.40	221,527	2.31
	<u>9,583,888</u>	<u>100.00</u>	<u>9,583,888</u>	<u>100.00</u>

#### 16.1. Treasury shares

The Company acquired 9,583,878 of its own shares, representing 10% of its shares, through the Macedonian Stock Exchange during June, 2006. The total amount paid to acquire the shares, net of income tax, was MKD 3,843,505 thousand. The shares are held as treasury shares. As a result of the findings of the Investigation, for one consultancy contract, the payments of which was derecognized from treasury shares (see note 1.2).

The amount of treasury shares of MKD 3,738,358 thousand (after derecognition), has been deducted from shareholders' equity. The Company has the right to reissue these shares at a later date. All shares issued by the Company were fully paid.

#### 16.2. Statutory reserves

With the changes of the Law on Trading Companies effective from 1 January 2013, the Company is required to set aside 5 percent of its net statutory profit for the year in a statutory reserve until the level of the reserve reaches 1/10 of the share capital. As the Company has reached the 1/5 of the share capital in statutory reserves in prior years, in 2013, the excess over the 1/10 of the share capital in the amount of MKD 958,388 thousand was transferred from statutory reserves to retained earnings.

#### 17. REVENUES

In thousands of denars	2013	2012
Voice retail	1,831,370	2,285,762
Voice wholesale	1,837,670	2,052,139
Internet	1,196,872	1,217,820
Data	765,961	884,207
TV	438,259	320,425
Equipment	364,726	319,777
SI/IT	80,964	92,106
Other	183,609	225,329
	<u>6,699,431</u>	<u>7,397,565</u>

In order to maintain consistency with the current year presentation the interest earned from sale on installments presented in 2012 as Interest income in the amount of MKD 40,989 thousand were excluded from the Finance income category in these financial statements and reclassified to Other revenues (see note 22). The reclassification had no impact on equity or net profit.

Notes to the financial statements

### 18. PERSONNEL EXPENSES

In thousands of denars	2013	2012
Salaries	633,759	690,176
Contributions on salaries	232,794	236,124
Bonus payments	120,382	148,955
Other staff costs	428,579	124,559
Capitalized personnel costs	(85,705)	(107,127)
	<u>1,329,809</u>	<u>1,092,687</u>

Other staff costs mainly include termination benefits for 182 employees leaving the Company in 2013 (2012: 29 employees), holiday's allowance and other benefits.

Bonus payments also include the cost for the Magyar Telekom's Mid Term Incentive Plan ("MTIP") and Variable II programs (see note 29).

### 19. OTHER OPERATING EXPENSES

In thousands of denars	2013	2012
Purchase cost of goods sold	361,599	367,412
Services	330,104	343,233
Materials and maintenance	269,305	275,068
Royalty payments for IPTV programs	238,217	154,109
Energy	221,731	222,435
Subcontractors	177,364	174,444
Marketing and donations	120,491	151,305
Fees, levies and local taxes	82,803	106,776
Consultancy	65,227	81,803
Rental fees	42,578	35,081
Impairment losses on trade and other receivables	27,753	5,334
Insurance	14,127	12,586
Write down of inventories	9,002	3,014
Write down of inventories to net realizable value	44	1,195
Other	18,419	16,140
	<u>1,978,764</u>	<u>1,949,935</u>

Services mainly include postal expenses, security, cleaning, mobile telecommunication services and utilities.

### 20. OTHER OPERATING INCOME

In thousands of denars	2013	2012
Net gain on sale of PPE	19,650	708,183
Other	37,885	222,662
	<u>57,535</u>	<u>930,845</u>

In 2012 the Company completed the transaction for purchase and sale of buildings with an exchange which resulted in a gain on sale of its three administrative buildings in amount of MKD 691,161 thousand (see note 10).

In 2013 Other mainly includes compensation from T-Systems International for the contribution of the Company in the design and other activities of the DT Group Next Generation Customer Relationship Management ("NG CRM") project related to the termination of the Project Service Agreement due to the changes of the governance model assuming full local accountability for the project. Other in 2012 mainly includes net income from release of provisions.

Notes to the financial statements

## 21. FINANCE EXPENSES

In thousands of denars	2013	2012
Interest expense	54,121	28,636
Bank charges and other commissions	9,152	16,838
Fair value trough profit and loss	7,073	3,254
Net foreign exchange loss	-	2,228
	<u>70,346</u>	<u>50,956</u>

Interest expense in amount of MKD 49,586 thousand (2012: MKD 13,068 thousand) represents the unwinding of the discount related to the carrying amount of long term payables from the transaction for purchase and sale of buildings with an exchange, recognized initially at fair value and subsequently measured at amortized cost using the effective interest method (see note 10 and 11).

## 22. FINANCE INCOME

In thousands of denars	2013	2012
Dividend income	2,464,210	3,358,784
Interest income	56,594	114,838
Net foreign exchange gain	3,548	-
	<u>2,524,352</u>	<u>3,473,622</u>

Interest income is generated from financial assets classified as loans and receivables.

The major part of dividend income in 2013 is dividend received from T-Mobile Macedonia AD Skopje in the amount of MKD 2,462,569 thousand (2012: MKD 3,355,499 thousand).

In order to maintain consistency with the current year presentation the interest earned from sale on installments presented in 2012 as Interest income in the amount of MKD 40,989 thousand were excluded from the Finance income category in these financial statements and reclassified to Revenues (see note 17). The reclassification had no impact on equity or net profit.

## 23. INCOME TAX EXPENSE

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. In addition, the income tax shall apply at the moment of the distribution of the profits in a form of dividends. Subsequently, as long as the undistributed profits are retained within the company the income tax would not be applied (see note 2.17).

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.

The tax authorities may at any time inspect the books and records within 5 years subsequent to the reported tax year, and may impose additional tax assessments and penalties. In a case of tax evasion or tax fraud the statute of limitations may be extended up to 10 years. The Company's management is not aware of any circumstances, which may give rise to a potential material liability in this respect other than those provided for in these financial statements.

## 24. DIVIDENDS

The Shareholders' Assembly of the Company, at its meeting, held on 29 March 2013 adopted a Resolution for the dividend payment for the year 2012. The Resolution on dividend payment for 2012 is in the amount of MKD 5,646,607 thousand from the net profit for the year 2012. The dividend was paid out in April 2013. Up to date of issuing of these financial statements, no dividends have been declared for 2013.

Notes to the financial statements

## 25. LEASES AND OTHER COMMITMENTS

### 25.1. Operating lease commitments – where the Company is the lessee:

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

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

In thousands of denars	2013	2012
Not later than 1 year	24,944	30,426
Later than 1 year and not later than 5 years	56,579	23,110
Later than 5 years	528	325
	<u>82,051</u>	<u>53,861</u>

### 25.2. Operating lease commitments – where the Company is the lessor:

Operating lease commitments – where the Company is the lessor are mainly from lease of working premises.

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

In thousands of denars	2013	2012
Not later than 1 year	3,241	839
Later than 1 year and not later than 5 years	8,631	2,402
	<u>11,872</u>	<u>3,241</u>

### 25.3. Capital commitments

The amount authorized for capital expenditure as at 31 December 2013 was MKD 235,029 thousand (2012: MKD 355,872 thousand). The amount authorized for capital expenditure as at 31 December 2013 mainly relates to telecommunication assets.

## 26. ADDITIONAL DISCLOSURES ON FINANCIAL ASSETS

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

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

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

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



Notes to the financial statements

## 26.1. Financial assets – Carrying amounts and fair values

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

Assets In thousands of denars	Financial assets		Carrying amount	Fair value
	Loans and receivables	At fair value through profit and loss (Level 1)		
Cash and cash equivalents	237,874	-	237,874	237,874
Deposits with banks	4,266,310	-	4,266,310	4,266,310
Trade and other receivables	2,159,474	-	2,159,474	2,159,474
Financial assets at fair value through profit and loss	-	50,828	50,828	50,828

The table below shows the categorization of financial assets as at 31 December 2013.

Assets In thousands of denars	Financial assets		Carrying amount	Fair value
	Loans and receivables	At fair value through profit and loss (Level 1)		
Cash and cash equivalents	782,696	-	782,696	782,696
Deposits with banks	430,607	-	430,607	430,607
Trade and other receivables	2,271,279	-	2,271,279	2,271,279
Financial assets at fair value through profit and loss	-	43,762	43,762	43,762

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 43,762 thousand (2012: MKD 50,828 thousand) calculated with reference to the Macedonian Stock Exchange quoted bid prices. Changes in fair values of other financial assets at fair value through profit or loss are recorded in finance income/expenses in the Profit for the year (see note 21 and 22). The cost of these equity investments is MKD 31,786 thousand (2012: MKD 31,786 thousand).

## 26.2. Other disclosures about financial instruments

There were no financial assets or liabilities, which were reclassified into another financial instrument category.

No financial assets were transferred in such a way that part or all of the financial assets did not qualify for de-recognition.

## 27. CONTINGENCIES

The Company has contingent liabilities in respect of legal and regulatory claims arising in the ordinary course of business. The major part of the contingent liabilities relate to 13 requests for initiating misdemeanor 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 10 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 misdemeanor procedures. It is not anticipated by the management that any material liabilities will arise from the contingent liabilities other than those provided for (see note 15).

## 28. 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 mainly include provision and supply of telecommunication services and equipment. The amounts receivable and payable are disclosed in the appropriate notes (see note 7 and 14).

Notes to the financial statements

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

In thousands of denars	2013		2012	
	Revenues	Expenses	Revenues	Expenses
<b>Subsidiary</b>				
T-Mobile Macedonia AD Skopje	596,493	980,360	705,667	1,105,389
<b>Controlling owner</b>				
Magyar Telekom Plc	26	38,694	3,032	44,359
<b>Subsidiaries of the controlling owner</b>				
Telemakedonija AD	40	-	181	-
IQSYS Magyar Telekom	-	-	-	2,770
T-Systems Magyarország Zrt.	23,079	11	-	923
Novatel	7,186	3,978	2,289	-
<b>Ultimate parent company</b>				
Deutsche Telekom AG	1,284,390	160,878	1,438,548	200,297
<b>Subsidiaries of the ultimate parent company</b>				
Hrvatski Telekom	176	-	-	35,016
T-Systems	4,545	5,432	11,138	6,174
OTE Globe	22,898	22,099	22,508	30,435
Romtelekom	-	915	-	913
Detecon	2	16	-	5,784
Slovak Telekom	-	13	-	-

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

In thousands of denars	2013		2012	
	Receivables	Payables	Receivables	Payables
<b>Subsidiary</b>				
T-Mobile Macedonia AD Skopje	551,675	604,254	383,966	543,547
<b>Controlling owner</b>				
Magyar Telekom Plc	36	7,131	-	7,084
<b>Subsidiaries of the controlling owner</b>				
Telemakedonija AD	6	-	6	-
T-Systems Magyarország Zrt.	1,058	-	-	1,845
Novatel	3,445	1,334	389	378
Crnogorski Telekom	78	-	-	-
<b>Ultimate parent company</b>				
Deutsche Telekom AG	196,140	107,158	247,056	87,031
<b>Subsidiaries of the ultimate parent company</b>				
T-Systems	36,914	7,254	5,094	7,445
Hrvatski Telekom	176	-	-	33
OTE Globe	6,862	6,408	8,842	8,800
Romtelekom	-	3,005	-	6,054
Detecon	-	-	-	5,783
Slovak Telekom	-	-	-	4,400

Notes to the financial statements

## 29. KEY MANAGEMENT COMPENSATION

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

In thousands of denars	2013	2012
Short-term employee benefits (including taxation)	86,746	99,244
State contributions on short-term employee benefits	6,950	8,201
Long-term incentive programs	15,675	4,870
	<u>109,371</u>	<u>112,315</u>

The remuneration of the members of the Company's Board of Directors amounted to MKD 5,373 thousand (2012: MKD 6,140 thousand) included in Short-term employee benefits. These are included in Personnel expenses (see note 18).

The Long-term incentive programs 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 18 and 15). The MTIP programs finished in 2012 and no expenses were recognized in 2013 related to these programs.

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, which 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 Program for 2013 is applicable from 1 January 2013 until 31 December 2016.

The Variable II is measured based on the fulfillment 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 programs are shown within Long-term incentive programs (see note 15 and 18).

## 30. EVENTS AFTER THE FINANCIAL STATEMENT DATE

There are no events after the financial statement date that would have impact on the 2013 profit for the year, statement of financial position or cash flows.