



Questions asked by shareholders at the Annual Shareholders' Assembly of Makedonski Telekom held on 27 March 2014 and answers given by the Company

I. Upon the item for adoption of the proposed Agenda

1. Question: What are the reasons why the items of the Agenda of the previous Shareholders' Assembly of the Company that pertain to the merger of the two companies – Makedonski Telekom and T-Mobile Macedonia have not been included in the Agenda of this Annual Shareholders' Assembly of Makedonski Telekom.

Answer:

The Agenda of the Annual Shareholders' Assembly was proposed and established by the Board of Directors of the Company which convened the Annual Shareholders' Assembly. The issue related to the accession of T-Mobile Macedonia to Makedonski Telekom shall be included as an Agenda item when it shall be proposed and established as an item of the Agenda by the Board of Directors at some Shareholders' Assembly in the future.

The shareholders have not reached consent yet with reference to the issue pertaining to the accession of T-Mobile Macedonia to Makedonski Telekom and immediately after their reaching consent the Board of Directors shall submit a respective proposal to the Shareholders' Assembly.

II. Upon the second item of the Agenda "Proposed Resolution on the adoption of the Consolidated Annual Accounts of the Company for the Year 2013 as per local GAAP":

1. Question: What is the reason for the difference between the decrease of the revenue and the decrease of the profit of the Company, i.e. the revenue of the Company compared to 2012 has decreased by 9 (nine) % and the profit has decreased by 37 (thirty-seven) % compared to 2012, and it that regard it has to be taken into account that the profit is the difference between the revenues and the expenses.

Answer:

One of the main reasons for the decrease of the profit is the decrease of the revenue at Company level (at a non-consolidated level) of approximately eleven million euro. In addition, other things that happened in 2013 and the ones that had an influence on the decrease of the profit compared to 2012 are the following: first, in the previous year of 2012, there was a one-time inflow, i.e. extraordinary revenue of approximately eleven million euro from the sale of the buildings. The second reason is that the one-time costs related to the programme for voluntary termination of the labour relation were approximately four million five hundred thousand euro (4,500,000 EUR) higher compared to 2012. There were also costs for increased amortization in 2013, compared to 2012, of approximately four million euro (4,000,000 EUR) based on increased fixed assets in 2013, decreased dividend revenue in the Company from T-Mobile of approximately fourteen million five hundred thousand euro (14,500,000 EUR), decreased revenue from interests of approximately one million five hundred thousand euro (1,500,000 EUR), as well as increased cost for taxes of approximately 10% of the payment based on the programme for voluntary termination of the labour relation. The aforesaid information pertain to Company level (at a non-consolidated level). All those things directly affected the profit of the Company.

Additional answer:

According to the consolidated annual accounts, the operating revenues in 2013 decreased by MKD 2,237 m (EUR 36.3 m) i.e. by 15% compared to the previous year, whereas the operating expenses decreased by MKD 231m (EUR 3.7 m) i.e. 2%. Additionally, the net financial revenues decreased by MKD 122 m (EUR 2 m), whereas the profit tax increased by MKD 61 m (EUR 1 m). These movements on revenue and cost side resulted in a decrease of the new profit in an absolute amount of MKD 2,189 m (EUR 35.6 m) i.e. by 46% compared to the previous year. The same is a result of the factors already explained above.

By analyzing the movement of the net profit in 2013 compared to 2012 from a different angle, the main items that had a one-time effect on the decrease of the net profit are presented below:

<i>In thousands MKD</i>	2012	2013	Difference	In %
Net profit	4.751.445	2.561.739	-2.189.706	-46,1%
Effect from the sale of real-estate with an exchange	809.823			
Effect from the voluntary leave programme		-379.557		
Net profit after the elimination of the above effects	3,941,623	2,941,296	-1,000,326	-25.4%

After the elimination of the effects from the sale of real-estate with an exchange (that had a positive effect on the net profit in 2012) and the effect of the voluntary leave programme (that had a negative effect in 2013), the net profit is decreased by MKD 1,000 m (EUR 16.3 m), as a result of the following:

- Sales revenues decreased by MKD 1,214 m (EUR 19.7 m), i.e. 8.9% compared to the previous year as a result of the market conditions, including also the pressure on the prices and the increased competition on the telecommunications market in the Republic of Macedonia (AOP designation 202)

Operating expenses decreased by MKD 214 m (EUR 3.4 m). It is a result of the decrease of the operating expenses of MKD 338 m (EUR 5.4 m) for the purposes of a partial compensation of the decrease of the revenues, and on the other side the increased sales of equipment resulted in increased costs for COGS (cost of goods sold) (AOP designation 209) of MKD 124 m (EUR 2.0 m) i.e. 9.8% compared to the previous year.

Additionally, taking into consideration the nature of the telecommunications business, it also entails and necessitates considerable fixed costs.

2. Question: An explanation is necessary for the item - Employee-related costs, in the Annual Accounts of the Company for 2013 and the reasons for the increase of the costs stated in this item in 2013, compared to 2012, having regard that this item in the Annual Accounts is separate from the other items related to the costs for employees and the item - Other costs for the employees that encompass the costs for the programme for voluntary leave

Answer:

During 2013, the Company already had increased cost with reference to payments in accordance with the Programme for voluntary leave of employees who left the Company with the package-programme adequately approved by the Board of Directors. At the level of both companies - Makedonski Telekom and T-Mobile Macedonia, approximately two hundred and thirty-nine (239) employees left on a voluntary basis, whereas approximately one hundred eighty two (182) employees left only Makedonski Telekom. The increase of the costs for employees is on that basis. As a clarification, item 12 of the Annual Accounts of the Company – Costs for employees is a summary and collective item of items 214, 215, 216 and item 217 that presents the other employee related costs. Additional explanation of the reasons for increase of the costs for employees will be published at the official internet site of the Company.

Additional answer:

The table below gives an overview of all items from the Consolidated Annual Accounts of the Company that comprise the total costs for employees.

<i>In thousands MKD</i>	2012	2013	Difference	In %
Salaries and salary remunerations	882.752	806.111	-76.641	-9%
Costs for salary taxes and salary remunerations	81.426	74.555	-6.872	-8%
Contributions for obligatory social insurance	330.316	319.075	-11.240	-3%
Other costs for the employees	253.233	615.027	361.794	143%
Other employee-related costs	1,547,727	1,814,767	267,041	17.3%

In 2013, there was a decrease in the first three items of 7% compared to the previous year which in absolute amount is MKD 94.7 m (EUR 1.5 m). The fourth item – other costs for the employees in 2013 increased by MKD 361.7 m (EUR 5.8 m) i.e. 143%, which at the same time is the reason for the total costs for employees in 2013 to increase by 267 m (EUR 4.3 m) or by 17%. As it was previously explained, this item – other employee-related costs increased as a result of the costs for voluntary leave from the company that have a one-time effect on the total costs for employees in 2013.

3. Question: Due to the fact that it was known in advance that the Company will have one-time revenues, were measures undertaken for managing the expenses in order for them to be decreased and what measures have been undertaken for decreasing the expenses this year

Answer:

In the previous year there was one-time revenue and a one-time cost, and it is not the same and that it is effectuated differently in the profit and loss account because the first affects the revenue side – that was from the sale of the buildings, and the latter affects the cost level.

In circumstances where the Company experiences decrease of the revenues several years in a row, both companies, Makedonski Telekom and T-Mobile Macedonia continuously focus on the decrease of costs via negotiations regarding the contracts with the vendors, decrease of the internal administrative needs and travel costs, trainings or consulting services. All those costs were strictly monitored and decreased where possible without causing damage to the Company's operation. One of the programmes which was introduced last year and which, in the end, gave its financial result, was the programme for voluntary decrease of employment which was introduced in order to decrease the cost for employment. The results for 2013 include increase of the item – Costs for the employees due to the one-time payment, however, that cost

will be drastically decreased in 2014, 2015 and 2016 due to the smaller number of employees in the Company starting as of 2014 onwards.

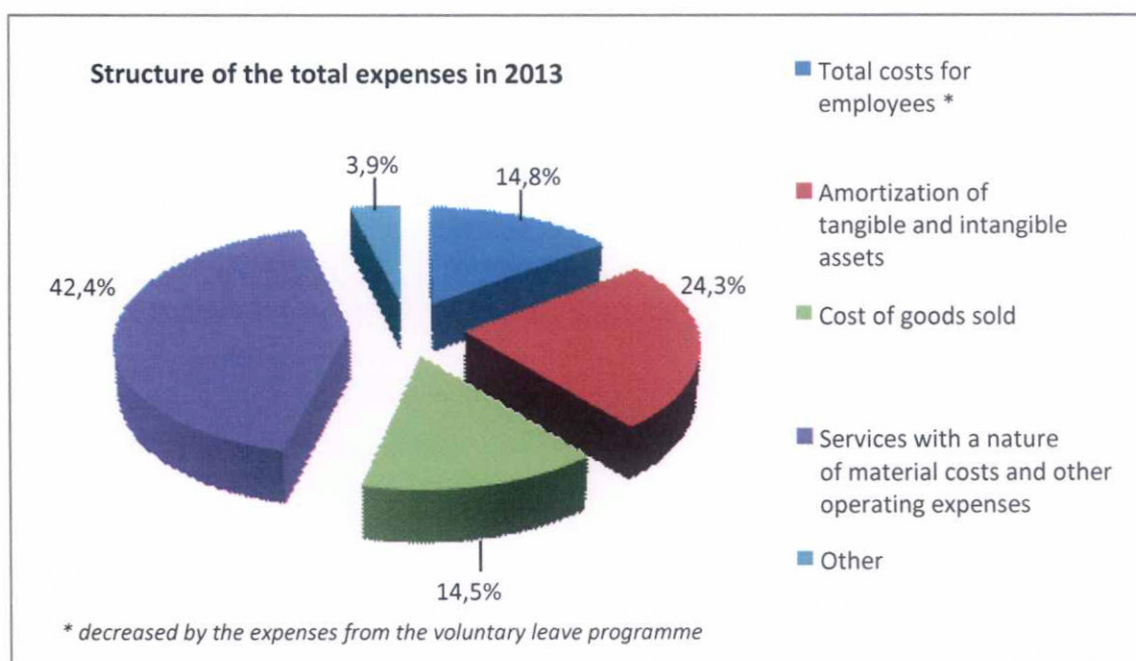
The focus on the cost management and their further decrease will continue in 2014, however the structure of the Company's costs needs to be taken into account, where approximately forty (40) % of the total costs are direct costs, i.e. revenue-related costs. Therefore, approximately twenty (20) % of the costs are costs related to costs for employees, and the remaining part are costs for the other operation which also include fixed costs, such as radiofrequency fees, the management of which is limited.

Additional answer:

As a summary, the total operating expenses, according to the consolidated annual account, are represented in the table given below:

<i>In thousands MKD</i>	2012	2013	Difference	In %
Total costs for employees *	1.547.727	1.435.210	-112.516	-7,3%
Amortization of tangible and intangible assets	2.443.235	2.349.335	-93.900	-3,8%
Cost of goods sold	1.277.379	1.402.224	124.845	9,8%
Services with a nature of material costs and other operating expenses	4.604.093	4.102.692	-501.401	-10,9%
Other	405.808	378.534	-27.274	-6,7%
Total operating expenses	10,278,242	9,667,995	-610,247	-5.9%

* decreased by the expenses from the voluntary leave programme



All cost categories show a decrease compared to 2012, with the exception of the costs related to the costs of goods sold, which, as it was stated above increased as a result of the increased sales of equipment. As regards the decrease of the operating expenses, in the course of 2013 several measures were undertaken both in terms of the increased control in the approval of the requests for expenses, and in terms of the re-negotiation of the prices with the vendors.

For a more detailed analysis of the cost categories included in the item "services with a nature of material costs and other operating expenses", we would like to refer you to Note 15 to the Consolidated Annual Accounts which comprises several cost categories as follows:

<i>in thousands MKD</i>	2013	2012	%
Payments towards operators	1.484.183	1.548.378	-4,1%
Services	697.998	753.893	-7,4%
Marketing and donations	455.661	515.187	-11,6%
Taxes, fees and local taxes	265.248	326.644	-18,8%
Maintenance	264.694	283.273	-6,6%
Subcontractors	256.702	286.662	-10,5%
Costs for royalties for programme contents for IPTV	238.217	154.109	54,6%
Rental fees	123.674	134.241	-7,9%
Losses from scraping of non-current assets	97.747	340.963	-71,3%
Consultancy services	77.968	106.080	-26,5%
Impairment loss	59.236	49.226	20,3%
Insurance	16.261	16.964	-4,1%
Banking services and payment operations	16.614	27.401	-39,4%
Other	48.489	61.073	-20,6%
Total	4,102,692	4,604,093	-10.9%

All cost items mark a decrease compared to 2012, except for two cost categories that increased compared to 2012, as follows:

- MKD 84 m (EUR 1.4m) for costs for royalties for programme contents for IPTV as a result of the enriched programme contents that are offered through the IPTV service
- MKD 10 m (EUR 0.2 m) for costs related to the impairment loss, as a result of the movements in the age structure and the collection of the receivables.

4. Question: What are the expectations of the management for 2014, i.e. what is expected regarding the revenue, what should the shareholders expect regarding the dividend and does someone control that?

Answer:

The new management is holding daily meetings and working intensively on a programme which is going to encompass the entire Company, i.e. the management is going to focus on 2014 and the years that follow and the performance of the Company is going to be closely monitored. The daily operation of the Company is of great importance, we are all aware of that and if we take a look at the revenues, we will notice that there has been a significant decline since 2010, which arises from different criteria and different items. First of all, we must not forget that, in terms of mobile and fixed telephony, the Company did not use to have any competition on the market for a long time, whereas now it is faced with fierce competition, especially in mobile telephony, but also in fixed telephony, which automatically means that it is no longer alone on the market and that it is respectively losing the revenue. On the other hand, while throughout Europe there is a trend of decline of the revenues and EBITDA, when we examine the EBITDA development of the Company, which means the revenues minus the costs, this Company is still achieving above 40% EBITDA, which puts the Company in a champion position both in Europe and even in the world. There are not many companies in Europe which have an EBITDA margin of above 40% since the average is most often between 33%, 32%, 30% and 35% . In this respect the Company is still quite strong. The costs must be adopted in line with the revenue developments,

but, as a result of the high EBITDA margin, it is not to be expected to have a decrease in the costs at the same level as the decrease in the revenues. It is impossible since there must be fixed costs in order to be able to run the operation. When it comes to a company which is of the size of Makedonski Telekom, there must be a certain cost system otherwise it will not be able to run the operations.

The competition is even stronger than before, there are challenges in view of the price erosions and if we consider the offers and the prices being offered by the other operators, regardless as to whether we are discussing the fixed or the mobile network, Makedonski Telekom is still operating with a price premium, which may only be justified with adequate quality. Yet, the question arises as to whether this premium price is accepted on the market - from what may be seen currently, it is clear that it is not very much accepted and therefore the tariffing policy of the Company should be reconsidered in order to remain competitive on the market.

As regards the costs, even too little money is spent on the market. The Management must focus on the operational performance, on the appearance of the Company on the market and on being far more competitive. Many indirect costs will have to be moved, which are not directly related to the market. This trend will continue in the same direction, but it is an obligation of the management to slow down such negative trend and to aim for stabilization.

III. Upon the third item of the Agenda "Proposed Resolution on the adoption of the audited Financial Statements of the Company for the Year 2013 as per local GAAP":

1. Question: What is the explanation with reference to the remark on the Report of the independent auditor in view of the fact that it has been stated in the Report that in 2011 the Company signed a Contract for exchange of 3 (three) administrative buildings, while in the other materials and Reports it was stated that there are 4 (four) such buildings.

Answer:

In the Financial Statement of Makedonski Telekom 3 (three) buildings were listed because it is a standalone report referring to Makedonski Telekom, while in the consolidated reports (four) buildings were listed because the fourth one belonged to T-Mobile Macedonia.

At the meeting of the Shareholders' Assembly when the sale of the building was subject to approval it was clearly and precisely clarified how the entire business case was implemented and it was also stated in the Minutes taken at that meeting of the Shareholders' Assembly, which is available for the shareholders. The proposed Resolution on the sale of the buildings was concisely explained, including data, numbers, who made the estimation, and other related data, and it was stated in the Minutes. The selling of the buildings was subject to a final approval by the Shareholders' Assembly of Makedonski Telekom, upon the proposal of the Board of Directors.

Having regard to the fact that one of the things that was said was that there has been a loss, with all the disqualifications stated previously, how is it possible to have a loss if one has earned a capital profit of eleven million euro. That denies the statement referring to the existence of a loss. There is no need to go back to questions and discussions that have already been passed by the highest body of this Company or to the Resolution on sale which was adopted with majority of the votes of the shareholders, taking into consideration the fact that it was under the decision-making competence of the Shareholders' Assembly. The Minutes from the meeting of the Shareholders' Assembly were also posted on the official website of the Company.

IV. Upon item 8 of the Agenda "Proposed Resolution on the payment of the dividend of the Company for the Year 2013":

1. Question: What is the amount of the net dividend per share for the natural persons in view of the fact that in the Proposed Resolution the stated gross amount is MKD 31.00 (thirty-one) per share.

Answer:

In order to give the exact amount up to the last decimal, the final status of the shareholders' book is necessary, i.e. the structure of the shareholders up to the given moment in accordance with the date established in the Resolution, and then it is immediately calculated according to the valid legal regulations to whom payments shall be made and what amount of tax shall be paid in order to arrive at the exact net amount for each of the shareholders.