



**MAKEDONSKI TELEKOM AD SKOPJE**  
KEJ 13 NOEMVRI NO. 6, 1000 SKOPJE, R. MACEDONIA

**ANNUAL REPORT**  
**on the operations of the Group of Makedonski Telekom AD - Skopje in 2014**

*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 totalled more than EUR 31 million. In particular, the internal investigation examined whether Magyar Telekom and/or its Montenegrin and Macedonian affiliates had made payments prohibited by U.S. laws or regulations, including the U.S. Foreign Corrupt Practices Act (the "FCPA"). The Company has previously disclosed the results of the internal investigation.*

*Magyar Telekom's Audit Committee informed the U.S. Department of Justice (the "DOJ") and the U.S. Securities and Exchange Commission (the "SEC") of the internal investigation. The DOJ and the SEC commenced investigations into the activities that were the subject of the internal investigation. On 29 December 2011, Magyar Telekom announced that it had entered into final settlements with the DOJ and the SEC to resolve the DOJ's and the SEC's investigations relating to Magyar Telekom. The settlements concluded the DOJ's and the SEC's investigations. Magyar Telekom disclosed the key terms of the settlements with the DOJ and the SEC on 29 December 2011. In particular, Magyar Telekom disclosed that it had entered into a two-year deferred prosecution agreement (the "DPA") with the DOJ.*

*The DPA expired on 5 January 2014, and further to the DOJ's request filed in accordance with the DPA, the U.S. District Court for the Eastern District of Virginia dismissed the charges against Magyar Telekom on 5 February 2014.*

*In relation to the local investigation by the state authorities in Macedonia, there have been no new developments in the course of 2014 further to the previously disclosed information in the Financial Statements of the Company for the preceding years.*

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

This Annual Report on the Operation refers to the Group of Makedonski Telekom AD - Skopje, which includes Makedonski Telekom AD – Skopje (hereinafter referred to as: "MKT"), T-Mobile Macedonia AD Skopje (hereinafter referred to as: "TMMK") and the e-Macedonia Foundation – Skopje (hereinafter jointly referred as the: "the Group").

MKT is a joint stock company incorporated and domiciled in the Republic of Macedonia (RM) for the provision of telecommunications services. The MKT'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 it is no longer under liquidation procedure. The ultimate parent company is Deutsche Telekom AG, registered in the Federal Republic of Germany.

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

MKT provides traditional fixed line telecommunications services and content services within the scope of the fixed line network, broadband services and integrated solutions, including TV over Internet Protocol (IPTV).

In January 2014, MKT 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.

TMMK is the leading mobile service provider in Macedonia, dedicated to the provision of up-to-date technologies and advanced service offerings, commensurate to the highest technological and service standards.

In 2014, the mobile voice revenues contributed with 39.6% to the total revenues, while 21.2% of the total revenues of the Group were generated from fixed line voice services. The fixed line internet and data services revenues contributed with 13.8%, while the mobile non-voice services revenues contributed with 9.6% to the total revenues. The revenues from IPTV contributed with 4.9% to the total revenues.

The fixed line voice revenues still mark a downward movement, mainly due to the decreased number of fixed-line customers and the decrease of the outgoing traffic. IPTV revenues have grown mainly due to the growing IPTV subscriber base. The mobile voice revenues decrease is driven by the lower voice retail revenues as the higher outgoing minutes could not offset the lower subscription fees as a result of new promotions and offers reflecting the strong competition, and the decline in the post-paid customer base.

At the end of 2014, MKT had 242,789 voice access fixed lines compared to 266,620 at the end of 2013. The number of total DSL access increased to 190,451 at the end of 2014, compared to 185,514 at the end of 2013. The number of IPTV customers at the end of 2014 reached 98,216 customers (including 3 Play, IPTV only and 2 MAX) marking more than 12% increase from the end of 2013. The number of Fiber to the Home (FTTH) customers reached 28,031 at the end of 2014.

TMMK had a customer base of 1,197,242 at the end of 2014, compared to 1,195,250 at the end of 2013. The mobile market penetration in Macedonia is 106.7%, which shows the trend of individuals owning multiple SIM cards. As a result of the market saturation, TMMK especially focuses on retaining the customers in order to protect the market share.

The Macedonian mobile market was characterized by highly competitive campaigns and offers in 2014. Due to the increased competitiveness and in order to prevent the churn and encourage the usage, TMMK launched various campaigns, price plans and additional services specially designed to meet the subscribers' needs, with a focus on value instead of price. These offers are targeting different customer segments.

In 2014, TMMK introduced several products that differentiate TMMK on the mobile market and provide additional value for the customers.

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

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

Further details on the Group's financial performance, operating and accounting policies as well as other relevant

disclosures are given in the MKT Consolidated Financial statements for the year ended 31 December 2014.

## Regulation and Pricing

The Macedonian law concerning the electronic communications (Law on Electronic Communications - "LEC") was enacted on 5 March 2005. Thus, by means of certain transitional provisions, the country's telecommunications regulations were harmonized with the European Union (EU) regulatory framework. Furthermore, a number of strict obligations for the existing operators were stipulated. In December 2013, a public debate was opened for a new draft LEC in order for the LEC to be aligned with the EU Framework Directives 2009. New Law was enacted in March 2014 as primary legislation, as well as rulebooks as secondary legislation.

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

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

Most of the secondary legislation was amended according to the new LEC until 1 December 2014. Some of the existing Rulebooks that were amended by the Agency are related to:

- retail price regulation;
- determination of calculation method for number and frequency usage and annual fees;
- assignment of numbers and series of numbers from the numbering and frequency plan;
- numbering plan;
- number portability;
- general terms and conditions in customer relations;
- building of electronic communications network - "including underground cabling";
- Bitstream access services and resale of bitstream service;
- condition for use of the unique emergency number E-112;
- universal service and functional broadband access;
- interconnection;
- unbundling of local loop;
- access to specific network facilities;
- security and integrity of communications networks and data protection;
- QoS (Quality of service) parameter for fix and mobile networks.

On 29 June 2011 MKT was designated as a Universal Service (US) provider for fixed telephony services, public payphones and equivalent access for disabled end-users for a five-year period starting from 1 January 2012. In 2013 a Universal Service Obligation (USO) fund was established, in which all telecommunications operators with annual turnover above EUR 100 thousand in Macedonia are participating.

On 12 December 2014, MKT received a Resolution of the Agency for determination of net cost for provision of universal service for 2013 in the total amount of MKD 34 million.

The services encompassed by the US for which MKT has received reimbursement from the USO fund are:

- Access to public telephone services at a defined fixed geographic location;
- Reasonable number of public pay phones;
- Ensuring conditions for equivalent access to and use of publicly available telephone services for disabled end-users.

## **Regulation of Fixed Line Business**

In line with the data for the development of the telecommunications market published in the fourth quarter of 2014 by the Agency, the Agency had registered 31 providers of public fixed telephony services until 31 December 2014. The Agency deleted the inactive providers during 2014.

Under the LEC, by the end of 2013, MKT was designated as a Significant market power (SMP) 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. MKT, as 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.

The obligations according to the performed analysis in 2014 on the relevant markets include the current obligations as well as new obligations for regulation of fibre based products and virtual unbundling local access (VULA) on Market 8 - Broadband market (broadband services based on optics), Market 1 (Access to public telephone networks at a fixed location for residential and business customers on all networks - technology neutral), deregulation on Market 10 - Transmission segments of the LL and deregulation of Wholesale Line Rental (WLR).

According to the new bylaws, MKT has an obligation to publish reference offers for the wholesale products for interconnection, Unbundling Local Loop (ULL), local Bit-stream Access (BSA), Reference Access Offer for access to ducts and dark fiber (RAO) and wholesale terminating segments of leased lines. Initial Fiber to the "x" (FTTx) regulation was introduced in the second quarter of 2011 with the obligation for Reference Access Offer (RAO) for ducts and dark fiber imposed on MKT by the Agency. The approved reference offer was published on 5 December 2011 and is fully in line with the introduced Rulebook for specific network access and elements and applicable as of 1 January 2012.

Amendments of the reference offers (BSA - Bitstream access, RIO-Reference interconnection offer, RUO-Reference unbundling offer) according to the new rulebooks are expected to be published in the first quarter of 2015.

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 adopted a decision for decrease of the fees and approved the changed Reference offer for provision of physical access and usage of electronic communications infrastructure and associated facilities (ducts and dark fiber). The new fees are applicable from 1 February 2013. VIP Operator and ONE signed RAO contracts with MKT in 2013 for access to MKT's ducts.

The Number Portability (NP) procedures are an obligation that arises from the LEC and the Number Portability Rulebook for all operators in Macedonia. The deadlines for porting are two days in a fixed network and one day in a mobile network. A beep signal is also introduced in the networks of MKT and TMMK, which informs the customers that their call is made towards a ported number. The signal is unified for all operators.

In December 2013, the Agency opened a public debate upon the Numbering Plan of the RM, wherein a Number portability rulebook and assignment of numbers and series of numbers from the numbering plan were enacted. The implemented changes for terminating the use of geographical numbers are in line with the forthcoming implementation of IP technology in the operators' networks. The changes are applicable from 1 January 2014.

## **Regulated retail prices**

Under an obligations arising from Article 91 of the LEC (retail price regulation), followed with the changes in November 2014 of the Recommendation for retail regulation, the Agency specified the manner and procedure for regulation of the retail prices for fixed voice telephony networks and services of the operator with significant market power on the relevant retail markets. MKT 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 to 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.

## Regulated Wholesale Prices

MKT has a cost-based price obligation for the Regulated wholesale services, using LRIC. The results from the Bottom - up LRIC costing model are implemented as of 1 April 2011.

As of 1 November 2011, MKT stopped offering PSTN and ISDN services for its customers as well as for its wholesale partners and all newly committed services are based on Internet Protocol (IP) technology. In line with the PSTN migration of the MKT network, the Agency approved the proposed modifications of the WLR Reference Offer and BSA Offer of MKT applicable as of 1 January 2012. MATERIO was changed on MKT's initiative from 1 May 2012, and lower fixed termination rates (for origination, termination and transit) for 25% were approved by the Agency. The IP MATERIO (Internet Protocol Reference Interconnection Offer of MKT) was submitted for approval to the Agency in October 2013 on MKT'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. Other fixed operators are ready for IP Interconnection, whereas the mobile operators cause certain delay in the introduction of IP Interconnection with mobile network.

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

The new measures in line with MKT'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 MATERIO with IP IC description (service and fees) and conditions by 31 October 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 2014 analyses were performed in accordance with the annual working program of the AEC for 2014. The ones that affect MKT's operations are the analyses on Market 8 (Broadband market), Market 1 (Access to public telephone networks at a fixed location for residential and business customers), Market 9 and 10 (Transmission and termination segments of Leased Lines (LL)).

The final document for the Broadband market analysis (Market 8) was published on 1 August 2014. For the first time the Agency imposed a regulation for the access to broadband services over optical access network. All existing obligations for the copper network remain unchanged.

New regulated services are: Bit Stream Access over Next Generation Access, Virtual Unbundled Local Access, Service Level Agreement, Service Level Guaranty (BSA over NGA, VULA, SLA, SLG), Equivalence of inputs and additional parameters for efficient monitoring of provisioning wholesale access are imposed (KPIs, service level agreements and guarantees). No cost orientation obligation for optic products, only margin squeeze tests will be implemented.

On 30 December 2014 the AEC adopted a Decision for designation of MKT for SMP on Market 8 - Access to broadband services based on copper pair and broadband services fully or partly based on optic including the following services:

- Point of access on IP level
- Point of access on Ethernet level, Virtual unbundling local access
- Bitstream access which MKT provides for its own needs based partly or fully on optics

MKT submitted its updated BSA reference offer in line with the rulebook obligations in February 2015.

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

The final document on the second market analysis on relevant retail Market 1 (Access to public telephone networks at a fixed location for residential and business customers including all types of networks- technology neutral) was published on 7 October 2014. The AEC regulated fiber-based products of MKT with margin squeeze tests which are already implemented for copper-based product regulation. The decision for designation of MKT for SMP on Market 1 was adopted on 30 December 2014.

### **Regulation of Mobile Business**

TMMK has radiofrequency usage rights for the following radiofrequencies for public mobile communications systems:

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

Based on a company decision, in 2014 TMMK returned 5 MHz of the spectrum it owned in the 2100 MHz band. The 5 MHz spectrum assigned for TDD (Time Division Duplex) operation mode had not been used since the assignment in 2008 and was not planned to be used in the future either.

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

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

The competitor VIP has frequency usage rights for the following radiofrequencies for public mobile communications systems:

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

Thus, the spectrum for public mobile communications in the 800 MHz, 900 MHz and 1800 MHz bands is fully assigned to the 3 mobile operators. There is a remaining available spectrum in the 2100 MHz band, while the 2600 MHz band is not assigned for public mobile services at all.

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

Since 2007, TMMK and ONE have been designated with SMP status on the wholesale market for voice call termination services in mobile communications networks, whereby several obligations were imposed on them, such as: interconnection and access, non-discrimination in interconnection and access, accounting separation and price control and cost accounting.

TMMK's first RIO was approved by the Agency in July 2008. Based on the second round analysis of wholesale call termination services in public mobile communications networks on 30 July 2010, TMMK received a Decision for changing the RIO by which the Mobile Termination Rate (MTR) was defined with a glide path decrease in a timeframe of four years (until 2013). In September 2011, the price for the national MTR was decreased to 3.1 MKD/min. and was planned to continue decreasing by 0.1 MKD/min. each year, down to 2.9 MKD/min. by September 2013. At the same time, the Agency regulated the MTRs for ONE and VIP (VIP was designated with SMP on this market in the second round analysis) with a four year glide path. In May 2012, the Agency made a revision of the calculation of MTR of all three mobile operators and imposed new glide path. As from 1 June 2012 until 31

August 2013, TMMK's MTRs were set at 3.0 MKD/min., while ONE's and VIP's MTRs were set at 4.0 MKD/min. MTR symmetry to 1.2 MKD/min. calculated using Bottom-up LRIC+ were applied from 1 November 2013 (based on a new Agency Decision adopted in August 2013), and a further decrease to 0.9 MKD/min. calculated using Bottom-up pure LRIC was applied on 1 September 2014.

On 11 October 2013, Albafone, the first MVNO on the Macedonian telecommunications market hosted by ONE, started its operations.

After the first analysis of the wholesale SMS termination market in 2011, all 3 mobile operators were designated with SMP status. In 2013 the Agency conducted a second round analysis on this market and imposed new regulated prices – symmetrical for all 3 operators and 75% lower than the previous ones. The prices became effective on 1 January 2014.

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

In 2013, after the analysis of the wholesale market for call termination in public telephone network at fixed location, TMMK was designated with SMP status on this market by an Agency decision and was ordained to modify its reference offer. The regulation relates to the fixed services of TMMK realized by using the WLR of MKT. In accordance with the WLR Reference Offer of MKT, TMMK is using MKT's network and the interconnection (termination) of a call is done and charged by MKT. TMMK submitted a modification of its reference offer for approval to the Agency, and initiated an appeal to the Agency's decision before the Administrative Court. The modifications were approved by the Agency on 26 December 2013, and the new regulated service was implemented in TMMK's RIO as from 27 December 2013.

In October 2014, VIP and ONE announced a merger of their business in Macedonia consisted of mobile, fixed, internet and transmission of audiovisual content services. The Competition Authority was officially approached by the operators on 30 December 2014 with information of a planned merger between the two. On 8 January 2015 the Competition Authority published the information of the planned merger and thus concentration, and invited all interested parties to submit their comments and opinions. On 23 January 2015, TMMK and MKT submitted a joint document to the Competition Authority with comments and opinions on the announced merger. On 3 February 2015, the Competition Authority published a conclusion for initiation of a procedure for evaluation of the concentration, which in accordance with the Law for the Protection of Competition is to result in a decision for approval or disapproval of the concentration within 90 working days from the date of the initiation of the procedure.

### **Audiovisual and Media Regulation**

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

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

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

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

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

Additional obligations imposed by the law and affecting MKT are:

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

MKT, along with all other providers, has a period of nine months starting from the date of the entry into force of the Law, to submit an application for registration to the Agency for Audio and Audiovisual Media and to align its activities with all the obligations stipulated in the Law.

## **Macedonia and the European Union**

The Republic of Macedonia signed the Stabilization and Association Agreement with the EU and its Member States on 9 April 2001. The Macedonian Parliament ratified the Agreement on 12 April 2001, reaffirming the strategic interest and the political commitment to the integration with the EU. The Stabilization and Association Agreement was ratified and it has been in force since 1 April 2004.

On 17 December 2005, the EU decided to grant the Republic of Macedonia an EU candidate status.

Following the candidate status, the EU must set a date for the start of the negotiations regarding the full accession, encompassing all aspects of the EU membership, including trade, environment, competition and health. Macedonia, as a candidate country, should harmonize its legislation with the EU.

On 14 October 2009, the European Commission issued the 2009 Progress Report. Macedonia received a recommendation from the European Commission for the opening of the accession negotiations. The country made significant progress and substantially addressed the key reform priorities, known as eight plus one benchmarks. Based on the Progress Report issued in October 2014, good progress was made as regards the alignment with the *acquis* in the area of information society and media. New legislation on electronic communications and audiovisual policy are in place. Steps need to be taken to guarantee the independence of the public broadcaster and the media regulator. Overall, preparations in this area are on track.

## **Competition**

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

The first half of the year continued without significant changes on the market and the movements for market consolidation started in July 2014 with the acquisition of the CaTV operator Blizoo by Telekom Austria. Further on, Telekom Slovenia and VIP announced their merger in October 2014.

Telekom Slovenia is offering various services under the brand name ONE: mobile and fixed voice, mobile and fixed broadband internet and TV.

The entry fees of ONE postpaid mobile offers are set at a low level and they also include a free low-end handset. In prepaid they continued with their lowest priced offer on the market under the Dzabest brand. In 2014 ONE increased the mobile customer base, as well as its market share to 25.08% (source: Report for electronic communications development Q2 2014, the Agency).

In the fixed segment, ONE offers low price triple play bundles (fix voice/internet/TV). Stable customer base in all fixed line services was maintained in 2014.

The mobile operator VIP entered the fixed market by acquiring the CaTV operator Blizoo in July 2014. No changes in the strategy or marketing were made in the period after the acquisition, by the end of 2014.

In the mobile segment VIP increased the contract ratio, which reached 49.8% in Q3 2014 (source: VIP Q3 2014 report). They kept an aggressive pricing policy in H1, which was moderately changed in H2, by offering bundled services with higher prices. They have maintained a stable market share to 27.58% in Q2 2014 (source: Report for electronic communications development Q2 2014, the Agency).

The main characteristic of the mobile offers of ONE and VIP are the low price and the doubling or tripling of the internet values of the bundles.

Three mobile operators introduced 4G/LTE (Long Term Evolution) products in their offers.

The fourth mobile virtual network operator (MVNO) Alfabone is limited to prepaid offers only and has a very low market share (1.23% in Q2 2014; source: Report for electronic communications development Q2 2014, the Agency).

The cable operators also have a significant role in the telecommunications market and, as providers of cable television as their main service they are well-established on the Macedonian market. Most of them offer internet broadband services and fixed voice services. Telekabel and Blizoo (part of VIP as of August 2014) are the biggest cable providers among over 70 active cable operators. Blizoo offers Hybrid Fiber Coaxial (HFC) services – optic near your home with very high data rate for internet services and digital television.

The product portfolio of all operators is driven by bundle products. The cable operators are bundling their TV offer with internet and fixed voice services. The fixed voice service of the cable operators is usually perceived as a value added service as the cable operators are charging low access fee or presenting the fixed voice service as free of charge and including also free traffic in their own network bundled in the offer. As the overall market is price sensitive, the price perception plays a major role in the customers' choice and thus the cable operators' offers are seen as more competitive than MKT's in terms of prices.

At the end of 2014, the Agency for Audio and Audiovisual Media Services imposed removal of several TV channels from the programs of the TV providers, which reduces the TV services attractiveness. This could influence the total market growth in the forthcoming period.

MKT and TMMK are focused on increasing the market share in the ICT segment, thereby stepping into the already highly developed ICT market with innovative services.

The trend of NP continued to increase in 2014, for both mobile and fixed numbers. By the end of Q2 2014 there were 130,406 mobile and 141,742 fixed ported numbers in total (source: Report for electronic communications development Q2 2014, the Agency).

With all the main telecommunications services of MKT and TMMK, such as providing different bundled offers – a

combination of different services, MKT and TMMK still have the biggest market share. As at 31 December 2014 MKT has a retail fixed voice market share of 62%, retail fixed broadband internet market share of 44% and TV market share of 23% (source: internal best estimates). In the second quarter of 2014 the market share of TMMK was 46.1% (source: Report for electronic communications development Q2 2014, the Agency). The Agency uses the market share calculation method based on the total number of active SIM cards which were used in the previous three months.

## **Marketing and Sales**

Operating in a highly competitive environment in all telecommunications segments, MKT and TMMK are focused on new services and on retention of the existing ones, as well as on acquisition of new customers. Marketing activities based on customer needs and habits are performed in order to build strong customer relations.

The main focus in 2014 on the fixed and mobile market (both residential and business segment) was put on the retention of the existing customers and the up-sales to bundled services, as well as on the acquiring of new customers.

Family Box, as a product consisting of mobile and fixed services, was launched in May 2014. It offers all services in one bundle: fixed voice, internet and TV, and mobile voice, mobile internet and mobile TV. This makes TMMK the first player that has a full 4-play portfolio.

Promotional bundled tariffs (Promo) for the post-paid segment, both consumer and business were offered. Voice data bundles were enriched providing additional value for the customers: all-net traffic included in the subscription, increased internet traffic volume and Mobile MaxTV.

LTE mobile network is offered in the postpaid and prepaid portfolio as a benefit in the higher tariffs.

MaxTV and Family Box are used as the main retention tools for Voice and Internet users, as well as for mobile users.

Self-care application for prepaid users was launched. It enables the users themselves to manage their needs simply and quickly. Several other applications and solutions were developed and launched, which made MKT and TMMK the first true fixed and mobile converged cloud services provider.

The Loyalty Program Moj Klub was extended with an enlarged partnership network (collecting and using of loyalty points can be done in more than 250 points of sale) and is available for both the mobile and the fixed line segment.

Several major campaigns were launched for achieving the planned company results and for increasing the awareness of the benefits provided with the services.

In addition, social media as an adequate channel for customer engagement and delivering relevant, authentic content and experiences in line with the brand promise "Life is for sharing" continued to be developed, in order to enhance the brand's likeability and acceptance, and strengthen the relation with the brand.

The increased FTTH coverage and the benefits of the fiber-based product offers improved the customer base over fiber for 30% at the end of 2014 compared to 2013.

TMMK introduced several tariff promotions and communicated on the market unlimited national calls starting from the middle-end tariff.

Mobile data services were improved by introducing a possibility to activate additional one-time packages that will boost data usage even more and give higher satisfaction to the customers.

The roaming data offer was enriched with Business Travel and Surf packages including higher data volumes for business customers.

MKT continued to be focused on providing our Business customers with the new cutting edge ALL IP network that provides our customers with new innovative services running over a highly reliable and fast IP network and activated

via one click of a button. As a result, MKT introduced IP Centrex, an innovative IP-based voice communication solution, providing PBX functionalities completely within MKT's network. It is a unique offer on the market which enables significant cost saving and increases the customer satisfaction.

In 2014 MKT introduced 3Max Office hard bundle of fix voice and broadband internet line and MaxTV which is by far the most attractive 3-play offer in MKT's portfolio for business customers.

MKT introduced Managed Security for Internet Customers, which provides advanced security service beyond the standard antivirus protection, also a unique product on the market.

TMMK introduced Business 360 - the first fix and mobile bundle for business customers on the market, with unique features and most attractive pricing. It includes Mobile telephony, fixed telephony, broadband internet and optional MaxTV connection.

MKT and TMMK are focused on the further development of the Cloud market and offered a wide variety of cloud services to our customers such as Virtual Disc, Virtual Private Server, e-Accounting and many more.

MKT and TMMK have developed different sales channels in order to serve the customers from different segments. MKT and TMMK use direct sales channels such as: own retail network, telesales, on-line sales channel, technicians, direct sales agents, account managers (for Institutional, Key Accounts and Large Accounts) and introduced a multichannel logic in the sales and service of the SOHO (Small-Office-Home-Office) segment. The indirect sales channel is based on indirect master dealers with their own network of shops, partner shops and kiosks. An external company was engaged for telesales activities (proactive retention and loyalty activities were also introduced).

The main sales channels are the MKT and TMMK shops. There are 36 joint shops as at 31 December 2014. In 2014, the own shop network was rationalized by closing 5 shops and opening 2 new ones at more attractive locations. All shops are offering the complete TMMK and MKT product portfolio under the same conditions and with the same customer service level. As part of the implementation of the Sales Boost program, own shops operations were improved in spite of the transaction (sales vs. service) ratio and the up-sale execution in 2014.

Partners' presentation in own shops continues in 2014 with implementation of new m-Walls and Window Digits in 2014. TMMK introduced the iPhone 6 on the market on 31 October 2014.

Sales activities that include home delivery via telesales were used in 2014 for retention of fixed and mobile subscribers. E-Business: development of new features and increased usage of Buy online (web shop), defined and achieved eTransformation KPIs, as well introduction of Telekom MK self care mobile application for prepaid customers.

In 2014, the direct agents put a strong emphasis on the sale of FTTH products for the residential and Small-Office-Home-Office (SOHO) customers and some ICT products.

Another channel of the distribution network of MKT and TMMK is the dealers' cooperation. As at 31 December 2014, the network consisted of 7 master dealers with 60 shops as TMMK partners and 7 master dealers with 35 shops as MKT partners. The majority of the TMMK master dealers' shops are joint shops offering the full MKT and TMMK portfolio and some of them have already started with bill payment process in December 2014. TMMK's prepaid and post-paid packages (with or without handsets) are available in all dealers' shops. In addition, prepaid vouchers are also available in 4,015 kiosks.

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

In June 2014, TMMK enriched the Mobipay portfolio with two new products: MobiPay Standard and Easy (products for micropayment) which are available in all sales channels.

## Research and Development

In order to keep a sustainable business and major revenue streams in the very complex telecommunications environment, as well as to proactively influence the market trends with new business opportunities, we are aiming to keep the technology leadership position and to ensure growth through service leadership and innovation with continuous development of our infrastructure.

Development of infrastructure and investment in Technology should encompass the following objectives/trends: Broadband Performance, Integrated Service Delivery Platforms, Efficiency and Quality Leadership, Self-service Enablers, Cloud concept and “virtual” infrastructure, Cost Efficiency, Flexibility and Responsiveness – reduced Time-to-Market, as well as Competence Development.

During 2014, MKT and TMMK have made significant steps towards our goals with development of telecommunications network service platforms and supporting systems.

In order to ensure high quality BB performance, we continued to invest in fixed broadband access, reaching approximately 107.000 home passed installed capacity or approximately 19% of households coverage with FTTH.

The increasing traffic demand is the main driver for extension of the transport network capacity. During 2014, the capacities of the IP/ Multi-protocol label switching (MPLS) network were extended in accordance with traffic increase.

In terms of Service Platforms, during 2014 the upgrades of the main platforms for delivery of Voice (IMS Platform) and video services (IPTV Platform) were finalized. Beside this, the implementation of IMS Geo redundancy entered its final phase with the establishment of the geo-redundant location in Strumica, reaching 7 configured and integrated Nodes.

The extension of Ethernet over the copper and optic cable capacities for provisioning of data services for business customers continued in 2014. This extension also supports the migration of the existing TDM (Time Division Multiplex) lines, as well as the mobile base stations connection to the all-IP network.

For improvement of the Fulfilment and Common Data Management domain, during 2012 we started the implementation of Resource/Service Inventory, Activation and Workforce Management Systems. These are very complex systems that touch almost each part of the operational activities.

The implementation continued during 2013 and 2014 with extension for new business needs and functionalities and alignment of the integration with the BSS part (new CRM). The commercial start is planned for the second half of 2015.

The Radio Access Network (RAN) extension continued in 2014. As at end of year 2014, TMMK’s radio access network consisted of 665 physical sites out of which 658 base stations sites for 2G access providing 99.9% population coverage, 433 base stations for 3G access providing 93% population coverage and 96 sites for 4G access providing 46% population coverage, allowing the subscribers to use high speed mobile Internet.

Based on the traffic increase, Mobile Broadband Packet Network (MBPN) is also extended with 40x10G interfaces.

During 2014, we made an upgrade on the Mobile Charging system with Hardware swap of 14 nodes, Software upgrade to Release CS 5.3 and full capacity geo-redundancy for traffic and provisioning.

Additionally, during 2014, in production for postpaid customers, a PCRF (Policy and Charging Rules Function) is introduced for automatic provision of “Speed Step-down” and “Speed Booster” functions.

In terms of Mobile Service Platforms, in 2011 the implementation of M-Wallet started as a base for mobile payment services. In 2014 Micropayment (Mobile Payment over Post Paid bill) was introduced.

In 2014 MKT and TMMK also introduced a Fixed and Mobile Converged (FMC) product – a bundle of mobile voice, fixed & mobile Internet & IPTV.

In line with the determination to be a technology leader in the country and even broader in the region, MKT and TMMK will continue with the development of the network in order to provide high quality services, increased customer satisfaction, increased network availability, increased operational efficiency and secure long-term evolution.

In order to stimulate corporate R&D and innovation, MKT and TMMK organized an Innovation Partner Contest in 2013. More than 70 proposals were submitted, 5 were selected and the following 3 are already in production:

- “e-Care” (Multi-user platform for online customer care, based on artificial intelligence)
- “Smart Wine” (Integrated end-to-end M2M cloud solution for intelligent monitoring of agriculture parameters using wireless sensor network)
- MarketKonekt (B2B/B2C online trading platform in Macedonia)

MKT will continue with activities in the area of new development and innovation. In that regard, the cooperation with the universities is also seen as a good opportunity to support these activities.

Makedonski Telekom and T-Mobile Macedonia continue with their determination and their work to be an innovation leader on the market. Utilizing the IMS platform for introducing new and innovative services on the market we launched our first IP product in the business segment, IP Centrex (providing to companies PBX type of functionalities throughout the IP Centrex BCS Ericsson platform hosted at MKT). Further leveraging on the best network technologies, being the cornerstone for the managed services, we are focused on directing the customer towards using fully managed services through our connectivity. During 2014 MKT and TMMK launched the first managed collaboration service - Cisco Managed Voice on hosted unified communication.

Under the motto - INNOVATION SYNERGIES – WIN WITH PARTNERS, we designed partnership eco-system for both SI and public cloud areas, covering:

- Technology partnerships – synergize with DT group membership in Cisco, EMC, HP, Microsoft, Oracle etc.
- DELIVERY Partnership with local and international companies for large scale SI and public cloud products

In such DELIVERY partnership, we launched our Loop Service (solution for cloud digital media storage, download, sharing and streaming across different devices (incl. maxTV) and over different networks). Besides partnering with existing players in some areas, the internal growth and delivery by our own resources are also our further focus. In addition, we need to drive a full force exploring of new markets and possibilities for growth and development, in the field of energy, e-health, connected home, etc.

## **Information technology**

The simplification of the IT architecture by consolidation and modernization of the IT systems and infrastructure was the main focus in 2014. The improvement of the support and the automation of the corporate processes was the main goal, as well as the improvement of the One Company customer experience.

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

The main achievements in 2014 were:

- Started project for Retail Billing system consolidation for fixed and mobile customers. The scope is to have all lines of business consolidated in a single billing system. This will reduce the costs, but also allow the business to grow in new directions in the future, gain synergies in the operations of the business and expand the possibilities for new products and services such as full quad-play for all business areas.
- Started project for Consolidation of the MKT and TMMK Data Warehouse and Business Intelligence (DWH/BI) systems in one system. The new system will strengthen the company’s possibilities for advanced analytics and data driven decisions to respond quickly to market changes, and it will also allow a reduction of the operating costs through achieving synergies in the operations of the existing two solutions.
- Efficient support in the development of converged products for our customers like Family Box and Office

360, as well as development of new services such as PCRF that is improving the customer experience of mobile data usage and LOOP – cloud media storage.

Following the ICT strategy, IT has been actively participating in the pre-sales and delivery phase for several projects for external customers in the delivery of services for servers upgrades, storage upgrades, help desk and VDI.

In 2014, IT has successfully delivered the project for implementation of unique mediation system for Crnogorski Telekom, which is the first project of IT in the delivery of application solution and services for external customers.

IT has enlarged the resource pools with implementation of virtualization technologies and we are continuing with the implementation of the process automation, self-service layers, converged products/services and ICT services in the upcoming period.

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

In the course of 2014, MKT and TMMK continued with the local activities of the project for implementation of a new consolidated CRM system. This system should enable a comprehensive view of the customers and further sharpen the customer focus of MKT and TMMK.

Andreas Maierhofer

---

Chief Executive Officer  
Makedonski Telekom AD – Skopje