ANNUAL REPORT 2013

Makedonski Telekom AD
– Skopje
& T-Mobile Macedonia AD
Skopje

# WE ACT NOW
# WE IMPROVE THE FUTURE
# WE MOTIVATE THE COMMUNITY

LIFE IS FOR SHARING.

# CONTENTS

TRANSFORM

INNOVATE

MAINTAIN

## EVERYTHING IS COMMUNICATION!

COMMUNICATION AT HOME, COMMUNICATION WITH THE OTHERS, COMMUNICATION WITH OUR FAMILIES, CHILDREN, FRIENDS, BUSINESS PARTNERS, PRIVATE AND BUSINESS COMMUNICATION, EVERYDAY, STRATEGY, CORPORATE COMMUNICATION ... COMMUNICATION MAKES THE WORLD GO ROUND, OPENS NEW DOORS AND CREATES NEW POSSIBILITIES.

# CORPORATE GOVERNANCE

## MANAGEMENT AND GOVERNANCE OF MAKEDONSKI TELEKOM AD – SKOPJE

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

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

## MAKEDONSKI TELEKOM STRUCTURE

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

SHAREHOLDERS' ASSEMBLY – BOARD OF DIRECTORS – CHIEF EXECUTIVE OFFICER

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

## SHAREHOLDERS' ASSEMBLY

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

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

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

The share capital of Makedonski Telekom AD – Skopje consists of 95,838,780 ordinary shares and one cumulative preference share (golden share). The ordinary shares of Makedonski Telekom are listed and traded on the Official Market of the Macedonian Stock Exchange, on the Obligatory Listing sub-segment.

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

*Out of the total number of shares with voting rights - 86,254,903, for 3,361 shares which are part of the 2% of shares which the Government of the Republic of Macedonia granted to the Makedonski Telekom's employees, the owners are either not identified in the shareholders book of MKT due to incomplete personal data (3,320 shares), or they are not distributed yet (41 shares).

** Preference cumulative share (golden share) owned by the Government of the Republic of Macedonia has one voting right and special rights in accordance with the Company Statute. It has restriction on tradable and non-tradable transfer.

*** Decreased for the treasury shares owned by Makedonski Telekom which rights in accordance with the Law on Trade Companies (article 338) are suspended.

## DIVIDEND CALENDAR

| YEAR | GROSS DIVIDEND PER SHARE IN MKD | FIRST DATE OF PAYMENT | ANNOUNCEMENT DATE |
|---|---|---|---|
| 2012 | 65,46 | 17.04.2013 | 29.03.2013 |
| 2011 | 71,46 | 25.04.2012 | 04.04.2012 |
| 2010 | 68,95 | 29.04.2011 | 14.04.2011 |
| 2009 | 75,01 | 12.07.2010 | 02.07.2010 |
| 2008 | 71,42 | 22.05.2009 | 29.04.2009 |
| 2007 | 113,42 | 29.09.2008 | 03.09.2008 |
| 2005 | 86,10 | 01.08.2007 | 31.07.2007 |
| 2004 | 60,88 | 04.07.2005 | 30.05.2005 |
| 2003 | 26,10 | 19.03.2004 | 20.02.2004 |
| 2002 | 25,04 | 05.05.2003 | 18.04.2003 |

## SHAREHOLDERS' STRUCTURE

### SHAREHOLDERS OF MAKEDONSKI TELEKOM BY 31.12.2013 INCLUSIVE

| NAME OF OWNER | NUMBER OF SHARES | AS % |
|---|---|---|
| Stonebridge AD Skopje (in liquidation) | 48,877,780 | 51,00 |
| Government of the RM | 33,364,875* | 34,81 |
| Makedonski Telekom AD - Skopje (Treasury Shares) | 9,583,878** | 10,00 |
| IFC | 1,711,219 | 1,79 |
| Other minority shareholders | 2,301,029 | 2,40 |
| Total | 95,838,781 | 100,00 |

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

## CALENDAR OF EVENTS

### MEETINGS OF THE SHAREHOLDERS' ASSEMBLY OF MAKEDONSKI TELEKOM IN 2013

| DATE | EVENT |
|---|---|
| 29.03.2013 | Annual meeting of the Shareholders' Assembly of Makedonski Telekom |
| 30.09.2013 | Shareholders' Assembly meeting of Makedonski Telekom |
| 20.12.2013 | Shareholders' Assembly meeting of Makedonski Telekom |

# PROFILE OF THE COMPANIES

Fixed and mobile network with superior quality, extraordinarily fast internet and entertainment contents with MaxTV are the first synonyms for Makedonski Telekom and T-Mobile Macedonia. The company whose focus are the two most important pillars of its business, the consumer and business customers, in its portfolio offers fixed and mobile services, as well as integrated solutions that are unique on the market in Macedonia. The modernization of the networks and the innovations in terms of the access to attractive contents and applications are the main direction followed by Makedonski Telekom and T-Mobile Macedonia in the period 2012-2015 for achievement of the "Connected Life and Work" concept. Therefore, the main focus of the company plans is the development of products and offer of digitalized and personalized services available to the customers, regardless of whether they are at home, at work or on the move.

**MACEDONIA IS THE FIRST EUROPEAN COUNTRY WITH AN INTERNET PLATFORM FOR AN EASIER LIFE.**

The all-IP based fixed network, which Macedonia was the first in Europe to implement, provides a platform for development of new high-quality converged products and multimedia services.

It has the strategic significance of, let's say, an ultra modern highway that provides high speed internet traffic. The last point is the end-user, whose life, via the new services that are supported by this platform, will be significantly facilitated, which will give the user extra time thanks to the new converged multimedia services with superior quality.

Thus, by connecting the home to this "highway" the end user becomes open for controlled and moderated devices via the internet, such as the TV set with MaxTV at present, and the other household appliances in the near future.

In the segment of information and communication technologies, the new platform can be used widely by the business customers as well because it provides integrated solutions for reduction of the costs and increase of the operational efficiency.

The society also benefits from the modernization of the networks. By sending the old technology to the history, the energy consumption is significantly lowered.

## INTERNET AT THE SPEED OF LIGHT

If the question what does "Fibre to the Home" mean arises... If one considers it from the technical aspect, it is a connection of every customer with fibre instead of copper line in his/her flat or house, which provides the customer with voice, internet and TV services with a much larger bandwidth than the one that was provided with the copper technology. The other dimension of the question is that "Fibre to the Home" is a synonym for dramatic transition of the customers to a different world of opportunities for customer products and a new way of customer behaviour because it provides speeds of up to 1GB for download and upload of data.

"Fibre to the Home" is the most cutting-edge technology in the world for broadband internet access and for telecommunication services in general. With this technology the signal moves in a form of light rays through micro tubes called optic fibres. The signal moves through the optic fibre literally at the speed of light. Over 20 million people worldwide use this advanced technology, among which are almost 22 thousand Macedonian citizens that are customers of Makedonski Telekom.

## IPTV

MaxTV or the television of Makedonski Telekom doesn't force anybody to sit and wait for his/her favourite show, film or the long expected competition only because the programme scheduled it in a totally inappropriate time for any customer. This unique digital television with HD quality provides a complete freedom in the time planning via the possibility to record, fast forward, rewind, pause or repeat the programme.

Hence, from the initial product that was a real boom in Macedonia in 2008, primarily due to the unprecedented functionalities, as well as a big selection of movies for rent in the Video Library, today we have the long desired market leadership for providers of television services.

## FOURTH GENERATION OF MOBILE COMMUNICATIONS

4G is the fourth generation of technological standards for mobile communications and mobile phones and practically it succeeded the third generation of technological standards, i.e. 3G. The 4G system provides excellent broadband internet access, for example, for laptops with USB with wireless modem, for smart phones and other mobile devices, and enables various applications, mobile web access, IP telephony, gaming services, HD mobile television, video conferences, cloud computing, etc. This network also provides faster and better quality data transfer via the mobile devices, but also services that the current technology is unable to provide with sufficiently good quality such as television or video contents with HD resolution.

**WHEN THE MOBILE PHONE BECOMES A VIRTUAL WALLET**

The mobile payment is one of those services where the new technology fully serves the customer. Only ten years ago the mobile phone was used only for calls and SMS and now it becomes a multifunctional tool, all in one, which at the end of the day makes the life easier and that is the ultimate goal of the modern technologies. With the mobile payment the mobile phone gets one more role - it becomes a virtual wallet. A wallet that serves all customers, post paid and prepaid, as well as both those with the latest smart phones and the ones with mobile phones of the older generation. And with the Moby Pay service the customers get higher value and an additional possibility to make cashless payment without any fee, with any payment card they own.

**HISTORY**

Makedonski Telekom has been the biggest telecommunications operator in Macedonia for more than a half century now, whereas T-Mobile Macedonia as a daughter -company was established in 1996 and has been the leader in the mobile communications in the country ever since. The company became a part of the multinational Deutsche Telekom Group in 2001; in 2006 the T-Mobile brand was introduced for the first time on the market wherein two years later the T-Home brand was introduced as well. Both companies are part of Magyar Telekom Group since 2001 where Deutsche Telekom is a major shareholder.

## OUR STORY FOR 2013

**"Maintain-Transform-Innovate"** was the direction which we followed in the past 2013. It was necessary for the company to pay attention and to focus on several areas in the course of 2013 if we wanted to keep the leading position, to remain leaders in the telecommunications and innovations in Macedonia and to remain the most profitable company. Primarily we had to simplify the organisational structure, to create partnerships with companies and individuals that share our vision and aspiration, to initiate and introduce innovations, but also to work on the development of the company's culture - customer orientation always and above all.

Governed by this ambition, in 2013 we undertook good actions and we made good things, despite the complex conditions in which we were operating. We managed to become the first company within the Deutsche Telekom Group that migrated its customers to the new all-IP based platform and which provides the basis for provision of unique services with excellent internet speeds. Furthermore, we became the first mobile operator that introduced 4G in the country. All of these achievements surpassed the limits of our company and became successes of Macedonia as a country. A fact that makes us rightfully very proud.

**"MACEDONIA IS THE FIRST ALL-IP COUNTRY IN EUROPE ! THUS, MACEDONIA BECAME ONE OF THE FEW COUNTRIES IN THE WORLD THAT OFFERS INTERNET WITH A SPEED OF 1 GB. THESE ARE SERIOUS INVESTMENTS IN NEW TECHNOLOGIES WHICH DELETE THE GEOGRAPHICAL BOUNDARIES AND CREATE AND OPEN THE BEST POSSIBILITIES". - THILO KUSCH.**

## Dear shareholders,

Today, in this global society, the borders of mass productions and mass consumption of the same products and services have already been moved. The customers introduced new standards and new values that enrich their life and also our life and work.

The power of the successful ones and the leaders is in the innovative management approach, but also in the innovations that contribute to the development of their industry.

In 2013 we created strong and capable partners, however we remain open for new partnerships - Everyone is invited!
We had a task to encourage a development of new ideas and concepts that will be used with the new interactive media applications, e-government and cloud solutions, social networks and mobility. The focus was put on the new forms of interactivity and digital entertainment, as well as on communications and services for improvement of the life.

We wanted to promote Macedonia in the international community as a country of innovators. We succeeded!

We will feel completely successful when we make all stakeholders in the society involve themselves in the support of the innovativeness and advancement of the Macedonian market. In that manner we believe that they can make a positive impact on their own image and on the improvement of the own living conditions.

As before, we will continue to support the ethics in the business, the Macedonian regulatory bodies, fair competition and respect of the technology and operation of our partners, but also of our competitors.

In the previous year we were working on the latest ICT technologies and services in Macedonia with the purpose of improving the life of the Macedonian citizen.

We believe that the customers are the key for our growth and development, and that is why all our activities are going through survey of the customer's perspective before their commercial launch on the market. It helps us to offer original and innovative services to our customers. We are continuously working on the customer data protection with a parallel maximization of the customers' satisfaction through top quality offers.

Only few years ago, the mobile phone had no internet connection, and today we can not only watch TV and surf on our mobile phones, but we can use them to make payments, manage fleets, measure calories while exercising, etc.

Very soon the mobile phone will be opening all doors – from the home, the office, the warehouse, literally everything!

Very rapidly, the mobile phone became a multifunctional tool!

In the past seven years, three generations of communication networks have changed.
Those are revolutionary changes and we are moving forward.

We changed the old PSTN technology completely and we implemented the IP technology and platform. In less than two years, we managed to build an all-IP based network, which makes us the only company which such achievement in the entire Deutsche Telekom Group. Starting from this year, we offer internet with a speed of 1Gbit, which is up to one hundred times faster than before. Thus, Macedonia became one of the few countries in the world that offers internet with such a speed.

These are serious investments in new technologies which delete the geographical boundaries and create and open the best possibilities.

**"THE INNOVATION COMMUNITY THAT WE CREATED WILL SUPPORT US IN OUR ASPIRATIONS TO FIND THE BEST, THE MOST PROGRESSIVE IDEAS AND SOLUTIONS WHICH IN FACT DIFFERENTIATE US FROM THE COMPETITION AND MAKE US NUMBER 1 PROVIDER".**

We left the old PSTN technology behind us, in the history.

However, even though the issue pertaining to the new investments and network is very important for us, this issue does not concern the customers. What is important for them is the quality of the service that we will provide and not the technology that we will use.

Therefore, we start the New Year with a new strategy – we leave the old way of work as technology providers behind and we orient ourselves to becoming service providers.

That is the only way in which we will become fully committed to the customers.
And in order to get there, we need to change the manner of operation. We have to merge both companies into a smaller but more efficient company, with less bureaucracy and with higher level of flexibility, with a new structure and culture of operation. We need to be oriented towards creating partnerships with Macedonian companies that offer innovative services that we should incorporate and implement through our unique platform.

And there are a lot of innovative companies in Macedonia.
We want to create new business models by opening and sharing our databases and platforms. Such cooperation will enable us and our partners to create and share new values which mean a common development.

We have a year full of challenges ahead of us -

- To become one, more efficient and faster company with a new method of operation, new structure and new culture;
- To find new revenue streams - through new services;
- To establish partnerships with innovative companies that will sell their services through us
- To develop the 4G network, to continue to invest in the new technology
- And last but not least, to become entirely customer oriented!

This is a big, but also the only challenge on our way to becoming a new Telekom, Telekom of the new generation.

Thilo Kusch,
Chief Executive Officer
of Makedonski Telekom AD - Skopje

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

# BOARD OF DIRECTORS

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

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

Within the authorizations defined with the Law on Trade Companies and the Statute of Makedonski Telekom, the Board of Directors manages the Company and consists of fourteen (14) members, of whom thirteen (13) are non-executive members and one is an executive member and bears the title Chief Executive Officer. Four (4) of the non-executive members are independent members of the Board of Directors.

# RULES OF PROCEDURE OF THE BOARD OF DIRECTORS

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

1. The preparation of the meetings, the convening of the meetings, the course of operation during the meetings, the manner of decision-making (postponing, adjourning and concluding the meetings).
2. Minutes of the meetings, rights and duties of the members and other participants in the operation at the meeting, as well as
3. Other issues related to the operation of the Board of Directors, within the authorizations granted by the law and the Statute of Makedonski Telekom AD - Skopje.

# Members of the Board of Directors on 31.12.2013

## Makedonski Telekom AD - Skopje

**Oliver Kosturanov, President and Non-executive member of the BoD**
**Thilo Kusch, Executive member of the BoD and Chief Executive Officer**
**Nazim Bushi, Vice President and Non-executive member of the BoD**
**Mihály Németh, Non-executive member of the BoD**
**Walter Goldenits, Non-executive member of the BoD**
**Janos Szabó, Non-executive member of the BoD**
**Susanne Krogmann, Non-executive member of the BoD**
**Thomas Panhans, Non-executive member of the BoD**
**Goran Ivanovski, Non-executive member of the BoD**
**Aleksandar Stojkov, Independent member of the BoD**
**Manojil Jakovleski, Independent member of the BoD**
**Tamás Vágány, Independent member of the BoD**
**Miklós Vaszily, Independent member of the BoD**

**Members of the BoD of Makedonski Telekom AD – Skopje, who have resigned / have been released during 2013:**

1. Daniel Szász, Executive BoD member and Chief Executive Officer with a mandate until 07.04.2013 inclusive
2. Christopher Mattheisen, Non-executive member of the BoD with a mandate until 31.03.2013 inclusive
3. Robert Pataki, Non-executive member of the BoD with a mandate until 30.09.2013 inclusive

## T-Mobile Macedonia AD Skopje

**Thilo Kusch, President and Non-executive member of the BoD**
**Zarko Lukovski, Executive member of the BoD and Chief Executive Officer**
**Slavko Projkoski, Executive member of the BoD and Chief Operating Officer**
**Mihály Németh, Non-executive member of the BoD**
**Susanne Krogmann, Non-executive member of the BoD**
**Walter Goldenits, Non-executive member of the BoD**
**Janos Szabó, Non-executive member of the BoD**
**Nebojsa Stajkovic, Non-executive member of the BoD**
**Irena Miseva, Non-executive member of the BoD**
**Ivanco Vucevski, Non-executive member of the BoD**
**Gzim Ostreni, Non-executive member of the BoD**
**Thomas Panhans, Independent member of the BoD**
**Tamás Vágány, Independent member of the BoD**
**Vladimir Zdravev, Independent member of the BoD**

**Members of the BoD of T-Mobile Macedonia during 2013, who have resigned / have been released:**

1. Daniel Szász, President and Non-Executive BoD member with a mandate until 07.04.2013 inclusive
2. Tibor Vidos, Executive BoD member and Chief Operating Officer with a mandate until 07.04.2013 inclusive
3. Christopher Mattheisen, Non-executive member of the BoD with a mandate until 31.03.2013 inclusive
4. Robert Pataki, Non-executive member of the BoD with a mandate until 30.09.2013 inclusive

# BOARD OF DIRECTORS OF MAKEDONSKI TELEKOM AD – SKOPJE

MEMBERS OF THE BOARD OF DIRECTORS ON 31.12.2013

**Oliver Kosturanov,**
President and Non-executive member of the BoD

**Thilo Kusch,**
Executive member of the BoD and Chief Executive Officer

**Nazim Bushi,**
Vice President and Non-executive member of the BoD

**Mihály Németh,**
Non-executive member of the BoD

**Walter Goldenits,**
Non-executive member of the BoD

**Janos Szabó,**
Non-executive member of the BoD

**Susanne Krogmann,**
Non-executive member of the BoD

**Thomas Panhans,**
Non-executive member of the BoD

**Aleksandar Stojkov,**
Independent member of the BoD

**Manojil Jakovleski,**
Independent member of the BoD

**Tamás Vágány,**
Independent member of the BoD

**Miklós Vaszily,**
Independent member of the BoD

**Goran Ivanovski,** Non-executive member of the BoD

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3. Robert Pataki, Non-executive member of the BoD with a mandate until 30.09.2013 inclusive

# BOARD OF DIRECTORS OF T-MOBILE MACEDONIA AD SKOPJE

MEMBERS OF THE BOARD OF DIRECTORS ON 31.12.2013

**Thilo Kusch,**
President and Non-executive member of the BoD

**Zarko Lukovski,**
Executive member of the BoD and Chief Executive Officer

**Slavko Projkoski,**
Executive member of the BoD and Chief Operating Officer

**Mihály Németh,**
Non-executive member of the BoD

**Susanne Krogmann,**
Non-executive member of the BoD

**Walter Goldenits,**
Non-executive member of the BoD

**Janos Szabó,**
Non-executive member of the BoD

**Nebojsa Stajkovic,**
Non-executive member of the BoD

**Irena Miseva,**
Non-executive member of the BoD

**Ivanco Vucevski,**
Non-executive member of the BoD

**Gzim Ostreni,**
Non-executive member of the BoD

**Thomas Panhans,**
Independent member of the BoD

**Tamás Vágány,**
Independent member of the BoD

**Vladimir Zdravev,**
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3. Christopher Mattheisen, Non-executive member of the BoD with a mandate until 31.03.2013 inclusive
4. Robert Pataki, Non-executive member of the BoD with a mandate until 30.09.2013 inclusive

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

**FROM LEFT TO RIGHT:**
**LAZAR POPOVSKI, MIROSLAV JOVANOVIC, MOIRA HOMAN, THORSTEN ALBERS, ZARKO LUKOVSKI, GUSZTÁV MAHLER, SLAVKO PROJKOSKI, ALEKSANDAR POPOVSKI**

**THILO KUSCH -** CHIEF EXECUTIVE OFFICER OF MAKEDONSKI TELEKOM IN 2013

Mr. Thilo Kusch came to the company on 8 April 2013 from the position of Chief Financial Officer of Magyar Telekom and held the position of Chief Executive Officer of Makedonski Telekom until 1 February 2014. He holds a degree in communication engineering and business administration from Technische Universität Berlin.

He started his career by establishing and successfully running a private company selling PCs and PC networks to residential and small business customers wherein from 1992 to 2001 he was part of the management teams of companies in the IT and telecommunications industry.

He joined the Deutsche Telekom Group in 2001 and began building a successful career there. Since April 2002, he was a Senior Executive Vice President of Deutsche Telekom in charge of investor relations. From 2006 he was part of Magyar Telekom as Chief Financial Officer and member of the Board of Directors of Magyar Telekom. After leaving Makedonski Telekom, Mr. Kusch assumed the position of a Chief Financial Officer in T-Systems International.

**ZARKO LUKOVSKI -** CHIEF EXECUTIVE OFFICER OF T-MOBILE MACEDONIA

Mr. Zarko Lukovski started his career in Makedonski Telekom and in T-Mobile Macedonia in November 2006 when he became a President of the Board of Directors of Makedonski Telekom AD – Skopje. His engagement as the president of the highest decision making body of Makedonski Telekom, as well as his exceptional knowledge of the telecommunications industry brought him to the position of a Chief Operating Officer of T-Mobile Macedonia, which position was held by him until 1 April 2010 when he climbed one step higher and became Chief Executive Officer of T-Mobile Macedonia.

From the moment of his coming to the highest managerial position in the company until now, many important steps have been made aimed at its promotion, among which the introduction of mobile payment for the first time on the Macedonian market, as well as the implementation of the 3G and 4Gmobile network, as a result of which T-Mobile Macedonia has developed into a technologically superior company in its domain.

Mr. Lukovski is a graduate electrical engineer with a great experience in the IT and Telecommunications industry and he was leading several relevant companies in the field of IT. During his professional development, Mr. Lukovski worked with various global brands, both on the Macedonian and on the international market, thus acquiring a wide international expertise.

Concurrently, he had an active role in a large number of projects that played an important role in the determination of today's ICT industry in Macedonia.

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

Mr. Projkoski started his career in Makedonski Telekom in 1995, where he was appointed to several managerial positions mainly in the finance area, among others Executive Director of the Controlling Area and later on Chief Financial Director. Due to the results demonstrated in the course of his career in Makedonski Telekom, on 1 October 2007 he was appointed on the position of Chief Financial Officer of Makedonski Telekom.

He holds a BSc degree in electrical engineering and has an extensive experience in the telecommunications industry. As of 15 March 2010, he has held the position of Chief Financial Officer of Makedonski Telekom and T-Mobile Macedonia, and as of 8 April 2013 he also assumed the position of a Chief Operating Officer of T-Mobile Macedonia.

**GUSZTÁV MAHLER** - CHIEF OPERATING OFFICER CONSUMER IN MAKEDONSKI TELEKOM AND T-MOBILE MACEDONIA

Mr. Gusztáv Mahler is a Chief Operating Officer Consumer in Makedonski Telekom and T-Mobile Macedonia, starting as of 1 December 2013.

Gusztáv Mahler came to Makedonski Telekom from the position of Director of Customer Services in Magyar Telekom. He received a diploma in trade from the Trade College in Budapest and MBA diploma from the Oxford Brookes University. He began building his career in various Hungarian and international companies on positions in the areas of sales and marketing. In 1999, he joined the Hungarian mobile operator Westel as part of the sales team. In 2001, his career development brought him to Macedonia in the position of Sales Director in Mobimak.

As of 2004, he was responsible for the indirect sales of T-Mobile Hungary as a Deputy Sales Director, and later on he took over the responsibility for integrated fixed and mobile sales activities until 2009.

In the period 2008-2009, in addition to his position, Mr. Mahler also managed Magyar Telekom's Next Generation Fixed Access Project (optics development and ED3). As of 2009 until his appointment in Makedonski Telekom and T-Mobile Macedonia, he held the position of Director for Customer Services of Magyar Telekom.

**ALEKSANDAR POPOVSKI -** CHIEF OPERATING OFFICER BUSINESS IN MAKEDONSKI TELEKOM AND T-MOBILE MACEDONIA

Mr. Popovski is a Bachelor of Law and a holder of Masters in Business Administration from the University of Sheffield in Greece. He started his career in Pivara Skopje, where he gained his rich professional experience in the sales area, performing various managerial positions among which a Director of Commerce, as well as Director of Regional Sales in Coca Cola Croatia and Director of Trade Marketing in Karlovacka Pivara, Heineken Group Croatia.

He joined the company in 2008 as an Executive Director of the Sales Department of T-Mobile. From 2010, he was responsible for the sales activities for the business customers of Makedonski Telekom and T-Mobile as Director of the Business and VIP Accounts Department of Makedonski Telekom and T-Mobile, from where he comes to the position Chief Operating Officer Business of Makedonski Telekom and T-Mobile Macedonia.

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

Thorsten Albers joined Makedonski Telekom on 1 October 2008 as a new Chief Technical Officer and on 15 October 2011 he was also appointed as Chief Technical Officer of T-Mobile Macedonia.

He holds a degree in electrical engineering, specialized in communication and information technology, as well as various Cisco and Nortel/ Bay certificates in the relevant areas. Mr. Albers gained his professional experience and expertise while holding various positions in the technical area in Germany and Hungary. Since 2003, he has been a part of Magyar Telekom, responsible for the coordination of projects under the competence of the Chief Technical Officer at the level of Deutsche Telekom.

**LAZAR POPOVSKI -** CHIEF HUMAN RESOURCES OFFICER OF MAKEDONSKI TELEKOM AND T-MOBILE MACEDONIA

Mr. Popovski has a degree in Business Economy from the University of Ss. Cyril & Methodius, Macedonia and is a holder of Masters of Business Administration from the University of Louisville, Kentucky, USA.

He joined Makedonski Telekom from the position of a Director of the Agency for Sport and Youth where he contributed to the achievement of the national interests through the development of sport as a generally recognized value which, in addition to the other benefits, presents and promotes the Republic of Macedonia at international level.

He started his career in the private sector, holding senior managerial positions in sales, business planning and analysis, internal audit and human resources in several renowned companies.
Mr. Popovski is a prominent sportsman, a four-time Olympian in kayak-slalom, selected as the best sportsman of the year in Macedonia in 1999 and winner of the award “13 November” of the City of Skopje - an award which is given to individuals for exceptional achievements and promotion of the Republic of Macedonia.

**MIROSLAV JOVANOVIC** - CHIEF IT OFFICER OF MAKEDONSKI TELEKOM AND T-MOBILE MACEDONIA

Mr. Jovanovic is an expert in the sphere of information technologies with an engineer’s degree in computer science and IT.

In the course of his engagement at various managerial positions both in Macedonia and in Serbia, he was dedicated to the IT management and implementation of large ICT systems in the public sector, and while holding the position of Chief Informatics Director at the Ministry of Finance he was meritorious for the successful implementation of many projects, including the e-budget project.

Prior to his appointment as the Chief IT Officer of Makedonski Telekom in 2009, Mr. Jovanovic worked as a Key Long-Term Issues Expert - Financial Management Information Systems in Serbia, an EU project.

He was appointed to the position of Chief IT Officer of T-Mobile Macedonia on 15 March 2010 and as Chief IT Officer of Makedonski Telekom on 15 October 2011.

**MOIRA HOMAN** – CHIEF HUMAN RESOURCES DIRECTOR

Ms. Homan dedicated her entire career to human resources. She was born in Croatia, gained her education in Croatia and Great Britain and holds a B.A. degree in Psychology. She comes to the position with work experience of almost 20 years in the field of human resources in various industries - from banking and hotel industry to telecommunications.

She came to Makedonski Telekom from Hrvatski Telekom, where she held different managerial positions in the area of human resources, first as a Director of the Labor Relations Management Department and as of 2009 as an Operating Director of the HR Competence Centre.

During her professional engagement in Hrvatski and Makedonski Telekom, Ms. Homan implemented many international projects and initiatives that have been recognized within the DT Group.

## WE STAND BEHIND COMMUNICATIONS

WE ARE THE DRIVING FORCE THAT CREATES DIFFERENT WAYS OF COMMUNICATION, WE CREATE THE BASES, THE POSSIBILITIES AND THE METHODS. WE ARE AN INSTRUMENT FOR COMMUNICATION AMONG PEOPLE BECAUSE WE PROVIDE POSSIBILITIES FOR THEIR SHARING OF EXPERIENCE AND MEMORABLE MOMENTS.

## INNOVATIONS – HEART OF EVERY STRATEGY

**INNOVATIONS ARE THE HEARTH OF SUCCESS AND THE STRATEGIC ROAD TO GREAT ACHIEVEMENTS... THEY REQUIRE COURAGE, PASSION AND PATIENCE, BUT ALSO LEAD TO EXCELLENT RESULTS AND VICTORIES...**

# WE HAVE A RESPONSIBILITY TO LEAD THE CHANGE!

The world is rapidly changing and increasingly uncertain. Change is everywhere around us, creating big impact on customers and businesses, challenging more dynamically the ways things are done. Electronic communications are one of the fastest-moving sectors in the world and this is not expected to change. Increasing competition, more demanding customers and overall market changes, put us in a position that we must change too.

In fact providing superior communications solutions for so many years and being one of the most successful companies, sets high customers' expectations and our responsibility that we must lead the change.

Our goal is to initiate new creations that will lead to innovations, we want to motivate, create partnerships of companies and individuals, to support progressive ideas and to build a better tomorrow together.

- We are oriented towards the new forms of interactivity and digital entertainment, as well as communications and services for improvement of life-
- We believe in the possibility for promotion of Macedonia in the international community as a country of innovators.

**STRATEGY OVERVIEW 2013**

Makedonski Telekom and T-Mobile MK (TMMK) are the leading telecommunications service providers in all segments: Mobile, Fixed Voice, Fixed Data and Pay-TV services.

The moderate economic growth in the post crisis period and the market development of the saturated telecommunications business, the strong competition mainly due to the reducing prices and the market demand with pronounced price sensitivity affect Makedonski Telekom (MKT) and T-Mobile Macedonia (TMMK) to put the company's future operation on sustainable level in order to achieve the goals for generating stable cash-flow and revenue. The aspirations of Makedonski Telekom and T-Mobile Macedonia for generation of sustainable cash flow based on stabilized revenues and retention of the market leader position should be enabled with concurrent radical business model transformation.

Securing the sustainability of Makedonski Telekom and T-Mobile is a continuous activity year-over-year in terms of strengthening our market position and most of all responding to the demands of all stakeholders – shareholders, employees and partners. Activities for optimization of the processes, productivity improvement, open-minded and innovative thinking and overall efficiency improvement were implemented in 2013 as well.

The aspirations of Makedonski Telekom and T-Mobile are translated into BIG 5 Focuses:

- All IP Transformation;
- ICT Opportunities / B2B push;
- Increase internal efficiency;
- Customer centric products;
- Growth opportunities

These "BIG 5"Focuses and their implementation will improve the long-term operations of the companies with the ultimate goal to achieve:

- Sustainable revenue and strengthening the leading position.
- Aggressive B2B and ICT growth, improving the capabilities and organization.
- Committed to create new value, to grow with innovations.
- Integration, being one team both externally and internally.
- Transformation towards increased operational efficiency and new revenue opportunities.
- Technology based leadership, optimized network coverage and the best customer experience.

By using the current potential and strong position to secure the core and the extended business, which lead to improved and unique market positioning, Makedonski Telekom had significant achievements in 2013:

- It finished All-IP Transformation (World's 1st fully IP-transformed network) ensuring technical leadership: new paradigm for telco business with higher service and quality standards. Increasing the value for the customers; introducing new-IP services/products; establishing new efficient processes; creating One infrastructure and future-proof platform.
- LTE introduction (as of 1 December, 2013, 2x10MHz@800MHz and 2x15MHx@1800MHz); Purchasing smart combination of 800 MHz and 1800 MHz frequency spectrum turned complementary and best combination, ensuring TMMK's future as technology & innovation leader and secure long-term best spectrum position and market leadership. The LTE Spectrum was acquired on 10 July 2013 and the service was commercially launched on 1 December 2013;
- Integration project - a big step towards more efficient and innovative company, led by the market and the needs of the customers;
- Active participation in Deutsche Telekom EU collaboration and knowledge sharing. In addition to the All-IP Transformation leading role, Makedonski Telekom provided IT support to Crnogorski Telekom in the Mediation Zone implementation.

**M-WALLET SERVICES - ENABLING NEW PAYMENT & LOYALTY CUSTOMER EXPERIENCE!**

Fast, easy to use and secure payment with ultimate vision of replacing the physical wallet with a virtual one.

- The M-Wallet initiative gave rise to new separate and innovative smart solutions:
- "MobiPay" solution - a totally new and smart way of cashless payment through mobile phone, directly from customers' bank account (T-Mobile MK is the first mobile operator which, from now on, in partnership with NLB Tutunska Banka, enables its customers to use their mobile phones as wallets, directly from the customers' bank accounts. With the activation of MobiPay, the mobile telephone becomes a virtual wallet);
- My Club" – the largest loyalty program, where customers collect loyalty points through their mobile handsets, when purchasing at partners' shops and use the collected points for further purchasing.)

We are creating a new perception of All-IP transformation as a new value creating opportunity including customers as partners in the process.

Our employees' ability and willingness to be innovative is a critical success factor in making Makedonski Telekom an innovation leader.

The future belongs to those organizations that will passionately embrace an innovation mindset as embodied daily in the hearts, minds and actions of its change agents and future leaders.

**TOMORROW IS ALWAYS HOW WE WANT IT TO BE!**

Continuously striving for better tomorrow, we always engage our efforts in order to find out how communications can improve the future, improve everyday life and shared experiences among people and businesses.

We started the realization of our vision – creating Innovation Partnerships (exploring future business models, virtualization, internet of everything, new communication patterns, open APIs to 3rd parties, new go-to-market approaches and customer facing interfaces...); We initiated an Innovation Public Call and started implementing innovation projects, setting up an incubator/accelerator project in cooperation with T-Labs DT, Kitchen Budapest MT, ICT Chamber of Macedonia, the universities, etc.

78 proposals were submitted within the contest by various entities such as universities, start-up companies, and individual innovators. As a result of the process, 5 projects were selected that were developed and implemented jointly with the selected partners:

- "Smart Wine" (Integrated end-to-end M2M cloud solution for intelligent monitoring of agriculture parameters by using wireless sensor network)
- "T-Care" (Multi-user platform for online customer care, based on artificial intelligence)
- "Cloud Message" (Distributed web-based social network for sharing messages, private or public, and advertisement coupons, depending on the user's preference, with a mobile augmented reality based client)
- "DoxBee" (Cross-platform system for collaboration with MS office documents)
- "MarketKonekt" (B2B/B2C online trading platform in Macedonia)

We are very proud of the fact that Makedonski Telekom and T- Mobile Macedonia initiated the aforementioned projects and led them to commercial launch.

All our innovation projects fit perfectly in the Group DT Strategy, which means that we had a clear vision and good objectives from the start. We are also especially proud of the fact that even prior to their commercial launch our innovation projects reached international attention.

This might be the first time for us on the Macedonian market to use an open innovative approach, which means including the customers in the process, besides the two companies and the partners.

**SMARTWINE SOLUTION - FIRST INNOVATION PARTNERSHIP OUTCOME!**

"Smart Wine" (Integrated end-to-end M2M cloud solution for intelligent monitoring of agriculture parameters by using wireless sensor network) is one of the innovation projects that was commercially launched first.
Smart Wine solution is revolutionizing the wine production. Smart Wine is a "green" solution which simplifies the wine production, it increases the operational efficiency and helps saving energy, water and chemicals used during the production process.

The service offer includes a sensor network installed in the vineyard and a software solution, which enables the customer to get real-time information about the conditions that affect the vineyard. In case of a predicted risk regarding plant diseases, drought or frost, the customer will be warned by an alarm so that he can undertake the necessary actions.

SmartWine solution is a representative solution for open innovation. It is an innovation project originally developed by WIN Group (group of developers within the Institute of Telecommunications within the Faculty of Electrical Engineering and Information Technologies) together with the resources of Makedonski Telekom and T- Mobile Macedonia and the Tikves vinery as a customer (the biggest winery in Macedonia with over 2.000 suppliers).

- SmartWine is an end-to-end solution for intelligent, energy efficient and modernized wine production process.
- It provides both real-time and offline monitoring of the entire wine production process by using a distributed wireless sensor network.
- SmartWine provides the winemakers with sustainable management and monitoring practice for quality improvement and decrease of costs for energy, water and pesticide usage.
- Additional value is the B2B offer as a cloud-based solution with centralized database system and web hosting server enabling parallel service provision to many wine-growers - wineries and other agricultural producers.
- Extension to other horizontal markets (control of product transportation, tracking and storage by using RFID, other agriculture segments etc.) and different vertical markets (monitoring of homes, offices, residential areas, etc.)

**OUR EMPLOYEES' ABILITY AND WILLINGNESS TO BE INNOVATIVE IS A CRITICAL SUCCESS FACTOR IN MAKING MAKEDONSKI TELEKOM AN INNOVATION LEADER.**

The future belongs to those organizations that will passionately embrace an innovation mindset as embodied daily in the hearts, minds and actions of its change agents and future leaders.

## OUR PEOPLE, OUR STRENGTH

# DYNAMICS, EFFICIENCY, SIMPLICITY, PROFESSIONALISM, TALENT DEVELOPMENT, COACHING, UPGRADES, TSN OR GLOBALISATION OF INFORMATION

# OUR EMPLOYEES ARE THE DRIVING FORCE THAT ENABLES US: TO CONTINUOUSLY ADAPT AND TO CREATE VALUE FOR US AND FOR OUR SHAREHOLDERS, TO BE ON THE TOP.

## NEW ORGANISATIONAL STRUCTURE

Dynamics, simplicity and being first on the market! Continuously following all new global trends or being a creator of those trends. Today's society is dynamic! Keeping the leading position requires constant innovation, constant work and a lot of efforts, creating favourable working conditions for the employees, their motivation and excellent communication with the customers.

As we strive to create one company, it was necessary for us to make an alignment and harmonisation of the organisation with the new business developments, future aspirations and challenges of the company. In that regard, during the second and third quarter of 2013, the new organisational structure was defined and approved, the purpose of which was to contribute even more to a customer oriented organisation. It meant a smaller hierarchy for a higher efficiency and dynamics in the company's operation.

The new organisation consequently included restructuring and optimisation of the human resources in both companies. The changes were necessary due to the strong competitive environment and the fast dynamics of the market movements, which on the other hand contributed to the occurrence of negative trends in certain areas of the business. The purpose of the new organisation is to contribute to the building of an efficient company that will keep the leading position in accordance with the new rules and conditions in the market.

## LEVELS OF JOB POSITIONS IN ACCORDANCE WITH THE HAY METHODOLOGY

Within the same process of creating one company, after defining the organisational structure, the defining of the levels of job positions of managers and employees followed in accordance with the Hay methodology which is one of the most widely used methodologies in the world for defining levels of job positions. According to this methodology, the level of every job position is defined in accordance with the responsibility that is assigned to the job position, the need of resolving problems and the necessary knowledge and experience for successful completion of the tasks arising from the job position.

The defining of the levels of job positions, which was completed in the third quarter of 2013, created a clear picture of the value and the weight of each job position in the organisation which enabled competitive, transparent, consistent and fair compensation and remuneration of the employees for the performance of their working tasks. In addition, it also enabled a comparison of the value and weight of the job positions from various departments and areas which are very different and difficult to compare without the use of such systematized methodology.

## HARMONISATION OF THE CONDITIONS FOR EMPLOYMENT AND WORK AND OF THE REMUNERATION AND BENEFIT SYSTEMS

As a part of the new organisation and for the purpose of creating a more efficient company, the remuneration and benefit systems for managers and employees in both companies were subject to revision and harmonisation.

Within this process, the managers' salaries and the bases for payment of bonuses to managers and employees were harmonised. The benefits for the managers were also harmonised and the policy on company's managerial vehicles was revised.
Furthermore, the conditions for employment and work were revised and harmonised whereby conditions were created for implementation and connection of the remunerations and benefits to the new levels of job positions defined in accordance with the Hay methodology.

## SAFETY AND HEALTH AT WORK

The safety and health at work are not a cost for the company but an adequate investment that improves its image and also contributes to a healthy working environment where the employees will perform their working tasks and activities in a safe and secure manner.

The goal of the employer, which is one of the leading companies in the Republic of Macedonia when it comes to social responsibility, is to exert continuous efforts to define and introduce preventive safety measures for safety and health at work, to select work and production methods that will improve its level, but also to apply innovative and available technologies that refer to the area of safety and health at work and which will be as soon as possible implemented and applied in the everyday work practice of the company for the purpose of creating even safer and healthier working, but also living environment.

**MEASURES:** The provision of the measures for safety and health at work is not a financial liability of the employees. The employer concludes contracts with other legal entities that are specialised in providing services, whereupon it engages an authorised health institution for performing professional tasks for health at work for the purposes of monitoring the health status of the employees (conducting preventive health check-ups of the employees in accordance with the special regulations, giving proposals and measures to the employer for protection of the health of the employees who are exposed to a great danger of injury or health disorder...), adopting safety fire protection measures in accordance with special regulations, adopting first aid measures and evacuation in the event of danger, conducting training of the employees for safe performance of the work on the basis of an own programme and providing equipment for personal protection of the employees, if the undertaken safety measures in the working environment are not sufficient. The working assets are continuously tested, examined and attested in order to comply with all valid legal regulations, standards, normative and technical requirements. The preparation and implementation of statements of safety for each job position is underway by the employer (document that is based on the identification of the danger and the assessment of the risks for the safety and health at work and in the working environment to which the statement refers, which also prescribes adequate protective measures and specifies the manner in which they should be undertaken).

**CARE:** The introduction of the intranet site with a method for continuous interactive learning means that every employee via his/her PC will be able to follow various recommendations and exercises, thus contributing to the preservation of his/her health, safety and health of the other co-workers, the persons affected by his/her activities and also the safety at Group level in the course of the performance of the working duties in accordance with the trainings and instructions provided by the Employer. Conducting free of charge sports activities in several recreation centres (pools, gyms...) contributes to the increased level of health preservation and healthy spirit of the employees which also justifies the increased interest of the Employer for preservation of the health of its employees. The organising and providing first aid to the employees in case of injury at work or sudden health condition, until their hospitalisation (provided by a team of trained employees, by means of establishing a health post, placing first aid lockers and timely replacement of the entire medical material in the lockers) contributes to an enhanced safety of each employee in all of our facilities.

### EMPLOYEES' DEVELOPMENT

In addition to the significant organisational changes that were the main focus of the company in 2013, besides the regular activities for employees' development, several other activities were also implemented with the purpose of acquiring new and updating the existing knowledge and skills of the employees. The implementation of the programme for exchange of experience and knowledge within the T Group continued. Several colleagues from different departments in both companies had the opportunity to go on working visits of several months in companies in different countries of the Deutsche Telekom Group in order to acquire new knowledge and experience.

The employees of Makedonski Telekom and T-Mobile were also part of the Group's development programmes such as the programme for development of leadership skills and the "Master Classes" series of trainings. These two-day trainings provided the employees with the possibility to become a part of various business topics in the role of managers and leaders.

As an addition of the platform for electronic learning that was introduced in 2012, a number of trainings for the employees were implemented in accordance with the development needs identified during the evaluation of the performance and the results. In accordance with the already established positive practice, these trainings were conducted in the company's training centre with internal trainers on various topics for advancement of not only the soft skills of the employees, but also their knowledge of several professional spheres.

Last year was a year of development of new concepts for training and development of employees which are planned to be implemented in 2014. The following year the company plans to offer the employees new and modern forms of development such as mentoring and coaching. Furthermore, a programme for additional development and motivation of the most talented employees is prepared, which is to be implemented in 2014.

## AWARDS

THE COMPANY IS THE WINNER OF THE NATIONAL AWARD FOR BEST SOCIALLY RESPONSIBLE PRACTICES IN THE CATEGORY "RELATIONS WITH THE EMPLOYEES", AWARDED BY THE NATIONAL BODY FOR CORPORATE SOCIAL RESPONSIBILITY OF ENTERPRISES OF THE REPUBLIC OF MACEDONIA. THE AWARD PERTAINS TO THE INTRODUCED E-LEARNING PLATFORM, AS WELL AS THE HR4ME PROJECT.

THE E-LEARNING PLATFORM ENABLES THE EMPLOYEES TO UPGRADE THEIR KNOWLEDGE AND SKILLS BY PARTICIPATING IN HIGH-QUALITY TRAININGS UPON THEIR CHOICE AND AT A TIME SUITABLE FOR THEM.

HR4ME IS AN APPLICATION WHICH CONSISTS OF SEVERAL TYPES OF DATA GROUPED IN 7 CHAPTERS: PERSONAL DATA, SALARY AND FINANCES, BENEFITS, PROFESSIONAL DEVELOPMENT AND TRAININGS, PERFORMANCE AND RESULTS, WORKING HOURS RECORDS AND ELECTRONIC COMMUNICATION. THE VERY FACT THAT THESE SYSTEMS HAVE A VERY HIGH NUMBER OF VISITS IS SUFFICIENT MOTIVATION FOR THEIR FURTHER DEVELOPMENT AND ENHANCEMENT AND THENCE THE INCREASED TECHNICAL PERFORMANCES PROVIDE THE EMPLOYEES WITH AN EASY AND PRACTICAL WAY OF LEARNING AND ACCESS TO THE NECESSARY PERSONAL DATA.

## THE COMMUNICATION WITHIN THE COMPANY AS ENCOURAGEMENT FOR THE ENGAGEMENT OF THE EMPLOYEES

Effective internal communication helps the organization in its efforts to increase the effectiveness of the employees, it renders the organization's goals comprehensible and closer to each employee and it boosts their inclusion in the organizational life, thus bringing colleagues closer together and strengthening the cooperation at all levels within the Company.
The purpose of internal communication denotes well and timely informed employees in terms of all events in their working environment. That is exactly the reason why the companies frequently insisted on including employees in the decision-making process regarding certain relevant issues in the business process and operation.

## COMMUNICATION FLOW

Makedonski Telekom and T-Mobile Macedonia have a developed system of informing the employees, wherein primary importance is given to the classification of information according to several criteria, such as their urgency, value, content, etc. By relying on the established tools and channels for internal communication, each piece of information is adequately disseminated to the employees.

The internal communication in both companies has the task of ensuring vertical communication, i.e. from top to bottom, whereby the main strategic goals and activities of the company are being conveyed, and the entire company is provided with the often necessary tone of the management. It is beyond any doubt that the vertical line of information flow also means providing feedback from bottom to the top, which is valuable in the definition of the further steps of exceptional importance for our companies.

**TEAM NEWS AND TEAMNET** – i.e., e-mail to all and intranet, are channels for publishing information, messages, photos and video materials with a daily dynamics.
The electronic periodical e-Newsletter and the internal magazine @LO are issues dedicated to a topical treatment of all relevant aspects of issues and projects which are of great importance for both companies.

## GLOBALIZATION OF INFORMATION

On the other hand, we have TSN. Enterprise 2.0 is a platform on the basis of which this first internal social network of the Deutsche Telekom Group has been generated, via which the colleagues get connected vertically, which means that everyone can to talk to each other and exchange ideas and start cooperation, thus contributing for a higher quality of the contents and the business in general. In that, the communication remains easy, simple, smooth, immediate, more direct and everyone is available. The new possibilities opened by this web platform ensure sharing and exchanging professional materials, opinions, consultations, and it is even possible to conduct trainings within the international corporation.

## THE EMPLOYEES IN THE CENTRE OF THE COMPANY-WIDE EVENTS

The events being organized within the companies, both formal and informal, are aimed not only at encouraging the engagement of the employees in certain projects and activities which require greater participation by the human resources, but also at motivating mutual cooperation, strengthening the team values and mutual communication, as a basis for an open cooperation and exchange of experiences and ideas.

## KICK-OFF MEETING 2013

At the beginning of 2013, under the motto **"Team symphony"**, the regular kick-off meeting was held, which was attended by 500 employees from Makedonski Telekom and T-Mobile Macedonia, while all other employees had a possibility to follow it via live streaming on their screens. At this meeting, the employees are informed of the strategic guidelines which are to be followed by the company in the future.

## BLOOD DONATION ACTION 2013

The two-day, already **traditional, blood donation action** was conducted for the first time in the new administrative building. The company's cooperation with the Red Cross of the Republic of Macedonia and the National Institute of Transfusiology once again proved to be beneficial, wherein 160 blood units were collected for those who need it the most. With this gesture, the employees once again showed that humaneness is their strength, incorporated in their corporate culture. By means of this charity action the employees have made a contribution for improving the health and life of the citizens of this society and they have done that with pleasure.

## GUIDING PRINCIPLES DAY

**“Simplicity”** was the main focus of the already traditional Guiding Principle Day, which is marked every year at the end of September. Otherwise, this is an event which connects us globally with all other companies within the DT Group.
This year, 26th September was the day dedicated to our five guiding principles, while the accent was placed on the first principle. In 2013 it was supplemented with the term “simplicity” as the basic element which should drive us in the course of our work. Therefore, on this day, our activities were mainly dedicated to the principle “Customer satisfaction and simplicity are the drivers of our activities”, especially in terms of “simplicity” and its meaning for customer satisfaction.

## VOLUNTEERING FOR THE T-MOBILE FOR MACEDONIA FOUNDATION

**The charity New Year’s caravan** organized by the T-Mobile for Macedonia Foundation for several years has been the epitome of a pleasant event in Makedonski Telekom and T-Mobile Macedonia since groups of employees are included in this activity, which encompasses visits to many children’s institutions and organizations for medical care, education and fostering of children.

## SELECTION OF THE BEST EMPLOYEE FOR 2013

**The selection of the best employee of Makedonski Telekom and T-Mobile Macedonia** takes place every year without an exception. It is one of the most motivating events happening at the end of the year. The winners, i.e. the best employees are actually selected by their own colleagues who vote for their favourites through the internal communication channels. This way of acknowledging the efforts and the results of the employees publicly, in front of all colleagues, makes this manifestation one of the most popular ones company wide.

## WINNERS‘ CIRCLE PROGRAMME

**The Winners’ Circle** is an international programme for boosting the sales, which has been organized for several years in partnership with Samsung and within which exclusive awards and exotic trips are presented to the best sales persons.

# MAGENTA AWARD FOR MACEDONIA

THE MAGENTA AWARD, WHICH IS AWARDED FOR PROJECTS IN THE SPHERE OF CORPORATE COMMUNICATIONS AT THE LEVEL OF THE DEUTSCHE TELEKOM GROUP EVERY TWO YEARS, THIS TIME WAS PRESENTED TO THE INTERNAL COMMUNICATION TEAM OF MAKEDONSKI TELEKOM AND T-MOBILE MACEDONIA, WHO WERE GIVEN TWO STATUETTES! THE BRONZE WAS AWARDED FOR THE T-DANCE PROJECT, WHILE THE SILVER FOR MISSION IMPOSSIBLE, A VIDEO CLIP CREATED IN THE COURSE OF THE KICK-OFF MEETING 2013.

## TWO OCEANS OF OUR BUSINESS

**EVERYTHING FOR THE CUSTOMER! PROVIDING SIMPLE AND MODERN CUSTOMER SOLUTIONS WITH A UNIQUE HIGH QUALITY AND DISTINCTIVE VALUE CONTRIBUTE FOR STRENGTHENING THE RELATION WITH THE CUSTOMERS AND FOR ADDITIONAL MOTIVATION IN THE IMPROVEMENT OF THE OPERATION OF THE COMPANIES.**

# PRODUCTS AND SERVICES FOR OUR CUSTOMERS

Operating in a highly competitive environment in all telecommunication segments, Makedonski Telekom and T-Mobile are focused on new services, on retaining the existing customers and acquiring new ones. Marketing activities based upon the needs and habits of the customers are being implemented in order to build strong relations with the customers. Loyalty programmes and schemes for upgrading the telephone devices are also being intensively used in order to increase the customer satisfaction.

Makedonski Telekom provides traditional fixed line telecommunications telephony and content services within the scope of the fixed network, as well as broadband services and integrated solutions, including also television via Internet Protocol.

The objectives of the company for the upcoming years entail retaining the leadership position in the sphere of technology in Macedonia and providing high-quality services at affordable prices in order to retain the competitiveness on the market.

In 2013, the main focus on the market of fixed line services was placed both on attracting new customers and retaining the existing ones, as well as on migration towards bundled services, primarily 3Max.

The process of digitalization of the television signal, that was conducted in June 2013, further increased the TV customer base, after the growth which started with the repositioning of the portfolio of fixed services in 2012. MaxTV proved to be the main customer retention tool.

In addition to enhancing the packages with additional content, also a more accessible TV product was introduced for the fixed line users.

Several major campaigns were conducted in order to achieve the planned sales results and increase the awareness in terms of the benefits included in the packages.

The number of IPTV users at the end of 2013 was 87,686 (including 3 Max, IPTV only and 2 Max), as compared to 66,541 users at the end of 2012.

The IPTV services are being continuously expanded with new contents and features – exclusive ARENA content, video library, etc.

3 Max has proven that the customers are able to recognize value for money and that they do not always opt for the lowest price. The customers started appreciating the MaxTV service as a complete TV service with all its functionalities instead of a linear TV service.

The broadband internet services were enriched with the introduction of high speed packages (1GB/s) in optic technology, as well as broadband on demand – a service intended for the users who use the internet occasionally. The number of retail fixed internet users increased to more than 148 thousand at the end of 2013, as compared to 139 thousand at the end of 2012.

At the end of 2013, Makedonski Telekom had around 249 thousand retail voice lines.

The development of a fibre optic network continues to be one of the crucial focuses and one of the greatest investments of Makedonski Telekom. At the end of December 2013, optics access was provided to more than 100,000 customers in the Republic of Macedonia. The service portfolio based on Fiber-to-the-Home was enriched with new products with speeds of up to 1GB/s.

The increased FTTH coverage and the benefits from the offer of products based on fiber optic had a huge positive impact on the improvement of the fiber optic customer base. The customers are able to use ultra fast internet with a symmetrical incoming and outgoing speed, HD TV channels, a possibility for connecting more than two media receivers, as well as some other benefits. At the end of 2013, more than 23 thousand customers were connected to fiber optic.

T-Mobile MK is the leading mobile operator in Macedonia dedicated to providing modern technologies and offering advanced services which are in accordance with the highest technological standards and service standards.

T-Mobile had a customer base of 1,195,250 at the end of 2013, as compared to 1,181,437 at the end of 2012. The customer penetration on the market of mobile telephony in Macedonia is above 108%, which shows a trend of possessing several SIM cards by one person. The mobile telephony market in Macedonia was characterized by highly competitive campaigns and offers in 2013.

As a result of the market saturation, the company focused both on acquiring new customers and on retaining the existing ones. As a result of the increased competitiveness and in order to prevent the churn of the customers and boost the use of the services, T-Mobile introduced various campaigns, price plans and additional services specially designed so as to meet the needs of the customers with a focus on the value instead of the price. These offers are intended for different customer segment. As a response to the aggressive price movements of the competition, new concepts and offers were created for the pre-paid and post-paid customers. COOL Prepaid was introduced - a new interactive tariff model intended for the young population.

Mobile internet was in the focus also in 2013, wherein voice and data packages for consumers and business customers were enhanced with additional value: more minutes, increased internet traffic volume and mobile Max TV service. The attractive offers of telephone devices contribute for gross new customers and retention of the customers in the two segments – both in post-paid and in pre-paid. In 2013, T-Mobile achieved a growth of 197% customers who started using some of the tariff models that include mobile internet.

Several big campaigns were introduced for achieving the planned sales results and increasing the awareness of the benefits provided by the services.

In 2013, a new innovative way of payment with the mobile phone was introduced – MobiPay. The customers can make payments directly with their mobile phone, during which the telephone number is connected with the customer's bank account.

The main goal of the annual plan for marketing and sales of the Company in the business segment was:

**RETAINING THE PRIMACY AS A LOYAL AND DIGNIFIED ICT PARTNER.**

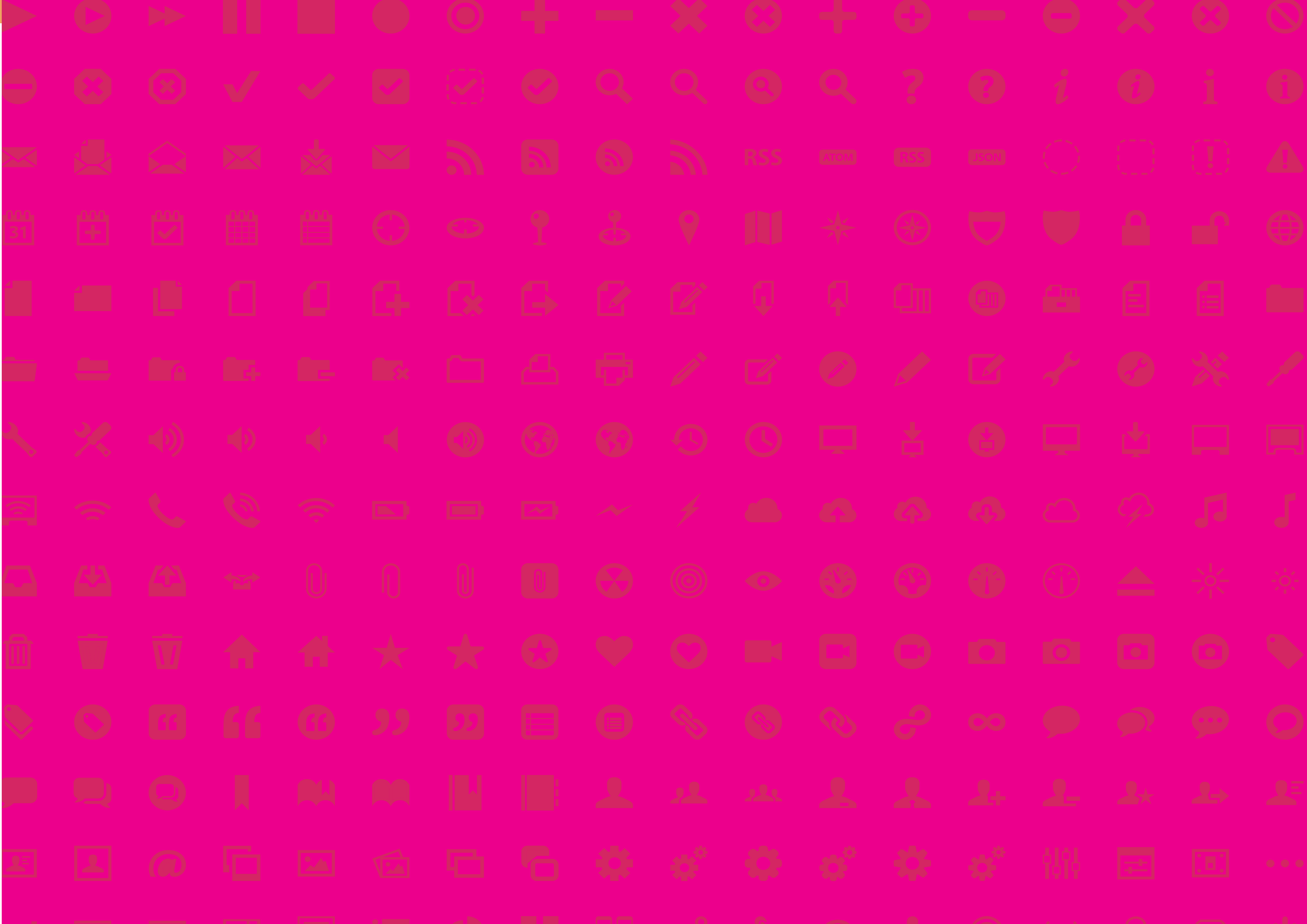
For the purposes of retaining the primacy of a loyal and dignified ICT partner, Makedonski Telekom, in the course of 2013, focused on the development of advanced ICT solutions, wherein special accent was put on the development of Cloud based solutions/services. The contemporary ICT solutions were a priority task for 2013. Many projects in the sphere of ICT were implemented, confirming the epithet of the Company – leader in infrastructure services, especially in terms of customers from the public administration and banking. The expertise of the employees in terms of the implementation of projects and IT maintenance via the telecom services, combined with the best quality of the network, are the strengths which make the company exceptionally competitive on the market.

Cloud products are recognizable for the business customers that perceive Makedonski Telekom as a reliable, professional and loyal partner. In 2013, the Company enhanced the portfolio of Cloud services, wherein ERP, virtual private server, online security and other services were offered for the business segment.

In 2013, a large part of the resources were dedicated also to M2M services, such as vehicle movement tracking, as well as in the sphere of user electronic equipment (various gadgets for daily use, cameras, locators, etc.).

Additionally, in the course of 2013, a new integrated offer was prepared which, in addition to a tablet computer and 3G mobile internet access, also includes a Cloud service (virtual disc with data storage space of up to 50 GB). This package of services was aimed at directing the market towards using advanced ICT solutions which have the purpose of improving the operation of the business customers.

Furthermore, for the purposes of bringing the Cloud services closer to the customers, Makedonski Telekom introduced a new special tariff plan for the Cloud services intended for all internet users. Thus, the Cloud services such as Virtual Private Server, Virtual Disk Office Packages and Work Share became available without initial service installation costs and a lower monthly subscription fee.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## PIONEERS IN CORPORATE SOCIAL RESPONSIBILITY

**OUR THOUGHTS AND ACTS ARE DIRECTED TOWARDS A SOCIETY IN WHICH LIFE IS NOURISHED IN THE INTEREST OF THE FUTURE GENERATIONS.**

Our strategic goal is to become a global leader in connected life and work. For us, it means also a leader in corporate social responsibility.
Actually, it is an integral part of our strategy.
Being among the most significant players in the Macedonian business environment, we have the responsibility to set standards and to be the driving force in the development of society and all its segments – ecological, economic and social sphere.
From products and services, through infrastructure and logistics, all the way to our employees – our strategy for corporate social responsibility stretches through all spheres of our daily operation.

## ENVIRONMENTAL PROTECTION

Environmental protection is one of the imperatives of successful corporations which, with their operation, should reduce to a minimum any adverse impact on the environment in which we are living.

An electronic payment system has been introduced which, in addition to saving paper, is also fast, simple and safe. It is available 24 hours a day and the users, besides making online payments, can also access their data whenever they want to.

The company needs a fleet for maintenance, customer service and other respective purposes. By introducing the GPS systems in the fleet, we are saving on fuel and managing the movement of the vehicles.

The new administrative building of the companies, which replaced the three buildings, is also energy efficient.
The companies are working with a view to reducing the risks arising from global climate changes.
One of the initiatives in this context is waste reduction by means of selecting waste material from paper, plastic, metal and other types of waste, collecting old mobile telephones, as well as further treatment of the selected waste, in accordance with the local laws.

The employees and the managers are encouraged to reduce the consumption of paper, as well as the airplane trips, and to use alternative methods which are equally efficient, such as using e-documents, tele-conferences, using cars on shorter destinations, etc.

## INVESTMENTS IN THE NETWORK OF THE FUTURE

The companies are pioneers in technological evolution and they are investing in the network of the future.

In 2013, Makedonski Telekom completed the migration of the last user to the new IP network, whereby it became the first company within the Deutsche Telekom Group with a network fully based on Internet protocol (ALL IP). The network modernization started in October 2011 and in only 25 months, with an investment of EUR 13 million, all 290,000 lines were migrated onto the new platform.
This technology of modern times uses Internet protocol for voice transmission, which enables using the next generation services and responding to the ever increasing needs of the customers in the future. At the same time, 250,000 kg of equipment were dismounted and replaced and space of 5,000 m2 was vacated – the size of the main square in Skopje.

In 2013, T-Mobile Macedonia became the first operator in the country to introduce 4G, a network which opens unlimited possibilities in the world of mobile communications.

The FTTH follows the same path – a decade ago broadband services started with 128 kbit/s, while at the end of 2013 Makedonski Telekom offered 1 Gbit/s and 101,000 passed homes, which is 18% household coverage.

## CUSTOMER SATISFACTION

The customer is in the centre of the attention of the companies and that is why Makedonski Telekom and T-Mobile Macedonia regularly measure the customer satisfaction and loyalty, at a quarterly level, with the TRI*M methodology. This methodology enables a very short period of measuring the quality of the conduct towards the customers, both residential and business.

A dedicated team of representatives of both companies regularly organizes workshops for the purposes of taking measures aimed at improving the future results, where necessary.

## SUSTAINABILITY PERFORMANCE

The companies started implementing a vendor management system so as to improve the relation between the company and its vendors by means of a more regular and optimized communication. One of the specific goals of the project is assessment of the performance of the vendors in terms of sustainability. This also includes an assessment of the sustainable financial, technical, commercial and administrative performance of the vendors at the level of the entire company.

## SOCIAL AND SPECIAL TARIFFS

As technology leaders striving to create a digital society of the future, we are aware that we also need to include the vulnerable groups and provide them with equal possibilities to be connected and to communicate in accordance with their needs.

Makedonski Telekom and T-Mobile Macedonia in their offer include a social tariff model providing those customers who are on welfare and who need only voice services with a free-of-charge pre-paid fixed telephone line. In addition to that, the offer also includes special offers for elderly persons, pensioners and persons with special needs, with lowest monthly subscription fees.

# SOCIETY

Investments in the society in which the companies operate and make their profit and achieve success have always been a strategic commitment of Makedonski Telekom and T-Mobile Macedonia.

## SPONSORSHIPS AND DONATIONS

Sports, music and culture are the three supporting pillars when it comes to sponsorships, which is the global strategy of Deutsche Telekom, adjusted to the local circumstances.

In 2013, we supported the **Ohrid Swimming Marathon**, which has been held 27 years in a row as one of the largest sports events in our country. We have supported the **Shar Mountain Ski Cup**, as well as the **charity Mavrovo Giant Slalom**, in which teams of the companies took part and the funds this year were intended for the **SOS Children's Village**. We also gave our support to the rising basketball **club MZT Skopje Aerodrom**, as well as the **Macedonian Tennis Federation.**

In terms of sponsorships in the sphere of music, this year once again the internationally acclaimed **Skopje Jazz Festival** was held with our logo. We have renewed the cooperation with the prominent music stars **Kaliopi Bukle and Vlado Janevski**, and we also started cooperating with the young **Venera Lumani** – an Albanian music star. The concerts of the Balkan stars **Severina, Giboni and Oliver Dragojevic** will be remembered as sponsorships of Makedonski Telekom and T-Mobile in 2013.

The famous **Ohrid Summer Festival** and the **Struga Poetry Evenings**, in which internationally acclaimed artists participate, are only a part of the sponsorships in the sphere of culture.

As regards donations, 2013 was marked by the donation for the telecommunications laboratory of the **Faculty of Electrical Engineering and Information Technologies**, as well as the support for the already traditional **Breast Cancer Awareness Walk**.

## FOUNDATIONS

### T-MOBILE FOR MACEDONIA

The T-Mobile Macedonia Foundation is one of the first foundations in Macedonia founded by a business entity. Being a pioneer in corporate social responsibility, ever since 2002, the Foundation has been working with a focus on the children, especially those coming from vulnerable groups, in order to enable them to have as good of a quality of life as possible. In the recent years, we have also been working on long-term, partner projects, which had an impact on an even larger target group.

### THE FIRST 5 MOST IMPORTANT IN THE WORLD

In partnership with UNICEF, the T-Mobile for Macedonia Foundation started a campaign pertaining to the importance of early childhood development in the first 5 years of life. The campaign is aimed at raising the awareness of a quality education of children during the first 5 years, but also at accumulating funds for opening early childhood development centres. The early childhood development centres are an alternative for kindergartens, where it is not economically practical to build kindergartens – in rural and marginalized environments.

With the donation of the T-Mobile for Macedonia Foundation of USD 50,000 centres have been opened in Selce, Jargulica and Desovo, whereby these children were enabled to get pre-school education. With the donation of the Foundation in the course of 2014 at least 5 other centres will be opened. However, the objective is to open such centres everywhere throughout Macedonia and enable all children to have equal possibilities to become healthy, happy and successful people.

The number 070/075/077 143 555 was opened to that end, for donations by citizens or companies.
Find out more at www.prvite5.mk, www.facebook.com/prvite5, https://twitter.com/prvite5.

### NEW YEAR'S EMPLOYEE CARAVAN

More than 150 employees from T-Mobile and Makedonski Telekom participated in the traditional New Year's Caravan and brought joy to more than 1500 children from vulnerable groups throughout Macedonia.
Shows were organized and New Year's gifts were given to the children without parental care, children with special needs, children from socially vulnerable environments, etc. Each year different institutions are visited in order to include as large as possible group of children.

### DONATIONS NUMBERS

The T-Mobile for Macedonia Foundation initiated the donations numbers ever since its founding. These numbers are open for natural persons or legal entities, and in 2013 the purpose of the numbers was changed for 55 times, for 45 natural persons and 10 legal entities. In order to enable the beneficiaries to obtain the entire amount raised, the Foundation covers the personal tax for each beneficiary.

### E-MACEDONIA FOUNDATION

The e-Macedonia Foundation was established in 2004 by Makedonski Telekom, in the honour of implementing the idea of the late President Boris Trajkovski for spreading and supporting the benefits arising from information society. The objective of the Foundation is to enable the vulnerable groups of citizens to use new technologies and to be effectively included in digital society.

### "SAY SOMETHING" – A BLOGGING COMPETITION

In 2013, the e-Macedonia Foundation and the OHO association started the blogging competition Say Something for all high-school students in Macedonia. The project is aimed at encouraging young people in Macedonia to use information technology in a practical way and to express themselves creatively through music, video, photography or creative writing.

The best blogs will be assessed according to the defined criteria by an expert commission. The best three blogs will be awarded after the end of the competition, in May 2014, when the finals for proclaiming the winners will be held.

### THE E-BON TON MANUAL FOR NICE ONLINE MANNERS

In 2013, the e-Macedonia Foundation issued the first Macedonian e-Bon Ton manual with 100 rules for a good online conduct. The manual was created from the 100 best proposals sent to the website www.ebonton.mk and the e-Bon Ton Facebook fan page which was opened for all those who wanted to share their own rule.

The printed version was available at all Telekom shops, while the online version is available at the e-Bon Ton site: www.ebonton.mk, as well as the internet site of the e-Macedonia Foundation, www.e-makedonija.org.mk, the website of Makedonski Telekom and the Idividi portal.

The purpose of e-Bon Ton is promoting good manners in online communication and increasing the public awareness in terms of how to best communicate via the social networks.

## ICT – FOR GREAT B2B POSSIBILITIES

**WE ARE PIONEERS IN INNOVATION, WE BRING PROGRESS, WE LEAD THE DEVELOPMENT OF THE TELECOMMUNICATIONS INFRASTRUCTURE IN MACEDONIA.**

Optimization of the IT architecture by consolidation and modernization of the IT systems and infrastructure was the main focus in 2013 in the sphere of information technology. Following the corporate strategy for simplification of processes, improving the support and automation of the corporate processes was the main goal, in order to improve the One Company customer experience.

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

The main achievements in 2013 were:

- Implementation of Enterprise Marketing Management system - DT wide solution for campaign management for providing tools to create, update and monitor multi-channel marketing campaigns that drive sales leads and closure rates
- Start of the project for Retail Billing system consolidation for fix and mobile customers. The scope is to have all business services and products consolidated in a single billing system. This will reduce costs, but it will also enable the business to grow in new directions in the future, provide synergy in the business operations and extend the possibilities for new products and services, such as full quad-play for all business areas. The completion of the project is planned for Q2 2015.
- HW replacement and DB upgrade for the Data Warehouse & Business Intelligence System - replacement of the obsolete hardware and upgrade of the databases and software versions, at the same time consolidating them on a single hardware platform, ideally virtualized by expanding our current virtual infrastructure.
- Midrange Storage System Upgrade - replacement of the obsolete midrange storage systems in Makedonski Telekom and T-Mobile Macedonia with one midrange storage system in order to integrate and host all current application data separated in between.

IT has continued with the significant role in the implementation of the new fixed/mobile converged products/services and development of the information and communications technology (ICT) concept.

In 2013, the IT team had the first experience to offer professional services for system integration and implementation of a software solution to an external customer. This was also the first international project where the IT team, together with the partner, implemented Mediation Zone as a mediation solution for the LTE service in Crnogorski Telekom. The project was implemented within a very short period, with the highest quality and to the satisfaction of the customer. The project activities continued with the implementation of Mediation Zone as a unique mediation system for the new convergent billing system in Crnogorski Telekom.

Following the ICT strategy, IT had several successful implementations of Custom Cloud solutions, mainly for the Public Sector, and it identified a possibility for additional customers in the large enterprise sector, as well as implementation of Cloud products for the general SME and residential market segments, such as VPS, Cloud ERP solution and an online security product. IT has enlarged the resource pools with the implementation of virtualization technologies, with a focus on continuing with the implementation of automation and online services in the upcoming period.

## NEW TECHNOLOGIES

**WITH THE STATE-OF-THE-ART TECHNOLOGY AND INFRASTRUCTURE, WE HAVE CREATED POSSIBILITIES FOR SHARING UNFORGETTABLE MOMENTS AND EXPERIENCES FOR ALL OUR CUSTOMERS.**

# THE FUTURE STARTS FROM MACEDONIA

We have the largest and the best network, the most modern technology, we are the first on the market and we offer products and services with the highest quality.

We constantly strive towards a flawless maintenance and development of a network which is even more advanced technology-wise because we are aware that by means of development and constant perfection of the network, we are helping the modernization of the citizens, the economy and the entire country.

In 2013, the companies continued with the development of all network segments: access, core network and transport network, as well as service platforms.

Perceiving the path towards a sustainable future in FTTH as a powerful network, we are proceeding with its expansion. The FTTH network enables greater efficiency and it constitutes a basis for a profitable growth in spheres such as Cloud operations, entertainment, business services, etc.

We ended 2013 with approximately 101,000 FTTH passed homes, whereby 17% of the households in Macedonia have been covered.

It means that as compared to 2012, we ended 2013 with an increase of the passed homes of 15% or 91% increase in 2013 as compared to 2012.

As a result of the increased needs of the customers in view of data communication, we have invested in the development of technologies which enable fast data transmission. The ADSL capacities were also expanded in the course of 2013, covering 54% of the households with installed ports. The continuously growing demand for video and data services requires an increase of the capacity of the transport network. Thence, in the course of 2013, the capacities of the IP/MPLS network were expanded in accordance with the traffic increase.

As regards the service platforms, the main focus of Makedonski Telekom AD – Skopje was on a software upgrade of the IPTV platform and its expansion so as to support the new IPTV customers.

## MACEDONIA IS THE FIRST COUNTRY IN EUROPE WITH AN ALL IP NETWORK

Makedonski Telekom is the first company within the Deutsche Telekom Group with a network fully based on Internet Protocol (ALL IP). The network modernization started in October 2011 and in only 25 months, all 290,000 lines were migrated onto the new platform. Now it is possible to offer services such as broadband on demand.

The company invested EUR 13 million, an investment which is significant not only for Makedonski Telekom, but also for Macedonia.

This network is going to integrate mobile communications and fixed network technology. That is going to enable a new production model based on Cloud.

The IP technology uses Internet protocol for voice transmission, which enables using the next generation services and responding to the ever increasing needs of the customers in the future.

The new technology has replaced the digital switches, i.e. the PSTN technology, whereby the introduction of new products and services on the market has become much faster than before. With IP it is possible to perform such introductions of new products and services in only a few days. Furthermore, it is going to enable an excellent audio quality of conversations, access to various services through a single device, a richer portfolio of multimedia, converged services, broadband internet for each customer, as well as Cloud services and emergency IT support via remote access for the business customers. The IP network technology has enabled the introduction of the revolutionary broadband on demand service, a completely new concept which enables the customers to order broadband access with a great speed online whenever they need it, with only one click.

In the future, this technology will enable the provision of even more services - it will contribute for the improvement of education and health care services, and more efficient energy management, as only several spheres in which benefits are possible.

Via the new IMS platform, literally everyone will be able to use next generation services in a fast, high-quality and efficient manner. That is the goal of the companies – by means of investing in new technologies, to enable the best customer experience.

THE MIGRATION OF MAKEDONSKI TELEKOM TOWARDS AN ALL IP NETWORK HAS MARKED THE SUCCESSFUL START OF THE STRATEGIC DECISION OF DEUTSCHE TELEKOM TO MOVE TOWARDS MIGRATION ONTO TO ALL IP NETWORKS IN ALL SUBSIDIARIES ON THE EUROPEAN INTEGRATED MARKETS.

**MACEDONIA IS THE FIRST COUNTRY IN EUROPE WITH AN ALL IP NETWORK**
**CRUCIAL MOMENTS RELATED TO IMS:**

- BY THE END OF 2013, 99.9% OF THE CUSTOMERS HAVE BEEN MIGRATED.
- FULL MIGRATION COMPLETED ON 15TH JANUARY 2014.
- AN INVESTMENT WORTH EUR 13 MILLION

In the course of 2013, Makedonski Telekom continued with the expansion of Ethernet through the capacities of copper and fiber optic cables for the provision of data services for business customers. This expansion has enabled the support for the new business customers and modernization of the Time Division Multiplex Network - (TDM) by migrating the existing business customers to an ALL IP network.

In 2013, the RAN network was expanded so as to support the increased mobile traffic and LTE technology was introduced which is going to enable the customers to use high speed mobile Internet. In only 4 months 30 base stations were installed and an upgrade was performed of the mobile core infrastructure for the LTE support. In June 2013, the first service from the Mobile Wallet portfolio of MKT/TMMK was commercially introduced – mobile payment through the bank account. This is the first service of this type on the Macedonian telecommunications market where the mobile telephone of the end user is used as a replacement of the bank payment card, i.e. as an instrument for the identification thereof.

In parallel with the introduction of this service, also the construction of the POS terminal network took place, wherein over 470 POS terminals were installed with more than 210 various traders. In July 2013, the second service started – Loyalty Partnership Programme, which constitutes an expansion of the existing Club 360 programme of T-Mobile, by including several partner companies which are deemed significant entities in their sphere of operation.

The implementation of the SAPC system (Service-Aware Policy Controller (PCRF)) started in 2013, which enables real time control over the quality of data services. The system includes advanced control policies that will enable flexibility in the offer of data services and options.

Next generation OSS (NGOSS) is a solid basis for the optimization of operational costs and an automated process for providing the portfolio of complete services which leads to increasing the quality and the efficiency in business operation. In the course of 2013, work was done on the design and construction of the systems in the part of Inventory, Fulfilment or Automatic Provision of Services, as well as on the Workforce Management System. The operational activation of the system is expected in 2014 with the new Customer Care application.

In order to stimulate the corporate research and development, as well as innovations, in 2013, the companies organized an Innovation Partner Contest. For this contest, more than 70 innovations were submitted by universities, start-ups on the market, as well as individual innovators. 5 projects were selected which are going to have a joint development of the product and implementation with the selected partners:

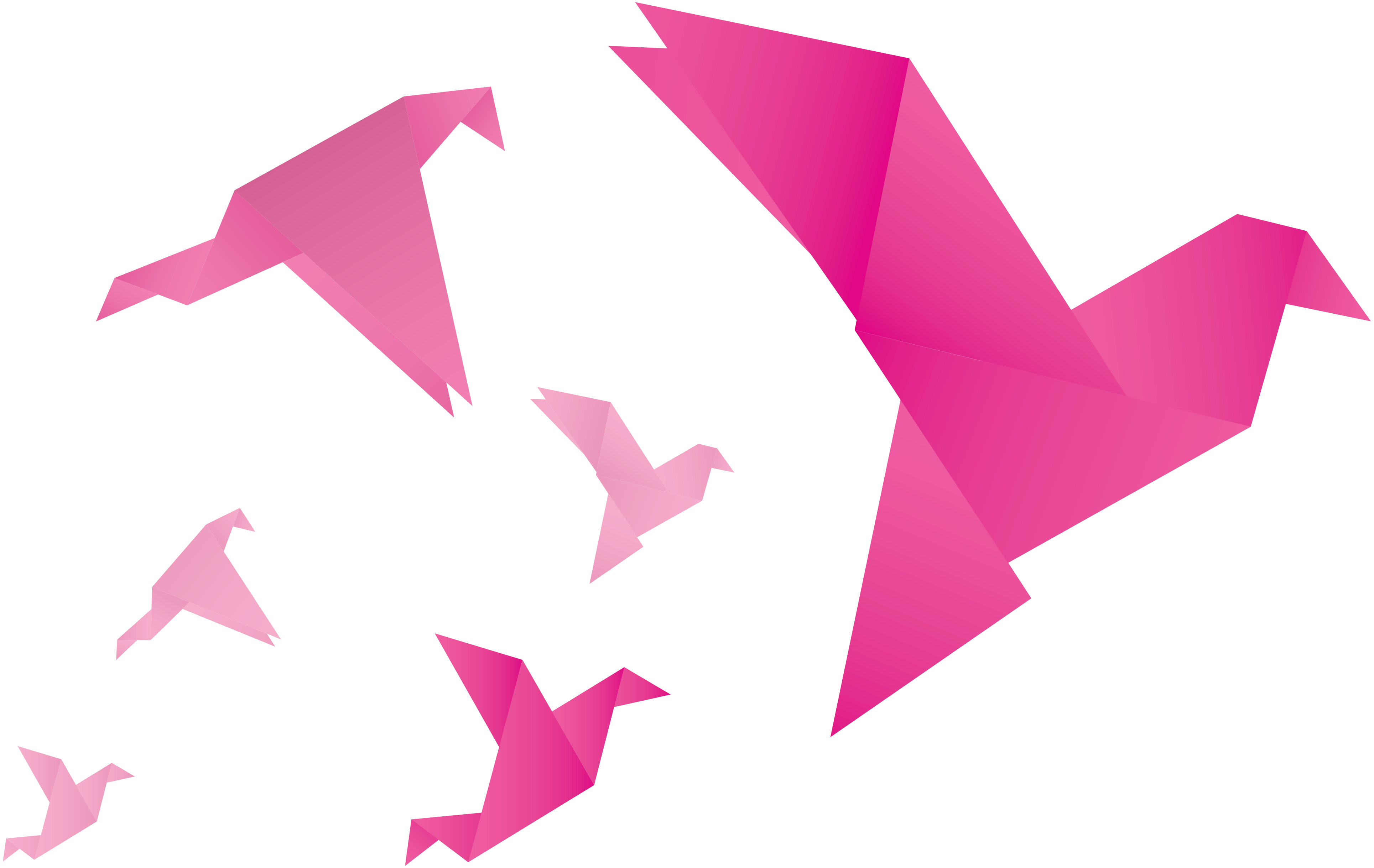
- T-Care
- Smart Wine
- Cloud Message
- DoxBee
- MarketKonekt

**THE TOP PROJECTS IN WHICH THE COMPANIES ARE GOING TO INVEST THEIR RESOURCES IN 2014 ARE AS FOLLOWS:**

- EXPANSION OF THE FTTH NETWORK DEPLOYMENT
- EXPANSION OF IPTV THROUGH A LARGER NUMBER OF CHANNELS AND APPLICATIONS
- INTRODUCTION OF GEOGRAPHIC REDUNDANCY ON THE IMS PLATFORM
- NEXT GENERATION OSS
- MODERNIZATION OF THE CORE MOBILE NETWORK
- EXPANSION OF THE RAN NETWORK
- FINALIZATION OF THE PCRF IMPLEMENTATION
- UPGRADE OF THE PRE-PAID AND POST-PAID SUBSCRIBERS BILLING SYSTEM OF T-MOBILE

In the course of 2014, the companies will continue developing the network in order to ensure the following:

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



# ANNUAL REPORT
# ON THE OPERATIONS OF THE GROUP
# OF MAKEDONSKI TELEKOM AD - SKOPJE
# IN 2013

On 13 February 2006, Magyar Telekom Plc., the controlling owner of Makedonski Telekom AD – Skopje (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 potential accounting and tax implications arising from the transactions conducted by the Company and its subsidiary (T-Mobile Macedonia) subject to the Final Report.

The external experts prepared reports (the "Reports") on their assessment and submitted the Reports to the Chairman of the Company's BoD and the Management of the Company and its subsidiary accordingly. As a result, based on the analysis of the Tax and Legal experts and information available to the Management related to the transactions subject of the Final Report, amount of MKD 248,379 thousand has been identified as potential tax impact, together with related penalty interest, as of 31 December 2009 arising from the transactions conducted by the Company and its subsidiary subject to the Final Report. In 2010 the amount related to the identified potential tax impact, together with related penalty interest, amounted to MKD 261,834 thousand out of which MKD 227,972 thousand related to the Company were paid in 2010 upon an executive decision issued by the Public Revenue Office. In 2012 the amount of MKD 36,724 thousand related to the identified potential tax impact, together with related penalty interest, in the subsidiary was paid upon an executive decision issued by the Public Revenue Office. 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 and its subsidiary were expensed in the related periods (2001-2007).

In May 2008, the Ministry of Interior ("MOI") of the Republic of Macedonia ("RoM") submitted to the Company an official written request for information and documentation regarding certain payments for consultancy services and advance dividend, as well as certain procurements and contracts. In June 2008 the Company submitted copies from the requested documents.

In 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 Group did not record any provision.

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

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 for the provision of telecommunication 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 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 increasing competition.

MKT provides traditional fixed line telecommunication 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 provide up-to-date technologies and advanced service offerings, commensurate to the highest technological and service standards.

In 2013, mobile voice revenues contributed with 43.3% to the total revenues, while 21.7% of the total revenues of the Group were generated from fixed line voice services. The fixed line internet and data services revenues contributed with 12.5%, while mobile internet and data services revenues contributed with 8.6% of the total revenues.

The fixed line voice revenues still mark a downward movement, mainly due to the decreased number of fixed-line customers and a decrease of the outgoing traffic. IPTV revenues have grown mainly due to the growing IPTV subscriber base. Mobile voice revenues decrease is driven by the lower voice retail revenues as 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 2013, MKT had 266,620 voice access fixed lines compared to 291,328 at the end of 2012. The fixed line penetration was marked with a similar movement, stabilizing at 13.4% at the end of 2013. The number of total DSL access increased to 185,514 at the end of 2013, compared to 172,166 at the end of 2012. The number of IPTV customers at the end of 2013 reached 87.686 customers (including 3 Play, IPTV only and 2 MAX) marking more than 30% increase from the end of 2012. The number of Fiber to the Home (“FTTH”) customers reached 23,594 at the end of 2013.

TMMK had a customer base of 1,195,250 at the end of 2013, compared to 1,181,437 at the end of 2012. The mobile market penetration in Macedonia is 108.4%, 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 2013. 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 2013, 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.

## 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 telecommunication 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. The new law is expected to be enacted in the first quarter of 2014.

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 USO fund was established, in which all telecommunications operators with annual turnover above 100 thousand EUR in Macedonia are participating.

On 13 December 2013, MKT received a Resolution of the Agency for Electronic Communications (the “Agency”) for determination of net cost for provision of universal service for 2012 in the total amount of 41million MKD (669 thousand EUR).

The services encompassed by the universal service for which MKT has received reimbursement from the universal service fund are:

- Access to public telephone services at a defined fixed geographic location: 14,246,771 MKD (231,654 EUR).
- Reasonable number of public pay phones: 14,311,910 MKD (232,714 EUR).
- Ensuring conditions for equivalent access to and use of publicly available telephone services for disabled end-users: 12,596,969 MKD (204,829 EUR).

The request for reimbursement from the USO fund for investment for improvement of the quality of service for 2012 in the total amount of 124 million MKD (2 million EUR) is refused as unfounded.

## REGULATION OF FIXED LINE BUSINESS

In line with the data for the development of the telecommunications market published in the third quarter of 2013 by the Agency, the Agency had registered 61 providers of public fixed telephony services until 31 December 2013, but not all of them are active. The Agency proposed the deletion of the inactive providers during 2014.

Under the LEC, MKT has been designated as an 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 an SMP operator, has the obligation to enable its subscribers to access publicly available telephone services of any interconnected operator with an officially signed interconnection contract.

According to the current bylaws, MKT has an obligation to publish reference offers for the wholesale products for interconnection, Unbundling Local Loop (“ULL”), local Bit-stream Access (“BSA”), Wholesale Line Rental (“WLR”), Reference Access Offer for access to ducts and dark fiber (“RAO”) and wholesale 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. Retail regulation of fiber products was announced by the Agency on the first public meeting in May 2013 and it was included in the draft document for the Agency annual working plan for 2014, published on 18 October 2013 as a proposal for market analyses of Market 2 – Retail market for publicly available telephone services on fixed location. Market analyses for terminating and trunk segments (markets 9 and 10), broadcasting transmission services (Market 13), physical access to network infrastructure (Market 7), wholesale broadband services (Market 8), wholesale access, origination and termination in mobile networks (Market 11 and Market 12) are also announced and expected in 2014/2015.
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 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 applicable from 1 February 2013. VIP Operator and ONE signed RAO contracts with MKT in 2013 for access to MKT’s ducts.

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

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 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 operators’ networks. The changes are applicable from 1 January 2014.

## REGULATED RETAIL PRICES

Under an obligations arising from Article 49 of the LEC (retail price regulation), followed with the amendments in July 2012 of the Rulebook 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 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.

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

## REGULATED WHOLESALE PRICES

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

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.

On 3 September 2013 MKT published its amended BSA offer and introduced wholesale ADSL packages for testing of internet services in line with MKT's retail offers. In addition, amended wholesale ADSL packages were introduced in October 2013 with a broadband on demand service enabled for use in a period of 3 days or 7 days, in line with the retail portfolio of MKT.

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 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.

## REGULATION OF MOBILE BUSINESS

TMMK has frequency usage rights for the following radiofrequencies for public mobile communication systems:

- 2 x 12.5 MHz in the 900 MHz (GSM) band, validity period: 8 September 2008 – 8 September 2018 (10 years)
- 2 x 10 MHz in the 1800 MHz band, validity period: June 9, 2009 – 9 June 2019 (10 years)
- 2 x 15 MHz + 5 MHz in the 2100 MHz band, validity period: 17 December 2008 – 17 December 2018 (10 years)
- 2 x 10 MHz in the 800 MHz band, validity period: 1 December 2013 – 30 November 2033 (20 years)
- 2 x 15 MHz in the 1800 MHz band, validity period: 1 December 2013 – 30 November 2033 (20 years)

The competitor One has frequency usage rights for the following radiofrequencies for public mobile communication systems:

- 2 x 12.5 MHz in the 900 MHz (GSM) 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 communication systems:

- 2 x 10 MHz in the 900 MHz (E-GSM) 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, and 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 an SMP status on the wholesale market for voice call termination services in mobile communication networks, whereby several obligations were imposed on them, such as: interconnection and access, non-discrimination in interconnection and access, accounting separation and price control and cost accounting.

TMMK's first Referent Interconnection Offer was approved by the Agency in July 2008. Based on the second round analysis of wholesale call termination services in public mobile communication networks on 30 July 2010, TMMK received a Decision for changing the RIO by which the Mobile Termination Rate ("MTR") was defined with a glide path decrease in a timeframe of four years (until 2013). In September 2011, the price for the national MTR was decreased to 3.1 MKD/min. and was planned to continue decreasing by 0.1 MKD/min. each year, down to 2.9 MKD/min. by September 2013. At the same time, the Agency regulated the MTRs for ONE and VIP (VIP was designated with SMP on this market in the second round analysis) with a four year glide path. In May 2012, the Agency made a revision of the calculation of MTR of all three mobile operators and imposed new glide path. As from 1 June 2012 until 31 August 2013, TMMK's MTRs were set at 3.0 MKD/min., while ONE and VIP Operator'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 brought in August 2013), and a further decrease to 0.9 MKD/min. calculated using Bottom-up pure LRIC will be applied from 1 September 2014.

On 11 October 2013, Albafone, the first MVNO on the Macedonian telecommunication market hosted by ONE, started with 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 1 December 2033, with an extension option for 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 an SMP status on this market by an Agency decision and ordained to modify its reference offer. The regulation relates to the fixed services of TMMK realized by using the Wholesale Line Rental of MKT. In accordance with the Wholesale Line Rental 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.

## 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 2013.

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 2013, a progress was made in this area with the implementation of a national legislation in the fields of electronic communications and audiovisual policy and the preparation of new legislation aimed at the alignment with the EU acquis. The alignment with the acquis on electronic communications remains a priority.

## COMPETITION

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

Telekom Slovenia is offering various services under the brand name ONE: mobile and fixed voice, mobile and fixed broadband internet and TV. The main mobile offer of ONE for 2013 is the new Select Business portfolio that allows the customers to create their own service package. The entry fees of these offers are set at a pretty low level and they also include a free low-end handset. In 2013 ONE maintained a stable mobile customer base, as well as a market share of 23.33% (source: Report for electronic communications development Q2 2013, the Agency). In the fixed segment, ONE offers low price triple play bundles (fix voice/internet/TV). ONE was selected to implement the digitalization of the free-to-air TV signal, which ended by 1 June 2013. The digitalization resulted in an increase of their TV customer base to 55,042 in Q2 2013 compared to 37,886 in Q1 2013 (source: Report for electronic communications development Q2 2013, the Agency).

Other major competitor is the mobile operator VIP which has limited its services to mobile based services only. VIP was focused on the launching of a SIM-only offer without obligations. With an aggressive pricing policy, which continued in 2013 as well, they have increased their market share to 28.14% in Q2 2013 (source: Report for electronic communications development Q2 2013, the Agency).

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

All three mobile operators acquired 4G/LTE (Long Term Evolution) licenses in August 2013. The first mobile virtual network operator (MVNO) Albafone started with its operations in October 2013.

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

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 very low access fee or presenting the fixed voice service as free of charge and including also free traffic in their own network bundled in the offer. As the overall market is price sensitive, the price perception plays a major role in the customers' choice and thus the cable operators' offers are seen as more competitive than MKT's in terms of prices.

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 2013, for both mobile and fixed numbers. By the end of Q2 2013 there were 103,465 mobile and 114,849 fixed ported numbers in total (source: Report for electronic communications development Q2 2013, 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 2013 MKT has a fixed voice market share (including wholesale) of 69%, fixed broadband internet market share (including wholesale) of 52% and TV market share of 21% (source: internal best expert estimates). In the second quarter of 2013 the market share of TMMK was 48.53% (source: Report for electronic communications development Q2 2013, 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 telecommunication segments, MKT and TMMK are focused on new services and on retention of the existing, as well as acquisition of new customers. Marketing activities based on customer needs and habits are performed in order to build strong customer relations. High quality service, loyalty offers and handset upgrade programs are also intensively used in order to increase the customer satisfaction and to prevent and decrease the customer churn rate both in the residential and the business segment. The main focus in 2013 on the fixed and mobile market (both residential and business segment) was put on the retention of the existing customers and the up-sell to bundled services, as well as on the acquiring of new customers.

The process of digitalization of the TV signal in June 2013 continued the positive TV growing trend that started with the fixed portfolio repositioning in 2012. The TV customers base has grown in line with the expectations for 2013 and MaxTV continues to be the main retention tool for Voice and Internet users.

Besides the enrichment of the bundled double and triple play services, a low entry TV product for single voice customers was also introduced. Several major campaigns were launched for achieving the planned sales results and for increasing the awareness of the benefits provided with the services. The BB internet services were enriched with the introduction of high speed internet products (1Gbps) on FTTH technology, and Internet on demand – service suitable for non regular users of internet.

The increased FTTH coverage and the benefits of the fiber-based product offers improved the customer base over fiber for 95% at the end of 2013 compared to 2012.

As a response to the aggressive price movements of the competition, new offers for the post-paid and prepaid mobile segment were created (introduction of COOL – new interactive tariff model designed for the youngsters community; creation of package at their choice, using free bonuses, etc).

Mobile data services remained in focus in 2013, where the voice data bundles were enriched providing additional value for the customers: offering more minutes, increased internet traffic volume and Mobile MaxTV.

The attractive handsets offers contribute to the gross additions and the retention in both prepaid and post-paid segment. The increased sales of smart phones led to migration from voice tariff models to voice data bundles.

TMMK introduced a new Smart Business portfolio and upgraded the mobile Team Business portfolio, making it even more attractive to the customers and retaining the unique value proposition that cannot be matched by competitors.

During 2013, in the fixed Business segment, MKT upgraded the bundled offers and further enhanced the inherent values of the packages with speed, traffic and quality of service as main elements.

MKT was also focused on providing our Business customers with the new cutting edge ALL IP network that will provide our customers with new innovative services to be run over a highly reliable and fast IP network and activated via one click of a button.

MKT and TMMK are focused on further development of the Cloud market and offered a wide variety of cloud services to our customers like Virtual Disc, Virtual Private Server, e–Accounting and many more. A special New Year campaign was tailored to the specific business needs, offering a bundle of Tablet + Mobile Internet + Cloud services for great satisfaction of our business customers.

The Loyalty Program was extended with an enlarged partnership network and is available for both the prepaid and the post-paid segment. In addition, M-payment (MobiPay) was launched in 2013 as a new payment method using the handset as a payment tool.

MKT and TMMK have developed different sales channels in order to serve the customers from different segments. MKT and TMMK use direct sales channel 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. Telesales activities for proactive retention and loyalty activities were also introduced.

The main sales channels are the MKT and TMMK shops. There are 39 joint shops as at 31 December 2013. In 2013, the own shop network was rationalized by closing 6 shops and opening two 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 2013.

Partners' presentation in own shops was extended by the introduction of m-Wall since July 2013. TMMK introduced the iPhone 5S and iPhone 5C on the market on 1 November 2013.

Sales activities that include home delivery via telesales were used in 2013 for retention of fixed and mobile subscribers. From November 2013, on-line sales started with sales via the WEB Shop.
In 2013, the direct agents put a strong emphasis on the sale of FTTH products for the residential and Small-Office-Home-Office ("SOHO") customers.

Another channel of the distribution network of MKT and TMMK is the dealers' cooperation. As at 31 December 2013, 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, except for cash collection. 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.

Technicians took active role as salesmen for the fixed portfolio throughout 2013, contributing to the IPTV sales. The IP Multimedia Subsystem ("IMS") migration and the activity related to it were performed by the Inbound Call centre.
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.

## RESEARCH AND DEVELOPMENT

MKT and TMMK will continue to build and maintain technologically advanced, flexible, and cost-efficient telecommunication infrastructure in order to reach the customers' demands and expectations. In 2013, we proceeded with the development of all network segments: Access, Core and Transport Platforms, as well as Service Platforms.

In 2013 we continued expanding FTTH as a powerful network for sustainable future. FTTH Network enables greater efficiency, and stands as a foundation for profitable growth in growth areas such as cloud computing, entertainment, business services, etc. At the end of 2013 we installed capacities to cover 101,000 Homes passed all over the country.

ADSL capacities were also extended during 2013, covering 54% of the households with the installed ports at the end of 2013.

The increasing demand for video and data services requires extension of the transport network capacity. During 2013, the capacities of the IP/ Multi-protocol label switching ("MPLS") network were extended according to the traffic increase.

In terms of Service Platforms, the main focus in MKT was the upgrade of the IPTV platform to a new SW version and the extension aimed at supporting the new IPTV customers. The IMS Platform was commercially launched in 2011 and it is used for provisioning of VoIP as part of the 2Play and 3Play services and as a base for PSTN network migration towards the all-IP network. During 2013 MKT extended the IMS platform for Voice users and started the implementation of IMS Geo-Redundancy.

In 2013, MKT continued with the extension of Ethernet over the copper and optic cable capacities for provisioning of data services for business customers. This extension enabled support of new business customers, modernization of Time Division Multiplex ("TDM") network with migration of the existing business users towards 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 for residential customers.
The implementation continued during 2013 and the commercial start is planned in first half of 2014.

As at end of year 2013, TMMK's radio access network consisted of 639 physical sites on which there are 639 2G base stations sites providing 99.9% population coverage, 337 3G base stations providing 87% population coverage and 30 4G base stations, providing 15% population coverage, allowing the subscribers to use high speed mobile Internet.

The Radio Access Network ("RAN") was extended in 2013 in order to support increased mobile traffic. During 2013 TMMK introduced LTE technology and started the modernization of the Mobile Core Network. In terms of Mobile Service Platforms, in 2011 the implementation of M-Wallet started as a base for mobile payment services. The implementation of the project continued in 2012 and the commercial lunch was in June 2013.

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. The Innovation Contest was officially announced at a Telecom Innovation Conference organized by the MKT Group and the Macedonian ICT Chamber of Commerce in December 2012. More than 70 proposals were submitted within the contest by various entities such as universities, start-up companies, and individual innovators. The following five projects were selected by the MKT Group for joint product development and implementation with the selected partners:

- "T-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)
- "Cloud Message" (Distributed web-based social network for sharing messages, private or public, and advertisement coupons, depending on the user's preference, with a mobile augmented reality based client)
- DoxBee (Cross-platform system for collaboration with MS word documents)
- 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.

## INFORMATION TECHNOLOGY

Reducing the complexity of the IT architecture by consolidation and modernization of the IT systems and infrastructure was the main focus in 2013. 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.

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 2013 were:

- Implementation of Enterprise Marketing Management system: a DT-wide solution for campaign management aimed at providing tools to create, update and monitor multi-channel marketing campaigns that drive sales leads and closure rates.
- Started project for Retail Billing system consolidation for fix 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. Deployment is planned for quarter two of 2015.
- HW replacement and DB upgrade for Data Warehouse & Business Intelligence system - replacement of the obsolete hardware and upgrade of the databases and software versions, at the same time consolidate them on one hardware platform, ideally virtualized by expanding our current virtual infrastructure.
- Midrange Storage System Upgrade - replacement of obsolete midrange storage systems in MKT&TMMK with one midrange storage system in order to integrate and host all current application data separated in between.

IT continued its significant role in the implementation of the new Fixed/Mobile Converged products/services and development of ICT concept. Following the ICT strategy, IT has several successful implementations of Custom Cloud solutions, mainly for the Public Sector, it has identified a potential for additional customers in the Large Enterprise Sector, as well as implementation of cloud products for the general SME and residential market segments, like VPS, cloud ERP solution and Online security product. IT has enlarged the resource pools with implementation of virtualization technologies and we are continuing with the implementation of the automation and self-service layers in the upcoming period.
The IT security standards have been improved by implementing several security relevant systems that decrease the operational risks and improve customer and personal data protection.

In the course of 2013, 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 customers and further sharpen the customer focus of MKT and TMMK.

# MAKEDONSKI TELEKOM AD - SKOPJE
# CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED
31 DECEMBER 2013
WITH THE REPORT OF THE AUDITOR THEREON

**CONTENTS**

**Independent auditor's report**

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

We have audited the accompanying consolidated financial statements of Makedonski Telekom AD – Skopje (the "Company") and its subsidiaries T-Mobile Macedonia AD Skopje and E-Makedonija foundation – Skopje (together "the Group"), which comprise the consolidated statement of financial position as of 31 December 2013 and the consolidated statement of comprehensive income, consolidated statement of changes in equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

## Management's responsibility for the consolidated financial statements

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

## Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

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

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

## Opinion

In our opinion, the accompanying consolidated financial statements give a true and fair view of the financial position of the Group as of 31 December 2013, and of its financial performance and its cash flows for the year than ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers Revizija Doo

**PricewaterhouseCoopers REVIZIJA DOO**

**Skopje,**

**26 February 2014**

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

**As at 31 December**

| In thousands of denars | Note | 2013 | 2012 |
|---|---|---|---|
| **Assets** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | 5 | 1,403,643 | 425,234 |
| Deposits with banks | 6 | 1,565,249 | 6,369,058 |
| Trade and other receivables | 7 | 3,151,591 | 3,048,777 |
| Other taxes receivable | 8 | 10,640 | 26,269 |
| Inventories | 9 | 412,087 | 423,025 |
| **Total current assets** | | 6,543,210 | 10,292,363 |
| **Assets held for sale** | 10 | 21,547 | 36,001 |
| **Non-current assets** | | | |
| Property, plant and equipment | 11 | 14,590,361 | 14,794,283 |
| Advances for property, plant and equipment | | 2,811 | 22,925 |
| Intangible assets | 12 | 2,357,548 | 2,069,223 |
| Trade and other receivables | 7 | 353,677 | 358,763 |
| Financial assets at fair value through profit and loss | | 43,762 | 50,828 |
| Other non-current assets | | 612 | 612 |
| **Total non-current assets** | | 17,348,771 | 17,296,634 |
| **Total assets** | | 23,913,528 | 27,624,998 |
| **Liabilities** | | | |
| **Current liabilities** | | | |
| Trade and other payables | 13 | 3,571,681 | 3,472,172 |
| Other taxes payable | 8 | 141,750 | 74,288 |
| Provision for other liabilities and charges | 14 | 117,884 | 123,529 |
| **Total current liabilities** | | 3,831,315 | 3,669,989 |
| **Non-current liabilities** | | | |
| Trade and other payables | 13 | 566,867 | 726,681 |
| Provision for other liabilities and charges | 14 | 57,068 | 113,821 |
| **Total non-current liabilities** | | 623,935 | 840,502 |
| **Total liabilities** | | 4,455,250 | 4,510,491 |
| **Equity** | | | |
| Share capital | | 9,583,888 | 9,583,888 |
| Share premium | | 540,659 | 540,659 |
| Treasury shares | | (3,738,358) | (3,738,358) |
| Other reserves | | 1,237,534 | 2,475,068 |
| Retained earnings | | 11,834,555 | 14,253,250 |
| **Total equity** | 15 | 19,458,278 | 23,114,507 |
| **Total equity and liabilities** | | 23,913,528 | 27,624,998 |

These consolidated financial statements were authorized for issue on 26 February 2014 by the Management of Makedonski Telekom AD - Skopje, and are subject to review and approval by the Board of Directors on 4 March 2014 and by the shareholders on date that will be subsequently agreed.

Andreas Maierhofer
Chief Executive Officer

Slavko Projkoski
Chief Financial Officer

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

The accomplanying notes are an integral part of these consolidated financial statements.

## Consolidated statement of comprehensive income

| In thousands of denars | Note | Year ended 31 December 2013 | 2012 |
|---|---|---|---|
| Revenues | 16 | 12,543,728 | 13,855,861 |
| Depreciation and amortization | | (3,007,966) | (3,753,492) |
| Personnel expenses | 17 | (1,830,905) | (1,549,605) |
| Payments to other network operators | | (1,484,183) | (1,548,379) |
| Other operating expenses | 18 | (4,355,943) | (4,401,452) |
| **Operating expenses** | | (10,678,997) | (11,252,928) |
| Other operating income | 19 | 121,001 | 1,103,275 |
| **Operating profit** | | 1,985,732 | 3,706,208 |
| Finance expenses | 20 | (84,023) | (98,833) |
| Finance income | 21 | 88,669 | 172,821 |
| Finance income - net | | 4,646 | 73,988 |
| **Profit for the year** | | 1,990,378 | 3,780,196 |
| **Total comprehensive income for the year** | | 1,990,378 | 3,780,196 |
| **Earnings per share (EPS) information:** | | | |
| Basic and diluted earnings per share (in denars) | | 23.08 | 43.83 |

The accomplanying notes are an integral part of these consolidated financial statements.

## Consolidated statement of cash flows

| In thousands of denars | Note | Year ended 31 December 2013 | 2012 |
|---|---|---|---|
| **Operating activities** | | | |
| Profit before tax | | 1,990,378 | 3,780,196 |
| Adjustments for: | | | |
| Depreciation and amortization | | 3,007,966 | 3,753,492 |
| Write down/(recovery) of inventories to net realizable value | | 1,028 | (4,886) |
| Fair value losses on financial assets | 20 | 7,073 | 3,254 |
| Impairment on trade and other receivables | 18 | 59,236 | 64,560 |
| Reversal of impairment on advances given to suppliers | | - | (11,233) |
| Net increase/(release) of provisions | 14 | 11,501 | (106,039) |
| Net gain on disposal of property, plant and equipment | 19 | (14,536) | (839,731) |
| Dividend income | 21 | (1,640) | (3,285) |
| Interest expense | 20 | 59,486 | 63,974 |
| Interest income | 21 | (87,029) | (169,536) |
| Effect of foreign exchange rate changes on cash and cash equivalents | | 6,725 | 2,136 |
| **Cash generated from operations before changes in working capital** | | 5,040,188 | 6,532,902 |
| Decrease in inventories | | 9,910 | 161,310 |
| Increase in receivables | | (168,562) | (20,486) |
| Decrease in payables | | (112,049) | (146,482) |
| **Cash generated from operations** | | 4,769,487 | 6,527,244 |
| Interest paid | | (52,397) | (694) |
| **Cash flows generated from operating activities** | | 4,717,090 | 6,526,550 |
| **Investing activities** | | | |
| Acquisition of property, plant and equipment | | (2,260,785) | (2,653,832) |
| Acquisition of intangible assets | | (689,758) | (143,701) |
| Loans collected | | 27,219 | 812 |
| Deposits collected from banks | | 6,350,036 | 8,357,056 |
| Deposits placed with banks | | (1,554,962) | (6,778,369) |
| Dividends received | | 1,640 | 3,285 |
| Proceeds from sale of property, plant and equipment | | 88,513 | 33,984 |
| Interest received | | 95,764 | 167,027 |
| **Cash flows generated from /(used in) investing activities** | | 2,057,667 | (1,013,738) |
| **Financing activities** | | | |
| Dividends paid | | (5,646,607) | (6,163,557) |
| Payments of other financial liabilities | | (143,016) | - |
| **Cash flows used in financing activities** | | (5,789,623) | (6,163,557) |
| Net increase/(decrease) in cash and cash equivalents | | 985,134 | (650,745) |
| Cash and cash equivalents at 1 January | | 425,234 | 1,078,115 |
| Effect of foreign exchange rate changes on cash and cash equivalents | | (6,725) | (2,136) |
| **Cash and cash equivalents at 31 December** | 5 | 1,403,643 | 425,234 |

The accomplanying notes are an integral part of these consolidated financial statements.

## Consolidated statement of changes in equity

| In thousands of denars | Note | Share capital | Share premium | Treasury shares | Other reserves | Retained earnings | Total |
|---|---|---|---|---|---|---|---|
| Balance at 1 January 2012 | | 9,583,888 | 540,659 | (3,738,358) | 2,475,068 | 16,636,611 | 25,497,868 |
| Total comprehensive income for the year | | - | - | - | - | 3,780,196 | 3,780,196 |
| Transaction with owners in their capacity of owners (dividends paid) | | - | - | - | - | (6,163,557) | (6,163,557) |
| Balance at 31 December 2012 | 15 | 9,583,888 | 540,659 | (3,738,358) | 2,475,068 | 14,253,250 | 23,114,507 |
| Balance at 1 January 2013 | | 9,583,888 | 540,659 | (3,738,358) | 2,475,068 | 14,253,250 | 23,114,507 |
| Total comprehensive income for the year | | - | - | - | - | 1,990,378 | 1,990,378 |
| Transaction with owners in their capacity of owners (dividends paid) | | - | - | - | - | (5,646,607) | (5,646,607) |
| Transfer (see note 2.13 and 15.2) | | - | - | - | (1,237,534) | 1,237,534 | - |
| Balance at 31 December 2013 | 15 | 9,583,888 | 540,659 | (3,738,358) | 1,237,534 | 11,834,555 | 19,458,278 |

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

# 1. GENERAL INFORMATION
## 1.1. About the Company

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

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

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

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 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.

The subsidiary has frequency usage rights for the following radiofrequencies for public mobile communication systems:

- 2 x 12.5 MHz in the 900 MHz (GSM) band, validity period: 8 September 2008 – 8 September 2018 (10 years)
- 2 x 10 MHz in the 1800 MHz band, validity period: June 9, 2009 – 9 June 2019 (10 years)
- 2 x 15 MHz + 5 MHz in the 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)

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

The subsidiary's first Referent Interconnection Offer was approved by the Agency in July 2008. Based on the second round analysis of wholesale call termination services in public mobile communication networks on 30 July 2010, the subsidiary 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, the subsidiary's MTRs were set at 3.0 MKD/min., while ONE and VIP Operator'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 brought in August 2013), and a further decrease to 0.9 MKD/min. calculated using Bottom-up pure LRIC will be applied from 1 September 2014.

On 11 October 2013, Albafone, the first Mobile Virtual Network Operator ("MVNO") on the Macedonian telecommunication market hosted by ONE, started with 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). The subsidiary will retain the license for 20 years, until 1 December 2033, with an extension option for 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, the subsidiary was designated with an SMP status on this market by an Agency decision and ordained to modify its reference offer. The regulation relates to the fixed services of the subsidiary realized by using the Wholesale Line Rental of the Company. In accordance with the Wholesale Line Rental Reference Offer of the Company, the subsidiary is using the Company's network and the interconnection (termination) of a call is done and charged by the Company. The subsidiary 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 the subsidiary's RIO as from 27 December 2013.

As of June 2013 the Company is listed on the Macedonian Stock exchange ("MSE") in the mandatory listing segment and it is reporting towards the MSE, as per the changes in the Law on Securities in 2013. In accordance with the MSE listing rules the Company has permanent disclosure obligations related to the business and capital, significant changes in the financial position, the dividend calendar, changes of the free float ratio (if it fails below 1%) and changes of the major shareholdings above 5%. In addition, the Company has specific disclosure obligations comprising of various financial information, including different financial reports (quarterly, semi-annual and annual), as well as public announcement for convening Shareholders Assembly ("SA"), all modifications and amendments made to the SA agenda and publication of certain adopted SA resolutions. Before June 2013, the Company was reporting 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 1,534 (2012: 1,655).

## 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 potential accounting and tax implications arising from the transactions conducted by the Company and its subsidiary subject to the Final Report.

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

In May 2008, the Ministry of Interior ("MOI") of the Republic of Macedonia ("RoM") submitted to the Company an official written request for information and documentation regarding certain payments for consultancy services and advance dividend, as well as certain procurements and contracts. In June 2008 the Company submitted copies from the requested documents.

In 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 Group did not record any provision.
On 23 February 2012 the Company received a request for documentation from the Financial Police Office of the Ministry of Finance of 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.

## 2. SIGNIFICANT ACCOUNTING POLICIES

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

### 2.1. Basis of preparation

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

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

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

### 2.1.1. Standards, amendments and interpretations effective and adopted by the Group in 2013

- IFRS 7 (amended). In December 2011 the IASB issued Disclosures – Offsetting Financial Assets and Financial Liabilities – Amendments to IFRS 7. The amendments clarify the accounting requirements for offsetting financial instruments and introduce new disclosure requirements that aim to improve the comparability of financial statements prepared in accordance with IFRS and US GAAP. The application of the amendment is required for annual periods beginning on or after 1 January 2013. The adoption of amended standard did not result in significant changes in the disclosures in the Group's financial statements.

- IFRS 13 The IASB published IFRS 13 Fair Value Measurement in May 2011in order to replace the guidance on fair value measurement in existing IFRS accounting literature with a single standard. The IFRS is the result of joint efforts by the IASB and FASB to develop a converged fair value framework. IFRS 13 defines fair value, provides guidance on how to determine fair value and requires disclosures about fair value measurements. However, IFRS 13 does not change the requirements regarding which items should be measured or disclosed at fair value. IFRS 13 seeks to increase consistency and comparability in fair value measurements and related disclosures through a ‚fair value hierarchy'. The hierarchy categorizes the inputs used in valuation techniques into three levels. The hierarchy gives the highest priority to (unadjusted) quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. If the inputs used to measure fair value are categorized into different levels of the fair value hierarchy, the fair value measurement is categorized in its entirety in the level of the lowest level input that is significant to the entire measurement (based on the application of judgment). The new standard should be applied for annual periods beginning on or after 1 January 2013. Earlier application is permitted. The adoption of the new standard did not result in significant changes in the financial statements of the Group.

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

The application of the amendment is required for annual periods beginning on or after 1 January 2013. The amendments of the standard did not result in significant changes in the financial statements of the Group.

- IFRS 10, IFRS 11, IFRS 12, IAS 27 (amended) and IAS28 (amended) - The IASB published IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, IFRS 12 Disclosures of Interests in Other Entities and amendments to IAS 27 Separate Financial Statements and IAS 28 Investments in Associates and Joint Ventures in May 2011. An entity shall apply this package of five new and revised standards (including the amendments) for annual periods beginning on or after 1 January 2013. The Company has only wholly owned subsidiaries and there are no Non Controlling Interests to be recognized. The new standards does not have any impact on the voting rights and therefore to the control assessment. The Company does not have any associate or jointly controlled entity. Thus, the adoption of the amended package of standards did not have any impact on the Group's financial statements.

## 2.1.2. Standards, amendments and interpretations effective in 2013 but not relevant for the Group

▪ IFRIC 20 In October 2011, the IASB published IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine. The interpretation shall be applied for annual periods beginning on or after 1 January 2013. Earlier application is permitted. As the Group does not have mining activity, the interpretation has no impact on the Group's financial statements.

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

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

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

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

- IFRS 9 requires that financial assets are classified as subsequently measured at either amortized cost or fair value. There are two conditions needed to be satisfied to classify financial assets at amortized cost: (1) The objective of an entity's business model for managing financial assets has to be to hold assets in order to collect contractual cash flows; and (2) The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Where either of these conditions is not satisfied, financial assets are classified at fair value.

- Fair Value Option: IFRS 9 permits an entity to designate an instrument, that would otherwise have been classified in the amortized cost category, to be at fair value through profit or loss if that designation eliminates or significantly reduces a measurement or recognition inconsistency ('accounting mismatch').

- Equity instruments: The default category for equity instruments is at fair value through profit or loss. However, the standard states that an entity can make an irrevocable election at initial recognition to present all fair value changes for equity investments not held for trading in other comprehensive income. These fair value gains or losses are not reported as part of a reporting entity's profit or loss, even when a gain or loss is realized. Only dividends received from these investments are reported in profit or loss.

- Embedded derivatives: The requirements in IAS 39 for embedded derivatives have been changed by no longer requiring that embedded derivatives be separated from financial asset host contracts.

- Reclassification: IFRS 9 requires reclassification between fair value and amortized cost when, and only when there is a change in the entity's business model. The ‚tainting rules' in IAS 39 have been eliminated.

Financial liabilities – IFRS 9 "Financial Instruments" sets the requirements on the accounting for financial liabilities and replaces the respective rules in IAS 39 "Financial Instruments: Recognition and Measurement". The new pro nouncement:

- Carries forward the IAS 39 rules for the recogniti on and derecognition unchanged.

- Carries forward most of the requirements in IAS 39 for classification and measurement.

- Eliminates the exception from fair value measurement for derivative liabilities that are linked to and must be settled by delivery of an unquoted equity instrument.

- Changes the requirements related to the fair value option for financial liabilities to address own credit risk.

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

- IAS 32 (amended). In December 2011 the IASB issued Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32). These amendments are to the application guidance in IAS 32, 'Financial instruments: Presentation', and clarify some of the requirements for offsetting financial assets and financial liabilities on the balance sheet. The application of the amendment is required for annual periods beginning on or after 1 January 2014. The Group is currently analyzing the possible changes in the disclosures in the financial statements of the Group that will be a result of the amendment of the standard.

  - Amendments to IAS 36 - Recoverable Amount Disclosures for Non-Financial Assets, amends IAS 36 Impairment of Assets to reduce the circumstances in which the recoverable amount of assets or cash-generating units is required to be disclosed, clarify the disclosures required, and to introduce an explicit requirement to disclose the discount rate used in determining impairment (or reversals) where recoverable amount (based on fair value less costs of disposal) is determined using a present value technique. The amended standard is applicable to annual periods beginning on or after 1 January 2014. The Group is currently analyzing the possible changes from the amendments to the financial statements.

  - IFRIC 21 Levies - Provides guidance on when to recognize a liability for a levy imposed by a government, both for levies that are accounted for in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets and those where the timing and amount of the levy is certain.

The Interpretation identifies the obligating event for the recognition of a liability as the activity that triggers the payment of the levy in accordance with the relevant legislation. It provides the following guidance on recognition of a liability to pay levies:

- The liability is recognized progressively if the obligating event occurs over a period of time
- If an obligation is triggered on reaching a minimum threshold, the liability is recognized when that minimum threshold is reached.

The interpretation applies to annual periods beginning on or after 1 January 2014. The Group is currently analyzing the impact of the interpretation to the financial statements.

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

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

  - Amendments to IAS 39 - Novation of Derivatives and Continuation of Hedge Accounting, amends IAS 39 Financial Instruments: Recognition and Measurement make it clear that there is no need to discontinue hedge accounting if a hedging derivative is novated, provided certain criteria are met. A novation indicates an event where the original parties to a derivative agree that one or more clearing counterparties replace their original counterparty to become the new counterparty to each of the parties. In order to apply the amend ments and continue hedge accounting, novation to a central counterparty ("CCP") must happen as a consequence of laws or regulations or the introduction of laws or regulations. The amendments are applicable to annual periods beginning on or after 1 January 2014. As the Group does not apply hedge accounting, the amendment will not have any impact on the Group's financial statements.

  - IFRS14 Regulatory Deferral Accounts - IFRS 14 permits an entity which is a first-time adopter of International Financial Reporting Standards to continue to account, with some limited changes, for ‚regulatory deferral account balances' in accordance with its previous GAAP, both on initial adoption of IFRS and in subsequent financial statements. The new standard is applicable to an entity's first annual IFRS financial statements for a period beginning on or after 1 January 2016. As the Group has been reporting according to IFRS for many years, the new standard is not relevant for the Group.

  - Defined Benefit Plans: Employee Contributions (Amendments to IAS 19) - In November 2013, IASB amended IAS 19 to clarify the requirements that relate to how contributions from employees or third parties that are linked to service should be attributed to periods of service. In addition, it permits a practical expedient if the amount of the contributions is independent of the number of years of service, in that contributions, can, but are not required, to be recognized as a reduction in the service cost in the period in which the related service is rendered. The amendment is applicable to annual periods beginning on or after 1 July 2014. As the Group does not operate defined benefit plans, the amendment is not relevant for the Group.

## 2.2. Consolidation
## 2.2.1. Subsidiaries

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

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

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

| | Country of incorporation | Ownership interest As at 31 December 2013 | Ownership interest As at 31 December 2012 |
|---|---|---|---|
| T-Mobile Macedonia AD | Macedonia | 100 | 100 |
| e-Makedonija | Macedonia | 100 | 100 |

## 2.3. Foreign currency translation
## 2.3.1. Functional and presentation currency

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

## 2.3.2. Transactions and balances

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

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

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

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

## 2.4. Financial instruments

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

Financial assets of the Group include, cash and cash equivalents, deposits with banks, equity instruments of another entity (available-for-sale and at fair value through profit or loss) and contractual rights to receive cash (trade and other receivables) or another financial asset from another entity.
Financial liabilities of the Group include liabilities that originate from contractual obligations to deliver cash or another financial asset to another entity (non-derivatives). In particular, financial liabilities include trade and other payables.

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

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

The fair value of long term financial liabilities is also determined by using discounted cash flow valuation technique. The expected cash inflows or outflows are discounted by market based interest rates. Assumptions applied in the fair value calculations are subject to uncertainties. Changes in the assumptions applied in the calculations would have an impact on the carrying amounts, the fair values and/or the cash flows originating from the financial instruments. Sensitivity analyses related to the Group's financial instruments are provided in Note 3.

### 2.4.1. Financial assets

The Group classifies its financial assets in the following categories:

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

(b) loans and receivables

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

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

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

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

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

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

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

This category comprises those financial assets designated at fair value through profit or loss at inception. A financial asset is classified in this category if the Group manages such asset and makes purchase and sale decisions based on its fair value in accordance with the Group investment strategy for keeping investments within portfolio until there are 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 Group's right to receive payments is established and inflow of economic benefits is probable.

(b) Loans and receivables

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

The following items are assigned to the "loans and receivables" measurement category:
- cash and cash equivalents
- deposits over 3 months

- trade receivables
- receivables and loans to third parties
- employee loans
- other receivables

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

**Cash and cash equivalents**

Cash and cash equivalents include cash on hand, cash in bank, call deposits held with banks and other short-term highly liquid investments with original maturities of three months or less. Should impairment on cash and cash equivalents occur, it would be recognized in the Profit for the year (Finance expenses).

**Trade and other receivables**

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

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

The Group's policy for collective assessment of impairment is based on the aging of the receivables due to the large number of relatively similar type of customers.

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

When a trade receivable is established to be uncollectible, it is written off against Profit for the year (Other operating expenses – Impairment losses on trade and other receivables) with a parallel release of the cumulated impairment on the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against the recognized loss in the Profit for the year. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss shall be reversed by adjusting an allowance account. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortized cost would have been had the impairment not been recognized at the date the impairment is reversed. The amount of the reversal shall be recognized in the Profit for the year as a reduction to Other operating expenses (Impairment losses on trade and other receivables). Amounts due to, and receivable from, other network operators are shown net where a right of set-off exists and the amounts are settled on a net basis (such as receivables and payables related to international traffic).

**Employee loans**

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

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

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

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

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

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

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

### 2.4.2. Financial liabilities

#### Trade and other payables

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

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

## 2.5. Inventories

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

## 2.6. Assets held for sale

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

## 2.7. Property, plant and equipment (PPE)

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

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

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

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

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

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

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

Depreciation is charged to the Profit for the year on a straight-line basis over the estimated useful lives of items of property, plant and equipment. Assets are not depreciated until they are available for use. Land is not depreciated. The assets useful lives and residual values are reviewed, and adjusted if appropriate, at least once a year. For further details on the groups of assets impacted by the most recent useful life revisions see note 11.

The estimated useful lives are as follows:

| | 2013<br>Years | 2012<br>Years |
|---|---|---|
| Buildings | 20-40 | 20-40 |
| Aerial and cable lines | 20-25 | 20-25 |
| Telephone exchanges | 7-10 | 7-10 |
| Base stations | 10 | 10 |
| Computers | 4 | 4 |
| Furniture and fittings | 4-10 | 4-10 |
| Vehicles | 4-10 | 4-10 |
| Other | 2-15 | 2-15 |

## 2.8. Intangible assets

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

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

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

The estimated useful lives are as follows:

| | 2013<br>Years | 2012<br>Years |
|---|---|---|
| Software and licenses | 2-5 | 2-5 |
| Concession | 18 | 18 |
| 3G and 2G License | 10 | 10 |
| 4G License | 20 | - |

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

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

## 2.9. Impairment of 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.

## 2.10. Provisions and contingent liabilities

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

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

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

## 2.11. Share capital

Ordinary shares are classified as equity.

## 2.12. Treasury shares

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

## 2.13. Other reserves

Under local statutory legislation, the Group members were 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 Group members are 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 15). These reserves are used to cover losses and are not distributed to shareholders except in the case of bankruptcy of the Group members.

## 2.14. Revenues

Revenues for all services and equipment sales (see note 16) are shown net of VAT, discounts and after elimination of sales within the Group. Revenue is recognized when the amount of the revenue can be reliably measured, and when it is probable that future economic benefits will flow to the Group and specific criteria of IAS 18 on the sale of goods and rendering of services are met for the provision of each of the Group's services and sale of goods.

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

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

### 2.14.1. Fixed line and mobile telecommunications revenues

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

Customer subscriber arrangements typically include an equipment sale, subscription fee and charge for the actual voice, internet, data or multimedia services used. The Group considers the various elements of these arrangements to be separate earnings processes and recognizes the revenue for each of the deliverables using the residual method. These units are identified and separated, since they have value on a standalone basis and are sold not only in a bundle, but separately as well. Therefore the Group recognizes revenues for all of these elements using the residual method that is the amount of consideration allocated to the delivered elements of the arrangements equals the total consideration less the fair value of the undelivered elements.

The Group provides customers with narrow and broadband access to its fixed, mobile and TV distribution networks. Service revenues are recognized when the services are provided in accordance with contractual terms and conditions. Airtime revenue is recognized based upon minutes of use and contracted fees less credits and adjustments for discounts, while subscription and flat rate revenues are recognized in the period they relate to.

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

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

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

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

### 2.14.2. System integration and IT revenues

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

Revenue from system integration contracts requiring the delivery of customized products and/or services is generally covered by fixed-price contracts and revenue is recognized based on percentage of completion taking into account the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs. Revenue from hardware and sales is recognized when the risk of ownership is substantially transferred to the customer, provided there are no unfulfilled obligations that affect the customer's final acceptance of the arrangement. Any costs of these obligations are recognized when the corresponding revenue is recognized.

Revenues from construction contracts are accounted for using the percentage-of-completion method. The stage of completion is determined on the basis of the costs incurred to date as a proportion of the estimated total costs. Receivables from construction contracts are classified in the Consolidated statement of financial position as Trade and other receivables.

## 2.15. Employee benefits

### 2.15.1. Short term employee benefits and pensions

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

### 2.15.2. Bonus plans

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

### 2.15.3. Termination benefits

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

## 2.16. Marketing expenses

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

## 2.17. Taxes

### 2.17.1. Income tax

Companies do not have to pay income tax on their profit before tax (earned since 1 January 2009) until that profit is distributed in a form of dividend or other forms of profit distributions. If dividend is paid, 10% income tax is payable at the moment of the dividend payment, regardless of whether in monetary or non-monetary form, to the foreign 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 (see note 2.18).

### 2.17.2. Deferred income tax

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

### 2.17.3. Tax on non-deductable expenses

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

## 2.18. Leases

### 2.18.1. Operating lease – Group as lessor

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

### 2.18.2. Operating lease – Group as lessee

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

## 2.19. 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 Group's financial statements in the period in which they are approved by the Company's shareholders.

## 2.21. Segments

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

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

The operating segments' results are monitored by the CEO and the GMC to EBITDA (Earnings before interest, tax, depreciation and amortization), which is defined by the Group as Operating profit without Depreciation and amortization expense.
Another important KPI monitored at segment level is capital expenditure (Capex), which is determined as the additions to PPE and Intangible assets.

## 2.22. Comparative information

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

# 3. FINANCIAL RISK MANAGEMENT

## 3.1. Financial risk factors

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

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

### 3.1.1. Market risk

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

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

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

a) Foreign currency risk

The functional currency of the Company and of the Group is the Macedonian denar.

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

The currency giving rise to this risk is primarily the EUR. The Group uses cash deposits in foreign currency, predominantly in EUR, and cash deposits in denars linked to foreign currency, to economically hedge its foreign currency risk in accordance with the available banks offers. The Group manages the foreign exchange risk exposure through maintaining higher amount of deposits in EUR as a proven stable currency.

The foreign currency risk sensitivity information required by IFRS 7 is limited to the risks that arise on financial instruments denominated in currencies other than the functional currency in which they are measured.

At 31 December 2013, if MKD would have been 1% (2012: 1%) weaker or stronger against EUR, profit would have been MKD 9,139 thousand (2012: 40,463 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 546 thousand (2012: MKD 404 thousand) in net balance higher or lower, respectively.

b) Interest rate risk

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

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

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

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

The investments are limited to relatively low risk financial investment forms in anticipation of earning a fair return relative to the risk being assumed.
The Group has no interest bearing liabilities, while it incurs interest rate risk on cash deposits with banks and loans to employees. No policy to hedge the interest rate risk is in place. Changes in market interest rates affect the interest income on deposits with banks.

The Group had MKD 2,957,481 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 29,575 thousand annually, while similar decrease would have caused the same decrease in interest received. Amount of deposits is MKD 6,788,159 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 67,882 thousand annually, while similar decrease would have caused the same decrease in interest received.

c) Other price risk

The Group's investments are in equity of other entities that are publically traded on the Macedonian Stock Exchange, both on its Official and Regular market. The management continuously monitors the portfolio equity investments based on fundamental and technical analysis of the shares. All buy and sell decisions are subject to approval by the relevant Company's bodies. In line with the Group strategy, the investments within portfolio are kept until there are 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 Group holds investments, which could be affected by risk variables such as stock exchange prices.

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

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

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

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

The depositing decisions are made based on the following priorities:

- To deposit in banks (Deutsche Telekom core banks, if possible) with provided bank guarantee from the banks with the best rating and the best quality wording of the bank guarantee.

- To deposit in banks with provided bank guarantee from the banks with lower rating and poorer quality wording of the bank guarantee.
- 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 credibility checking – which determines that the customer is not indebted and the customer's credit worthiness and through preventive barring – which determinates the credit limit based on the customer's previous traffic revenues.

The Group has no significant concentration of credit risk with any single counter party or group of counter parties having similar characteristics.
The Group's procedures ensure on a permanent basis that sales are made to customers with an appropriate credit history and not exceed an acceptable credit exposure limit.

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

Largest amount of one deposit in 2013 is MKD 430,579 thousand, denominated in EUR 7,000 thousand, (2012: MKD 1,699,245 thousands denominated in EUR 27,630 thousand). In addition, the Group has deposits with 1 domestic bank (2012: 4 domestic banks). The Group 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 Group could not be able to settle or meet its obligations on time.

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

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

The Group's liquidity management process includes projecting cash flows by major currencies and considering the level of necessary liquid assets, considering business plan, historical collection and outflow data. Monthly, semi-annually and annually cash projections are prepared and updated on a daily basis by the 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 Group'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 | 804,677 | 496,701 | 307,976 | - | - |
| Liabilities to related parties | 257,465 | 241,327 | 16,138 | - | - |
| Other financial liabilities | 855,917 | 74,580 | - | 195,334 | 586,003 |
| | 1,918,059 | 812,608 | 324,114 | 195,334 | 586,003 |

The maturity structure of the Group's financial liabilities as at 31 December 2012 is as follows:

| In thousands of denars | Total | Demand and less than 1 month | From 1 to 3 months | From 3 to 12 months | From 12 months to 5 years |
|---|---|---|---|---|---|
| Trade payables | 1,061,792 | 600,921 | 459,006 | 1,865 | - |
| Liabilities to related parties | 230,402 | 128,131 | 102,097 | 174 | - |
| Other financial liabilities | 1,115,064 | 138,393 | - | 195,334 | 781,337 |
| | 2,407,258 | 867,445 | 561,103 | 197,373 | 781,337 |

## 3.2. Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The total amount of equity managed by the Company, as at 31 December 2013, is MKD 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 2.13). The Company has also acquired treasury shares (see notes 2.12 and 15.1). The transaction is in compliance with the local legal requirements that by acquiring treasury shares the total equity of the Company shall not be less than the amount of the share capital and reserves which are not distributable to shareholders by law or by Company's statute. In addition, according the local legal requirements dividends can be paid out to the shareholders in amount that shall not exceed the net profit for the year as presented in the 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 Group makes estimates and assumptions concerning the future. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The most critical estimates and assumptions are outlined below.

## 4.1. Useful lives of assets

The determination of the useful lives of assets is based on historical experience with similar assets as well as any anticipated technological development and changes in broad economic or industry factors. The appropriateness of the estimated useful lives is reviewed annually, or whenever there is an indication of significant changes in the underlying assumptions. We believe that the accounting estimate related to the determination of the useful lives of assets is a critical accounting estimate since it involves assumptions about technological development in an innovative industry and heavily dependent on the investment plans of the Group. Further, due to the significant weight of depreciable assets in our total assets, the impact of any changes in these assumptions could be material to our financial position, and results of operations. As an example, if the Group was to shorten the average useful life of its assets by 10%, this would result in additional annual depreciation and amortization expense of approximately MKD 334,218 thousand (2012: MKD 417,055 thousand). See note 11 and 12 for the changes made to useful lives in the reported years.

The Group constantly introduces a number of new services or platforms including, but not limited to, the Universal Mobile Telecommunications System (UMTS) based broadband services in the mobile communications and the fiber-to-the-home rollout. In case of the introduction of such new services, the Group conducts a revision of useful lives of the already existing platforms, but in the vast majority of the cases these new services are designed to coexist with the old platforms, resulting in no changeover to the new technology. Consequently, the useful lives of the older platforms usually do not require shortening.

In 2012 the Company also conducted an item by item revision of the useful life of assets affected by the PSTN migration project of the Company, which in general resulted in shortening of their useful life. In January 2014 the Company performed the migration of the last PSTN customer thus completing the PSTN migration project (see note 10).

## 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 Group 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 2.4.1 (b)). These factors are reviewed periodically, and changes are made to the calculations when necessary. In 2013 the Group carried out detailed analysis on the groups of customers on which collective assessment of impairment is performed which resulted in further segmentation of the business customers as well as changes in the related impairment rates due to different payment 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 Group assesses the probability of an adverse event as a result of a past event and if the probability of an outflow of economic benefits is evaluated to be more than 50%, the Group fully provides for the total amount of the estimated liability (see note 2.10). As the assessment of the probability is highly judgmental, in some cases the evaluation may not prove to be in line with the eventual outcome of the case. In order to determine the probabilities of an adverse outcome, the Group uses internal and external legal counsel.

## 4.5. Subscriber acquisition costs

Subscriber acquisition costs primarily include the loss on the equipment sales (revenues and costs presented on a gross basis) and fees paid to subcontractors that act as agents to acquire new customers. The Group's agents also spend a portion of their agent fees for marketing the Group's products, while a certain part of the Group's marketing costs could also be considered as part of the subscriber acquisition costs. The up-front fees collected from customers for activation or connection are marginal compared to the acquisition costs. These revenues and costs are recognized when the customer is connected to the Group's fixed or mobile networks. No such costs or revenues are capitalized or deferred. These acquisition costs (losses) are recognized immediately as expense (Other operating expense) as they are not accurately separable from other marketing costs. The total amount of agent fees in 2013 is MKD 183,013 thousand (2012: MKD 212,873 thousand).

# 5. CASH AND CASH EQUIVALENTS

| In thousands of denars | 2013 | 2012 |
|---|---|---|
| Call deposits | 1,034,130 | 273,018 |
| Cash in bank | 358,102 | 146,083 |
| Cash on hand | 11,411 | 6,133 |
| | 1,403,643 | 425,234 |

The interest rate on call deposits is in range from 0.30% p.a. to 1.00% p.a. (2012: from 0.30% p.a. to 1.27% 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 | 1,079,025 | 305,539 |
| EUR | 250,327 | 92,180 |
| USD | 74,210 | 27,402 |
| Other | 81 | 113 |
| | 1,403,643 | 425,234 |

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+ | - | 205,406 |
| Credit rating of the Guarantor : A | 1,332,230 | 115,400 |
| Credit rating of the Guarantor : BBB- | - | 75,535 |
| Credit rating of the Guarantor : CCC | - | 22,760 |
| | 1,332,230 | 419,101 |

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: BB+ | 117 | - |
| Credit rating: BBB- | 2,146 | - |
| Credit rating: BB- | 37,970 | - |
| Credit rating: B- | 18,364 | - |
| Call deposits in local banks without rating | 1,405 | - |
| | 60,002 | - |

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 1.10% 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 | 664,689 | 1,748,591 |
| EUR | 900,560 | 4,620,467 |
| | 1,565,249 | 6,369,058 |

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+ | - | 5,994,020 |
| Credit rating of the Guarantor : A | 1,565,249 | 375,038 |
| | 1,565,249 | 6,369,058 |

# 7. TRADE AND OTHER RECEIVABLES

| In thousands of denars | 2013 | 2012 |
|---|---|---|
| Trade debtors – domestic | 3,986,043 | 3,978,526 |
| Less: allowance for impairment | (1,748,145) | (1,719,381) |
| Trade debtors – domestic – net | 2,237,898 | 2,259,145 |
| Trade debtors – foreign | 101,725 | 93,014 |
| Receivables from related parties | 455,319 | 460,052 |
| Loans to third parties | 3,518 | 3,500 |
| Less: allowance for impairment | (3,518) | (3,500) |
| Loans to third parties– net | - | - |
| Loans to employees | 108,247 | 139,030 |
| Other receivables | 13,900 | 17,495 |
| Financial assets | 2,917,089 | 2,968,736 |
| Advances given to suppliers | 123,564 | 119,365 |
| Less: allowance for impairment | (62,923) | (62,923) |
| Advances given to suppliers – net | 60,641 | 56,442 |
| Prepayments and accrued income | 527,538 | 382,362 |
| | 3,505,268 | 3,407,540 |
| Less non-current portion: Loans to employees | (88,489) | (115,709) |
| Less non-current portion: Trade debtors – domestic | (265,188) | (243,054) |
| Current portion | 3,151,591 | 3,048,777 |

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

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 2,030,553 thousand (2012: MKD 2,098,075 thousand) are impaired. The aging of these receivables is as follows:

| In thousands of denars | 2013 | 2012 |
|---|---|---|
| Less than 30 days | 176,999 | 213,589 |
| Between 31 and 180 days | 102,749 | 185,852 |
| Between 181 and 360 days | 106,859 | 87,970 |
| More than 360 days | 1,643,946 | 1,610,664 |
| | 2,030,553 | 2,098,075 |

As at 31 December 2013, domestic trade receivables in amount of MKD 315,233 thousand (2012: MKD 193,029 thousand) were past due but not impaired. These are mainly related to customers for interconnection services assessed on individual basis in accordance with past Group experience and current expectations, as well as specified business and governmental customers that belong to certain age bands are past due but not impaired, based on past experience of payment behavior (see notes 2.4.1 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 | 137,659 | 67,654 |
| Between 31 and 60 days | 73,285 | 38,016 |
| Between 61 and 90 days | 32,085 | 21,570 |
| Between 91 and 180 days | 40,729 | 35,914 |
| Between 181 and 360 days | 16,800 | 27,296 |
| More than 360 days | 14,675 | 2,579 |
| | 315,233 | 193,029 |

The total amount of the provision for domestic trade debtors is MKD 1,748,145 thousand (2012: MKD 1,719,381 thousand). Out of this amount MKD 1,529,364 thousand (2012: MKD 1,529,962 thousand) relate to provision made according the aging structure of the above receivables, while the amount of MKD 48,663 thousand (2012: MKD 37,817 thousand) is from customers under liquidation and bankruptcy which are fully impaired. In addition, the Group has a specific provision calculated in respect of a certain group of customers in amounting to MKD 170,118 thousand (2012: MKD 151,602 thousand).

The amount of impairment is mainly a result of receivables which are overdue more than 720 days. The total amount of fully impaired receivables is MKD 1,528,362 thousand (2012: MKD 1,514,762 thousand). These receivables are mainly from two way disconnected customers, dismantled customers, litigated customers and customers that are no longer using the Group services.

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

| In thousands of denars | 2013 | 2012 |
|---|---|---|
| Trade debtors – domestic | 2,237,898 | 2,259,145 |
| Trade debtors – foreign | 101,725 | 93,014 |
| Receivables from related parties | 455,319 | 460,052 |
| Loans to employees | 108,247 | 139,030 |
| Other receivables | 13,900 | 17,495 |
| | 2,917,089 | 2,968,736 |

Movement in allowance for impairment of domestic trade debtors:

| In thousands of denars | 2013 | 2012 |
|---|---|---|
| Impairment losses at 1 January | 1,719,381 | 1,736,823 |
| Charge for the year | 59,236 | 64,560 |
| Write off | (30,472) | (82,002) |
| Impairment losses at 31 December | 1,748,145 | 1,719,381 |

Movement in allowance for impairment of advances given to suppliers

| In thousands of denars | 2013 | 2012 |
|---|---|---|
| Impairment losses at 1 January | 62,923 | 74,156 |
| Reversal of impairment losses | - | (11,233) |
| Impairment losses at 31 December | 62,923 | 62,923 |

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 62,124 thousand (2012: MKD 60,695 thousand) were past due but not impaired. These relate to a number of international customers assessed on individual basis in accordance with past Group experience and current expectations.

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

| In thousands of denars | 2013 | 2012 |
|---|---|---|
| Less than 30 days | 9,249 | 21,483 |
| Between 31 and 60 days | 22,326 | 6,337 |
| Between 61 and 90 days | 22,585 | 20,931 |
| Between 91 and 180 days | 470 | 359 |
| Between 181 and 360 days | 1 | 604 |
| More than 360 days | 7,493 | 10,981 |
| | 62,124 | 60,695 |

The Group has renegotiated domestic trade receivables in carrying amount of MKD 69,115 thousand (2012: MKD 46,019 thousand). The carrying amount of loans and receivables, which would otherwise be past due, whose terms have been renegotiated is not impaired if the collectability of the renegotiated cash flows are considered ensured.

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

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

| In thousands of denars | 2013 | 2012 |
|---|---|---|
| MKD | 2,360,817 | 2,305,260 |
| EUR | 744,701 | 732,708 |
| USD | 43,832 | 8,505 |
| Other | 2,241 | 2,304 |
| | 3,151,591 | 3,048,777 |

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 | 1,027,233 | 993,116 |
| Group 2 | 234,392 | 275,040 |
| Group 3 | 113,444 | 176,212 |
| | 1,375,069 | 1,444,368 |

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

| In thousands of denars | 2013 | 2012 |
|---|---|---|
| Group 1 | 33,191 | 26,162 |
| Group 2 | 6,410 | 6,157 |
| | 39,601 | 32,319 |

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

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

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

## 8. OTHER TAXES

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

Up to now the tax authorities had carried out a full-scope tax audits at the Company for 2005 and the years preceding. Additionally, audit of personal income tax was carried out by the tax authorities for the period 1 January 2005 to 31 March 2006. During 2010 there was tax audit conducted by the Public revenue office for income tax for 2008 and 2009, withholding tax for 2007 and 2008 and VAT for 2009. In addition, in 2011 the Public revenue office conducted tax audit for withholding tax for 2010 and tax audit over certain service contracts from Transfer pricing perspective which were without any findings. In 2012 the Public revenue office conducted tax audit for VAT for August 2012 at the Company which was without findings.
In 2012 the Public revenue office carried out a tax audit in the subsidiary for income tax (including tax on non-deductable expenses) for the years 2009 to 2011 and tax audit for VAT for 2009. No significant findings were identified, except those explained in note 1.2.

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

### 8.1. Other taxes receivable

| In thousands of denars | 2013 | 2012 |
|---|---|---|
| VAT receivable | 10,138 | 9,395 |
| Other taxes receivable | 502 | - |
| Receivable for tax on non-deductable expenses | - | 16,874 |
| | 10,640 | 26,269 |

## 8.2. Other taxes payable

| In thousands of denars | 2013 | 2012 |
|---|---|---|
| VAT payable | 79,826 | 68,861 |
| Other taxes payable | - | 2,228 |
| Payable for tax on non-deductable expenses | 59,709 | - |
| Payable for monthly advance payment for tax on non-deductable expenses | 2,215 | 3,199 |
| | 141,750 | 74,288 |

# 9. INVENTORIES

| In thousands of denars | 2013 | 2012 |
|---|---|---|
| Materials | 134,544 | 162,622 |
| Inventories for resale | 291,747 | 270,804 |
| Allowance for inventories | (14,204) | (10,401) |
| | 412,087 | 423,025 |

Movement in allowance for inventories:

| In thousands of denars | 2013 | 2012 |
|---|---|---|
| Allowance at 1 January | 10,401 | 17,460 |
| Write down/(recovery) of inventories to net realizable value | 1,028 | (4,886) |
| Write down of inventories | 11,764 | 14,347 |
| Write off | (8,989) | (16,520) |
| Allowance at 31 December | 14,204 | 10,401 |

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 Group which carrying amount will be recovered principally through sale transaction or exchange rather than through continuing use which is not considered by management to be probable. Management intentions are to sell these assets within one year, subject to extension in certain circumstances. There is a plan to sell or exchange these assets and either the management has started to actively market them at a reasonable price or there is already an arrangement for sale with a specific customer. In 2011 the Group signed an agreement to provide four of its administrative buildings and cash consideration in exchange for one new building in 2012. Accordingly, the carrying amounts of these four buildings in amount of MKD 615,690 thousand were reclassified to assets held for sale in the Consolidated statement of financial position as at 31 December 2011. Out of this amount MKD 536,553 thousand were part of the fixed line segment while MKD 79,137 thousand was part of the mobile segment. In 2012 the transaction was completed and the new acquired building in amount of MKD 2,294,230 thousand was recognized as PPE (see note 11) while the sold administrative buildings were derecognized with carrying amount of MKD 626,164 thousand at the moment of derecognition, resulting in a net gain of MKD 828,481 thousand recognized in Other operating income (see note 13 and 19).

According to the plan to sell the equipment swapped under the RAN modernization project from the mobile segment, the carrying amount of the affected assets in amount of MKD 34,286 thousand was reclassified to assets held for sale in the Consolidated statement of financial position as of 31 December 2012. In 2013, the Group recorded impairment for these assets in the amount of MKD 13,355 thousand, based on the best market offer received, recognized as Depreciation and amortization, resulting in carrying amount of MKD 20,931 thousand. The transaction for sale of these assets was completed in November 2013.

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 10,441 thousand was reclassified to assets held for sale in the Consolidated statement of financial position as at 31 December 2013.

In addition, during 2013, the Group 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 Consolidated statement of financial position. As at 31 December 2013 the balance of assets held for sale also includes vehicles with carrying amount of MKD 7,847 thousand, storage equipment with carrying amount of MKD 1,968 thousand, for which the Group recorded impairment in the amount of MKD 14,429 thousand, based on the market offer received, recognized as Depreciation and amortization, and building with carrying amount of MKD 1,291 thousand.

In accordance with IFRS 5, the assets presented as held for sale at the balance sheet date are accounted for at the lower of carrying value or fair value less cost to sell. The fair value less cost to sell is a non-recurring fair value which has been measured using observable inputs, being the price quotes from unrelated third parties, and is therefore within level 2 of the fair value hierarchy.

## 11. PROPERTY, PLANT AND EQUIPMENT

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

| In thousands of denars | Land | Buildings | Telecommunication equipment | Other | Assets under construction | Total |
|---|---|---|---|---|---|---|
| Cost | | | | | | |
| At 1 January 2013 | 8,029 | 5,704,583 | 27,138,624 | 4,316,662 | 992,830 | 38,160,728 |
| Additions | 85 | 15,739 | 854,492 | 180,474 | 1,282,462 | 2,333,252 |
| Transfer from assets under construction (see note 12) | - | 2,528 | 334,125 | 60,228 | (600,569) | (203,688) |
| Disposals | - | (36,258) | (789,480) | (341,175) | - | (1,166,913) |
| Transfer to assets held for sale | - | (3,624) | (5,411,468) | (244,539) | - | (5,659,631) |
| At 31 December 2013 | 8,114 | 5,682,968 | 22,126,293 | 3,971,650 | 1,674,723 | 33,463,748 |
| Depreciation | | | | | | |
| At 1 January 2013 | - | 1,736,159 | 18,811,893 | 2,818,393 | - | 23,366,445 |
| Charge for the year | - | 155,445 | 1,631,419 | 474,003 | - | 2,260,867 |
| Disposals | - | (36,034) | (789,479) | (319,182) | - | (1,144,695) |
| Transfer to assets held for sale | - | (2,332) | (5,401,027) | (205,871) | - | (5,609,230) |
| Transfer between group of assets (see note 12) | - | - | 3,754 | (3,754) | - | - |
| At 31 December 2013 | - | 1,853,238 | 14,256,560 | 2,763,589 | - | 18,873,387 |
| Carrying amount | | | | | | |
| At 1 January 2013 | 8,029 | 3,968,424 | 8,326,731 | 1,498,269 | 992,830 | 14,794,283 |
| At 31 December 2013 | 8,114 | 3,829,730 | 7,869,733 | 1,208,061 | 1,674,723 | 14,590,361 |

In 2011, the Group signed an agreement to provide four of its administrative buildings and cash consideration in exchange for one new building in 2012. The Company will pay the difference between the purchase price of the new building and the selling price of the existing buildings in six equal yearly 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 13). However, as the fair value of the new building can be considered to be more accurately and precisely determinable compared to the fair values of the old buildings the impact of the discounting was presented as affecting the fair value of the old assets and recognized as gain on sale of PPE in Profit for the year (see note 19), which derives also from observable market data for the fair value of the old buildings. In 2012, the Group completed the transaction for purchase and sale of buildings with an exchange which resulted in recognition of the acquired building in PPE at fair value in amount of MKD 2,294,230 thousand (see note 10). The selling price for the four old buildings was MKD 1,300,791 thousand and the trade-in value of these buildings did not and will not result in cash received.

In 2013, the Group capitalized MKD 226,203 thousand (MKD 40,384 thousand) expenditures related to obtaining complete documentation for base stations in accordance to applicable laws in Republic of Macedonia (see note 2.7).

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

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

| In thousands of denars | 2013 | 2014 | 2015 | 2016 | After 2016 |
|---|---|---|---|---|---|
| (Decrease) /increase in depreciation | (18,733) | (44,992) | (7,178) | 66,695 | 4,208 |
| | (18,733) | (44,992) | (7,178) | 66,695 | 4,208 |

## 12. INTANGIBLE ASSETS

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

| In thousands of denars | Software and software licences | Concession, 2G 3G and 4G license | Other | Total |
|---|---|---|---|---|
| Cost | | | | |
| At 1 January 2013 | 6,111,577 | 891,406 | 32,155 | 7,035,138 |
| Additions | 184,629 | 634,011 | - | 818,640 |
| Transfer from assets under construction (see note 11) | 203,688 | - | - | 203,688 |
| Disposals | (1,554,799) | | (32,155) | (1,586,954) |
| Transfer to assets held for sale | (58,879) | - | - | (58,879) |
| At 31 December 2013 | 4,886,216 | 1,525,417 | - | 6,411,633 |
| Amortization | | | | |
| At 1 January 2013 | 4,561,455 | 372,305 | 32,155 | 4,965,915 |
| Charge for the year | 641,312 | 88,136 | - | 729,448 |
| Disposals | (1,554,799) | - | (32,155) | (1,586,954) |
| Transfer to assets held for sale | (54,324) | - | - | (54,324) |
| At 31 December 2013 | 3,593,644 | 460,441 | - | 4,054,085 |
| Carrying amount | | | | |
| At 1 January 2013 | 1,550,122 | 519,101 | - | 2,069,223 |
| At 31 December 2013 | 1,292,572 | 1,064,976 | - | 2,357,548 |

In 2013, the Group acquired a 4G LTE radiofrequency license for a one-time fee of MKD 634,011 thousand. The license duration is 20 years, until 1 December 2033, with a possibility for extension for 20 years in accordance with the ECL (see note 1.1). The commercial start of the license was in December 2013.

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 Group member companies.

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 | (47,120) | (41,245) | 11,136 | 50,414 | 26,815 |
| | (47,120) | (41,245) | 11,136 | 50,414 | 26,815 |

## 13. TRADE AND OTHER PAYABLES

| In thousands of denars | 2013 | 2012 |
|---|---|---|
| Trade payables | | |
| -Domestic | 558,668 | 731,161 |
| -Foreign | 246,009 | 330,631 |
| Liabilities to related parties | 257,465 | 230,402 |
| Other financial liabilities | 764,764 | 974,284 |
| Financial liabilities | 1,826,906 | 2,266,478 |
| Accrued expenses | 1,704,548 | 1,395,974 |
| Deferred revenue | 420,204 | 444,851 |
| Advances received | 60,157 | 56,562 |
| Other | 126,733 | 34,988 |
| | 4,138,548 | 4,198,853 |
| Less non-current portion: | | |
| Deferred revenue | (63,993) | (77,836) |
| Other financial liabilities | (502,874) | (648,845) |
| Current portion | 3,571,681 | 3,472,172 |

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

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

In the category Other financial liabilities MKD 690,184 thousand (2012: MKD 835,887 thousand) represent the carrying amount of long term payables related to the transaction for purchase and sale of buildings with an exchange (see note 10, 11 and 19). These liabilities are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method. The unwinding of the discount is being recognized in Interest expense in Profit and loss (see note 20). 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.

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 | 2,519,642 | 1,988,223 |
| EUR | 981,691 | 1,399,098 |
| USD | 63,426 | 76,303 |
| Other | 6,922 | 8,548 |
| | 3,571,681 | 3,472,172 |

## 14. PROVISION FOR OTHER LIABILITIES AND CHARGES

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

| In thousands of denars | Legal cases | Other | Total |
|---|---|---|---|
| 1 January 2013 | 195,791 | 41,559 | 237,350 |
| Additional provision | 8,018 | 38,589 | 46,607 |
| Unused amount reversed | (27,804) | (7,302) | (35,106) |
| Used during period | (60,505) | (13,394) | (73,899) |
| 31 December 2013 | 115,500 | 59,452 | 174,952 |

Analysis of total provisions:

| In thousands of denars | 2013 | 2012 |
|---|---|---|
| Non-current (legal cases and other) | 57,068 | 113,821 |
| Current | 117,884 | 123,529 |
| | 174,952 | 237,350 |

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

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 legal or contractual obligation of the Group to pay to employees certain amounts at their retirement date (see note 2.15.1) and provision made for the Variable II incentive programs (see note 28).

The provision is recognized against Personnel expenses in the Profit for the year. In addition, as a result of the findings of the Investigation, the identified impact was recognized under Provision for other liabilities and charges in amount of MKD 36,019 thousand as at 31 December 2011, which provision was used during 2012 (see note 1.2).

## 15. CAPITAL AND RESERVES

Share capital consists of the following:

| In thousands of denars | 2013 | 2012 |
|---|---|---|
| Ordinary shares | 9,583,878 | 9,583,878 |
| Golden share | 10 | 10 |
| | 9,583,888 | 9,583,888 |

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

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

As at 31 December 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 |
| | 9,583,888 | 100.00 | 9,583,888 | 100.00 |

## 15.1. Treasury shares

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

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

## 15.2. Other reserves

With the changes of the Law on Trading Companies effective from 1 January 2013, the Group members were 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 Group members have 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 1,237,534 thousand was transferred from statutory reserves to retained earnings.

# 16. REVENUES

| In thousands of denars | 2013 | 2012 |
|---|---|---|
| Fixed line revenues | | |
| Voice retail | 1,823,226 | 2,277,680 |
| Voice wholesale | 894,529 | 969,275 |
| Internet | 1,178,407 | 1,205,191 |
| TV | 446,367 | 324,609 |
| Data | 392,163 | 442,220 |
| Equipment | 363,366 | 318,209 |
| SI/IT revenues | 80,924 | 92,106 |
| Other | 124,319 | 144,555 |
| | 5,303,301 | 5,773,845 |
| Mobile revenues | | |
| Voice retail | 3,522,309 | 4,312,346 |
| Voice wholesale | 1,830,661 | 2,015,566 |
| Data | 694,728 | 809,426 |
| Equipment | 509,839 | 359,888 |
| Internet | 389,037 | 266,595 |
| Content | 83,914 | 75,364 |
| Voice visitor | 72,507 | 93,222 |
| Other | 137,432 | 149,609 |
| | 7,240,427 | 8,082,016 |
| | 12,543,728 | 13,855,861 |

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 21). The reclassification had no impact on equity or net profit.

# 17. PERSONNEL EXPENSES

| In thousands of denars | 2013 | 2012 |
|---|---|---|
| Salaries | 890,618 | 976,310 |
| Contributions on salaries | 319,075 | 330,316 |
| Bonus payments | 199,914 | 231,855 |
| Other staff costs | 546,097 | 173,579 |
| Capitalized personnel costs | (124,799) | (162,455) |
| | 1,830,905 | 1,549,605 |

Other staff costs mainly include termination benefits for 234 employees leaving the Group in 2013 (2012: 43 employees), holiday's allowance and other benefits.

Bonus payments also include the cost for Variable II programs and the Magyar Telekom's Mid Term Incentive Plan ("MTIP") (see note 28).

## 18. OTHER OPERATING EXPENSES

| In thousands of denars | 2013 | 2012 |
|---|---|---|
| Purchase cost of goods sold | 1,554,877 | 1,404,611 |
| Services | 726,549 | 792,577 |
| Materials and maintenance | 312,861 | 339,201 |
| Marketing and donations | 306,426 | 404,295 |
| Energy | 289,964 | 326,742 |
| Fees, levies and local taxes | 265,248 | 305,785 |
| Subcontractors | 256,702 | 276,934 |
| Royalty payments for IPTV programs | 238,217 | 158,147 |
| Rental fees | 123,674 | 134,241 |
| Tax on non-deductable expenses | 87,262 | 34,034 |
| Consultancy | 77,968 | 106,166 |
| Impairment losses on trade and other receivables | 59,236 | 64,560 |
| Insurance | 17,404 | 18,231 |
| Write down of inventories | 11,764 | 14,347 |
| Write down of inventories to net realizable value | 1,028 | - |
| Other | 26,763 | 21,581 |
| | 4,355,943 | 4,401,452 |

Services mainly include agent commissions, expenses for content services, postal expenses, security, cleaning, and utilities.

## 19. OTHER OPERATING INCOME

| In thousands of denars | 2013 | 2012 |
|---|---|---|
| Net gain on sale of PPE | 14,536 | 839,731 |
| Other | 106,465 | 263,544 |
| | 121,001 | 1,103,275 |

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

In 2013 Other mainly includes compensation from T-Systems International for the contribution of the Group members 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.

## 20. FINANCE EXPENSES

| In thousands of denars | 2013 | 2012 |
|---|---|---|
| Interest expense | 59,486 | 63,974 |
| Bank charges and other commissions | 16,805 | 28,095 |
| Fair value trough profit and loss | 7,073 | 3,254 |
| Net foreign exchange loss | 659 | 3,510 |
| | 84,023 | 98,833 |

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).

## 21. FINANCE INCOME

| In thousands of denars | 2013 | 2012 |
|---|---|---|
| Interest income | 87,029 | 169,536 |
| Dividend income | 1,640 | 3,285 |
| | 88,669 | 172,821 |

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

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 16). The reclassification had no impact on equity or net profit.

## 22. 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.

# 23. REPORTABLE SEGMENTS AND INFORMATION

## 23.1. Reportable segments

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

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

## 23.2. Information regularly provided to the chief operating decision maker

The following tables present the segment information by reportable segment regularly provided to the Chief operating decision maker of the Company, reconciled to the corresponding Group numbers. The information regularly provided to the GMC includes several measures of profit which are considered for the purposes of assessing performance and allocating resources, including EBITDA adjusted for the impact of certain items considered as „special influence".

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

Revenues

| In thousands of denars | 2013 | 2012 |
|---|---|---|
| Total Fixed Line segment revenues | 5,899,794 | 6,479,310 |
| Less: Fixed Line segment revenues from other segment | (596,493) | (705,465) |
| Fixed Line segment revenues from external customers | 5,303,301 | 5,773,845 |
| Total Mobile segment revenues | 8,238,930 | 9,193,381 |
| Less: Mobile segment revenues from other segment | (998,503) | (1,111,365) |
| Mobile segment revenues from external customers | 7,240,427 | 8,082,016 |
| Total revenues of the Group | 12,543,728 | 13,855,861 |

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

In 2013, the management of the Group decided to present the revenues from mobile terminating traffic from DT in the amount of MKD 800,495 thousand (2012: MKD 920,794 thousand) originated from the Company as mobile segment revenues following the substance of the transactions. These revenues are managed and part of the mobile segment revenues in these consolidated financial statements.

Segment results (EBITDA)

| In thousands of denars | 2013 | 2012 |
|---|---|---|
| Fixed Line segment | 2,237,633 | 3,927,850 |
| Mobile segment | 2,756,065 | 3,490,861 |
| Total EBITDA of the Group | 4,993,698 | 7,418,711 |
| Depreciation and amortization of the Group | 3,007,966 | 3,753,492 |
| Total operating profit of the Group | 1,985,732 | 3,665,219 |
| Finance income – net | 4,646 | 114,977 |
| Profit before income tax of the Group | 1,990,378 | 3,780,196 |

Capital expenditure (CAPEX) on PPE and Intangible assets

| In thousands of denars | 2013 | 2012 |
|---|---|---|
| Fixed Line segment | 1,803,127 | 4,112,856 |
| Mobile segment | 1,348,765 | 1,117,517 |
| Total capital expenditure on PPE and Intangible assets of the Group | 3,151,892 | 5,230,373 |

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

# 24. LEASES AND OTHER COMMITMENTS

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

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

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

| In thousands of denars | 2013 | 2012 |
|---|---|---|
| Not later than 1 year | 117,828 | 116,538 |
| Later than 1 year and not later than 5 years | 291,629 | 251,442 |
| Later than 5 years | 49,234 | 68,680 |
| | 458,691 | 436,660 |

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

Operating lease commitments – where the Group is the lessor are mainly from lease of land sites for base stations.

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

| In thousands of denars | 2013 | 2012 |
|---|---|---|
| Not later than 1 year | 26,839 | 24,215 |
| Later than 1 year and not later than 5 years | 94,420 | 95,834 |
| Later than 5 years | 16,925 | 30,664 |
| | 138,184 | 150,713 |

## 24.3. Capital commitments

The amount authorized for capital expenditure as at 31 December 2013 was MKD 551,021 thousand (2012: MKD 429,598 thousand). The amount authorized for capital expenditure as at 31 December 2013 mainly relates to telecommunication assets.

## 25. ADDITIONAL DISCLOSURES ON FINANCIAL ASSETS

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

(a) quoted prices (unadjusted) in active markets for identical assets (Level 1);

(b) inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly (Level 2); and

(c) inputs for the asset that are not based on observable market data (Level 3).

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

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

### Financial assets carried at amortized cost

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

### Liabilities carried at amortized cost

Fair values of financial liabilities were determined using valuation techniques. The estimated fair value of fixed interest rate instruments with stated maturity was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity.

There was no transfer between Level 1 and Level 2 financial assets. Loans and receivables and the financial liabilities are measured at amortized cost, but fair value information is also provided for these. The fair values of these assets and liabilities were determined using level 3 type information. There are no assets or liabilities carried at fair value where the fair value was determined using level 3 type information.

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

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

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

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

| Assets<br>In thousands of denars | Financial assets | | | | |
|---|---|---|---|---|---|
| | Loans and receivables | Available-for-sale (Level 2) | At fair value through profit and loss (Level 1) | Carrying amount | Fair value |
| Cash and cash equivalents | 1,403,644 | - | - | 1,403,644 | 1,403,644 |
| Deposits with banks | 1,565,249 | - | - | 1,565,249 | 1,565,249 |
| Trade and other receivables | 2,917,089 | - | - | 2,917,089 | 2,917,089 |
| Other non-current assets | - | 612 | - | 612 | 612 |
| 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 20 and 21). The cost of these equity investments is MKD 31,786 thousand (2012: MKD 31,786 thousand).

## 25.2. 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.

## 26. CONTINGENCIES

The Group 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 36 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 33 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 14).

## 27. RELATED PARTY TRANSACTIONS

All transactions with related parties arise in the normal course of business and their value is not materially different from the terms and conditions that would prevail in arms-length transactions.

The Government of the Republic of Macedonia has 34.81% ownership in the Company (see note 15). Apart from payment of taxes, fees to Regulatory authorities according to local legislation and dividends (see note 22), in 2013 and 2012, the Group did not execute transactions with the Government of Republic of Macedonia, or any companies controlled or significantly influenced by it, that were outside normal day-to-day business operations of the Group.

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

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

| | 2013 | | 2012 | |
|---|---|---|---|---|
| In thousands of denars | Revenues | Expenses | Revenues | Expenses |
| Controlling owner | | | | |
| Magyar Telekom Plc | 501 | 39,375 | 5,767 | 46,456 |
| Subsidiaries of the controlling owner | | | | |
| IQSYS Magyar Telekom | - | - | - | 2,770 |
| T-Systems Magyarország Zrt. | 23,079 | 11 | - | 923 |
| Telemakedonija AD | 40 | - | 181 | - |
| Crnogorski Telekom | 497 | 1,046 | 543 | 2,361 |
| Novatel | 7,186 | 3,978 | 2,289 | - |
| Ultimate parent company | | | | |
| Deutsche Telekom AG | 1,287,298 | 194,252 | 1,447,652 | 249,748 |
| Subsidiaries of the ultimate parent company | | | | |
| Hrvatski Telekom | 2,104 | 5,854 | 2,834 | 39,227 |
| Slovak Telekom | 109 | 180 | 240 | 352 |
| Polska Telefonia Cyfrowa | 241 | 348 | 342 | 486 |
| T-Mobile Czech Republic | 262 | 539 | 369 | 746 |
| T-Mobile Austria | 1,764 | 2,734 | 3,786 | 5,857 |
| Everything Everywhere Limited | 3,272 | 982 | 173 | 1,387 |
| T-Mobile USA | 875 | 1,627 | 4 | 1,233 |
| T-Systems | 4,552 | 14,003 | 11,138 | 14,038 |
| T-Mobile Netherlands BV | 626 | 421 | 1,241 | 1,161 |
| T-Mobile International UK Limited | 1 | 569 | - | 616 |
| Detecon | 2 | 132 | - | 8,845 |
| OTE Globe | 22,898 | 22,099 | 22,509 | 30,435 |
| Romtelekom | - | 915 | - | 913 |
| Cosmo Bulgaria Mobile | 624 | 1,709 | 865 | 5,428 |
| Albanian Mobile Communications | 921 | 3,103 | 954 | 5,685 |
| Cosmote Romanian Mobile Telecommunications | 28 | 87 | 50 | 367 |
| COSMOTE-Mobile Telecom. S.A. | 2,127 | 4,676 | 3,125 | 11,653 |
| Entity controlled by subsidiary's key management personnel | | | | |
| Mobico Dooel | 381 | 287 | 343 | 161 |

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

| | 2013 | | 2012 | |
|---|---|---|---|---|
| In thousands of denars | Receivables | Payables | Receivables | Payables |
| Controlling owner | | | | |
| Magyar Telekom Plc | 3,885 | 7,131 | 8,526 | 7,084 |
| Subsidiaries of the controlling owner | | | | |
| T-Systems Magyarország Zrt. | 1,058 | - | - | 1,845 |
| Telemakedonija AD | 6 | - | 6 | - |
| Crnogorski Telekom | 10,090 | - | 6,395 | - |
| Novatel | 3,445 | 1,334 | 389 | 378 |
| Ultimate parent company | | | | |
| Deutsche Telekom AG | 196,141 | 212,666 | 247,057 | 172,147 |
| Subsidiaries of the ultimate parent company | | | | |
| Hrvatski Telekom | 19,764 | - | 13,205 | 33 |
| Slovak Telekom | - | 127 | 457 | 4,400 |
| Polska Telefonia Cyfrowa | 541 | - | 9 | - |
| T-Mobile Czech Republic | 627 | - | 298 | - |
| T-Mobile Austria | 12,157 | - | 15,623 | - |
| Everything Everywhere Limited | - | 7,098 | - | 4,110 |
| T-Mobile USA | - | 2,968 | 2,217 | - |
| T-Systems | 88,926 | 7,254 | 5,094 | 9,636 |
| T-Mobile Netherlands BV | - | 6,687 | - | 6,880 |
| T-mobile International UK Limited | - | 32 | - | 138 |
| Detecon | - | - | - | 8,845 |
| OTE Globe | 6,862 | 6,408 | 8,842 | 8,800 |
| Romtelekom | - | 3,005 | - | 6,054 |
| Cosmo Bulgaria Mobile | - | - | 56,875 | - |
| Albanian Mobile Communications | 20,106 | - | 15,641 | - |
| Cosmote Romanian Mobile Telecommunications | 616 | - | 376 | - |
| COSMOTE-Mobile Telecom. S.A. | 90,964 | - | 78,937 | - |
| Entity controlled by subsidiary's key management personnel | | | | |
| Mobico Dooel | 131 | 2,755 | 105 | 52 |

## 28. 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 |
| | 109,371 | 112,315 |

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 15 and 18). 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).

## 29. 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, consolidated statement of financial position or cash flows.

## LIST OF ABBREVIATIONS

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

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

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Ве молиме сите прашања поврзани со фискалната финансиска 2013
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**Investor.relations@telekom.mk или на телефон: + 38923242258**

The online version of the 2012 Annual report of the two Companies
is available at:

**DESIGN:**
Karma DS, Studio for graphic design

**PHOTOS MADE BY:**
Imagebase of DT
and photographer Ljupco Smokovski

## FORWARD LOOKING STATEMENT.

This document contains forward looking statements, which are not historical facts, including statements about our beliefs and expectations. Such kind of statements are based on our current plans, estimations and projections, taking into consideration the financial conditions, the result of the companies and the Groupoperation and, therefore, you should not place undue reliance on them. They speak only as of the date they are made on and we undertake no obligation to update publicly any of them in the light of any new information or future events.

LIFE IS FOR SHARING.