



MAKEDONSKI TELEKOM AD - SKOPJE
Kej 13 Noemvri No. 6, 1000 Skopje, R. Makedonija

To: Macedonian Stock Exchange AD Skopje
Orce Nikolov 75, 1000 Skopje

Date: February 2015

Subject: Explanation on the operation of Makedonski Telekom AD - Skopje Group for the period from 01.01.2014 until 31.12.2014

The following analysis refers to the unaudited consolidated financial statements of Makedonski Telekom AD – Skopje Group, which includes Makedonski Telekom AD - Skopje, T-Mobile Macedonia AD Skopje and the e-Makedonija – Skopje Foundation for the period 01.01.2014 - 31.12.2014, prepared in accordance with International Financial Reporting Standards (IFRSs). For comparative purposes, the previous year items are consistent with the current year presentation.

I Revenues

The revenues at Group level in 2014 amounted to MKD 11,000,953 thousand, which represents a decrease of 11.3% compared to the same period of 2013.

Fixed line services



Voice

Makedonski Telekom has managed to maintain the **leading position on the fixed voice market** with 63.8% (internal estimation) or 237 thousand customers¹ at the end of 2014.

The voice revenues in the fixed segment services have decreased by 13% compared to the previous year due to the decreased number of fixed line customers as well as the decrease of the outgoing traffic by 23% compared to 2013.



Internet and TV

The focus on the double and triple play packages resulted in an increased number of DSL customers by 2.7%, resulting in DSL customer base of 190.5 thousand at the end of 2014 and **broadband Internet market share** of 50.8% (internal estimation).

Regarding the **TV market**, Makedonski Telekom has the **largest market share** encompassing 23.1% (internal estimation) of the total TV market. IPTV service with its high quality, interactivity and the unique

¹ With the finished PSTN Migration on IMS platform MKT has new reporting methodology of Fix line customers since PSTN and ISDN customer segmentation has been no longer used. The new methodology which is IMS based consist only of IMS customers. Implicitly the current figures are lower than the previously reported since until 2013 YE MKT was reporting the number of ISDN Channels as number of customers. Wholesale Line Rental –WLR are not included

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TV experience, is well accepted on the market and the Company achieved an increase of the number of IPTV customers (3Max, 2 Max and only IPTV customers) by 12% compared to the 2013, which has resulted in a customer base of 98 thousand customers at the end of 2014.

The **revenues from Internet and digital television via Internet protocol ("IPTV")** in 2014 have increased by 6.5% compared to the same period of the previous year.

In order to ensure high quality BB performance, Makedonski Telekom Group continued to invest in fixed broadband access, reaching approximately 107,000 home passed installed capacity or approximately **19% of households coverage with FTTH.**



Other revenues

The **revenues from sale of equipment** in 2014 have decreased by 29.8% compared to the same period of the previous year. The decline is mainly a result of the one-time project effect of the sale of telecommunication equipment in the previous period.

System integration and IT revenues in 2014 have increased by 78.4% compared to the same period of the previous year mainly due to the increased revenues from customised ICT projects, Cloud Computing and other integrated solutions for business customers.

Mobile services



Voice

T-Mobile Macedonia has a **leading market position with a market share of 46.8%** (internal estimation). The subscriber base marked a slight increase from 1,195 thousand subscribers at the end of 2013 to 1,197 thousand subscribers at the end of 2014.

The mobile market penetration in Macedonia is 106.7%, which shows the trend of individuals owning multiple SIM cards. As a result of the market saturation, T-Mobile especially focuses on retaining the customers in order to protect the market share.

Mobile voice revenues in 2014 have decreased by 18.7% compared to the same period of the previous year as a result of the tariff decrease. The trend of increased usage of mobile services has continued whereby more and more minutes are bundled into the packages for the same price. This has resulted in an increase in the minutes of usage (MOU) partially driven by the continuous tariff decline. Consequently, reflecting the tariff pressure and competition ARPU has declined by 17.2% compared to 2013 amounting to MKD 370.

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Non-voice

Non-voice revenues have decreased by 8.3% compared to 2013, as a result of the lower number of SMSs sent, decreased SMS interconnect price and content revenue, which is partially compensated with the increased mobile internet revenue due to higher GPRS traffic and increased usage of data tariff plans.



Other revenues

The **revenues from sale of equipment** in 2014 have increased by 12.4% compared to the same period of the previous year, mainly driven by higher number of handsets sold in order to acquire customers. .

II Expenses



Operating expenses

On the cost side, during 2014, the operating expenses decreased by 12.7% compared to the same period of the previous year.

The employee related expenses have decreased by 33% in 2014 compared to the same period of the previous year due to the lower expenses for salaries and social security contribution mainly as a result of the lower number of employees as well as the lower severance payment expenses.

The cost for depreciation and amortization in 2014 has decreased by 6.4% compared to the same period of the previous year. Generally the decline is due to shortened useful life of PSTN migration affected assets causing higher depreciation in 2013 and lower software base in 2014 compared to the same period of the previous year.

The cost of goods and services sold has been increased compared to the same period of the previous year as a result of higher equipment sales.



Capital expenditures

The total Capital expenditures (CAPEX), for 2014 is MKD 1,794,990 thousand.

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.

The Radio Access Network (RAN) extension continued in 2014. As at end of year 2014, TMMK's radio access network consisted of 665 physical sites out of which 658 base stations sites for 2G access providing 99.9% population coverage, 433 base stations for 3G access providing 93% population

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coverage and 96 sites for 4G access providing 46% population coverage, allowing the subscribers to use high speed mobile Internet.

III Net profit

The total net profit for 2014 amounts MKD 880,414 thousand and it is decreased by 55.8% compared to the previous year. This is a result of the changes in the profit tax legislation applicable as of January 2014 whereby the profit tax is payable at the moment of dividend distribution regardless of the ownership structure. Consequently², the income tax arising from the payment of dividends was accounted for as a liability and expense in the period in which dividends were declared, regardless of the actual payment date or the period for which the dividends were paid.

As of 1 August 2014, new profit tax law came into force being applicable from 1 January 2015 for the net income for 2014. According to the provisions of the new law, the tax base is the profit generated during the fiscal year increased for non-deductible expenses and reduced for deductible revenue (i.e. dividends already taxed at the payer) and the income tax rate is 10%. In line with these changes there was reintroduction of deferred tax.

The comparison of the Profit before tax excludes the tax impact. Profit before tax in 2014 amounts MKD 1,836,010 thousands and it has been decreased by 11.6% compared to the previous period, reflecting the decrease of revenues partially offset by lower costs.

In MKD thousands

	2013	2014	Change in %
Profit before tax	2.077.639	1.836.010	-11,6%
Profit tax	87.262	955.596	995,1%
Net profit after tax	1.990.377	880.414	-55,8%

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

² as per International Accounting Standard - IAS 12



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

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

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

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

Andreas Maierhofer
Chief Executive Officer

Slavko Projkoski
Chief Financial Officer

Balance Sheet

In 000 MKD

Position	Previous Period	Curent Period	Indexes
ASSETS			
NON-CURRENT ASSETS	17.348.771	16.286.932	94
Intagible assets	2.357.548	2.341.532	99
Property, plant and equipment	14.593.172	13.536.852	93
Property	3.837.844	3.601.098	94
Plant and equipment	9.077.794	8.738.137	96
Biological assets	0	0	0
Other Long Term Assets	1.677.534	1.197.617	71
Investment properties (Real Estate)	0	0	0
Long Term Financial Instruments	132.863	128.530	97
Investments in subsidiaries	0	0	0
Investments in associates	0	0	0
Long term Loans, Receivables	88.489	83.369	94
Financial investments	43.762	44.549	102
Other Long Term Financial investments	612	612	100
Other long-term receivables	265.188	280.018	106
Deferred income tax assets	0	0	0
CURRENT ASSETS	6.564.757	6.844.698	104
Inventories	433.634	543.396	125
Trade recivables	2.074.566	2.220.156	107
Other recivables / Current assets	560.127	680.548	121
Short-term financial investments	1.565.249	1.418.676	91
Cash and cash equivalents	1.403.643	1.450.018	103
Prepaid Expenses	527.538	531.904	101
TOTAL ASSETS	23.913.528	23.131.630	97
OFF-BALANCE-SHEET ASSETS	49.274	52.969	107
EQUITY AND LIABILITIES			
EQUITY	19.458.278	17.894.054	92
Subscribed capital and revaluation reserves	6.386.189	6.386.189	100
Reserves	1.237.534	1.237.534	100
Retained earnings	11.834.555	10.270.331	87
Minority interest	0	0	0
LIABILITIES	4.455.250	5.237.576	118
CURRENT LIABILITIES	3.895.308	4.559.453	117
Trade liabilities and other short-term liabilities	1.040.857	1.456.087	140
Short-term Borrowings	0	0	0
Short-term provisions	117.884	252.744	214
Deffered Tax Liabilities	141.749	232.897	164
Other Current Liabilities	434.522	770.469	177
Accrued Expenses	2.160.296	1.847.256	86
Liabilities related to disposal assets	0	0	0
LONG TERM LIABILITIES	559.942	678.123	121
Long-term Borrowings	0	0	0
Trade payables and other long-term liabilities	502.874	416.435	83
Long-term Provisions	57.068	60.356	106
Long Term Tax Liabilities	0	201.332	0
TOTAL CAPITAL AND RESERVES	23.913.528	23.131.630	97
OFF-BALANCE-SHEET LIABILITIES	49.274	52.807	107

Income Statement

In 000 MKD

	Position	Previous Period	Curent Period	Indexes
		Year to date	Year to date	curent year / previous year
1	Total Operating revenues	12.589.237	11.126.793	88
2	Sales revenues	12.400.162	11.000.953	89
2a	Revenues from domestic market	10.834.554	9.821.766	91
2b	Revenues from foreign markets	1.565.608	1.179.187	75
3	Change in the value of inventories	XXXXX	XXXXXX	xxxxx
4	Inventories of finished and unfinished goods at the beginning of the period	0	0	0
5	Inventories of finished and unfinished goods at the end of the period	0	0	0
6	Capitalised own products and services	0	0	0
7	Other operating revenues	189.075	125.840	67
8	Total Operating expenses	10.584.934	9.236.874	87
9	Cost of trading goods sold	1.402.224	1.542.492	110
10	Cost of consumed materials and other supplies	342.570	287.685	84
11	Cost of materials, spare parts and other inventory sold	0	0	0
12	Services	2.687.901	2.172.322	81
13	Other Expenditures	1.237.622	1.201.004	97
14	Service costs	1.814.767	1.214.273	67
15	Amortization And Depreciation	2.901.146	2.714.556	94
16	Impairment losses of Non-current assets	0	0	0
17	Impairment losses of current assets	42.769	49.662	116
18	Provisions	35.964	21.719	60
19	Other operating expenses	119.971	33.161	28
20	Operating profit	2.004.303	1.889.919	94
21	Total Financial Revenue	141.266	79.650	56
21a	Financial revenues from investment, loans granted and interest and exchange rate gains	141.266	79.650	56
21b	Other Financial Revenue	0	0	0
21c	Income From Associated Companies	0	0	0
22	Total Financial Expenses	67.930	133.559	197
22a	Financial expenses from interests and exchange rate losses	67.930	118.095	174
22b	Other financial expenses	0	15.464	0
22c	Losses from Associates	0	0	0
23	Profit from ordinary activities	2.077.639	1.836.010	88
24	Net Profit from Discontinued activities	0	0	0
25	Profit from ordinary activities before taxation	2.077.639	1.836.010	88
26	Corporate tax	87.262	955.596	1.095
27	Net profit	1.990.377	880.414	44
28	Net profit minority shareholders	0	0	0
29	Net profit Majority shareholders	1.990.377	880.414	44
30	Total other comprehensive income	0	0	0
31	TOTAL COMPREHENSIVE INCOME	1.990.377	880.414	44

CASH FLOW STATEMENT

In 000 MKD

Position	Previous Period	Curent Period	Indexes
<i>A. CASH FLOWS FROM OPERATING ACTIVITIES</i>	<i>4.567.349</i>	<i>4.257.813</i>	<i>93</i>
Profit for the period	1.990.378	880.414	44
Adjustments for:	0	0	0
Depreciation of property, plant and equipment	3.007.966	2.740.313	91
Gain/Loss from impairment	11.501	160.023	1.391
Increase/Decrease in Inventories	10.938	-32.178	-294
Increase/Decrease in Receivables-customers	12.503	-160.413	-1.283
Increase/Decrease in advance payments	-4.199	3.000	271
Increase/Decrease in other short-term receivables	27.545	-123.421	-448
Increase/Decrease in paid expenses for future periods	-145.176	-4.366	197
Increase/Decrease in payables	-469.499	388.610	283
Increase/Decrease in received advance payments	3.595	5.831	162
Increase/Decrease in other short-term payables	139.581	1.176.576	843
Increase/Decrease in Deferred expenses	57.299	-194.886	-340
Interest paid/received	-37.443	7.174	219
Dividends paid/received	-1.640	-131	192
Tax expense	-28.538	-579.797	-1.832
Capital gains/losses from sale of property, plant and equipment	-14.535	-8.142	144
Capital gains/losses from sale of investments	0	0	0
Other cash receipts and payment from operating activities	7.073	-794	-11
<i>B. CASH FLOWS FROM INVESTING ACTIVITIES</i>	<i>2.057.667</i>	<i>-1.766.800</i>	<i>-86</i>
Cash payments to acquire property, plant and equipment, intangibles and other	-2.950.543	-2.008.959	132
Cash receipts from sales of property, plant and equipment, intangibles and other long-term assets;	88.513	57.571	65
Cash payments to acquire equity or debt instruments of other entities and interests in joint ventures	0	0	0
Cash receipts from sales of equity or debt instruments of other entities and interests in joint ventures	0	0	0
Cash advances and loans made to other parties (other than advances and loans made by a financial institution);	0	0	0
Cash receipts from the repayment of advances and loans made to other parties (other than advances and loans of a financial institution);	27.219	5.121	19
Interest paid/received	95.764	37.736	39
Dividends paid/received	1.640	131	8
Other cash receipts and payment from investing activities	4.795.074	141.600	3
<i>C. CASH FLOWS FROM FINANCING ACTIVITIES</i>	<i>-5.646.607</i>	<i>-2.444.638</i>	<i>157</i>
cash proceeds from issuing shares or other equity instruments;	0	0	0
cash repayments of amounts borrowed;	0	0	0
cash proceeds from issuing debentures, loans, notes, bonds, mortgages and other short or long-term borrowings;	0	0	0
Cash payments to acquire minor interests	0	0	0
Dividends paid	-5.646.607	-2.444.638	157
Repurchase of own shares and stakes	0	0	0
Cash payments by a lessee for the reduction of the outstanding liability relating to a finance lease.	0	0	0
<i>Net increase in cash and cash equivalents</i>	<i>978.409</i>	<i>46.375</i>	<i>5</i>
Cash and cash equivalents at beginning of period	425.234	1.403.643	330
<i>D. Cash and cash equivalents at end of period</i>	<i>1.403.643</i>	<i>1.450.018</i>	<i>103</i>

Statement of changes in equity

In 000 MKD

Changes	Attributable to equity holders of the parent				Minority Interes	Total equity
	Share capital	Share premium	Reserves	Retained profit (Loss)		
Balance at January 1, previous year	5.845.530	540.659	2.475.068	14.253.250	0	23.114.507
Shares issued	0	0	0	0	0	0
Purchased treasury shares	0	0	0	0	0	0
Sold treasury shares	0	0	0	0	0	0
Conversion of securities	0	0	0	0	0	0
Profit (Loss) for the financial period	0	0	0	1.990.378	0	1.990.378
Allocated profit for reservers	0	0	0	0	0	0
Allocated profit for dividends and other rewards (premiums) to shareholders	0	0	0	-5.646.607	0	-5.646.607
Allocated profit for rewards, premiums and other employee benefits	0	0	0	0	0	0
Other reserves	0	0	0	0	0	0
Revaluation of assets	0	0	0	0	0	0
Fair value adjustments of the investments available-for-sale	0	0	0	0	0	0
Realized capital gain from disposal of Investments available-for-sale	0	0	0	0	0	0
Recorded losses from subsidiaries from previous years according to equity method	0	0	0	0	0	0
Minority Interes	0	0	0	0	0	0
Defered tax assets	0	0	0	0	0	0
Recognised revunues and expenses, net	0	0	0	0	0	0
Exchange rate gains/losses	0	0	0	0	0	0
Other Increase/Decrease in Assets, net	0	0	-1.237.534	1.237.534	0	0
Balance at December 31, previous year	5.845.530	540.659	1.237.534	11.834.555	0	19.458.278
Shares issued	0	0	0	0	0	0
Purchased treasury shares	0	0	0	0	0	0
Sold treasury shares	0	0	0	0	0	0
Conversion of securities	0	0	0	0	0	0
Profit (Loss) for the financial period	0	0	0	880.414	0	880.414
Allocated profit for reservers	0	0	0	0	0	0
Allocated profit for dividends and other rewards (premiums) to shareholders	0	0	0	-2.444.638	0	-2.444.638
Allocated profit for rewards, premiums and other employee benefits	0	0	0	0	0	0
Other reserves	0	0	0	0	0	0
Revaluation of assets	0	0	0	0	0	0
Fair value adjustments of the investments available-for-sale	0	0	0	0	0	0
Realized capital gain from disposal of Investments available-for-sale	0	0	0	0	0	0
Recorded losses from subsidiaries from previous years according to equity method	0	0	0	0	0	0
Minority Interes	0	0	0	0	0	0
Defered tax assets	0	0	0	0	0	0
Recognised revunues and expenses, net	0	0	0	0	0	0
Exchange rate gains/losses	0	0	0	0	0	0
Other Increase/Decrease in Assets, net	0	0	0	0	0	0
Balance at December 31, current year	5.845.530	540.659	1.237.534	10.270.331	0	17.894.054