

**BALANCE SHEET**  
**(STATEMENT OF FINANCIAL POSITION)**  
on 31 December 2012

(in denars)

No.	POSITION	Designation for ADP	Note number	Amount	
				Current year	Previous year
1	2	3	4	5	6
	<b>ASSETS:</b>				
1.	<b>A. NON-CURRENT ASSETS (002+009+020+021+031)</b>	001		<b>13,870,185,120</b>	<b>11,127,089,538</b>
2.	<b>I. INTANGIBLE ASSETS (003+004+005+006+007+008)</b>	002		<b>646,272,381</b>	<b>611,433,887</b>
3.	Development expenses	003			
4.	Concessions, patents, licences, trade marks and similar rights	004	7	646,272,381	611,433,887
5.	Goodwill	005			
6.	Advances for procurement of intangible assets	006			
7.	Intangible assets under construction	007			
8.	Other intangible assets	008			
9.	<b>II. TANGIBLE ASSETS (010+013+014+015+016+017+018+019)</b>	009		<b>10,046,886,006</b>	<b>7,352,298,011</b>
10.	Real Estate (011+012)	010		4,072,798,825	2,097,982,830
10.a.	Land	011	8	25,113,220	24,432,268
10.b.	Buildings	012	8	4,047,685,605	2,073,550,562
11.	Plants and equipment	013	8	4,215,052,979	3,866,693,536
12.	Means of transport	014	8	261,741,820	242,164,457
13.	Tools, plant and office inventory and furniture	015	8	829,161,028	728,255,558
14.	Biological assets	016			
15.	Advances for procurement of tangible assets	017		12,024,227	41,484,585
16.	Tangible assets under construction	018	8	656,107,127	375,717,045
17.	Other tangible assets	019			
18.	<b>III. INVESTMENT IN REAL ESTATE</b>	020			
19.	<b>IV. LONG-TERM FINANCIAL ASSETS (022+023+024+025+026+030)</b>	021		<b>2,944,636,671</b>	<b>2,950,244,764</b>
20.	Investment in subsidiaries	022		2,797,590,628	2,797,590,628
21.	Investments in associated companies and participations in joint ventures	023			
22.	Receivables from long-term loans to related parties	024			
23.	Receivables from long-term loans	025		96,217,954	98,571,794
24.	Investments in long-term securities (027+028+029)	026		50,828,089	54,082,342
24.a.	Investments in long-term securities held to maturity	027			
24.b.	Investments in securities available-for-sale	028			
24.c.	Investments in securities at fair value through profit or loss	029		50,828,089	54,082,342
25.	Other long-term financial assets	030			
26.	<b>V. LONG-TERM RECEIVABLES (032+033+034)</b>	031		<b>232,390,062</b>	<b>213,112,876</b>
27.	Receivables from related parties	032			
28.	Trade receivables	033	9	232,390,062	211,339,018
29.	Other long-term receivables	034			1,773,858
30.	<b>VI. DEFERRED TAX ASSETS</b>	035			
31.	<b>B. CURRENT ASSETS (037+045+052+059)</b>	036		<b>6,538,163,295</b>	<b>8,371,185,967</b>
32.	<b>I. INVENTORIES (038+039+040+041+042+043)</b>	037		<b>178,442,884</b>	<b>168,852,941</b>
33.	Inventory of raw materials and materials	038		124,735,462	113,041,510
34.	Inventory of spare parts, small inventory, packaging material and car tires	039		291,499	41,279
35.	Inventory of unfinished and semi-finished products	040			
36.	Inventory of finished products	041			
37.	Inventory of trade goods	042		53,415,923	55,770,152
38.	Inventory of biological assets	043			
39.	<b>II. ASSETS (OR GROUPS FOR DISPOSAL) AVAILABLE FOR SALE AND DISCONTINUED OPERATIONS</b>	044		13,860	558,728,697
40.	<b>III. SHORT-TERM RECEIVABLES (046+047+048+049+050+051)</b>	045		<b>1,855,535,874</b>	<b>1,954,614,484</b>
41.	Receivables from related parties	046	16	645,353,272	567,137,439
42.	Trade receivables	047	9	1,153,487,861	1,285,686,585
43.	Receivables for advances given to vendors	048		13,920,454	48,438,983
44.	Receivables from the state based on taxes, contributions, custom duties, excises and for other state levies (prepayments)	049		10,749,389	29,966,448
45.	Receivables from employees	050		21,493,633	22,783,039
46.	Other short-term receivables	051		10,531,265	601,990
47.	<b>IV. SHORT-TERM FINANCIAL ASSETS (053+056+057+058)</b>	052		<b>4,266,310,497</b>	<b>5,706,966,377</b>
48.	Investments in securities (054+055)	053			
48.a.	Investments held to maturity	054			
48.b.	Investments at fair value through profit or loss	055			
49.	Receivables from loans to related parties	056			
50.	Receivables from loans	057			
51.	Other short-term financial assets	058		4,266,310,497	5,706,966,377
52.	<b>V. CASH AND CASH EQUIVALENTS (060+061)</b>	059		<b>237,874,040</b>	<b>540,752,165</b>
52.a.	Cash	060	10	76,804,596	37,025,359
52.b.	Cash equivalents	061		161,069,444	503,726,806
53.	<b>VI. PREPAYMENTS AND ACCRUED INCOME</b>	062		<b>77,683,594</b>	<b>61,981,692</b>
54.	<b>TOTAL ASSETS (001+035+036+044+062)</b>	063		<b>20,486,045,869</b>	<b>20,118,985,894</b>
55.	<b>B. OFF BALANCE RECORDS - ASSETS</b>	064		53,924,423	48,964,241

**BALANCE SHEET**  
**(STATEMENT OF FINANCIAL POSITION)**  
on 31 December 2012

(in denars)

No.	POSITION	Designation for ADP	Note number	Amount	
				Current year	Previous year
1	2	3	4	5	6
	<b>LIABILITIES:</b>				
56.	<b>A. CAPITAL AND RESERVES (066+067-068-069+070+071+075-076+077-078)</b>	065		<b>17,169,563,519</b>	<b>17,686,513,154</b>
57.	<b>I. SHARE CAPITAL</b>	066	11	<b>9,583,887,733</b>	<b>9,583,887,733</b>
58.	<b>II. SHARE PREMIUM ACCOUNT</b>	067		<b>540,659,375</b>	<b>540,659,375</b>
59.	<b>III. TREASURY SHARES (-)</b>	068	11.1	<b>3,738,357,351</b>	<b>3,738,357,351</b>
60.	<b>IV. CALLED-UP CAPITAL (-)</b>	069			
61.	<b>IV. REVALUATION RESERVE AND DIFFERENCES FROM VALUATION OF COMPONENTS OF OTHER COMPREHENSIVE INCOME</b>	070		<b>873,088,592</b>	<b>2,294,516,237</b>
62.	<b>VI. RESERVES (072+073+074)</b>	071		<b>1,939,068,503</b>	<b>1,939,068,503</b>
63.	Legal reserves	072		1,916,777,547	1,916,777,547
64.	Statutory reserves	073			
65.	Other reserves	074		22,290,956	22,290,956
66.	<b>VI. RETAINED EARNINGS</b>	075		<b>2,324,609,385</b>	<b>903,181,740</b>
67.	<b>VIII. CARRIED LOSS (-)</b>	076			
68.	<b>IX. PROFIT FOR THE BUSINESS YEAR</b>	077		<b>5,646,607,282</b>	<b>6,163,556,917</b>
69.	<b>X. LOSS FOR THE BUSINESS YEAR</b>	078			
70.	<b>XI. SHARE CAPITAL OF THE OWNERS OF THE PARENT COMPANY</b>	079			
71.	<b>XII. UNCONTROLLED SHARE</b>	080			
72.	<b>B. LIABILITIES (082+085+095)</b>	081		<b>2,549,127,824</b>	<b>1,637,913,926</b>
73.	<b>I. LONG-TERM PROVISIONS FOR LIABILITIES AND EXPENSES (083+084)</b>	082		<b>107,076,506</b>	<b>360,734,671</b>
74.	Provisions for pensions, severance payments and similar liabilities towards the employees	083		32,430,029	24,872,254
75.	Other long-term provisions for liabilities and expenses	084		74,646,477	335,862,417
76.	<b>II. LONG-TERM LIABILITIES (from 086 to 093)</b>	085		<b>648,844,623</b>	
77.	Liabilities to related parties	086			
78.	Trade payables	087		648,844,623	
79.	Liabilities for advances, deposits and bails	088			
80.	Liabilities for loans and credits to related parties	089			
81.	Liabilities for loans and credits	090			
82.	Liabilities for securities	091			
83.	Other financial liabilities	092			
84.	Other long-term liabilities	093			
85.	<b>III. DEFERRED TAX LIABILITIES</b>	094			
86.	<b>IV. SHORT-TERM LIABILITIES (from 096 to 108)</b>	095		<b>1,793,206,695</b>	<b>1,277,179,255</b>
87.	Liabilities to related parties	096	16	672,400,289	494,470,299
88.	Trade payables	097	12	992,521,519	648,963,220
89.	Liabilities for advances, deposits and bails	098		45,522,566	44,055,995
90.	Liabilities for taxes and salary contributions and salary remunerations	099			1,034,406
91.	Liabilities to employees	100		220,596	2,410,571
92.	Current tax liabilities	101		20,824,709	38,520,796
93.	Short-term provisions for liabilities and expenses	102		57,144,168	44,317,778
94.	Liabilities for loans and credits to related companies	103			
95.	Liabilities for loans and credits	104			
96.	Liabilities for securities	105			
97.	Liabilities for dividends	106		1,730,766	1,528,911
98.	Other financial liabilities	107			
99.	Other short-term liabilities	108		2,842,082	1,877,279
100.	<b>V. ACCRUED EXPENSES AND DEFERRED REVENUE</b>	109		<b>767,354,526</b>	<b>794,558,814</b>
101.	<b>VI. LIABILITIES BASED ON NON-CURRENT ASSETS (OR GROUPS FOR DISPOSAL) AVAILABLE FOR SALE AND DISCONTINUED OPERATIONS</b>	110			
102.	<b>TOTAL LIABILITIES: SHARE CAPITAL AND RESERVES AND LIABILITIES (065+081+094+109+110)</b>	111		<b>20,486,045,869</b>	<b>20,118,985,894</b>
103.	<b>C. OFF BALANCE RECORDS - LIABILITIES</b>	112		<b>53,924,423</b>	<b>48,964,241</b>

**INCOME STATEMENT**  
**(PROFIT AND LOSS ACCOUNT)**  
for the period of 01.01 until 31.12 2012

(in denars)

No.	POSITION	Designation for ADP	Note number	Amount	
				Current year	Previous year
1	2	3	4	5	6
1.	<b>I. OPERATING REVENUES (202+203+206)</b>	201		<b>8,243,390,638</b>	<b>8,338,378,398</b>
2.	Sales revenues	202	13	7,268,567,266	8,077,669,996
3.	Other income	203	14	974,823,372	175,360,610
4.	Change of the value of the inventories of the finished products and work in progress	xxx			
4.a.	Inventories of finished products and work in progress - opening balance	204			
4.b.	Inventories of finished products and work in progress - closing balance	205			
5.	Capitalized own production and services	206			85,347,792
6.	<b>II. OPERATING EXPENSES (208+209+210+211+212+213+218+219+220+221+222)</b>	207		<b>6,119,935,901</b>	<b>6,096,352,634</b>
7.	Costs for raw materials and other materials	208		267,031,553	257,648,886
8.	Cost of goods sold	209		367,412,103	396,655,171
9.	Cost of sold materials, spare parts, small inventory, packaging material and car tires	210			
10.	Services with a character of material costs	211	15	2,376,506,557	2,485,358,590
11.	Other operating costs	212	15	644,053,922	569,345,441
12.	Employees related costs (214+215+216+217)	213		1,088,171,181	1,156,051,872
12.a.	Salaries and salary remunerations (net)	214		626,961,665	630,639,494
12.6.	Costs for taxes to salaries and salary remunerations	215		57,072,922	57,768,754
12.b.	Contributions for mandatory social insurance	216		236,124,203	228,001,915
12.r.	Other employees related costs	217		168,012,391	239,641,709
13.	Depreciation/amortisation of tangible and intangible assets	218		1,335,264,899	1,201,862,225
14.	Impairment of non - current assets	219			
15.	Impairment of current assets	220	15	9,474,461	6,310,072
16.	Provisions for liabilities and expenses	221		16,449,056	12,743,646
17.	Other operating expenses	222	15	15,572,169	10,376,731
18.	<b>III. FINANCE INCOME (224+229+230+231+232+233)</b>	223		<b>3,558,640,322</b>	<b>3,991,678,397</b>
19.	Finance income from the operation with related parties (225+226+227+228)	224		3,355,499,415	3,744,213,863
19.a.	Income from investments in related parties	225		3,355,499,415	3,742,954,214
19.b.	Interest income from the operation with related parties	226			
19.c.	Foreign exchange income from the operation with related parties	227			1,259,649
19.d.	Other finance income from the operation with related parties	228			
20.	Income from investments in unrelated parties	229		3,284,520	3,281,933
21.	Interest income from the operation with unrelated parties	230		199,856,387	221,170,407
22.	Foreign exchange income from the operation with unrelated parties	231			23,012,194
23.	Unrealised gains (income) from financial assets	232			
24.	Other finance income	233			
25.	<b>IV. FINANCE EXPENSES (235+239+240+241+242+243)</b>	234		<b>34,461,397</b>	<b>67,574,651</b>
26.	Finance expenses from the operation with related parties (236+237+238)	235			3,825,775
26.a.	Interest expenses from the operation with related parties	236			
26.b.	Foreign exchange expenses from the operation with related parties	237			3,825,775
26.c.	Other finance expenses from the operation with related parties	238			
27.	Interest expenses from the operation with unrelated parties	239		28,979,925	29,704,572
28.	Foreign exchange expenses from the operation with unrelated parties	240		2,227,219	23,001,293
29.	Unrealised losses (expenses) from financial assets	241		3,254,253	11,043,011
30.	Impairment of the financial assets and investments	242			
31.	Other finance expenses	243			
32.	Share in the profit of the associated companies	244			
33.	Share in the loss of the associated companies	245			
34.	Profit from the regular operation (201+223+244) - (204-205+207+234+245)	246		5,647,633,662	6,166,129,510
35.	Loss from the regular operation (204-205+207+234+245) - (201+223+244)	247			
36.	Net profit from discontinued operation	248			
37.	Net loss from discontinued operation	249			
38.	Profit before tax (246+248) or (246-249)	250		5,647,633,662	6,166,129,510
39.	Loss before tax (247+249) or (247-248)	251			
40.	Income tax	252		1,026,380	2,572,593
41.	Deferred tax income	253			
42.	Deferred tax expenses	254			
43.	<b>NET PROFIT FOR THE BUSINESS YEAR (250-252+253-254)</b>	255		<b>5,646,607,282</b>	<b>6,163,556,917</b>
44.	<b>NET LOSS FOR THE BUSINESS YEAR (251+252-253+254)</b>	256			
45.	Average number of employees based on the working hours in the accounting period (in absolute amount)	257		1,252	1,250
46.	Number of months of operation (in absolute amount)	258		12	12
47.	<b>PROFIT/LOSS FOR THE PERIOD</b>	259		<b>5,646,607,282</b>	<b>6,163,556,917</b>
47.a.	Profit that belongs to the shareholders in the parent company	260		3,199,744,233	3,492,682,370
47.b.	Profit that belongs to the uncontrolled share	261		2,446,863,049	2,670,874,547
47.c.	Loss that applies to the shareholders in the parent company	262			
47.d.	Loss that applies to the uncontrolled share	263			
48.	<b>EARNINGS PER SHARE</b>	264		<b>65</b>	<b>71</b>
48.a.	Total basic earning per share	265		65	71
48.b.	Total diluted earning per share	266			
48.c.	Basic earning per share after discontinued operation	267			
48.d.	Diluted earning per share after discontinued operation	268			

**STATEMENT OF OTHER COMPREHENSIVE INCOME**  
for the period of 01.01 until 31.12 2012

(in denars)

No.	POSITION	Designation for ADP	Note number	Amount	
				Current year	Previous year
1	2	3	4	5	6
1.	Profit for the year	269		5,646,607,282	6,163,556,917
2.	Loss for the year	270			
3.	Other comprehensive income (273+275+277+279+281+283) - (274+276+278+280+282+284)	271			
4.	Other comprehensive loss (274+276+278+280+282+284) - (273+275+277+279+281+283)	272			
5.	Gains arising from translation of foreign operations	273			
6.	Losses arising from translation of foreign operations	274			
7.	Gains from re-measurement of the financial assets available-for-sale	275			
8.	Losses from re-measurement of the financial assets available-for-sale	276			
9.	Effective part of the gains from hedging instruments for hedging of cash flows	277			
10.	Effective part of the losses from hedging instruments for hedging of cash flows	278			
11.	Changes in the revaluation reserves for non-current assets (+)	279			
12.	Changes in the revaluation reserves for non-current assets (-)	280			
13.	Actuarial gains from defined plans for employees' benefits	281			
14.	Actuarial losses from defined plans for employees' benefits	282			
15.	Share in the other comprehensive income of the associated companies (only for consolidation purposes)	283			
16.	Share in the other comprehensive loss of the associated companies (only for consolidation purposes)	284			
17.	Profit tax on the components of the other comprehensive income	285			
18.	Net other comprehensive income (271-285)	286			
19.	Net other comprehensive loss (285-271) or (272+285)	287			
20.	Total comprehensive income for the year (269+286) or (286-270)	288		5,646,607,282	6,163,556,917
20.a.	Comprehensive income that belongs to the shareholders in the parent company	289		3,199,744,233	3,492,682,370
20.b.	Comprehensive income that belongs to the uncontrolled share	290		2,446,863,049	2,670,874,547
21.	Comprehensive loss for the year (270+287) or (270-286) or (287-269)	291			
21.a.	Comprehensive loss that applies to the shareholders in the parent company	292			
21.b.	Comprehensive loss that applies to the uncontrolled share	293			

## Makedonski Telekom AD

Tax period: 01/01-31/12/12

## Tax return

I DETERMINATION OF THE INCOME TAX FOR THE UNRECOGNIZED EXPENSES		AOP	
<b>A</b>	<b>Reconciliation of the unrecognized expenses for tax purposes for the current year (<math>\Sigma</math> AOP 02 to AOP 26 )</b>	<b>01</b>	<b>174,495,189</b>
1	The expenditures not being connected with the performance of the activity of the entity	02	4,805,886
2	The paid cost fees and other personal income from employment over the limit prescribed by the law	03	19,025,426
3	The paid cost fees to the employees which have not been prescribed in Article 11 paragraph 1 item 2 of the Profit tax Law	04	92,075,923
4	Costs for organized food and transportation to and from work for the employees, over the amount prescribed by law	05	-
5	Costs for personal allowances to the members of management and supervisory board over the amount prescribed by law	06	5,053,598
6	Costs incurred on the basis of the paid voluntary contributions in the voluntary retirement fund above the amount prescribed by the Law	07	-
7	Allowances for the volunteers and for the persons engaged in conducting public affairs paid over the amount prescribed by law.	08	1,368,920
8	Hidden payments of profits	09	3,910,439
9	Costs for representation	10	17,664,679
10	Donations expenses in relation to the Law of donations and sponsorships in public activities above 5% from the total revenue generated in the FY	11	1,150,024
11	Sponsorships expenses in relation to the Law of Sponsorships and sponsorships in public activities above 3% from the total revenue generated in the FY	12	1,736,625
12	Interest costs for credits which are not used for business activities of the tax payer	13	-
13	Insurance premiums paid by the employer in favour of the members of the governing bodies and the employees	14	-
14	Withholding taxes (deduction) paid in the name of third parties against the expenditures of the taxpayer	15	30,506
15	Tax penalties and fines, penalties and penalty interest on a late payment of public duties and costs of forced collection	16	133,988
16	Scholarships	17	1,042,817
17	The costs for shrinkage, loss, shambles and break-down	18	-
18	Permanent written-off bad debt receivables	19	-
19	Proportional amount of the depreciation of the assets for which tax deduction has been used as reinvested profit in the tax balance for 2007 and 2008.	20	-
20	Costs for written-off bad debt receivables	21	6,125,240
21	The difference between the transfer price and the market price generated between related parties	22	-
22	Part of the interest for the loans derived from the creditor with status of related party which is not a commercial banks or other authorized institution	23	-
23	The amount of the default interests between related parties	24	-
24	Interest on loans received from shareholders or co-owners with over 25% participation in the capital of the company	25	-
25	Other reconciliation of expenses which are not quoted in above lines	26	20,371,118
<b>B.</b>	<b>Tax credit for delayed cost recognition</b>		<b>164,231,384</b>
26	Tax credit at the amount of paid profit tax in the previous tax period	27	164,231,384
<b>V.</b>	<b>Tax base (AOP 01 – AOP 27 <math>\geq</math> 0)</b>	<b>28</b>	<b>10,263,805</b>
27	Transferred tax loss from previous years	29	-
<b>G.</b>	<b>Tax base decreased for transferred tax losses from previous years (AOP 28 - AOP 29 &gt; 0)</b>	<b>30</b>	<b>10,263,805</b>
<b>D.</b>	<b>Calculated income tax (AOP 30 x tax rate)</b>	<b>31</b>	<b>1,026,380</b>
<b>Tax reductions and exemptions</b>			
28	Decrease of tax in the amount of procured 10 fiscal cash registers	32	-
<b>E.</b>	<b>Avoiding of double taxation</b>		
29	paid on the profit from non resident subsidiary owned by domestic entity.	33	-
<b>Z.</b>	<b>Tax payment/return</b>		
30	Profit tax after deductions ( AOP31-AOP32-AOP33 $\geq$ 0)	34	1,026,380
31	Settled advance tax payments for the tax period	35	4,370,192
32	Amount of the paid income tax from previous periods	36	-
33	Amount for payment/over paid amount (AOP34-AOP35-AOP36)	37	-
<b>I.</b>	<b>Special information</b>		
34	Transferred unused part of the right to decrease the tax from Article 36-b from the Law	38	-
35	Transferred unused part of the withholding tax paid abroad till the prescribed rate except the tax from the dividends received from non resident subsidiary	39	-
36	Total revenue	40	11,802,030,960
37	Total costs for donations in the year	41	13,108,083
38	Total costs for sponsorships in the year	42	15,085,778
39	Amount of tax credit when AOP 01 - AOP 27 < 0	43	-
<b>J.</b>	<b>Gain/loss before taxation</b>		
40	Profit for the year after taxation on nondeductible expenses	44	5,646,607,282
41	Loss for the year after taxation on nondeductible expenses	45	-
42	Advanced dividend payment in the tax period	46	-
43	Dividends paid and reserves from previous year	47	6,163,556,917
44	Accumulated gain and free reserves in period of 01.01.2009	48	5,646,607,282
45	Accumulated loss in period of 01.01.2009	49	-
<b>K.</b>	<b>Special information</b>		
46	Amount of transferred notdistributed gains from 31 December 2008 and reserves that can be allocated	50	903,181,740
47	Amount of transferred uncovered losses from 31 December 2008 which affects the gains from 2008	51	-

**Makedonski Telekom AD - Skopje**  
Explanatory Notes to the Annual Accounts  
For the year ended  
31 December 2012

Notes to the annual accounts

## 1. GENERAL INFORMATION

### 1.1. About the Company

These notes relate to Makedonski Telekom AD – Skopje with EMBS 05168660, (hereinafter referred as: “the Company”) a joint stock company incorporated and domiciled in the Republic of Macedonia.

The Company’s immediate parent company is AD Stonebridge Communications – Skopje, under voluntary liquidation, solely owned by Magyar Telekom Plc. registered in Hungary. The ultimate parent company is Deutsche Telekom AG registered in Federal Republic of Germany.

As of 31 December 2012, shareholders structure of Company is as follows:

Shareholders of Makedonski Telekom AD - Skopje	Number of shares	%
Stonebridge AD Skopje, in liquidation	48,877,780	51.00
Government of the Republic of Macedonia	33,364,875	34.81
The Company (treasury shares)	9,583,878	10.00
International Finance Corporation (IFC)	1,796,980	1.88
Other minority shareholders	2,215,268	2.31
	<u>95,838,781</u>	<u>100.00</u>

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

	Country of incorporation	Ownership interest
T-Mobile Macedonia AD Skopje	Macedonia	100%
Foundation e-Makedonija	Macedonia	100%

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

The Macedonian telecommunications sector is regulated by the Electronic Communications Law (“ECL”) enacted in March 2005. Under the ECL, the Company has been designated as a Significant Market Power operator (“SMP”) in the market for fixed line voice telephone networks and services, including the market for access to the networks for data transmission and leased lines.

During 2012, there were several amendments in ECL and also most of the existing Rulebooks were implemented or amended by the Agency for Electronic Communications (the “Agency”): retail price regulation; technical, usage and other conditions for relevant types of electronic communication networks and infrastructure, associate infrastructure capacities and facilities; determination of calculation method for number usage and annual fees; assignment of numbers and series of numbers from the numbering plan; general terms and conditions; “underground cabling”; Local bit-stream access; wholesale leased lines; minimal set of leased lines.

In December 2012, the Agency has announced starting of the new round market analysis on wholesale markets: 4 – Call origination, 5 – Call termination and 6 – Call transit services in public telephone networks on fix location. The final document is expected to be published in the first quarter of 2013.

On 5 April 2012, The Agency developed and published general Regulatory strategy for the period of next 5 years (2012-2016). The official document is “Five years regulatory strategy of AEC”. Main focuses of the strategy are: fostering of wholesale and retail services regulation, introduction of pure LRIC (for fixed and mobile voices, SMS etc), NGA and FTTH regulation in line with NGA recommendation and refarming and frequency allocation for 4 G services.

Domestic electronic communication market is highly competitive and there is trend of price decreasing, both for fixed and mobile services. With amendments of the Rulebook for retail regulation, 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. Ex-ante retail regulation shall be based on price squeeze methodology.

These activities resulted in price decrease of some wholesale and retail services of the Company. On retail side, standard monthly subscription for business customers was decreased (on equal level with residential one). On wholesale side there

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were changes in fees for interconnection (termination and origination), ULL, Bit-stream access and wholesale line rental (WLR).

The Company has a cost based price obligation for the Regulated wholesale services, using Long Run Incremental Costs methodology (“LRIC”). 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 fibre 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 fibre). The new fees will be implemented as of 1 February 2013.

In line with the PSTN migration of the Company’s network, process that will last until end of 2013, the Agency approved proposed modifications of the Company’s Wholesale Offers (processes, technical conditions and prices) applicable as of 1 January 2012.

In addition, the Agency approved the Reference offers for 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.

Starting with August 2006, the Company has more than 100 shareholders, as a result of the sale of Governmental shares through auction organized by the Government during June 2006. According to the Law on securities it qualifies as company with special reporting obligations, which mainly, encompasses provision of quarterly, semi-annual and annual financial information to the Securities Exchange Commission of the Republic of Macedonia.

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 2012 was 1,252 (2011: 1,250).

As of 31 December 2012, structure of the employees of Company by educational attainment is as follows:

	%
University level education	41.86
Higher education	5.24
4 years secondary education/specialist	10.97
4 years secondary education	35.16
3 years secondary education	6.37
Primary education	0.40
	100.00

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

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

Magyar Telekom’s Audit Committee informed the U.S. Department of Justice (the “DOJ”) and the U.S. Securities and Exchange Commission (the “SEC”) of the internal investigation. The DOJ and the SEC commenced investigations into the activities that were the subject of the internal investigation. For further information about the internal investigation, please refer to the financial statements of the Company for the previous years.



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In 2011, Magyar Telekom 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 has entered into a two-year deferred prosecution agreement (the "DPA") with the DOJ, under which Magyar Telekom was charged with a violation of the anti-bribery provisions of the FCPA and two violations of the books and records provisions of the FCPA. In accordance with the DPA, on 29 December 2011, the DOJ filed a criminal information (the "Information") setting out these charges in the U.S. District Court for the Eastern District of Virginia. Magyar Telekom has agreed to admit to the DOJ's allegations and to acknowledge responsibility for the acts as charged in the Information. Magyar Telekom has agreed to pay a criminal penalty of USD 59.6 million to cooperate with the DOJ in future investigations, to refrain from any violations of U.S. federal criminal law, to continue to operate a compliance program and to report to the DOJ annually regarding the compliance program during the term of the DPA. The DOJ will seek to dismiss the charges upon conclusion of the two-year term, unless Magyar Telekom violates the terms of the DPA.

On 29 December 2011, the SEC filed in the U.S. District Court for the Southern District of New York a Complaint (the "Complaint") and a proposed Final Judgment against Magyar Telekom (the "Final Judgment"). Without admitting or denying the allegations in the Complaint, Magyar Telekom consented to the filing of the Complaint and entry of the Final Judgment to resolve the SEC's investigation. The Complaint alleged civil violations of the FCPA's anti-bribery, books and records and internal control provisions. The Final Judgment, which was approved by the U.S. District Court for the Southern District of New York on 3 January 2012, permanently enjoined Magyar Telekom from violating these provisions and required Magyar Telekom to pay USD 25.2 million for disgorgement of profits and USD 6.0 million of prejudgment interest thereon.

The final settlements recognize the DOJ's and the SEC's consideration of Magyar Telekom's self-reporting, thorough internal investigation, remediation and cooperation with the DOJ's and the SEC's investigations. Magyar Telekom has undertaken several remedial measures to address the issues identified during the course of these investigations. These measures include steps designed to revise and enhance Magyar Telekom's internal controls, as well as the establishment of the Corporate Compliance Program. The Corporate Compliance Program promotes awareness of Magyar Telekom's compliance policies and procedures through training, the operation of a whistleblower hotline, and monitoring of, and communications with, employees and subsidiaries of Magyar Telekom. Magyar Telekom remains fully committed to responsible corporate behaviour.

On 6 January 2012 Magyar Telekom paid a criminal penalty of USD 59.6 million pursuant to the settlement with the DOJ and on 23 January 2012 Magyar Telekom paid USD 25.2 million for disgorgement of profits and USD 6.0 million of prejudgment interest pursuant to the settlement with the SEC, totalling USD 90.8 million paid with respect to the settlements with the DOJ and the SEC.

The above-referenced settlement by Magyar Telekom and associated liability was not recorded in the annual accounts of the Company. These amounts were reflected in the consolidated financial statements of Magyar Telekom and are not reflected in the annual accounts of the Company.

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 216,577 thousand has been identified as potential tax impact together with related penalty interest as of 31 December 2009 arising from the transactions conducted by the Company 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 227,972 thousand, which were paid in 2010 upon an executive decision issued by the Public Revenue Office. In addition, the value of one contract of MKD 105,147 thousand capitalised within treasury shares was reclassified and derecognized against the Retained earnings. The other contracts that were identified by the Final Report and the reports of the tax and legal experts related to transactions undertaken by the Company were expensed in the related periods (2001-2007).

In May 2008, the Ministry of Interior ("MOI") of the Republic of Macedonia ("RoM") submitted to the Company an official written request for information and documentation regarding certain payments for consultancy services and advance

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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.

We understand, based on public information available as of 10 December 2008, that the MOI Organized Crime Department submitted the files to the Basic Public Prosecution Office of Organized Crime and Corruption, with a proposal to bring criminal charges against Attila Szendrei (former CEO of Makedonski Telekom AD - Skopje), Rolf Plath (former CFO of Makedonski Telekom AD - Skopje), Mihail Kefaloyannis (former member of the Board of Directors in Stonebridge and former member of the Board of Directors in Telemacedonia) and Zoltan Kisjuhász (former CEO of Stonebridge and former non-executive member of the Board of Directors of Makedonski Telekom AD - Skopje) on the account of a reasonable doubt for committed criminal act. These individuals are proposed to be charged with having „abuse of office and authorizations” in their position in Makedonski Telekom AD - Skopje by concluding consultancy contracts for which there was no intention or need for any services in return.

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 above stated persons and asked for a statement whether the Company has suffered any damages on the basis of the said consultancy contracts.

After several postponements of the court hearing related to the investigation procedure handled in the Primary Court Skopje 1 Skopje, 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 experts asked additional information related to certain agreements concluded in 2005 and 2006, and related invoices. The Company has collected and submitted requested information/documentation to the Court Expertise Office on 1 November 2010.

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 court hearing has taken place at the end of 2011, but it was postponed since the court could not provide presence of any of the defendants. The Company, as damaged party in this case, has not received 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 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, 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 damage party in this particular case, which is of significant importance for the position of the Company in this proceeding and its further actions. At the moment there aren't any indications that the Company could be found liable and made to pay any penalties or fines for the criminal procedure which is initiated against the individuals and accordingly the Company did not record any provision.

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

## Notes to the annual accounts

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 annual accounts may be misstated, including from the effects of a possible illegal act.

### 2. BASIS FOR PREPARATION OF ANNUAL ACCOUNTS

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

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

The annual accounts are presented in Macedonian denars.

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

### 3. SIGNIFICANT ACCOUNTING POLICIES

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

#### 3.1. Foreign currency translation

##### 3.1.1. Functional and presentation currency

The annual accounts are presented in Macedonian denars, which is the Company's functional and presentation currency.

##### 3.1.2. 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 balance sheet date are translated to denars at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognized in the Income statement (Finance income/expenses). Non-monetary financial assets and liabilities denominated in foreign currency are translated to denars at the foreign exchange rate ruling at the date of transaction.

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

The exchange rates used for translation at 31 December 2012 and 31 December 2011 were as follows:

	2012	2011
	MKD	MKD
1 USD	46.65	47.53
1 EUR	61.50	61.51

#### 3.2. 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.

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

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

### 3.2.1. Financial assets

The Company classifies its financial assets in the following categories:

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

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

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

The Company assesses at each balance sheet 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 Income statement against allowance accounts to reduce the carrying amount until the derecognition of the financial asset, when the net carrying amount (including any allowance for impairment) is derecognized from the Balance sheet. Any gains or losses on derecognition are calculated and recognized as the difference between the proceeds from disposal and the (net) carrying amount derecognized.

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

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

This category comprises those financial assets designated at fair value through profit or loss at inception. A financial asset is classified in this category if the Company manages such asset and makes purchase and sale decisions based on its fair value in accordance with the Company investment strategy for keeping investments within portfolio until there are favourable 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 Income statement (Finance income/expenses) in the period in which they arise.

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

- (b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except those with maturities over 12 months after the balance sheet 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 with bank
- trade receivables

#### Notes to the annual accounts

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

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, call deposits held with banks and other short-term highly liquid investments with original maturities of three months or less.

Should an impairment on cash and cash equivalents occur, it would be recognized in the Income statement (Finance expenses).

#### **Trade and other receivables**

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

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

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

Individual valuation is carried out for the largest customers and international customers and also for customers under litigation and bankruptcy proceedings. In 2011 the Company performed detailed analysis of the customers' portfolios and included in the individual valuation also the customers of interconnection services. Itemized valuation is also performed in special circumstances.

When a trade receivable is established to be uncollectible, it is written off in the Income statement (Other operating expenses) with a parallel release of the cumulated impairment on the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are recognised as income in the Income statement.

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 Income statement as a reduction to Operating expenses (Impairment of current assets).

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. 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 Other employee related costs in the Income statement evenly over the term of the loan.

## Notes to the annual accounts

### (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 balance sheet date. Purchases and sales of investments are recognized on the trade-date – the date on which the Company commits to purchase or sell the asset.

Subsequent to initial recognition all available-for-sale financial assets are measured at fair value, except that any instrument that does not have a quoted market price in an active market and whose fair value cannot be reliably measured is stated at cost, including transaction costs, less impairment losses. The intention of the Company is to dispose these assets when there are favourable market conditions for their sale. Changes in the fair value of financial assets classified as available for sale are recognized in Statement of 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 Income statement as gains and losses from investment securities.

The Company assesses at each balance sheet 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 any such evidence exists for AFS financial assets, the cumulative unrealized gain (if any) is reclassified from Statement of other comprehensive income to Income statement, and any remaining difference is also recognized in the Income statement (Finance income). Impairment losses recognized on equity instruments are not reversed through the Income statement.

When AFS financial assets are sold or redeemed, therefore derecognized, the fair value adjustments accumulated in equity are reclassified from Statement of other comprehensive income to Income statement (Finance income).

### **3.2.2. 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.

### **3.3. Inventories**

Inventories are stated at the lower of cost or net realisable value. Net realisable 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 Operating expenses (Impairment of current assets).

### **3.4. Non-current assets held for sale**

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

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### 3.5. Tangible assets

Tangible assets are stated at cost less accumulated depreciation and impairment losses (see note 3.7).

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

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

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

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the Income statement 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 Income statement as Other operating expenses.

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 Income statement (Other income/Other operating expenses accordingly).

Depreciation is charged to the Income statement on a straight-line basis over the estimated useful lives of items of tangible assets. 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 8.

The estimated useful lives are as follows:

	2012	2011
	Years	Years
Buildings	20-40	20-40
Aerial and cable lines	20-25	20-25
Telephone exchanges	10	10
Computers	4	4
Furniture and fittings	4-10	4-10
Vehicles	4-10	4-10
Other	2-15	2-15

### 3.6. Intangible assets

Intangible assets that are acquired by the Company are stated at cost less accumulated amortisation and impairment losses (see note 3.7).

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

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

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The estimated useful lives are as follows:

	2012	2011
	Years	Years
Software and other intangible assets	2-5	2-5

Amortisation is charged to the Income statement on a straight-line basis over the estimated useful lives of intangible assets. Intangible assets are amortised 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 tangible and intangible 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.

### 3.7. Impairment of tangible and intangible assets

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

Assets that are subject to amortisation 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 Income statement (Depreciation/amortisation). Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

### 3.8. Provisions and contingent liabilities

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

Provisions are measured and recorded as the best estimate of the expenditure required to settle the present obligation at the balance sheet 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 Income statement (Provisions for liabilities and charges).

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.

### 3.9. Share capital

Ordinary shares, together with golden share of Government of RM are classified as equity.

### 3.10. Treasury shares

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



Notes to the annual accounts

### **3.11. Statutory reserves**

Under local statutory legislation, the Company is required to set aside 15% 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. These reserves are used to cover losses and are not distributed to shareholders except in the case of bankruptcy of the Company.

### **3.12. Revaluation reserves**

The revaluation reserve relates to tangible and intangible assets and comprises the cumulative increased carrying value using official revaluation coefficients based on the general manufactured goods price increase index producers price index on the date of revaluation. The last revaluation of tangible and intangible assets was made in year 2000.

### **3.13. Revenues**

Revenues for all services and equipment sales (see note 13) are shown net of VAT and discounts. Revenue is recognized when the amount of the revenue can be reliably measured, and when it is probable that future economic benefits will flow to the Company and specific criteria of IAS18 on the sale of goods and rendering of services are met for the provision of each of the Company's services and sale of goods.

Customers of the Company are granted loyalty awards (credit points) based on their usage of the Company's services including timely payment of their invoices. Loyalty awards can be accumulated and redeemed to obtain future benefits (e.g. handsets, telecommunication equipment, etc.) from the Company. When customers earn their credit points, the fair value of the credit points earned are deducted from the revenue invoiced to the customer, and recognized as 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.

#### **3.13.1. Fixed line telecommunications revenues**

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

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

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

Revenue and expenses associated with the sale of telecommunications equipment and accessories are recognized when the products are delivered, provided there are no unfulfilled company obligations that affect the customer's final acceptance of the arrangement. Revenues from premium rate services (voice and non-voice) are recognized on a gross basis when the delivery of the service over the network is the responsibility of the Company, the Company establishes the prices of these services and bears substantial risks of these services, otherwise presented on a net basis.

Third parties using the telecommunications network include other telecommunications providers which terminate or transit calls on the network. These wholesale (incoming) traffic revenues are recognized in the period of related usage. A proportion 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 annual accounts as the Company is the principal supplier of these services using its own network freely defining the pricing of the service, and recognized in the period of related usage.

Notes to the annual accounts

### **3.13.2. 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 Balance sheet as Trade receivables.

### **3.14. Employee benefits**

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

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

#### **3.14.2. Bonus plans**

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

#### **3.14.3. Termination benefits**

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

### **3.15. Marketing expenses**

Marketing costs are expensed as incurred. Marketing expenses are disclosed in note 15.

Notes to the annual accounts

### **3.16. 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 non resident 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-deductible expenses incurred in that fiscal year, decreased by the amount of tax credits and other tax reliefs.

### **3.17. Leases**

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

Assets leased to customers under operating leases are included in tangible assets in the Balance sheet. 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.

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

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

### **3.18. 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.

### **3.19. Dividend**

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

## **4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS**

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

### **4.1. Useful lives of assets**

The determination of the useful lives of assets is based on historical experience with similar assets as well as any anticipated technological development and changes in broad economic or industry factors. The appropriateness of the estimated useful lives is reviewed annually, or whenever there is an indication of significant changes in the underlying assumptions. We believe that the accounting estimate related to the determination of the useful lives of assets is a critical accounting estimate since it involves assumptions about technological development in an innovative industry and heavily dependent on the investment plans of the Company. Further, due to the significant weight of depreciable assets in our total assets, the impact of any changes in these assumptions could be material to our financial position, and results of operations. As an example, if the Company was to shorten the average useful life of its assets by 10%, this would result in additional annual depreciation and amortisation expense of approximately MKD 148,362,766 (2011: MKD 133,581,863). See note 7 and 8 for the changes made to useful lives in the reported years.

The Company constantly introduces a number of new services or platforms including, but not limited to the fibre-to-the-home rollout. In case of the introduction of such new services, the Company conducts a revision of useful lives of the already existing platforms, but in the vast majority of the cases these new services are designed to co-exist with the old platforms, resulting in no change-over to the new technology. Consequently, the useful lives of the older platforms usually do not require shortening.

In 2012 the Company conducted an item by item revision of the useful life of assets affected by the PSTN migration project of the Company, which in general resulted in shortening of their useful life.

Notes to the annual accounts

#### **4.2. Estimated impairment of tangibles and intangibles**

We assess the impairment of identifiable tangibles 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% (2011: 2%) to determine the terminal value after 10 years. The Company uses fair values less cost to sell calculation. The discount rate used was 9.46 % (2011: 9.39 %). 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 litigation 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 ageing of our account receivables balance and our historical write-off experience, customer credit-worthiness and recent changes in our customer payment terms (see note 3.2.1 (b)). These factors are reviewed periodically, and changes are made to the calculations when necessary. In 2011 the Company performed detailed analysis of the customers' portfolios and included in the individual valuation also the customers of interconnection services. In addition, the Company analysed the nature of the business (residential, business, fixed line etc.) as well as the collection efficiency, which resulted in changes in the calculations and lower impairment of trade and other receivables in 2011. In 2012 the Company carried out detailed analysis on the groups of customers on which collective assessment of impairment is performed which resulted in further segmentation of the business customers as well as changes in the related impairment rates due to different payment behaviour, resulting in lower impairment of trade and other receivables in 2012. 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 6.1.2).

#### **4.4. Provisions**

Provisions in general are highly judgmental, especially in case of legal disputes. The Company assesses the probability of an adverse event as a result of a past event and if the probability of an outflow of economic benefits is evaluated to be more than 50%, the Company fully provides for the total amount of the estimated liability (see note 3.8). As the assessment of the probability is highly judgmental in some cases the evaluation may not prove to be in line with the eventual outcome of the case. In order to determine the probabilities of an adverse outcome, the Company uses internal and external legal counsel.

#### **4.5. Subscriber acquisition costs**

Subscriber acquisition costs primarily include the loss on the equipment sales (revenues and costs presented on a gross basis) and fees paid to subcontractors that act as agents to acquire new customers. The Company's agents also spend a portion of their agent fees for marketing the Company's products, while a certain part of the Company's marketing costs could also be considered as part of the subscriber acquisition costs. The up-front fees collected from customers for activation or connection are marginal compared to the acquisition costs. These revenues and costs are recognized when the customer is connected to the Company's fixed network. No such costs or revenues are capitalized or deferred. These acquisition costs (losses) are recognized immediately as they are not accurately separable from other marketing costs.

### **5. CHANGE IN ACCOUNTING POLICY AND ERRORS**

Accounting policy is consistently applied in periods presented in these annual accounts.

Notes to the annual accounts

## 6. FINANCIAL RISK MANAGEMENT

### 6.1. Financial risk factors

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

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

#### 6.1.1. Market risk

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

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

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

##### a) Foreign currency risk

The functional currency of the Company is the Macedonian denar.

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

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

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

The Company accumulated more cash in EUR and USD than its trade payables in EUR and USD. At 31 December 2012, if MKD would have been 1% (2011: 1%) weaker or stronger against EUR, profit would have been MKD 35,394,157 (2011: MKD 41,244,055) in net balance higher or lower, respectively. At 31 December 2012, if MKD would have been 1% (2011: 1%) weaker or stronger against USD, profit would have been MKD 512,726 (2011: MKD 872,214) 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 interest rate risk and return on investment is of secondary importance compared to the safety and liquidity objectives described above. The Company is minimizing interest rate risk through defining of fixed interest rates in the period of the validity of certain financial investments. On the other hand fix term deposits may be prematurely terminated, since the contracts contain a clause that, the bank will calculate and pay interest by interest rate which is valid on the nearest maturity period of the deposit in accordance with the interest rates given in the offer.

## Notes to the annual accounts

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

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

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

The Company had MKD 4,504,162,427 deposits (including call deposits) as at 31 December 2012, 1% rise in market interest rate would have caused (ceteris paribus) the interest received to increase with approximately MKD 45,041,624 annually, while similar decrease would have caused the same decrease in interest received. Amount of deposit is MKD 6,247,685,091 (including call deposits) as at 31 December 2011, therefore 1% rise in market interest rate would have caused (ceteris paribus) the interest received to increase with approximately MKD 62,476,851 annually, while similar decrease would have caused the same decrease in interest received.

### c) Other price risk

The Company's investments are in equity of other entities that are publically traded on the Macedonian Stock Exchange, both on its Official and Regular market. The management continuously monitors the portfolio equity investments based on fundamental and technical analysis of the shares. All buy and sell decisions are subject to approval by the relevant Company's bodies. In line with the Company strategy, the investments within portfolio are kept until there are favourable 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 2012 and 31 December 2011, the Company holds investments, which could be affected by risk variables such as stock exchange prices.

The Company had MKD 50,828,089 investments in equity of other entities that are publically traded on the Macedonian Stock Exchange as at 31 December 2012, 20% rise in market price would have caused (ceteris paribus) MKD 10,165,618 gain, while similar decrease would have caused the same loss in the Income statement. The amount of the investments in equity of other entities that are publically traded on the Macedonian Stock Exchange is MKD 54,082,342 as at 31 December 2011, therefore 20% rise in market price would have caused (ceteris paribus) MKD 10,816,468 gain, while similar decrease would have caused the same loss in the Income statement.

### 6.1.2. Credit risk

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

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

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

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

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

The depositing decisions are made based on the following priorities:

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

## Notes to the annual accounts

- 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. In this case, the determination of counterparty limits per banks shall be performed in accordance with CAEL methodology (evaluation of bank risk components – capital, assets, earning and liquidity).

CAEL methodology evaluates banks' financial ratios as an integral part of the four CAEL components - Capital, Assets, Earnings and Liquidity. The final score of the banks (on a scale from 1 to 5) is related to the banks' operations and performance for the analysed period. The Company policy is to invest in banks, which final score varies within following 3 ranges:

A - Banks with evaluation from 1.84 to 2.45 – investments not exceeding 80% from the bank shareholder's capital

B - Banks with evaluation from 2.46 to 3.07 – investments not exceeding 70% from the bank shareholder's capital

C - Banks with evaluation from 3.08 to 3.69 – investments not exceeding 60% from the bank shareholder's capital

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

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

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

Largest amount of one deposit in 2012 is MKD 1,699,245,000 denominated in EUR 27,630,000 (2011: MKD 1,383,862,500). In addition, the Company has deposits with 4 domestic banks (2011: 4 domestic banks).

### 6.1.3. Liquidity risk

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

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

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

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

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

## 6.2. Capital risk management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The total amount of equity managed by the Company, as at 31 December 2012, is MKD 17,169,563,519, as per local GAAP (2011: MKD 17,686,513,154). Out of this amount MKD 9,583,887,733 (2011: MKD 9,583,887,733) represent share capital and MKD 1,916,777,547 (2011: MKD 1,916,777,547) represent statutory reserves,

Notes to the annual accounts

which are not distributable (see note 3.11). The Company has also acquired treasury shares (see notes 3.10 and 11.1). 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 annual accounts 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.

**6.3. 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 Receivables from long – term loans 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 balance sheet date.

Liabilities included in the Balance sheet 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 liabilities is determined by using discounted cash-flow valuation technique.



Notes to the annual accounts

## 7. INTANGIBLE ASSETS

In denars	Software	Other assets	Total
Cost			
At 1 January 2012	2,551,159,228	186,911,885	2,738,071,113
Additions	154,966,406	-	154,966,406
Transfer from assets under construction (see note 8)	92,616,601	-	92,616,601
Disposal	(2,939,515)	-	(2,939,515)
At 31 December 2012	<u>2,795,802,720</u>	<u>186,911,885</u>	<u>2,982,714,605</u>
Amortisation			
At 1 January 2012	1,940,043,181	186,594,045	2,126,637,226
Charge for the year	182,623,947	317,840	182,941,787
Disposal	(2,939,515)	-	(2,939,515)
Transfer between group of assets (see note 8)	29,802,726	-	29,802,726
At 31 December 2012	<u>2,149,530,339</u>	<u>186,911,885</u>	<u>2,336,442,224</u>
Carrying amount			
At 1 January 2012	<u>611,116,047</u>	<u>317,840</u>	<u>611,433,887</u>
At 31 December 2012	<u>646,272,381</u>	<u>-</u>	<u>646,272,381</u>

In denars	Software	Other assets	Total
Cost			
At 1 January 2011	2,271,926,918	186,911,885	2,458,838,803
Additions	168,604,255	-	168,604,255
Transfer from assets under construction (see note 8)	110,628,055	-	110,628,055
At 31 December 2011	<u>2,551,159,228</u>	<u>186,911,885</u>	<u>2,738,071,113</u>
Amortisation			
At 1 January 2011	1,766,655,086	186,276,206	1,952,931,292
Charge for the year	173,388,095	317,839	173,705,934
At 31 December 2011	<u>1,940,043,181</u>	<u>186,594,045</u>	<u>2,126,637,226</u>
Carrying amount			
At 1 January 2011	<u>505,271,832</u>	<u>635,679</u>	<u>505,907,511</u>
At 31 December 2011	<u>611,116,047</u>	<u>317,840</u>	<u>611,433,887</u>

The reviews of the useful lives of intangible assets during 2012 affected the lives of a number of assets, mainly including software. The change on the useful life of the affected assets was made according to technological changes and business plans of the Company.

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

In denars	2012	2013	2014	2015	After 2015
(Decrease) / Increase in amortisation	<u>(48,593,158)</u>	<u>(35,284,930)</u>	<u>26,126,493</u>	<u>57,751,149</u>	<u>-</u>
	<u>(48,593,158)</u>	<u>(35,284,930)</u>	<u>26,126,493</u>	<u>57,751,149</u>	<u>-</u>

Notes to the annual accounts

**8. TANGIBLE ASSETS**

In denars	Land	Buildings	Plants and other equipment	Assets under construction	Total
<b>Cost</b>					
At 1 January 2012	24,432,268	4,031,276,574	26,685,930,168	375,717,045	31,117,356,055
Additions	702,407	2,096,701,581	1,252,178,352	608,308,147	3,957,890,487
Transfer from assets under construction (see note 7)	-	3,971,224	231,330,240	(327,918,065)	(92,616,601)
Disposals	(21,455)	(3,758,650)	(593,427,196)	-	(597,207,301)
Transfer to assets held for sale	-	-	(37,605,436)	-	(37,605,436)
At 31 December 2012	<u>25,113,220</u>	<u>6,128,190,729</u>	<u>27,538,406,128</u>	<u>656,107,127</u>	<u>34,347,817,204</u>
<b>Depreciation</b>					
At 1 January 2012	-	1,957,726,012	21,848,816,617	-	23,806,542,629
Charge for the year	-	124,590,609	1,027,732,503	-	1,152,323,112
Disposals	-	(1,811,497)	(577,429,445)	-	(579,240,942)
Transfer to assets held for sale	-	-	(36,866,648)	-	(36,866,648)
Transfer between group of assets (see note 7)	-	-	(29,802,726)	-	(29,802,726)
At 31 December 2012	<u>-</u>	<u>2,080,505,124</u>	<u>22,232,450,301</u>	<u>-</u>	<u>24,312,955,425</u>
<b>Carrying amount</b>					
At 1 January 2012	<u>24,432,268</u>	<u>2,073,550,562</u>	<u>4,837,113,551</u>	<u>375,717,045</u>	<u>7,310,813,426</u>
At 31 December 2012	<u>25,113,220</u>	<u>4,047,685,605</u>	<u>5,305,955,827</u>	<u>656,107,127</u>	<u>10,034,861,779</u>

In denars	Land	Buildings	Plants and other equipment	Assets under construction	Total
<b>Cost</b>					
At 1 January 2011	23,442,506	4,699,655,145	25,665,000,478	800,161,371	31,188,259,500
Additions	989,762	18,756,595	995,790,328	201,407,352	1,216,944,037
Transfer from assets under construction (see note 7)	-	6,553,289	508,670,334	(625,851,678)	(110,628,055)
Disposals	-	(18,372)	(392,912,163)	-	(392,930,535)
Transfer to assets held for sale	-	(693,670,083)	(90,618,809)	-	(784,288,892)
At 31 December 2011	<u>24,432,268</u>	<u>4,031,276,574</u>	<u>26,685,930,168</u>	<u>375,717,045</u>	<u>31,117,356,055</u>
<b>Depreciation</b>					
At 1 January 2011	-	1,862,276,065	21,531,895,663	-	23,394,171,728
Charge for the year	-	241,633,079	786,897,756	-	1,028,530,835
Disposals	-	(9,659)	(381,106,222)	-	(381,115,881)
Transfer to assets held for sale	-	(146,173,473)	(88,870,580)	-	(235,044,053)
At 31 December 2011	<u>-</u>	<u>1,957,726,012</u>	<u>21,848,816,617</u>	<u>-</u>	<u>23,806,542,629</u>
<b>Carrying amount</b>					
At 1 January 2011	<u>23,442,506</u>	<u>2,837,379,080</u>	<u>4,133,104,815</u>	<u>800,161,371</u>	<u>7,794,087,772</u>
At 31 December 2011	<u>24,432,268</u>	<u>2,073,550,562</u>	<u>4,837,113,551</u>	<u>375,717,045</u>	<u>7,310,813,426</u>

In 2011, the Company signed an agreement to provide three of its administrative buildings and cash consideration in exchange for new building in 2012. The Company will pay the difference between the purchase price of the new building and the selling price of the existing buildings in six equal yearly instalments 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

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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 12). 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 tangible assets in Income statement (see note 14), which derives also from observable market data for the fair value of the old buildings. In 2012, the Company completed the transaction for purchase and sale of buildings with an exchange which resulted in recognition of the acquired building in tangible asset at fair value in amount of MKD 2,078,953,500. The selling price for the three old buildings was MKD 1,085,529,715 and the trade-in value of these buildings did not and will not result in cash received.

The reviews of the useful lives and residual values of tangible assets during 2012 affected the lives and residual values of a several types of assets. The assets affected by the change of useful life were mainly vehicles, as well as equipment under the PSTN migration project where the useful life of all assets affected by the migration was shortened to reflect the planned dynamic of the migration. The change of the useful life on the affected assets was made due to technological changes and business plans of the Company.

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

In denars	2012	2013	2014	2015	After 2015
Increase/(Decrease) in depreciation	30,655,874	20,673,728	19,743,158	18,102,877	(45,402,718)
	<u>30,655,874</u>	<u>20,673,728</u>	<u>19,743,158</u>	<u>18,102,877</u>	<u>(45,402,718)</u>

## 9. TRADE RECEIVABLES

In denars	2012	2011
Trade receivables – domestic	2,306,053,279	2,445,563,299
Trade receivables – foreign	27,566,067	39,202,679
Impairment of receivables	(947,741,423)	(987,740,375)
	<u>1,385,877,923</u>	<u>1,497,025,603</u>

## 10. CASH

In denars	2012	2011
Cash in banks – domestic currency	12,930,965	11,247,061
Cash in banks – foreign currency	63,851,521	25,744,847
Cash on hand – domestic currency	21,144	30,739
Cash on hand – foreign currency	966	2,712
	<u>76,804,596</u>	<u>37,025,359</u>

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## 11. SHARE CAPITAL

In denars

Type of shares	Ownership	1 January 2012	%	Increase	Decrease	31 December 2012	%
Ordinary shares	Private persons	190,390,900	1.99	-	(1,356,200)	189,034,700	1.97
	Legal entities	5,098,611,900	53.20	1,356,200	-	5,099,968,100	53.22
	Treasury shares	958,387,800	10.00	-	-	958,387,800	10.00
	Government of RM	3,336,487,400	34.81	-	-	3,336,487,400	34.81
Preference shares	Government of RM	9,733	0.00	-	-	9,733	0.00
<b>Total</b>		<b>9,583,887,733</b>	<b>100.00</b>	<b>1,356,200</b>	<b>(1,356,200)</b>	<b>9,583,887,733</b>	<b>100.00</b>

  

Type of shares	Ownership	1 January 2011	%	Increase	Decrease	31 December 2011	%
Ordinary shares	Private persons	201,161,100	2.10	-	(10,770,200)	190,390,900	1.99
	Legal entities	5,087,841,700	53.09	10,770,200	-	5,098,611,900	53.20
	Treasury shares	958,387,800	10.00	-	-	958,387,800	10.00
	Government of RM	3,336,487,400	34.81	-	-	3,336,487,400	34.81
Preference shares	Government of RM	9,733	0.00	-	-	9,733	0.00
<b>Total</b>		<b>9,583,887,733</b>	<b>100.00</b>	<b>10,770,200</b>	<b>(10,770,200)</b>	<b>9,583,887,733</b>	<b>100.00</b>

### 11.1. 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 3,843,504,722. The shares are held as treasury shares.

As a result of the findings of the Investigation, for one consultancy contract, the payments of which was derecognized from treasury shares (see note 1.2).

The amount of treasury shares of MKD 3,738,357,351 (after derecognition), has been deducted from shareholders' equity. The Company has the right to reissue these shares at a later date. All shares issued by the Company were fully paid.

## 12. CURRENT TRADE PAYABLES

In denars	2012	2011
Trade payables – domestic	764,736,036	482,971,347
Trade payables – foreign	99,606,377	137,728,191
Trade payables for un-invoiced goods	128,179,106	28,263,682
	<u>992,521,519</u>	<u>648,963,220</u>

In the category Trade payables – domestic MKD 187,041,719 (2011: nil) represent the carrying amount of short term payables related to the transaction for purchase and sale of buildings with an exchange (see note 8 and 14). The long term part of the liabilities related to this transaction is presented as long - term trade payables in the Balance sheet in amount of MKD 648,844,623 (2011: nil). 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. 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 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 income in the Income statement in amount of MKD 153,854,360.

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### 13. SALES REVENUES

In denars	2012	2011
Sales revenues – domestic	5,714,354,748	6,472,802,685
Sales revenues – foreign	1,554,212,518	1,604,867,311
	<u>7,268,567,266</u>	<u>8,077,669,996</u>

### 14. OTHER INCOME

In denars	2012	2011
Net gain on disposal of non-current assets	708,182,582	13,048,930
Release of provisions	162,141,341	82,453,538
Written off liabilities	47,709,724	945,465
Income from penalties	24,304,290	11,032,578
Collected written off receivables	12,470,773	62,134,455
Reversal of impairment on advices given	11,233,143	-
Other income	8,781,519	5,745,644
	<u>974,823,372</u>	<u>175,360,610</u>

In 2012 the Company completed the transaction for purchase and sale of buildings with an exchange which resulted in a gain on sale of its three administrative buildings in amount of MKD 691,160,757. The new acquired building in amount of MKD 2,078,953,500 was recognized as tangible assets while the sold administrative buildings were derecognized with carrying amount of MKD 548,223,318 at the moment of derecognition, resulting in a net gain of MKD 691,160,757 recognized in Other income in the Income statement (see note 8 and 12).

### 15. SERVICES WITH CHARACTER OF MATERIAL COST AND OTHER COSTS AND EXPENSES

In denars	2012	2011
Payment to network operators	1,714,814,328	1,752,514,922
Services	312,495,083	364,990,343
Maintenance	231,025,642	234,794,928
Subcontractors	187,862,464	213,243,707
Royalty payments for IPTV programs	154,108,544	103,640,154
Marketing and donations	151,305,141	180,032,661
Fees, levies and local taxes	106,776,405	78,125,178
Consultancy	81,803,070	44,557,964
Rental fees	35,081,311	34,436,097
Bank services and payment operations	16,779,362	22,113,753
Insurance	11,742,731	13,355,581
Impairment losses on trade receivables	5,334,131	-
Other	36,478,897	29,585,546
	<u>3,045,607,109</u>	<u>3,071,390,834</u>

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## 16. TRANSACTIONS WITH RELATED PARTIES

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

In denars	2012		2011	
	Revenues	Expenses	Revenues	Expenses
T-Mobile Macedonia AD Skopje	705,667,159	1,105,389,354	708,429,879	1,183,803,218
Magyar Telekom Group				
Magyar Telekom Plc	3,032,277	44,358,318	21,414,934	47,658,037
Telemakedonija AD	180,707	-	248,880	-
IQSYS Magyar Telekom T-Systems	-	2,770,380	-	7,481,317
Magyarország Zrt.	-	922,500	-	-
Novatel	2,288,598	-	3,437,900	-
Deutsche Telekom Group				
Deutsche Telekom AG	1,438,547,982	200,297,786	1,463,671,005	230,568,857
Hrvatski Telekom	-	35,015,497	-	-
T-Systems	11,137,951	6,174,160	9,856,024	2,221,124
OTE Globe	22,508,260	30,435,084	19,711,333	32,173,329
Romtelekom	-	913,360	-	1,814,287
Detecon	-	5,783,626	-	3,118,578

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

In denars	2012		2011	
	Receivables	Payables	Receivables	Payables
T-Mobile Macedonia AD Skopje	383,964,983	543,546,801	308,410,296	365,731,517
Magyar Telekom Group				
Magyar Telekom Plc	-	7,084,175	3,567,249	38,548,934
Telemakedonija AD	5,618	-	23,333	-
T-Systems	-	-	-	-
Magyarország Zrt.	-	1,845,000	-	1,845,149
Novatel	389,257	378,225	565,477	488,965
Deutsche Telekom Group				
Deutsche Telekom AG	247,056,802	87,030,925	244,417,102	59,159,522
T-Systems	5,094,195	7,445,361	2,545,916	7,517,998
Hrvatski Telekom	-	32,655	-	-
OTE Globe	8,842,417	8,799,912	7,608,066	11,180,871
Romtelekom	-	6,053,915	-	1,814,398
Detecon	-	5,783,000	-	311,166
Slovak Telekom	-	4,400,320	-	7,871,779

Notes to the annual accounts

**17. EVENTS AFTER THE BALANCE SHEET DATE**

There are no events after the balance sheet date that would have impact on the 2012 Income statement and Balance sheet.

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Daniel Szasz  
Chief Executive Officer

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Slavko Projkoski  
Chief Finance Officer