



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

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

Date: February 2015

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

The following analysis refers to the unaudited non-consolidated (stand-alone) financial statements of Makedonski Telekom AD – Skopje for the period 01.01.2014 - 31.12.2014, prepared in accordance with International Financial Reporting Standards (IFRSs). For comparative purposes, the previous year items are consistent with the current year presentation.

I Revenues

The revenues of Makedonski Telekom AD – Skopje in 2014 amounted to MKD 6,017,271 thousand, which represents a decrease of 9.4% compared to the same period of 2013.

Fixed line services



Voice

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

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



Internet and TV

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

Regarding the **TV market**, Makedonski Telekom has the **largest market share** encompassing 23.1% (internal estimation) of the total TV market. IPTV service with its high quality, interactivity and the unique TV experience, is well accepted on the market and the Company achieved an increase of the number of

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

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IPTV customers (3Max, 2 Max and only IPTV customers) by 12% compared to the 2013, which has resulted in a customer base of 98 thousand customers at the end of 2014.

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

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



Other revenues

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

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

II Expenses



Operating expenses

On the cost side, during 2014, the operating expenses decreased by 16.5% compared to the same period of the previous year.

The employee related expenses have decreased by 32.5% in 2014 compared to the same period of the previous year due to the lower expenses for salaries and social security contribution mainly as a result of the lower number of employees as well as the lower severance payment expenses.

The cost for depreciation and amortization in 2014 has decreased by 6.3% compared to the same period of the previous year. Generally the decline is due to shortened useful life of PSTN migration affected assets causing higher depreciation in 2013 and lower software base in 2014 compared to the same period of the previous year.

The cost of goods and services sold has been also decreased compared to the same period of the previous year.

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Capital expenditures

The total Capital expenditures (CAPEX), for 2014 is MKD 1.201.481 thousand.

In January 2014, MKT successfully completed the All IP Transformation Project and the last customer on the public switched telephone network (PSTN) was migrated to IP Multimedia Subsystem (IMS) platform. The IMS platform enables the use of different advanced and innovative services in the fixed telephony.

III Net profit

The total net profit for 2014 amounts MKD 1,769,784 thousand and it is decreased by 19.7% compared to the previous year. This is a result of the changes in the profit tax legislation applicable as of January 2014 whereby the profit tax is payable at the moment of dividend distribution regardless of the ownership structure. Consequently², the income tax arising from the payment of dividends was accounted for as a liability and expense in the period in which dividends were declared, regardless of the actual payment date or the period for which the dividends were paid.

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

The comparison of the Profit before tax excludes the tax impact. Profit before tax in 2014 amounts MKD 2,299,753 thousands and it is increased by 2.3% compared to the previous period.

In MKD thousands

	2013	2014	Change in %
Profit before tax	2.248.531	2.299.753	2,3%
Profit tax	45.699	529.969	1059,7%
Net profit after tax	2.202.832	1.769.784	-19,7%

² as per International Accounting Standard - IAS 12



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On 13 February 2006, Magyar Telekom Plc., the controlling owner of the Company, (via Stonebridge Communications AD - Skopje, majority shareholder of the Company), announced that it was investigating certain contracts entered into by another subsidiary of Magyar Telekom Plc. to determine whether the contracts were entered into in violation of Magyar Telekom Plc. policy or applicable law or regulation. Magyar Telekom's Audit Committee retained White & Case, as its independent legal counsel to conduct the internal investigation. Subsequent to this, on 19 February 2007, the Board of Directors of the Company, based on the recommendation of the Audit Committee of the Company and the Audit Committee of Magyar Telekom Plc., adopted a resolution to conduct an independent internal investigation regarding certain contracts in Macedonia.

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

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

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

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

Andreas Maierhofer
Chief Executive Officer

Slavko Projkoski
Chief Financial Officer

Balance Sheet

In 000 MKD

Position	Previous Period	Curent Period	Indexes
ASSETS			
NON-CURRENT ASSETS	16.200.441	15.306.492	94
Intangible assets	715.387	839.661	117
Property, plant and equipment	12.327.867	11.333.241	92
Property	3.591.710	3.365.706	94
Plant and equipment	7.833.539	7.282.666	93
Biological assets	0	0	0
Other Long Term Assets	902.618	684.869	76
Investment properties (Real Estate)	0	0	0
Long Term Financial Instruments	2.909.950	2.904.690	100
Investments in subsidiaries	2.792.171	2.792.171	100
Investments in associates	0	0	0
Long term Loans, Receivables	74.017	67.970	92
Financial investments	43.762	44.549	102
Other Long Term Financial investments	0	0	0
Other long-term receivables	247.237	228.900	93
Deferred income tax assets	0	0	0
CURRENT ASSETS	3.433.007	3.313.880	97
Inventories	160.122	219.567	137
Trade recivables	1.127.646	1.108.397	98
Other recivables / Current assets	859.574	834.509	97
Short-term financial investments	430.607	327.888	76
Cash and cash equivalents	782.696	742.130	95
Prepaid Expenses	72.362	81.389	112
TOTAL ASSETS	19.633.448	18.620.372	95
OFF-BALANCE-SHEET ASSETS	49.274	52.969	107
EQUITY AND LIABILITIES			
EQUITY	16.445.963	15.771.109	96
Subscribed capital and revaluation reserves	6.386.189	6.386.189	100
Reserves	958.389	958.389	100
Retained earnings	9.101.385	8.426.531	93
Minority interest	0	0	0
LIABILITIES	3.187.485	2.849.263	89
CURRENT LIABILITIES	2.643.151	2.197.561	83
Trade liabilities and other short-term liabilities	772.611	870.876	113
Short-term Borrowings	0	0	0
Short-term provisions	47.661	50.691	106
Deffered Tax Liabilities	64.935	55.791	86
Other Current Liabilities	859.589	489.550	57
Accrued Expenses	898.355	730.653	81
Liabilities related to disposal assets	0	0	0
LONG TERM LIABILITIES	544.334	651.702	120
Long-term Borrowings	0	0	0
Trade payables and other long-term liabilities	502.874	416.435	83
Long-term Provisions	41.460	44.256	107
Long Term Tax Liabilities	0	191.011	#DIV/0!
TOTAL CAPITAL AND RESERVES	19.633.448	18.620.372	95
OFF-BALANCE-SHEET LIABILITIES	49.274	52.807	107

Income Statement

In 000 MKD

	Position	Previous Period	Curent Period	Indexes
		Year to date	Year to date	curent year / previous year
1	Total Operating revenues	6.705.069	6.043.621	90
2	Sales revenues	6.640.093	6.017.271	91
2a	Revenues from domestic market	5.259.500	5.016.714	95
2b	Revenues from foreign markets	1.380.593	1.000.557	72
3	Change in the value of inventories	XXXXX	XXXXXX	xxxxx
4	Inventories of finished and unfinished goods at the beginning of the period	0	0	0
5	Inventories of finished and unfinished goods at the end of the period	0	0	0
6	Capitalised own products and services	0	0	0
7	Other operating revenues	64.976	26.350	41
8	Total Operating expenses	6.966.198	5.818.993	84
9	Cost of trading goods sold	361.599	330.882	92
10	Cost of consumed materials and other supplies	259.347	211.734	82
11	Cost of materials, spare parts and other inventory sold	0	0	0
12	Services	2.173.905	1.738.585	80
13	Other Expenditures	676.402	669.669	99
14	Service costs	1.316.712	888.886	68
15	Amortization And Depreciation	2.066.378	1.935.999	94
16	Impairment losses of Non-current assets	0	0	0
17	Impairment losses of current assets	33.271	16.334	49
18	Provisions	27.458	14.320	52
19	Other operating expenses	51.126	12.584	25
20	Operating profit	-261.129	224.628	286
21	Total Financial Revenue	2.570.972	2.128.232	83
21a	Financial revenues from investment, loans granted and interest and exchange rate gains	2.570.972	2.128.232	83
21b	Other Financial Revenue	0	0	0
21c	Income From Associated Companies	0	0	0
22	Total Financial Expenses	61.312	53.107	87
22a	Financial expenses from interests and exchange rate losses	61.312	47.250	77
22b	Other financial expenses	0	5.857	0
22c	Losses from Associates	0	0	0
23	Profit from ordinary activities	2.248.531	2.299.753	102
24	Net Profit from Discontinued activities	0	0	0
25	Profit from ordinary activities before taxation	2.248.531	2.299.753	102
26	Corporate tax	45.699	529.969	1.160
27	Net profit	2.202.832	1.769.784	80
28	Net profit minority shareholders	0	0	0
29	Net profit Majority shareholders	2.202.832	1.769.784	80
30	Total other comprehensive income	0	0	0
31	TOTAL COMPREHENSIVE INCOME	2.202.832	1.769.784	80

CASH FLOW STATEMENT

In 000 MKD

Position	Previous Period	Curent Period	Indexes
<u>A. CASH FLOWS FROM OPERATING ACTIVITIES</u>	<u>1.534.936</u>	<u>1.589.053</u>	<u>104</u>
Profit for the period	2.202.831	1.769.784	80
Adjustments for:	0	0	0
Depreciation of property, plant and equipment	2.107.322	1.947.255	92
Gain/Loss from impairment	-2.018	19.270	1.155
Increase/Decrease in Inventories	39.081	18.560	47
Increase/Decrease in Receivables-customers	10.988	37.593	342
Increase/Decrease in advance payments	-15.495	9.359	260
Increase/Decrease in other short-term receivables	-145.375	15.706	211
Increase/Decrease in paid expenses for future periods	5.322	-9.027	-170
Increase/Decrease in payables	-230.307	-28.912	187
Increase/Decrease in received advance payments	2.365	6.728	284
Increase/Decrease in other short-term payables	90.842	100.431	111
Increase/Decrease in Deferred expenses	-54.158	70.653	330
Interest paid/received	-7.008	25.099	558
Dividends paid/received	-2.464.210	-2.079.207	116
Tax expense	2.036	-309.883	-15.220
Capital gains/losses from sale of property, plant and equipment	-14.353	-3.562	175
Capital gains/losses from sale of investments	0	0	0
Other cash receipts and payment from operating activities	7.073	-794	-11
<u>B. CASH FLOWS FROM INVESTING ACTIVITIES</u>	<u>4.656.493</u>	<u>815.019</u>	<u>18</u>
Cash payments to acquire property, plant and equipment, intangibles and other	-1.777.760	-1.436.196	119
Cash receipts from sales of property, plant and equipment, intangibles and other long-term assets;	55.545	48.404	87
Cash payments to acquire equity or debt instruments of other entities and interests in joint ventures	0	0	0
Cash receipts from sales of equity or debt instruments of other entities and interests in joint ventures	0	0	0
Cash advances and loans made to other parties (other than advances and loans made by a financial institution);	0	0	0
Cash receipts from the repayment of advances and loans made to other parties (other than advances and loans of a financial institution);	22.201	6.047	27
Interest paid/received	57.049	14.107	25
Dividends paid/received	2.464.210	2.079.207	84
Other cash receipts and payment from investing activities	3.835.248	103.450	3
<u>C. CASH FLOWS FROM FINANCING ACTIVITIES</u>	<u>-5.646.607</u>	<u>-2.444.638</u>	<u>157</u>
cash proceeds from issuing shares or other equity instruments;	0	0	0
cash repayments of amounts borrowed;	0	0	0
cash proceeds from issuing debentures, loans, notes, bonds, mortgages and other short or long-term borrowings;	0	0	0
Cash payments to acquire minor interests	0	0	0
Dividends paid	-5.646.607	-2.444.638	157
Repurchase of own shares and stakes	0	0	0
Cash payments by a lessee for the reduction of the outstanding liability relating to a finance lease.	0	0	0
<u>Net increase in cash and cash equivalents</u>	<u>544.822</u>	<u>-40.566</u>	<u>-7</u>
Cash and cash equivalents at beginning of period	237.874	782.696	329
<u>D. Cash and cash equivalents at end of period</u>	<u>782.696</u>	<u>742.130</u>	<u>95</u>

Statement of changes in equity

In 000 MKD

Changes	Attributable to equity holders of the parent				Minority Interes	Total equity
	Share capital	Share premium	Reserves	Retained profit (Loss)		
Balance at January 1, previous year	5.845.530	540.659	1.916.777	11.586.773	0	19.889.739
Shares issued	0	0	0	0	0	0
Purchased treasury shares	0	0	0	0	0	0
Sold treasury shares	0	0	0	0	0	0
Conversion of securities	0	0	0	0	0	0
Profit (Loss) for the financial period	0	0	0	2.202.831	0	2.202.831
Allocated profit for reservers	0	0	0	0	0	0
Allocated profit for dividends and other rewards (premiums) to shareholders	0	0	0	-5.646.607	0	-5.646.607
Allocated profit for rewards, premiums and other employee benefits	0	0	0	0	0	0
Other reserves	0	0	0	0	0	0
Revaluation of assets	0	0	0	0	0	0
Fair value adjustments of the investments available-for-sale	0	0	0	0	0	0
Realized capital gain from disposal of Investments available-for-sale	0	0	0	0	0	0
Recorded losses from subsidiaries from previous years according to equity method	0	0	0	0	0	0
Minority Interes	0	0	0	0	0	0
Defered tax assets	0	0	0	0	0	0
Recognised revunues and expenses, net	0	0	0	0	0	0
Exchange rate gains/losses	0	0	0	0	0	0
Other Increase/Decrease in Assets, net	0	0	-958.388	958.388	0	0
Balance at December 31, previous year	5.845.530	540.659	958.389	9.101.385	0	16.445.963
Shares issued	0	0	0	0	0	0
Purchased treasury shares	0	0	0	0	0	0
Sold treasury shares	0	0	0	0	0	0
Conversion of securities	0	0	0	0	0	0
Profit (Loss) for the financial period	0	0	0	1.769.784	0	1.769.784
Allocated profit for reservers	0	0	0	0	0	0
Allocated profit for dividends and other rewards (premiums) to shareholders	0	0	0	-2.444.638	0	-2.444.638
Allocated profit for rewards, premiums and other employee benefits	0	0	0	0	0	0
Other reserves	0	0	0	0	0	0
Revaluation of assets	0	0	0	0	0	0
Fair value adjustments of the investments available-for-sale	0	0	0	0	0	0
Realized capital gain from disposal of Investments available-for-sale	0	0	0	0	0	0
Recorded losses from subsidiaries from previous years according to equity method	0	0	0	0	0	0
Minority Interes	0	0	0	0	0	0
Defered tax assets	0	0	0	0	0	0
Recognised revunues and expenses, net	0	0	0	0	0	0
Exchange rate gains/losses	0	0	0	0	0	0
Other Increase/Decrease in Assets, net	0	0	0	0	0	0
Balance at December 31, current year	5.845.530	540.659	958.389	8.426.531	0	15.771.109