BALANCE SHEET
(STATEMENT OF FINANCIAL POSITION)
on 31 December 2013

(in denars)

No.	POSITION	Designation for ADP	Note number	Amount	
				Current year	Previous year
1	2	3	4	5	6
	ASSETS:				
1.	**A.NON-CURRENT ASSETS (002+009+020+021+031)**	001		**14,003,180,380**	**13,870,185,120**
2.	**I. INTANGIBLE ASSETS (003+004+005+006+007+008)**	002		**672,011,087**	**646,272,381**
3.	Development expenses	003			
4.	Concessions, patents, licences, trade marks and similar rights	004	7	672,011,087	646,272,381
5.	Goodwill	005			
6.	Advances for procurement of intangible assets	006			
7.	Intangible assets under construction	007			
8.	Other intangible assets	008			
9.	**II. TANGIBLE ASSETS (010+013+014+015+016+017+018+019)**	009		**10,168,562,797**	**10,046,886,006**
10.	Real Estate (011+012)	010		3,921,720,792	4,072,798,825
10.a.	Land	011	8	25,198,037	25,113,220
10.b.	Buildings	012	8	3,896,522,755	4,047,685,605
11.	Plants and equipment	013	8	4,412,356,993	4,215,052,979
12.	Means of transport	014	8	197,505,213	261,741,820
13.	Tools, plant and office inventory and furniture	015	8	734,307,959	829,161,028
14.	Biological assets	016			
15.	Advances for procurement of tangible assets	017		2,657,026	12,024,227
16.	Tangible assets under construction	018	8	900,014,814	656,107,127
17.	Other tangible assets	019			
18.	**III. INVESTMENT IN REAL ESTATE**	020			
19.	**IV. LONG-TERM FINANCIAL ASSETS (022+023+024+025+026+030)**	021		**2,915,369,828**	**2,944,636,671**
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		74,017,433	96,217,954
24.	Investments in long-term securities (027+028+029)	026		43,761,767	50,828,089
24.a.	Investments in long-terms 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		43,761,767	50,828,089
25.	Other long-term financial assets	030			
26.	**V. LONG-TERM RECEIVABLES (032+033+034)**	031		**247,236,668**	**232,390,062**
27.	Receivables from related parties	032			
28.	Trade receivables	033	9	247,236,668	232,390,062
29.	Other long-terms receivables	034			
30.	**VI. DEFERRED TAX ASSETS**	035			
31.	**B.CURRENT ASSETS (037+045+052+059)**	036		**3,339,885,189**	**6,538,163,295**
32.	**I. INVENTORIES (038+039+040+041+042+043)**	037		**139,362,623**	**178,442,884**
33.	Inventory of raw materials and materials	038		99,326,998	124,735,462
34.	Inventory of spare parts, small inventory, packaging material and car tires	039		29,601	291,499
35.	Inventory of unfinished and semi-finished products	040			
36.	Inventory of finished products	041			
37.	Inventory of trade goods	042		40,006,024	53,415,923
38.	Inventory of biological assets	043			
39.	**II. ASSETS (OR GROUPS FOR DISPOSAL) AVAILABLE FOR SALE AND DISCONTINUED OPERATIONS**	044		11,265,472	13,860
40.	**III. SHORT-TERM RECEIVABLES (046+047+048+049+050+051)**	045		**1,987,219,771**	**1,855,535,874**
41.	Receivables from related parties	046	16	796,390,216	645,353,272
42.	Trade receivables	047	9	1,127,646,324	1,153,487,861
43.	Receivables for advances given to vendors	048		29,415,086	13,920,454
44.	Receivables from the state based on taxes, contributions, custom duties, excises and for other state levies (prepayments)	049		7,779,819	10,749,389
45.	Receivables from employees	050		19,813,601	21,493,633
46.	Other short-term receivables	051		6,174,725	10,531,265
47.	**IV. SHORT-TERM FINANCIAL ASSETS (053+056+057+058)**	052		**430,606,502**	**4,266,310,497**
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		430,606,502	4,266,310,497
52.	**V. CASH AND CASH EQUIVALENTS (060+061)**	059		**782,696,293**	**237,874,040**
52.a.	Cash	060	10	219,569,502	76,804,596
52.b.	Cash equivalents	061		563,126,791	161,069,444
53.	**VI. PREPAYMENTS AND ACCRUED INCOME**	062		**72,362,124**	**77,683,594**
54.	**TOTAL ASSETS (001+035+036+044+062)**	063		**17,426,693,165**	**20,486,045,869**
55.	**B. OFF BALANCE RECORDS - ASSETS**	064		49,274,414	53,924,423

BALANCE SHEET
(STATEMENT OF FINANCIAL POSITION)
on 31 December 2013

(in denars)

No.	POSITION	Designation for ADP	Note number	Amount	
				Current year	Previous year
1	2	3	4	5	6
	LIABILITIES:				
56.	**A. CAPITAL AND RESERVES (066+067-068-069+070+071+075-076+077-078)**	065		**14,239,209,176**	**17,169,563,519**
57.	**I. SHARE CAPITAL**	066	11	**9,583,887,733**	**9,583,887,733**
58.	**II. SHARE PREMIUM ACCOUNT**	067		**540,659,375**	**540,659,375**
59.	**III. TREASURY SHARES (-)**	068	11.1	**3,738,357,351**	**3,738,357,351**
60.	**IV. CALLED-UP CAPITAL (-)**	069			
61.	**IV. REVALUATION RESERVE AND DIFFERENCES FROM VALUATION OF COMPONENTS OF OTHER COMPREHENSIVE INCOME**	070		**872,862,987**	**873,088,592**
62.	**VI. RESERVES (072+073+074)**	071		**980,679,730**	**1,939,068,503**
63.	Legal reserves	072		958,388,774	1,916,777,547
64.	Statutory reserves	073			
65.	Other reserves	074		22,290,956	22,290,956
66.	**VI. RETAINED EARNINGS**	075		**3,283,223,763**	**2,324,609,385**
67.	**VIII. CARRIED LOSS (-)**	076			
68.	**IX. PROFIT FOR THE BUSINESS YEAR**	077		**2,716,252,939**	**5,646,607,282**
69.	**X. LOSS FOR THE BUSINESS YEAR**	078			
70.	**XI. SHARE CAPITAL OF THE OWNERS OF THE PARENT COMPANY**	079			
71.	**XII. UNCONTROLLED SHARE**	080			
72.	**B. LIABILITIES (082+085+095)**	081		**2,289,128,894**	**2,549,127,824**
73.	**I. LONG-TERM PROVISIONS FOR LIABILITIES AND EXPENSES (083+084)**	082		**41,460,085**	**107,076,506**
74.	Provisions for pensions, severance payments and similar liabilities towards the employees	083		41,460,085	32,430,029
75.	Other long-term provisions for liabilities and expenses	084			74,646,477
76.	**II. LONG-TERM LIABILITIES (from 086 to 093)**	085		**502,873,588**	**648,844,623**
77.	Liabilities to related parties	086			
78.	Trade payables	087		502,873,588	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.	**III. DEFERRED TAX LIABILITIES**	094			
86.	**IV. SHORT-TERM LIABILITIES (from 096 to 108)**	095		**1,744,795,221**	**1,793,206,695**
87.	Liabilities to related parties	096	16	736,544,055	672,400,289
88.	Trade payables	097	12	772,611,407	992,521,519
89.	Liabilities for advances, deposits and bails	098		47,888,053	45,522,566
90.	Liabilities for taxes and salary contributions and salary remunerations	099		21,527,705	
91.	Liabilities to employees	100		45,649,616	220,596
92.	Current tax liabilities	101		64,934,604	20,824,709
93.	Short-term provisions for liabilities and expenses	102		47,661,087	57,144,168
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		1,882,108	1,730,766
98.	Other financial liabilities	107			
99.	Other short-term liabilities	108		6,096,586	2,842,082
100.	**V. ACCRUED EXPENSES AND DEFERRED REVENUE**	109		**898,355,095**	**767,354,526**
101.	**VI. LIABILITIES BASED ON NON-CURRENT ASSETS (OR GROUPS FOR DISPOSAL) AVAILABLE FOR SALE AND DISCONITINUED OPERATIONS**	110			
102.	**TOTAL LIABILITIES: SHARE CAPITAL AND RESERVES AND LIABILITIES (065+081+094+109+110)**	111		**17,426,693,165**	**20,486,045,869**
103.	**C. OFF BALANCE RECORDS - LIABILITIES**	112		49,274,414	53,924,423

INCOME STATEMENT
(PROFIT AND LOSS ACCOUNT)
for the period of 01.01 until 31.12 2013

(in denars)

No.	POSITION	Designation for ADP	Note number	Amount	
				Current year	Previous year
1	2	3	4	5	6
1.	**I. OPERATING REVENUES (202+203+206)**	201		**6,710,364,899**	**8,243,390,638**
2.	Sales revenues	202	13	6,640,092,707	7,268,567,266
3.	Other income	203	14	70,272,192	974,823,372
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			
6.	**II. OPERATING EXPENSES (208+209+210+211+212+213+218+219+220+221+222)**	207		**6,458,073,645**	**6,119,935,901**
7.	Costs for raw materials and other materials	208		259,346,976	267,031,553
8.	Cost of goods sold	209		361,599,118	367,412,103
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	2,173,904,902	2,376,506,557
11.	Other operating costs	212	15	676,401,532	644,053,922
12.	Employees related costs (214+215+216+217)	213		1,316,712,021	1,088,171,181
12.a.	Salaries and salary remunerations (net)	214		575,783,839	626,961,665
12.б.	Costs for taxes to salaries and salary remunerations	215		52,601,539	57,072,922
12.в.	Contributions for mandatory social insurance	216		232,794,483	236,124,203
12.г.	Other employees related costs	217		455,532,160	168,012,391
13.	Depreciation/amortisation of tangible and intangible assets	218		1,564,244,379	1,335,264,899
14.	Impairment of non - current assets	219			
15.	Impairment of current assets	220	15	33,270,865	9,474,461
16.	Provisions for liabilities and expenses	221		27,458,374	16,449,056
17.	Other operating expenses	222	15	45,135,478	15,572,169
18.	**III. FINANCE INCOME (224+229+230+231+232+233)**	223		**2,570,953,138**	**3,558,640,322**
19.	Finance income from the operation with related parties (225+226+227+228)	224		2,462,569,593	3,355,499,415
19.a.	Income from investments in related parties	225		2,462,569,593	3,355,499,415
19.b.	Interest income from the operation with related parties	226			
19.c.	Foreign exchange income from the operation with related parties	227			
19.d.	Other finance income from the operation with related parties	228			
20.	Income from investments in unrelated parties	229		1,640,182	3,284,520
21.	Interest income from the operation with unrelated parties	230		103,195,482	199,856,387
22.	Foreign exchange income from the operation with unrelated parties	231		3,547,881	
23.	Unrealised gains (income) from financial assets	232			
24.	Other finance income	233			
25.	**IV. FINANCE EXPENSES (235+239+240+241+242+243)**	234		**61,292,159**	**34,461,397**
26.	Finance expenses from the operation with related parties (236+237+238)	235			
26.a.	Interest expenses from the operation with related parties	236			
26.b.	Foreign exchange expenses from the operation with related parties	237			
26.c.	Other finance expenses from the operation with related parties	238			
27.	Interest expenses from the operation with unrelated parties	239		54,218,895	28,979,925
28.	Foreign exchange expenses from the operation with unrelated parties	240			2,227,219
29.	Unrealised losses (expenses) from financial assets	241		7,073,264	3,254,253
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		2,761,952,233	5,647,633,662
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		2,761,952,233	5,647,633,662
39.	Loss before tax (247+249) or (247-248)	251			
40.	Income tax	252		45,699,294	1,026,380
41.	Deferred tax income	253			
42.	Deferred tax expenses	254			
43.	NET PROFIT FOR THE BUSINESS YEAR (250-252+253-254)	255		2,716,252,939	5,646,607,282
44.	NET LOSS FOR THE BUSINESS YEAR (251+252-253+254)	256			
45.	Average number of employees based on the working hours in the accounting period (in absolute amount)	257		1,165	1,252
46.	Number of months of operation (in absolute amount)	258		12	12
47.	PROFIT/LOSS FOR THE PERIOD	259		2,716,252,939	5,646,607,282
47.a.	Profit that belongs to the shareholders in the parent company	260		1,539,210,050	3,199,744,233
47.b.	Profit that belongs to the uncontrolled share	261		1,177,042,889	2,446,863,049
47.c.	Loss that applies to the shareholders in the parent company	262			
47.d.	Loss that applies to the uncontrolled share	263			
48.	EARNINGS PER SHARE	264		31	65
48.a.	Total basic earning per share	265		31	65
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 2013

(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		2,716,252,939	5,646,607,282
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		2,716,252,939	5,646,607,282
20.a.	Comprehensive income that belongs to the shareholders in the parent company	289		1,539,210,050	3,199,744,233
20.b.	Comprehensive income that belongs to the uncontrolled share	290		1,177,042,889	2,446,863,049
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/-31/12/13

Tax return

I	DETERMINATION OF THE INCOME TAX FOR THE UNRECOGNIZED EXPENSES			AOP	
A	Reconciliation of the unrecognized expenses for tax purposes for the current year (Σ AOP 02 to AOP 26)			01	494,516,555
	1		The expenditures not being connected with the performance of the activity of the entity	02	1,417,052
	2		The paid cost fees and other personal income from employment over the limit prescribed by the law	03	20,065,821
	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	396,565,932
	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	4,453,236
	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	1,238,544
	8		Hidden payments of profits	09	3,636,358
	9		Costs for representation	10	13,740,435
	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	-
	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	-
	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	65,502
	15		Tax penalties and fines, penalties and penalty interest on a late payment of public duties and costs of forced collection	16	102,211
	16		Scholarships	17	1,082,826
	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	27,770,509
	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	24,378,129
B.	Tax credit for delayed cost recognition				37,523,618
	26		Tax credit at the amount of paid profit tax in the previous tax period	27	37,523,618
V.	Tax base (АОП 01 – АОП 27 ≥ 0)			28	456,992,937
	27		Transferred tax loss from previous years	29	
G.	Tax base decreased for transferred tax losses from previous years (AOP 28 - AOP 29 > 0)			30	456,992,937
D.	Calculated income tax (AOP 30 x tax rate)			31	45,699,294
	Tax reductions and exemptions				
	28		Decrease of tax in the amount of procured 10 fiscal cash registers	32	
E.	Avoiding of double taxation				
	29		Amount of the withholding tax paid abroad till the prescribed rate, except the tax from the dividends received from non resident and the tax paid on the profit from non resident subsidiary owned by domestic entity	33	
Z.	Tax payment/return				
	30		Profit tax after deductions (AOP31-AOP32-AOP33 ≥ 0)	34	45,699,294
	31		Settled advance tax payments for the tax period	35	1,173,385
	32		Amount of the paid income tax from previous periods	36	
	33		Amount for payment/over paid amount (AOP34-AOP35-AOP36)	37	44,525,909
I.	Special information				
	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	9,281,318,037
	37		Total costs for donations in the year	41	772,435
	38		Total costs for sponsorships in the year	42	16,602,356
	39		Amount of tax credit when AOP 01 - AOP 27 < 0	43	-
J.			Gain/loss before taxation		
	40		Profit for the year after taxation on nondeductible expences	44	2,716,252,939
	41		Loss for the year after taxation on nondeductible expences	45	-
	42		Advanced dividend payment in the tax period	46	-
	43		Dividends paid and reserves from previous year	47	5,646,607,282
	44		Accumulated gain and free reserves in period of 01.01.2009	48	3,674,641,713
	45		Accumulated loss in period of 01.01.2009	49	-
K.			Special information		
	46		Amount of transferred notdistributed gains from 31 December 2008 and reserves that can be allocated	50	2,324,609,385
	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 2013

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, solely owned by Magyar Telekom Plc. registered in Hungary. AD Stonebridge Communications – Skopje was under voluntary liquidation by the end of 2013 and from January 2014 its status has changed and is no longer under liquidation procedure. The ultimate parent company is Deutsche Telekom AG registered in Federal Republic of Germany.

As of 31 December 2013, 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)	1,711,219	1.79
Other minority shareholders	2,301,029	2.40
	95,838,781	100.00

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.

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

The Macedonian telecommunications sector is regulated by the Law on Electronic Communications ("LEC") enacted in March 2005. Under the LEC, the Company has been designated as an SMP (significant market power) operator on the market of fixed line voice telephony networks and services, including the market of access to the networks for data transmission and leased lines. The Company, as an SMP operator, has the obligation to enable its subscribers to access publicly available telephone services of any interconnected operator with an officially signed interconnection contract.

With amendments of the Rulebook for retail regulation, the Agency for Electronic Communications (the "Agency") specified the manner and procedure for regulation of the retail prices for fixed voice telephone networks and services of the operator with significant market power on relevant retail markets. The Company is an operator with SMP status on the relevant retail market 1 (access to the public telephone network at a fixed location) and market 2 (publically available telephone services at a fixed location). The prices for retail products offered on these two markets are subject of regulation by the Agency. The regulation of the retail prices is ex-ante, meaning that the Agency has to approve each price introduction, price change on every product or promotion prior to its being launched in retail. The ex-ante regulation is based on price squeeze methodology.

The Company has a cost based price obligation for the Regulated wholesale services, using LRIC methodology. In August 2012, the Agency published the draft results from its own developed LRIC Bottom – up costing model for Local Bit Stream (cost based) and for retail and wholesale Leased Lines, ducts and dark fiber and minimal set of leased lines (cost based). As a result, on 15 January 2013, the Agency brought a decision for decrease of the fees and approved the changed Reference offer for provision of physical access and usage of electronic communication infrastructure and associated facilities (ducts and dark fiber). The new fees are implemented as of 1 February 2013.

In line with the PSTN migration of the Company's network, the Agency approved the proposed modifications of the Company's WLR Reference Offer and Bit-stream access Offer applicable as of 1 January 2012. The Reference

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Interconnection Offer of the Company ("MATERIO") was changed on the Company's initiative from 1 May 2012 and lower fixed termination rates (for origination, termination and transit) for 25% were approved by the Agency.

The Internet Protocol Reference Interconnection Offer of the Company ("IP MATERIO") was submitted for approval to the Agency in October 2013 on Company's initiative, in line with the conclusions of the market analyses for submission of MATERIO changes with description and conditions for IP interconnection. The Agency approved the IP MATERIO on 27 December 2013. The changes are effective from 1 January 2014.

In addition, the Agency approved the Reference offers for wholesale digital leased lines ("WS DLL"), Local Bit-stream access and Minimal set of leased lines and new changed methodologies of calculation of prices (length-dependent) were implemented. The WS DLL and Local Bit-stream access fees have been decreased as of 1 December 2012 and the fees for minimal set of leased lines as of 1 January 2013.

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

The new measures in line with the Company's SMP obligation on wholesale markets for fixed call origination (market 4), termination (market 5) and transit (market 6) from the final document include: implementation of IP interconnection by 2016 at the latest for fixed and mobile operators, transitional period for IP interconnection for alternative fixed and mobile operators up to three years, submission of updated the MATERIO with IP IC description (service and fees) and conditions by 31 October 2013 at the latest. The other measures for Market 4, 5 and 6 are the same as before (interconnection and access, access to specific network facilities, carrier selection ("CS") and carrier pre-selection ("CPS"), transparency, non discrimination, accounting separation, price control and cost accounting).

In June 2013, the Agency announced starting of the first analysis on the wholesale market number 13 (Transmission of broadcasting content to end users) and on 14 June 2013 announced starting of second analysis of market 9 and 10 (Transmission and termination segments of LL) and also on market 7 (Physical access to network infrastructure). The analysis is expected to be finished by the end of the first quarter in 2014 and published for public hearing.

In December 2013, the Company received a Resolution for approval of Reference offer for provision of physical access and usage of electronic communication infrastructure including associated infrastructure capacity. The changes are effective from 1 January 2014 and will provide easier provision of physical access and usage of electronic communication infrastructure including associated infrastructure capacity.

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

The Company's registered address is "Kej 13 Noemvri" No 6, 1000, Skopje, Republic of Macedonia. The average number of employees based on the working hours during 2013 was 1,165 (2012: 1,252).

As of 31 December 2013, structure of the employees of Company by educational attainment is as follows:

	%
University level education	43.54
Higher education	4.87
4 years secondary education/specialist	11.61
4 years secondary education	33.71
3 years secondary education	5.99
Primary education	0.28
	100.00

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1.2. Investigation into certain consultancy contracts

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

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

Magyar Telekom's Audit Committee informed the U.S. Department of Justice (the "DOJ") and the U.S. Securities and Exchange Commission (the "SEC") of the internal investigation. The DOJ and the SEC commenced investigations into the activities that were the subject of the internal investigation.

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

According to the information provided to the Company by Magyar Telekom Plc., on 2 December 2009, the Audit Committee of Magyar Telekom Plc., provided the Magyar Telekom's Board of Directors with a "Report of Investigation to the Audit Committee of Magyar Telekom Plc." dated 30 November 2009 (the "Final Report").

In relation to the issuance of the Final Report and the information provided to the Company by Magyar Telekom, in January 2010 the Chairman of the Company's Board of Directors requested third party legal and tax expertise for assessment of the potential accounting and tax implications arising from the transactions conducted by the Company and its subsidiary subject to the Final Report.

The external experts prepared reports (the "Reports") on their assessment and submitted the Reports to the Chairman of the Company's BoD and the Management of the Company and its subsidiary accordingly. As a result, based on the analysis of the Tax and Legal experts and information available to the Management related to the transactions subject of the Final Report, amount of MKD 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 capitalized within treasury shares was reclassified and derecognized against the Retained earnings. The other contracts that were identified by the Final Report and the reports of the tax and legal experts related to transactions undertaken by the Company were expensed in the related periods (2001-2007).

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

In October 2008 the Investigation Judge from the Primary Court Skopje 1 – Skopje (the criminal court), has issued an official written order to the Company to handover certain original documentation. Later in October 2008, the Company officially and personally handed over the requested documentation. Additional MOI requests in written were submitted and the Company provided the requested documentation.

The Primary Court Skopje 1 in Skopje, Investigative Department for Organized Crime delivered a summon to the Company in connection with the criminal charges against the former CEO of Makedonski Telekom AD- Skopje, Mr. Szendrei, the former CFO of the company, Mr. Plath, the former member of the BoD in Stonebridge and the former member of the BoD in

Notes to the annual accounts

Makedonski Telekom AD – Skopje, Mr. Kefaloyannis and former CEO of the Stonebridge, Mr. Kisjuhász and asked for a statement whether the Company has suffered any damages on the basis of the said consultancy contracts.

On the hearing held on 13 April 2009, the representatives of Makedonski Telekom AD Skopje declared the position of the Company that taking into consideration the ongoing independent internal investigation conducted by White & Case, approved by the Company's BoD, it was premature to preannounce any damage which may be caused by means of the implementation of the mentioned contracts or with reference to them. An expertise was performed on 11 May 2010 and the experts from Ministry of Justice of the Republic of Macedonia – Court Expertise Office – Skopje, asked for some additional documents from Company's side in order to prepare the expertise. The Company has collected and submitted the requested information/documentation to the Court Expertise Office.

On 14 March 2011, the Company received from the Primary Court Skopje 1 a copy of the "Finding and Opinion", dated November 2010, issued by the Bureau of Judicial Expertise to the Primary Court Skopje 1 as a result of the expertise procedure. The "Finding and Opinion" addresses and contains conclusions regarding five contracts entered into with Chaptex and Cosmotelco in 2005 and 2006 and formerly reviewed by the Audit Committee of Magyar Telekom. The "Finding and Opinion" concludes that, based on these contracts, expenditures in the amount of EUR 3.975 million were made by the Company and Stonebridge to Chaptex "without evidence for performed services"; accordingly, shareholders of the Company and Stonebridge in the proportion of their shareholding, suffered damages in the aforementioned aggregate amount as result of decreased proceeds for payment of dividend in 2005 and 2006.

Based on publically available information, we understand that the Public Prosecutor has filed an indictment in 2011 against Mr. Szendrei, Mr. Kisjuhász and Mr. Plath, but not against Mr. Kefaloyannis. The Company, as a damaged party in this case, has not received an official court invitation for the hearing.

Pursuant to the questions posed by the investigative judge, it could be concluded that the public prosecutor has addressed the Company as a party damaged by the actions of the defendants. However, based on the content of the order for expertise issued by the investigative judge, and on the basis of the expert opinion, it can be concluded that now damaged parties are shareholders of the Company (Stonebridge AD Skopje, the Republic of Macedonia and minority shareholders) and therefore the state budget, as the Republic of Macedonia is a shareholder in the Company. Therefore, the public prosecutor should clear out who is considered as damaged party in this particular case, which is of significant importance for the position of the Company in this proceeding and its further actions. At the moment there aren't any indications that the Company could be found liable and made to pay any penalties or fines for the criminal procedure which is initiated against the individuals and accordingly the 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 the RoM related to certain consultancy contract and underlying documentation, which were also provided to White & Case during the internal investigation. The Company responded to the request accordingly.

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

2. BASIS OF 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, 166/12 and 70/13) 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 2013 and 31 December 2012 were as follows:

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

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.

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 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 favorable market conditions for their sale.

'Financial assets at fair value through profit or loss' are subsequently carried at fair value. Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are recognized in the 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 over 3 months
- trade receivables
- receivables and loans to third parties
- employee loans
- other receivables

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

Cash and cash equivalents

Cash and cash equivalents include cash on hand, cash in bank, call deposits held with banks and other short-term highly liquid investments with original maturities of three months or less.

Should impairment on cash and cash equivalents occur, it would be recognized in the 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 aging of the receivables due to the large number of relatively similar type of customers.

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

When a trade receivable is established to be uncollectible, it is written off 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, which reduces Loans and receivables from employees. Interest income on the loan granted calculated by using the effective interest method is recognized as finance income, while the prepaid employee benefits are amortized to Other employee related costs in the Income statement evenly over the term of the loan.

Impairment losses on Employee loans, if any, are recognized in the Income statement.

(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 favorable 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 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 realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated selling expenses.

The cost of inventories is based on weighted average cost formula and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition.

Phone sets are often sold for less than cost in connection with promotions to obtain new subscribers with minimum commitment periods. Such loss on the sale of equipment is only recorded when the sale occurs as they are sold as part of a profitable service agreement with the customer and if the normal resale value is higher than the cost of the phone set. If the normal resale value is lower than costs, the difference is recognized as impairment immediately.

Impairment losses on Inventories are recognized in Operating expenses (Impairment of current assets).

3.4. 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 and amortization) as an impairment loss.

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 labor.

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.

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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:

	2013	2012
	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 amortization 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 was recorded against revaluation reserves. The last revaluation of intangible assets was made in year 2000.

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

The useful lives of concession and licenses are determined based on the underlying agreements and are amortized on a straight line basis over the period from availability of the frequency for commercial use until the end of the initial concession or license term. No renewal periods are considered in the determination of useful life (see note 7).

The estimated useful lives are as follows:

	2013	2012
	Years	Years
Software and other intangible assets	2-5	2-5

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

In determining whether an asset that incorporates both 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 amortization and are tested annually for impairment.

Assets that are subject to amortization or depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and its value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

Impairment losses are recognized in the Income statement (Depreciation and amortization). 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.

3.11. Statutory reserves

Under local statutory legislation, the Company was required to set aside 15 percent of its net statutory profit for the year in a statutory reserve until the level of the reserve reaches 1/5 of the share capital. With the changes of the Law on Trading Companies effective from 1 January 2013, the Company is required to set aside 5 percent of its net statutory profit for the year in a statutory reserve until the level of the reserve reaches 1/10 of the share capital (see note 11). 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. When the revaluated assets are fully depreciated or disposed the relevant portion of the revaluation reserve is transferred to Retained earnings.

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.

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 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 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 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.

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 nonresident legal entities and, foreign and domestic individuals. The dividends paid out to the resident legal entities are tax exempted. Apart of distribution of dividends, the tax is still payable on the non-deductable expenses incurred in that fiscal year, decreased by the amount of tax credits and other tax reliefs.

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.

Notes to the annual accounts

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 distribution

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 amortization expense of approximately MKD 177,688,039 (2012: MKD 148,362,766). 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 fiber-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. In January 2014 the Company performed the migration of the last PSTN customer thus completing the PSTN migration project.

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% (2012: 2%) to determine the terminal value after 10 years. The Company uses fair values less cost to sell calculation. The discount rate used was 9.64% (2012: 9.46%). The impairment test did not result in impairment.

Notes to the annual accounts

4.3. Estimated impairment of trade and other receivables

We calculate impairment for doubtful accounts based on estimated losses resulting from the inability of our customers to make the required payments. For the largest customers, international customers and for customers under liquidation and bankruptcy proceedings impairment is calculated on an individual basis, while for other customers it is estimated on a portfolio basis, for which we base our estimate on the aging of our account receivables balance and our historical write-off experience, customer credit-worthiness and recent changes in our customer payment terms (see note 3.2.1 (b)). These factors are reviewed periodically, and changes are made to the calculations when necessary. In 2013 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 behavior, resulting in new impairment rates of trade and other receivables in 2013.If the financial condition of our customers were to deteriorate, actual write-offs of currently existing receivables may be higher than expected and may exceed the level of the impairment losses recognized so far (see note 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 expense (Other operating expenses) as they are not accurately separable from other marketing costs.

5. CHANGE IN ACCOUNTING POLICY AND ERORRS

Accounting policy is consistently applied in periods presented in these 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 and credit risks through ongoing operational and finance activities.

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

Notes to the annual accounts

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.

At 31 December 2013, if MKD would have been 1% (2012: 1%) weaker or stronger against EUR, profit would have been MKD 5,066,479 (2012: MKD 35,394,157) in net balance higher or lower, respectively. At 31 December 2013, if MKD would have been 1% (2012: 1%) weaker or stronger against USD, profit would have been MKD 536,675 (2012: MKD 512,726) in net balance lower or higher, 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 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.

In case of significant increase of the market interest rates, deposit may be terminated and replaced by new deposit with interest rate more favorable for the 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 1,212,510,909 deposits (including call deposits) and cash in bank as at 31 December 2013, 1% rise in market interest rate would have caused (ceteris paribus) the interest received to increase with approximately MKD 12,125,110 annually, while similar decrease would have caused the same decrease in interest received. Amount of deposits is MKD 4,504,162,427 (including call deposits) and cash in bank as at 31 December 2012, therefore 1% rise in market interest rate would have caused (ceteris paribus) the interest received to increase with approximately MKD 45,041,624 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 favorable market conditions for their sale.

As part of the presentation of market risks, IFRS 7 also requires disclosures on how hypothetical changes in risk variables affect the price of financial instruments. As at 31 December 2013 and 31 December 2012, the Company holds investments, which could be affected by risk variables such as stock exchange prices.

The Company had MKD 43,761,767 investments in equity of other entities that are publically traded on the Macedonian Stock Exchange as at 31 December 2013, 20% rise in market price would have caused (ceteris paribus) MKD 8,752,353 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 50,828,089 as at 31 December 2012, therefore 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.

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.
- Upon harmonization and agreement with the parent company these rules can be altered for ensuring full credit risk coverage. If the total amount of deposits cannot be placed in banks covered with bank guarantees with at least BBB+ rating (or equivalent credit rating), then depositing will be performed in local banks without bank guarantee.

The process of managing the credit risk from operating activities includes preventive measures such as creditability checking and prevention barring, corrective measures during legal relationship for example reminding and disconnection activities, collaboration with collection agencies and collection after legal relationship as litigation process, court proceedings, involvement of the executive unit and factoring. The overdue payments are followed through a debt escalation procedure based on customer's type, credit class and amount of debt.

The credit risk is controlled through credibility checking – which determines that the customer is not indebted and the customer's credit worthiness and through preventive barring – which determinates the credit limit based on the customer's previous traffic revenues.

The 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 2013 is MKD 430,579,100 denominated in EUR 7,000,000 (2012: MKD 1,699,245,000 denominated in EUR 27,630,000). In addition, the Company has deposits with 1domestic bank (2012: 4 domestic banks). The

Company has obtained collateral (guarantee) that mitigate the credit risk for the extent of the deposited amount in the respective bank.

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 Corporate Finance 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 2013, is MKD 14,239,209,176, as per local GAAP (Generally accepted accounting principles) (2012: MKD 17,169,563,519). Out of this amount MKD 9,583,887,733 (2012: MKD 9,583,887,733) represent share capital and MKD 958,388,774 (2012: MKD 1,916,777,547) represent statutory reserves, 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 2013	2,795,802,720	186,911,885	2,982,714,605
Additions	184,629,172	-	184,629,172
Transfer from assets under construction (see note 8)	75,776,568	-	75,776,568
Disposal	(866,928,269)	(32,154,507)	(899,082,776)
Transfer from assets held for sale	(58,879,049)	-	(58,879,049)
At 31 December 2013	2,130,401,142	154,757,378	2,285,158,520
Amortisation			
At 1 January 2013	2,149,530,339	186,911,885	2,336,442,224
Charge for the year	233,742,039	-	233,742,039
Disposal	(866,928,269)	(32,154,507)	(899,082,776)
Transfer from assets held for sale	(57,954,054)	-	(57,954,054)
At 31 December 2013	1,458,390,055	154,757,378	1,613,147,433
Carrying amount			
At 1 January 2013	646,272,381	-	646,272,381
At 31 December 2013	672,011,087	-	672,011,087

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	2,795,802,720	186,911,885	2,982,714,605
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	2,149,530,339	186,911,885	2,336,442,224
Carrying amount			
At 1 January 2012	611,116,047	317,840	611,433,887
At 31 December 2012	646,272,381	-	646,272,381

The reviews of the useful lives of intangible assets during 2013 affected the lives of a number of assets, mainly software. The change on the useful life of the affected assets was made according to technological changes and business plans of the Company.

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

In denars	2013	2014	2015	2016	After 2016
(Decrease) /Increase in amortization	(13,378,084)	(13,188,504)	(2,631,372)	26,676,356	2,521,604
	(13,378,084)	(13,188,504)	(2,631,372)	26,676,356	2,521,604

Notes to the annual accounts

8. TANGIBLE ASSETS

In denars	Land	Buildings	Plants and other equipment	Assets under construction	Total
Cost					
At 1 January 2013	25,113,220	6,128,190,729	27,538,406,128	656,107,127	34,347,817,204
Additions	84,817	15,739,421	1,012,006,709	590,668,348	1,618,499,295
Transfer from assets under construction (see note 7)	-	2,527,955	268,456,138	(346,760,661)	(75,776,568)
Disposals	-	(29,934,561)	(366,909,556)	-	(396,844,117)
Transfer to assets held for sale	-	(3,623,975)	(6,721,704,499)	-	(6,725,328,474)
At 31 December 2013	25,198,037	6,112,899,569	21,730,254,920	900,014,814	28,768,367,340
Depreciation					
At 1 January 2013	-	2,080,505,124	22,232,450,301	-	24,312,955,425
Charge for the year	-	167,782,973	1,197,667,337	-	1,365,450,310
Disposals	-	(29,578,808)	(354,709,293)	-	(384,288,101)
Transfer to assets held for sale	-	(2,332,475)	(6,689,323,590)	-	(6,691,656,065)
At 31 December 2013	-	2,216,376,814	16,386,084,755	-	18,602,461,569
Carrying amount					
At 1 January 2013	25,113,220	4,047,685,605	5,305,955,827	656,107,127	10,034,861,779
At 31 December 2013	25,198,037	3,896,522,755	5,344,170,165	900,014,814	10,165,905,771

In denars	Land	Buildings	Plants and other equipment	Assets under construction	Total
Cost					
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	25,113,220	6,128,190,729	27,538,406,128	656,107,127	34,347,817,204
Depreciation					
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	-	2,080,505,124	22,232,450,301	-	24,312,955,425
Carrying amount					
At 1 January 2012	24,432,268	2,073,550,562	4,837,113,551	375,717,045	7,310,813,426
At 31 December 2012	25,113,220	4,047,685,605	5,305,955,827	656,107,127	10,034,861,779

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 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 2013 affected the lives of a several types of assets, mainly hardware and network equipment. 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	2013	2014	2015	2016	After 2016
(Decrease)/Increase in depreciation	(24,112,305)	(22,495,464)	4,682,426	36,506,490	5,418,853
	(24,112,305)	(22,495,464)	4,682,426	36,506,490	5,418,853

9. TRADE RECEIVABLES

In denars	2013	2012
Trade receivables – domestic	2,300,210,824	2,306,053,279
Trade receivables – foreign	26,287,031	27,566,067
Impairment of receivables	(951,614,863)	(947,741,423)
	1,374,882,992	1,385,877,923

10. CASH

In denars	2013	2012
Cash in banks – domestic currency	17,276,153	12,930,965
Cash in banks – foreign currency	202,249,457	63,851,521
Cash on hand – domestic currency	42,931	21,144
Cash on hand – foreign currency	961	966
	219,569,502	76,804,596

Notes to the annual accounts

11. SHARE CAPITAL

In denars

Type of shares	Ownership	1 January 2013	%	Increase	Decrease	31 December 2013	%
Ordinary shares	Private persons	189,034,700	1.97	1,676,300	-	190,711,000	1.99
	Legal entities	5,099,968,100	53.22	-	(1,676,300)	5,098,291,800	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
	Total	9,583,887,733	100.00	1,676,300	(1,676,300)	9,583,887,733	100.00

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
	Total	9,583,887,733	100.00	1,356,200	(1,356,200)	9,583,887,733	100,00

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

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.

11.2. Statutory reserves

With the changes of the Law on Trading Companies effective from 1 January 2013, the Company is required to set aside 5 percent of its net statutory profit for the year in a statutory reserve until the level of the reserve reaches 1/10 of the share capital. As the Company has reached the 1/5 of the share capital in statutory reserves in prior years, in 2013, the excess over the 1/10 of the share capital in the amount of MKD 958,388,773 was transferred from statutory reserves to retained earnings.

Notes to the annual accounts

12. CURRENT TRADE PAYABLES

In denars	2013	2012
Trade payables – domestic	658,402,894	764,736,036
Trade payables – foreign	68,094,579	99,606,377
Trade payables for un-invoiced goods	46,113,934	128,179,106
	772,611,407	992,521,519

In the category Trade payables – domestic MKD 187,310,812 (2012: 187,041,719) 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 502,873,588 (2012: 648,844,623). 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.

13. SALES REVENUES

In denars	2013	2012
Sales revenues – domestic	5,259,500,046	5,714,354,748
Sales revenues – foreign	1,380,592,661	1,554,212,518
	6,640,092,707	7,268,567,266

14. OTHER INCOME

In denars	2013	2012
Compensation for project termination	36,914,100	-
Net gain on disposal of non-current assets	19,649,765	708,182,582
Collected written off receivables	4,915,463	12,470,773
Income from penalties from disconnection	2,117,887	1,887,180
Written off liabilities	105,615	47,709,724
Release of provisions	-	162,141,341
Other income	6,569,362	42,431,772
	70,272,192	974,823,372

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).

In 2013 in other income there is compensation from T-Systems International for the contribution of the Company in the design and other activities of the DT Group Next Generation Customer Relationship Management ("NG CRM") project related to the termination of the Project Service Agreement due to the changes of the governance model assuming full local accountability for the project.

Notes to the annual accounts

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

In denars	2013	2012
Payment to network operators	1,541,248,280	1,714,814,328
Services	311,270,942	325,913,440
Royalty payments for IPTV programs	238,217,281	154,108,544
Maintenance	232,091,868	231,025,642
Subcontractors	177,364,384	174,444,107
Marketing and donations	120,490,596	151,305,141
Fees, levies and local taxes	82,802,851	106,776,405
Consultancy	65,227,124	81,803,070
Rental fees	42,578,032	35,081,311
Scrapping of fixed assets	34,954,533	10,741,752
Impairment losses on trade receivables	27,752,698	5,334,131
Insurance	13,337,752	11,742,731
Bank services and payment operations	9,151,677	16,779,362
Other	32,224,759	25,737,145
	2,928,712,777	3,045,607,109

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	2013		2012	
	Revenues	Expenses	Revenues	Expenses
Subsidiary				
T-Mobile Macedonia AD Skopje	596,493,496	980,360,449	705,667,159	1,105,389,354
Controlling owner				
Magyar Telekom Plc	25,898	38,693,295	3,032,277	44,358,318
Telemakedonija AD	40,026	-	180,707	-
Subsidiaries of the controlling owner				
IQSYS Magyar Telekom	-	-	-	2,770,380
T-Systems Magyarország Zrt,	23,078,853	11,094	-	922,500
Novatel	7,186,485	3,978,481	2,288,598	-
Crnogorski Telekom	89	177	-	-
Ultimate parent company				
Deutsche Telekom AG	1,284,390,065	160,877,924	1,438,547,982	200,297,786
Subsidiaries of the ultimate parent company				
Hrvatski Telekom	175,983	-	-	35,015,497
T-Systems	4,545,558	5,431,602	11,137,951	6,174,160
OTE Globe	22,898,018	22,099,168	22,508,260	30,435,084
Romtelekom	-	915,046	-	913,360
Detecon	2,208	16,230	-	5,783,626
Slovak Telekom	-	13,106	-	-

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

In denars	2013		2012	
	Receivables	Payables	Receivables	Payables
Subsidiary				
T-Mobile Macedonia AD Skopje	551,674,875	604,254,264	383,964,983	543,546,801
Controlling owner				
Magyar Telekom Plc	35,767	7,130,517	-	7,084,175
Telemakedonija AD	5,549	-	5,618	-
Subsidiaries of the controlling owner				
T-Systems Magyarország Zrt,	1,057,474	-	-	1,845,000
Novatel	3,445,386	1,334,540	389,257	378,225
Crnogorski Telekom	78,331	-	-	-
Ultimate parent company				
Deutsche Telekom AG	196,140,285	107,157,737	247,056,802	87,030,925
T-Systems	36,914,100	7,253,717	5,094,195	7,445,361
Subsidiaries of the ultimate parent company				
Hrvatski Telekom	175,982	-	-	32,655
OTE Globe	6,862,467	6,407,813	8,842,417	8,799,912
Romtelekom	-	3,005,467	-	6,053,915
Detecon	-	-	-	5,783,000
Slovak Telekom	-	-	-	4,400,320

17. EVENTS AFTER THE BALANCE SHEET DATE

There are no events after the balance sheet date that would have impact on the 2013 Income statement and Balance sheet,

Andreas Maierhofer Chief Executive Officer	Slavko Projkoski Chief Finance Officer	Goran Tilovski Accounting and Tax Director Certified Accountant Reg. No. 11-2504/2