LEADING THE DIGITAL ERA

ANNUAL REPORT 2016

MAKEDONSKI TELEKOM AD - SKOPJE

LIFE IS FOR SHARING.

CONTENTS

The speed of the information and technology development today is measured in seconds and it relies on digitalization.

As a telecommunications leader, we have clearly **defined our goals and vision** to be the beacon of the new **digital society** and to develop the **digital culture.**

Our goal is **digitalization and connecting** all its spheres, through **simple solutions** that will both facilitate and enrich the life of our customers and business partners.

This developmental mosaic is comprised of **leadership in innovations, smart solutions, the Internet of Things, Cloud solutions, as well as the new information-communication systems** that we have integrated in our operation.

This is the path on which we will continue creating a **top customer experience,** which will connect us and unite us with the world in a **new kind of union**, ready for new adventures and successes.

As thus far, we will remain a reliable and loyal partner for everything that stands for **top quality, social progress and well-being.**

CORPORATE GOVERNANCE

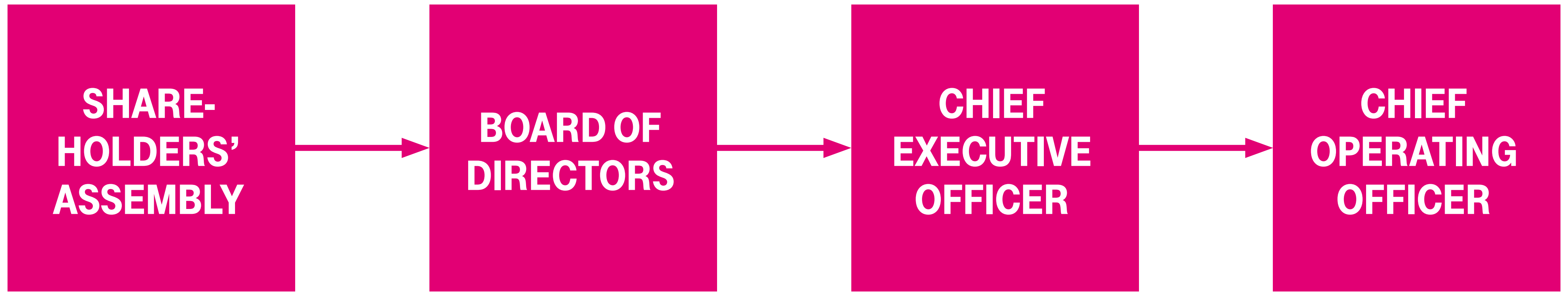
MANAGEMENT AND GOVERNANCE OF MAKEDONSKI TELEKOM AD – SKOPJE

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

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

MAKEDONSKI TELEKOM STRUCTURE

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



In accordance with the Law on Trade Companies and the Statute of Makedonski Telekom AD - Skopje, the Shareholders' Assembly, the Board of Directors, the Chief Executive Officer and the Chief Operating Officer of the Company are authorized to adopt resolutions within their competence.

SHAREHOLDERS' ASSEMBLY

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

1. Modifications to the Statute of the Company
2. Approval of the Annual Accounts, Financial Statements and Annual Report on the Operations of the Company in the previous business year, deciding upon the distribution of the profit and defining the amount and method of dividend payments
3. Defining the means of covering losses incurred in the accounting period, additional approval of the method of utilization of the proceeds from the Reserve Fund
4. Appointment and release of the members of the Board of Directors and determining the remuneration which shall be paid to the non-executive members of the Board of Directors for their operation
5. Approval of the operation and management of the operation of the Company by the members of the Board of Directors
6. Change in the share type and class and change in the rights linked to certain types and classes of shares
7. Increase and decrease of the share capital of the Company
8. Issuing shares and other securities
9. Appointment of an authorized auditor for auditing the Annual Accounts and Financial Statements
10. Transformation of the Company into another form of a Company and status modifications of the Company
11. Approval of major transactions in accordance with the Statute
12. Alterations of the Company's property structure, if the accounting value of the relevant part of the property affected by the alteration exceeds ten percent (10%) of the Company's property net value as set forth in its latest Financial Statements
13. Termination of the Company
14. Other issues defined by law or the Statute of the Company
15. Adoption of Rules of Procedure for its operation
    The Shareholders' Assembly of the Company may not decide upon issues in the field of managing and governing the Company, which fall within the competence of the Board of Directors.

MAKEDONSKI TELEKOM'S SHARES

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

* From the total number of voting shares - 86.254.903 for 3.361 shares, which are part of 2% shares that the Government of the Republic of Macedonia distributed to the employees of Makedonski Telekom, the owners are not registered in the Book of Shareholders of MKT due to the incomplete personal data (3.320 shares), or the shares are not distributed yet (41 shares).

** The priority cumulative share (golden share) owned by the Government of the Republic of Macedonia has one voting right and special rights in accordance with the Statute of the company. There is a limit for trade and non-trade transfer.

*** Reduced by the own shares of Makedonski Telekom, whose rights are suspended in accordance with the Law on Trade Companies (Article 338)

DIVIDEND CALENDAR

YEAR	GROSS DIVIDEND PER SHARE IN MKD	FIRST DATE OF PAYMENT	ANNOUNCEMENT DATE
2015	17,09	26.09.2016	12.04.2016
N/A*	14,38	18.12.2015	20.11.2015
2014	26,23	18.05.2015	16.04.2015
2013	31,49	23.04.2014	27.03.2014
2012	65,46	17.04.2013	29.03.2013
2011	71,46	25.04.2012	04.04.2012
2010	68,95	29.04.2011	14.04.2011
2009	75,01	12.07.2010	02.07.2010
2008	71,42	22.05.2009	29.04.2009
2007	113,42	29.09.2008	03.09.2008
2005	86,1	01.08.2007	31.07.2007
2004	60,88	04.07.2005	30.05.2005
2003	26,1	19.03.2004	20.02.2004
2002	25,04	05.05.2003	18.04.2003

* The dividend paid in the month of December 2015 was paid from the accumulated earnings of the Company from prior periods pursuant to the Resolution of the Shareholders' Assembly of Makedonski Telekom adopted on 20.11.2015.

CALENDAR OF EVENTS

MEETINGS OF THE SHAREHOLDERS' ASSEMBLY OF MAKEDONSKI TELEKOM IN 2016

05.01.2016 Shareholders' Assembly meeting of Makedonski Telekom

31.03.2016 Shareholders' Assembly meeting of Makedonski Telekom

12.04.2016 Annual meeting of the Shareholders' Assembly of Makedonski Telekom

07.09.2016 Shareholders' Assembly meeting of Makedonski Telekom

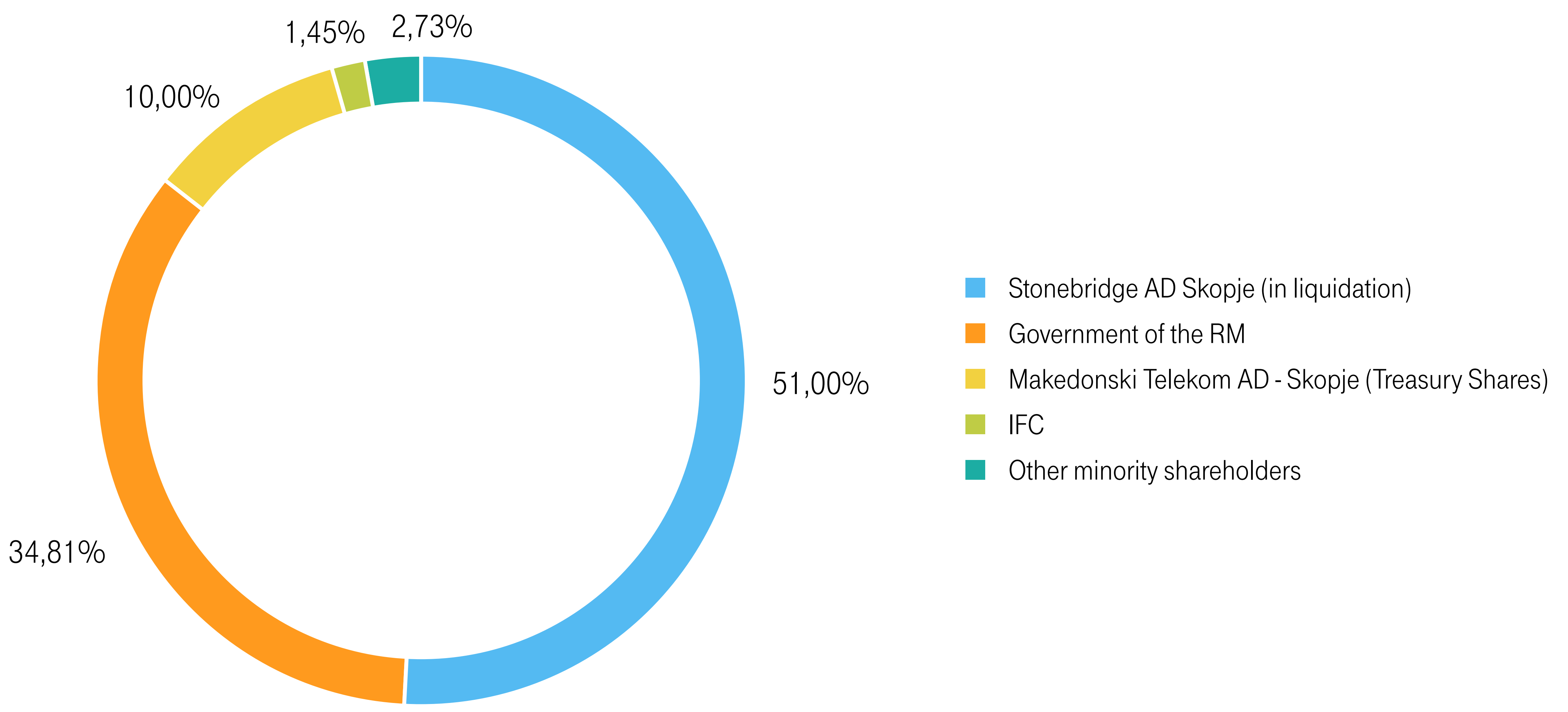
SHAREHOLDERS' STRUCTURE

SHAREHOLDERS OF MAKEDONSKI TELEKOM BY 31.12.2015 INCLUSIVE

NAME OF OWNER	NUMBER OF SHARES	AS %
Stonebridge AD Skopje (in liquidation)	48,877,780	51,00
Government of the RM	33,364,875*	34,81
Makedonski Telekom AD - Skopje (Treasury Shares)	9,583,878**	10,00
IFC	1,392,204	1,45
Other minority shareholders	2,620,044	2,73
Total	95,838,781	100,00

* Including the priority cumulative share (golden share) with a face value of MKD 9,733 owned by the Government of the Republic of Macedonia. The golden share bears one voting right and special rights in accordance with the Statute of the company. It has a limitation in terms of the trade and non-trade transfer.

** In accordance with the Law on Trade Companies (Article 338), the rights arising from the treasury shares are suspended.



TO OUR SHAREHOLDERS

Dear Shareholders,

Makedonski Telekom is in the leading position in Macedonia! We remained at the top as a result of our potential and commitment to be leaders in terms of the provision of new and innovative solutions, but primarily as a result of the experience and the support we received from the Deutsche Telekom Group.

We had many challenges, but 2016 was a successful year for us, a year in which, with joint efforts, we made significant achievements. We showed excellent results in postpaid, prepaid, the TV segment and the ICT solutions.

We put a focus on the digital transformation in order to be a truly reliable partner in the new virtual and digital world at home, at work, anywhere and anytime. We worked on the promotion of the digital interaction with our customers, as well as the digitization of the company processes. In the year that passed we completed our capital information systems CRM and OSS, with the main goal of improving the services for our customers.

The optimization of the operations and the increase of the efficiency continuously remain to be our focus. In that context, we also performed organizational restructuring, such as the outsourcing of the management of the telecommunications systems and the network infrastructure, for which we chose Ericsson as our strategic partner.

In 2016 we recorded growth in almost all areas of our operation. We are proud that 31,000 families in Macedonia chose our unique Magenta 1 offer. We launched MaxtvGO as an innovative service to our customers. The number of households with access to FTTH also grew. We exceeded the forecasts and in only one year we passed 26,000 homes with fiber. So far we have a total of 147,000 homes passed with fiber, which represents one quarter of the homes in the Republic of Macedonia. The plan was very ambitious, but we succeeded primarily as a result of the professionalism, perseverance, hard work and excellent cooperation between the MKT team with the external associates.

Let's not forget the excellent results in the mobile segment as well. We ended 2016 with a share of 50.2% of the market. Even in conditions of tough competition, the customers know how to make the right choice and to choose the best from Telekom.

Makedonski Telekom is the most preferred brand by the customers. We once again have the best network in Macedonia. These recognitions from the customers are a confirmation that our commitment to continuously invest in new technologies and network infrastructure, thus promoting and improving the level of our services, is the right path we should keep in the future as well.

As a technology leader with a clear vision of the challenges, in 2016, Makedonski Telekom completed the implementation of a modern integrated system for automatic vehicle location and smart ticketing in the Skopje city transport. This system is just the beginning of the "smart cities" and smart living solutions. We are focused on projects that will help and bring about changes in the society, and for us as a company it will allow growth and development.

The year that passed was a successful year. After a several-year downturn, we stabilized the downward trend in the revenues and we fully achieved the set company goals.

In the upcoming period we will continue to compete in the market with quality: of the products, the network, the services and our treatment of the customers.

Andreas Maierhofer
Chief Executive Officer
of Makedonski Telekom

Zarko Lukovski
Chief Operating Officer
of Makedonski Telekom

BOARD OF DIRECTORS

ОДБОР НА ДИРЕКТОРИ

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

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

Within the authorizations defined with the Law on Trade Companies and the Statute of Makedonski Telekom, the Board of Directors manages the Company and consists of fourteen (14) members, of whom twelve (12) are Non-Executive members, 2 (two) are Executive members and bear the titles Chief Executive Officer and Chief Operating Officer, and four (4) of the Non-Executive members are Independent members of the Board of Directors.

RULES OF PROCEDURE OF THE BOARD OF DIRECTORS

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

1. The preparation of the meetings, the convening of the meetings, the course of operation during the meetings, the manner of decision-making (postponing, adjourning and concluding the meetings),

2. Minutes of the meetings, rights and duties of the members and other participants in the operation at the meeting, as well as

3. Other issues related to the operation of the Board of Directors within the authorizations granted by the law and the Statute of Makedonski Telekom.

Members of the Board of Directors of Makedonski Telekom AD – Skopje as of 31.12.2016

Pance Kralev – Non-Executive member and President

Nazim Bushi - Non-Executive member and Vice President

Nebojsa Stajkovic - Non-Executive member

Walter Goldenits - Non-Executive member

Michael Frank - Non-Executive member

Péter Zsom - Non-Executive member

Andrea Sághy - Non-Executive member

Károly Schweininger - Non-Executive member

Andreas Maierhofer - Executive member and CEO

Zarko Lukovski - Executive member and COO

Susanne Krogmann - Independent member

Attila Keszég - Independent member

Aleksandar Stojkov - Independent member

Vladimir Zdravev - Independent member

Members of the BoD of Makedonski Telekom AD – Skopje whose mandate has expired/who resigned/were released during 2016:

Frank Pölcz, Independent BoD member, with a mandate until 31.03.2016 inclusive

Pance Kralev
Non-Executive member and President

Nazim Bushi
Non-Executive member and Vice President

Nebojsa Stajkovic
Non-Executive member

Walter Goldenits
Non-Executive member

Michael Frank
Non-Executive member

Péter Zsom
Non-Executive member

Andrea Sághy
Non-Executive member

Károly Schweininger
Non-Executive member

Andreas Maierhofer
Executive member and CEO

Zarko Lukovski
Executive member and COO

Susanne Krogmann
Independent member

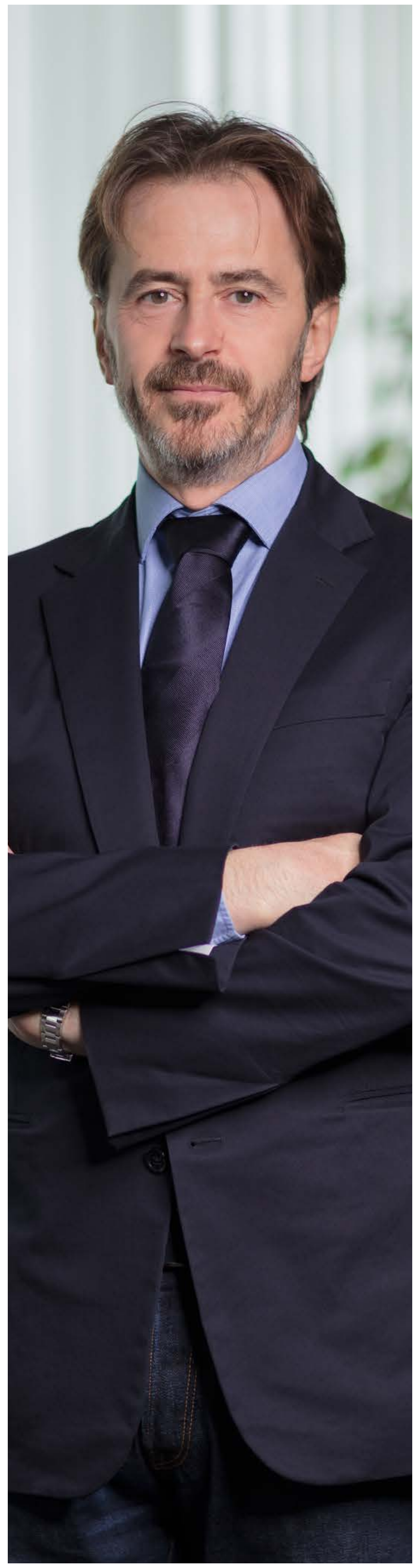
Attila Keszég
Independent member

Aleksandar Stojkov
Independent member

Vladimir Zdravev
Independent member

MANAGEMENT

Andreas Maierhofer
Chief Executive Officer
of Makedonski Telekom



Zarko Lukovski
Chief Operating Officer
of Makedonski Telekom

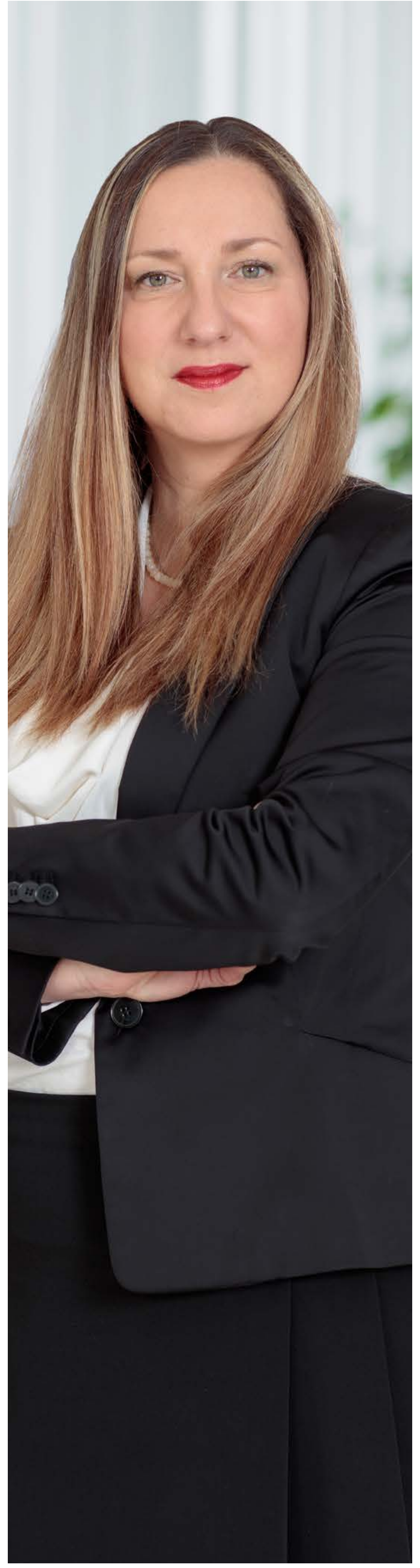
Slavko Projkoski
Chief Financial Officer
of Makedonski Telekom

Branko Stancev
Chief Operating Officer
Business
of Makedonski Telekom

Andreas Elsner
Chief Operating Officer
Consumer
of Makedonski Telekom

Miroslav Jovanovic
Chief IT Officer
of Makedonski Telekom

Lazar Popovski
Chief Human Resources
Officer
of Makedonski Telekom



Moira Homan
Chief Human Resources
Director
of Makedonski Telekom

MARKET ENVIRONMENT

MARKET ENVIRONMENT

This Annual Report on Operation refers to Makedonski Telekom AD - Skopje (hereinafter referred to as: "MKT").

On 31 October 2013, an Accession Agreement was concluded with T-Mobile Macedonia (hereinafter referred to as: "TMMK") as an Accessing Company to MKT, as an Acquiring Company. The Accession Agreement has been changed with the Annex thereof concluded on 20 April 2015. TMMK, as a fully owned subsidiary of the Company, has been consolidated until 2014 inclusive.

In accordance with the Accession Agreement and the Annex thereof, and pursuant to the provisions of the Law on Trade Companies, 31 December 2014 is determined as the date from which all transactions of TMMK, from an accounting point of view, shall be considered as effectuated on behalf of MKT. Implicitly, as of 1 January 2015 the bookkeeping for MKT and TMMK will be keep only by MKT.

In accordance with the Accession Agreement and the Annex thereof, which were adopted and confirmed by the Shareholders Assemblies of MKT and TMMK on the meetings held on 17 June 2015, the business activities of TMMK stopped as of 30 June 2015, when this company was deleted from the Central Register. With the deletion, TMMK no longer exists as a legal entity without a liquidation procedure to be conducted.

With the cessation of TMMK, the assets and liabilities of TMMK were transferred to MKT by way of a universal transfer of the entire assets and liabilities.

MKT is a joint stock company incorporated and domiciled in the Republic of Macedonia (RM) for the provision of telecommunications services. MKT's immediate parent company is AD Stonebridge Communications – Skopje, solely owned by Magyar Telekom Plc., registered in Hungary. The ultimate parent company is Deutsche Telekom AG (DT), registered in the Federal Republic of Germany.

MKT is an integrated telco operator primary offering fixed line and mobile services. MKT is a leading mobile service provider, dedicated to the provision of up-to-date technologies and advanced service offerings, commensurate to the highest technological and service standards. MKT is also a leading fixed line service provider of traditional telecommunications services and content services within the scope of the fixed line network, broadband services and integrated solutions, including TV over Internet Protocol (IPTV).

MKT's objectives for the forthcoming years comprise being a leading provider of technology in Macedonia and providing quality services with attractive prices in order to be prepared for the competition.

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

In 2016, the mobile voice revenues contributed with 34.8% to the total revenues, while 16.8% of the total revenues of MKT were generated from fixed line voice services. The fixed line Internet and data services revenues contributed with 14.4%, while the mobile non-voice services revenues contributed with 13% to the total revenues. The revenues from IPTV contributed with 5.7% to the total revenues.

The fixed line voice revenues still show a downward trend, mainly due to the decreased number of fixed-line customers and the decrease of the outgoing traffic. The IPTV revenues have grown mainly due to the growing IPTV subscriber base. The mobile voice revenues decrease is driven by the lower voice retail revenues mainly coming from the decrease in prepaid supported by the same trend in prepaid traffic, as well as lower voice incoming revenues as result of the lower international to mobile minutes.

At the end of 2016, MKT had 217,576 voice access fixed lines compared to 226,501 at the end of 2015. The number of total DSL access is stable with 194,172 at the end of 2016, compared to 195,014 at the end of 2015. The number of IPTV customers at the end of 2016 reached 107,672 customers (including 3 Play, IPTV only and 2 MAX) marking 4.1% increase from the end of 2015. The number of Fibre to the Home (FTTH) customers reached 37,000 at the end of 2016, marking 11.8% increase from the end of 2015.

MKT had 1,257,887 mobile subscribers at the end of 2016, compared to 1,229,655 at the end of 2015. The mobile market penetration in Macedonia is 105.8%, which shows continual trend of individuals owning multiple SIM cards. As a result of the market saturation, MKT focuses especially on retaining the customers in order to protect the market share.

The Macedonian mobile market was characterized by highly competitive campaigns and offers in 2016. Due to the increased competitiveness and in order to prevent the churn and encourage the usage, MKT launched various campaigns, price plans and additional services specially designed to meet the subscribers' needs, with a focus on value instead of price. These offers are targeting different customer segments. During 2015, a single Telekom brand was established and new product concept was introduced, which was in line with the global strategy of the Deutsche Telekom Group as a telecommunications leader in Europe. The MAGENTA products which had been developed, as a DT strategy, were redesigned in 2016 and highlighted the year, as a year of a holistic household approach offering integrated products and services to maximize the household base, secure the revenue and bring profitability.

MKT is continuously working on creating a market demand for mobile Internet and stimulating mobile data usage via device/data price plans.

The Macedonian mobile market, influenced by the global trends, is moving to a much broader and more interactive communications market, encompassing voice, mobile Internet and 3G/4G streaming services. Further roll-out of mobile broadband technology, improvement of customer management and billing processes and investment in value added services are planned in order to ensure market competitiveness.

Regulation and Pricing

The Macedonian law concerning the electronic communications (Law on Electronic Communications - "LEC") was enacted on 5 March 2005. Thus, by means of certain transitional provisions, the country's telecommunications regulations were harmonized with the European Union (EU) regulatory framework. Furthermore, a number of strict obligations for the existing operators were stipulated. In December 2013, a public debate was opened for a new draft LEC for the purposes of aligning the LEC with the EU Framework Directives 2009. A new law was enacted in March 2014 as primary legislation, as well as rulebooks as secondary legislation.

On 19 December 2014, amendments of the LEC were enacted. One of the most important changes is implemented in Article 75-a, which regulates the prices of international roaming.

According this article, the Agency for Electronic Communications ("the Agency") has the right, with a Decision, to determine the maximum prices for the services which are offered to roaming users from countries with which the Republic of Macedonia has concluded agreements on the reduction of the prices of roaming services in public mobile communications networks (Bosnia and Herzegovina, Montenegro and Serbia) on a reciprocal base, which cannot be higher than the prices of the same services in the EU. In a period of 3 years, starting from 2015, the prices will be reduced to the maximum determined.

On 6 November 2015, in Official Gazette of RoM No. 193, amendments of LEC were enacted, wherein the respective changes affect the misdemeanour provisions.

On 29 June 2011, MKT was designated as a Universal Service (US) provider for fixed telephony services, public payphones and equivalent access for disabled end-users for a five-year period starting from 1 January 2012. In 2013, a Universal Service Obligation (USO) fund was established, in which all telecommunications operators with an annual turnover above EUR 100 thousand in Macedonia participate.

On 27 December 2016, MKT was designated again as a Universal Service (US) provider for the next period of 5 years, for fixed telephony services and Internet of 2 Mbit/s, public payphones and equivalent access for disabled end-users for a five-year period starting from 1 January 2016.

On 25 December 2016, MKT received a Resolution from the Agency for the determination of the net cost for universal service provision for 2015.

The services encompassed by the US for which MKT has received reimbursement from the USO fund are as follows:

- Access to public telephone services at a defined fixed geographic location;
- Reasonable number of public pay phones;
- Ensuring conditions for equivalent access to and use of publicly available telephone services for disabled end-users.

Regulation of Fixed Line Business

MKT is a significant market power (SMP) operator on the market of fixed line voice telephony networks and services, including the market of access to the networks for data transmission and leased lines. MKT, as a 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.

The obligations according to the performed analysis in 2014 on the relevant markets include the current obligations, as well as new obligations for the regulation of fibre based products and virtual unbundling local access (VULA) on Market 8 - Broadband market (broadband services based on optics), Market 1 - Access to public telephone networks at a fixed location for residential and business customers on all networks - technology neutral, deregulation on Market 10 - Transmission segments of the LL and deregulation of Wholesale Line Rental (WLR).

According to the new bylaws, MKT has an obligation to publish reference offers for the wholesale products for interconnection, Unbundling Local Loop (ULL), Local Bit-stream Access (BSA), Reference Access Offer for access to ducts and dark fibre (RAO) and wholesale terminating segments of leased lines. An initial Fibre to the "x" (FTTx) regulation was introduced in the second quarter of 2011 with the obligation for Reference Access Offer (RAO) for ducts and dark fibre imposed on MKT by the Agency. As of 1 April 2015, MKT introduced the VULA service and the optic bit-stream access services as part of its referent wholesale offer.

The Number Portability (NP) procedures are an obligation that arises from the LEC and the NP Rulebook for all operators in Macedonia. The deadlines for porting are two days in a fixed network and one day in a mobile network. A beep signal is also introduced in the networks of MKT and TMMK, which informs the customers that their call is made towards a ported number. The all call query method is an obligation due to the IP migration of all operators on the domestic market.

On 15 July 2014, the Agency introduced an obligation for all operators with cable network infrastructure (including MKT) to build their network underground and to place their existing aerial networks underground by the end of 2020 in the cities with more than 15,000 citizens. Additionally, all fixed and mobile operators are obliged in terms of digital agenda targets to provide broadband services with a minimum speed of 30 Mb/s for 100% of the households' network coverage and 100 Mb/s for 50% of the households' network coverage by the end of 2020.

On 11 November 2015, the Agency published the final document for a market analysis on the relevant retail Market 3 – Minimal set of leased lines. MKT is released from the SMP obligation on this market and this market is no longer included in the list of relevant regulated markets by the Agency.

The Rulebook on the emergency number E 112 was enacted on 27 October 2015 (Official Gazette No. 184/2015). Even though the obligations for the operators are defined in the rulebook, the date for starting the service is not set. It will mainly depend on the preparedness of the Crisis Management Centre as the responsible body for the implementation of the service on the government side.

Regulated Retail Prices

Under an obligations arising from Article 91 of the LEC (retail price regulation), followed with the changes in November 2014 of the Recommendation for retail regulation, the Agency specified the manner and procedure for the regulation of the retail prices for fixed voice telephony networks and services of the operator with significant market power on the relevant retail markets. MKT is an operator with SMP status on the relevant retail Market 1 – Access to the public telephone network at a fixed location and Market 2 – Publically available telephone services at a fixed location. The prices for retail products offered on these two markets are subject to 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 the price squeeze methodology.

Regulated Wholesale Prices

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

As of 1 November 2011, MKT stopped offering PSTN and ISDN services for its customers, as well as for its wholesale partners, wherein all newly committed services are based on the Internet Protocol (IP) technology. In line with the PSTN migration of the MKT network, the Agency approved the proposed modifications of the WLR Reference Offer and BSA Offer of MKT applicable as of 1 January 2012. MATERIO was changed on MKT's initiative from 1 May 2012, and lower fixed termination rates (for origination, termination and transit) by 25% were approved by the Agency. The IP MATERIO (Internet Protocol Reference Interconnection Offer of MKT) was submitted for approval to the Agency in October 2013 on MKT's initiative, in line with the conclusions of the market analyses for the submission of the MATERIO changes with the description and conditions for IP interconnection. The Agency approved the IP MATERIO on 27 December 2013, the changes being effective from 1 January 2014.

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

In 2014, analyses were performed in accordance with the annual working program of the Agency for 2014. The ones that affect MKT's operations are the analyses on Market 8 – Broadband market, Market 1 – Access to public telephone networks at a fixed location for residential and business customers, Market 9 Terminating segments and 10 – Transmission segments of Leased Lines (LL).

The final document for the Broadband market (Market 8) analysis was published on 1 August 2014. It was for the first time that the Agency imposed a regulation for the access to broadband services over optical access network. All existing obligations for the copper network remain unchanged.

The new regulated services are: Bit Stream Access over Next Generation Access, Virtual Unbundled Local Access, Service Level Agreement, Service Level Guaranty (BSA over NGA, VULA, SLA, SLG), equivalence of the inputs and the additional parameters for an efficient monitoring of the provisioning of wholesale access are imposed (KPIs, service level agreements and guarantees). There is no cost orientation obligation for optic products; only margin squeeze tests will be implemented.

On 30 December 2014, the Agency adopted a Decision for the designation of MKT as a SMP operator on Market 8 - Access to broadband services based on copper pairs and broadband services fully or partly based on optic, including the following services:

- Point of access on IP level
- Point of access on Ethernet level, virtual unbundling local access
- Bit-stream access which MKT provides for its own needs based partly or fully on optics

The third analysis of Markets 9 and 10 – Transmission and termination segments of Leased Lines (LL) and Market 7 – Physical access to network infrastructure, was finished in November 2014. As a result of the analysis, on Markets 9 and 10 the transmission segments of the LL were deregulated and on Market 7 the regulations of fibre-based products of MKT were included. On 30 December 2014, the Agency adopted a Decision for the designation of MKT as a SMP operator on Market 9 – Terminating segments of leased lines in the geographical area of the Republic of Macedonia.

The final document of the second market analysis on the relevant retail Market 1 – Access to public telephone networks at a fixed location for residential and business customers including all types of networks- technology neutral was published on 7 October 2014. The Agency regulated the fibre-based products of MKT with margin squeeze tests which are already implemented for copper-based product regulation. The decision for the designation of MKT as a SMP operator on Market 1 was adopted on 30 December 2014.

Regulation of the Mobile Business

In July 2015, the Competition Authority approved the merger of the business of VIP and ONE in Macedonia, consisted of mobile, fixed, Internet and transmission of audiovisual content services, in the new entity ONE.Vip. The merger was approved with the following conditions:

- Obligation to enable access to applicants as Full MVNO on a wholesale basis
- Obligation to enable access to applicants as MVNO (resale) on a wholesale basis
- Obligation to offer the spectrum for sale
- Obligation to offer redundant locations for sale
- Obligation to offer the current "Boom TV packages" of ONE on the basis of a resale

After the merger between MKT and TMMK, all radiofrequency licenses awarded and used by TMMK were transferred to MKT. MKT has radiofrequency usage rights for the following radiofrequencies for public mobile communications systems:

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

- 2 x 15 MHz 2100 MHz band, validity period: 17 December 2008 – 17 December 2018 (10 years)
- 2 x 10 MHz in the 800 MHz band, validity period: 1 December 2013 – 30 November 2033 (20 years)
- 2 x 15 MHz in the 1800 MHz band, validity period: 1 December 2013 – 30 November 2033 (20 years)

Based on a company decision, in 2014, TMMK returned 5 MHz of the spectrum it owned in the 2100 MHz band. The 5 MHz spectrum assigned for the Time Division Duplex (TDD) operation mode had not been used since the assignment in 2008 and it was not planned to be used in the future either.

The competitor ONE.Vip has frequency usage rights for the following radiofrequencies for public mobile communications systems:

- 2 x 12.5 MHz in the 900 MHz band
- 2 x 10 MHz in the 2100 MHz band
- 2 x 10 MHz in the 800 MHz band
- 2 x 15 MHz in the 1800 MHz band
- 2 x 10 MHz in the 900 MHz band
- 2 x 10 MHz in the 1800 MHz band
- 2 x 10 MHz in the 800 MHz band
- 2 x 15 MHz in the 1800 MHz band

Thus, the spectrum for public mobile communications in the 800 MHz, 900 MHz and 1800 MHz bands is fully assigned to the 2 mobile operators. There is a remaining available spectrum in the 2100 MHz band, while the 2600 MHz band is not assigned for public mobile services at all.

The retail services provided by the mobile network operators in Macedonia are currently not subject to price regulation.

Since 2007, TMMK and ONE have been designated with a SMP status on the wholesale market for voice call termination services in mobile communications networks, whereby several obligations were imposed on them, such as: interconnection and access, non-discrimination in interconnection and access, accounting separation and price control and cost accounting.

TMMK's first RIO was approved by the Agency in July 2008. Based on the second round analysis of wholesale call termination services in public mobile communications networks, on 30 July 2010, TMMK received a Decision for changing the RIO by which the Mobile Termination Rate (MTR) was defined with a glide path decrease in a timeframe of four years (until 2013). In September 2011, the price for the national MTR was decreased to 3.1 MKD/min. and was planned to continue decreasing by 0.1 MKD/min. each year, down to 2.9 MKD/min. by September 2013. At the same time, the Agency regulated the MTRs for ONE and VIP (VIP was designated with a SMP status on this market in the second round analysis) with a four year glide path. In May 2012, the Agency made a revision of the calculation of MTR of all three mobile operators and imposed a new glide path. As of 1 June 2012 until 31 August 2013, TMMK's MTRs were set at 3.0 MKD/min., while ONE's and VIP's MTRs were set at 4.0 MKD/min. MTR symmetry to 1.2 MKD/min. calculated using Bottom-up LRIC+ were applied from 1 November 2013 (based on a new Agency Decision adopted in August 2013), and a further decrease to 0.9 MKD/min. calculated using Bottom-up pure LRIC was applied on 1 September 2014. MTRs were additionally decreased to 0.63 MKD/min starting from 1 December 2016, based on a new Agency Decision adopted in November 2016.

After the first analysis of the wholesale SMS termination market in 2011, all 3 mobile operators were designated with SMP status. In 2013, the Agency conducted a second round analysis on this market and imposed new regulated prices – symmetrical for all 3 operators and 75% lower than the previous ones. The prices became effective on 1 January 2014. The new wholesale prices for SMS termination were introduced starting from 1 December 2016, based on a new Agency Decision adopted in November 2016, on the level of 0.3 MKD/SMS.

At the beginning of the year 2016, the Agency conducted new market analyses on the relevant market for mobile origination and adopted a new Decision for SMP designation in April 2016. The regulatory remedies imposed by Agency are as follows: joint dominance of One.VIP and MKT, the same remedies for both operators, mobile access obligation for all MVNO hybrid types (including Reseller), a cost based price for Full MVNO and retail minus (-35%) for the Reseller, an obligation for access to MMS services and mobile data based on technology neutrality (including 4G access). The new wholesale prices for mobile originating calls, originating SMS/MMS and wholesale mobile data services are effective from 1 July 2016.

An auction procedure concluded in August 2013 awarded the whole 790 – 862 MHz band together with the unassigned spectrum in the 1740 – 1880 MHz band for Long Term Evolution (LTE) technology in a public tender. Each of the 3 Macedonian mobile operators acquired an LTE radiofrequency license of 2x10 MHz (in the 790 – 862 MHz band) and 2x15 MHz (in the 1740 – 1880 MHz band). Each license was acquired for a one-off fee of EUR 10.3 million (MKD 634,011 thousand). TMMK will retain the license for 20 years, until 30 November 2033, with an extension option for up to 20 years in accordance with the LEC.

Audiovisual and Media Regulation

In May 2013, the Macedonian Parliament adopted a Law on Film Production, amended in January 2014, imposing obligations for the payment of an annual fee by all cable operators (retransmission) and operators that provide Internet services. The fees are defined as follows:

- 1% of the revenue of cable operators which are operating with TV broadcasting program services
- 1 % of the revenue of the entities that provide Internet services
- 2% of the revenue of the legal entities which are operating in the distribution, rental and sale of movies

The above-mentioned fees are applicable as of 2014, calculated on the level of the related revenues from the previous year.

The Law on Audio and Audiovisual Media Services entered into force on 3 January 2014. The Agency for Audio and Audiovisual Media Services, the legal successor of the Broadcasting Council, has the right and obligation to conduct program supervision of the program packages that are retransmitted by the operators of public electronic communications networks.

MKT, as a provider of audio or audiovisual media services on demand, has an editorial responsibility regarding the selection or the content of the service. It is obliged to keep the audiovisual media service on demand unchanged for at least 30 days after its being made available to the users.

Additional obligations imposed by the law and affecting MKT are:

- If a program is subtitled in a language different from the language used originally when the program was produced, it has to be subtitled in Macedonian or in the language of the community that is not a majority, but is spoken by at least 20% of the population in the Republic of Macedonia, except for teleshopping and advertising programs.
- The annual fee for the surveillance carried out by the Agency for Audio and Audiovisual Media, in the amount of 0.5% of the total revenues earned by the retransmission and 0.5% of the total revenues earned for on-demand activity, has to be paid to the Agency for Audio and Audiovisual Media.
- Local program services can be transmitted within their service area and public broadcasting services funded by the broadcasting fee have to be transmitted and free of charge.
- In its subscription agreements, MKT has to specify the list of program services which are currently being retransmitted in its program package.
- The internal television channel output, i.e. the signal of that channel, has to be recorded fully and without any interruption and the recording has to be available at least 30 days after broadcasting.
- MKT is obliged to keep the catalogue and the content of the audiovisual media service on demand for at least 30 days after its being made available to the users.
- Obligation for the promotion of European audiovisual works.
- MKT is obliged to deliver the output signal continuously to the location for collecting signals for monitoring purposes.

Macedonia and the European Union

The Republic of Macedonia signed the Stabilization and Association Agreement with the EU and its Member States on 9 April 2001. The Macedonian Parliament ratified the Agreement on 12 April 2001, reaffirming the strategic interest and the political commitment to the integration with the EU. The Stabilization and Association Agreement was ratified and it has been in force since 1 April 2004.

On 17 December 2005, the EU decided to grant the Republic of Macedonia an EU candidate status.

Following the candidate status, the EU must set a date for the start of the negotiations regarding the full accession, encompassing all aspects of the EU membership, including trade, environment, competition and health. Macedonia, as a candidate country, should harmonize its legislation with the EU.

On 14 October 2009, the European Commission issued the 2009 Progress Report. Macedonia received a recommendation from the European Commission for the opening of the accession negotiations. The country made significant progress and substantially addressed the key reform priorities, known as eight plus one benchmarks.

Based on the Progress Report issued in November 2016, there is a good level of preparation in the field of electronic communications and information society. No progress was made during the reporting period. . In the coming year, the country should in particular:

- ensure correct implementation of the legal framework on electronic communications and audio-visual media;
- strengthen the independence and capacity of the media

regulator and the public service broadcaster;
- ensure that the necessary preparation is done to introduce the 112 emergency number by the end of 2018, including allocating the necessary financial resources.

The EU supports the good functioning of the internal market for electronic communications, electronic commerce and audio-visual services. The rules protect the consumers and support the universal availability of modern services.

Competition

The competition in the telecommunications business is well-developed in almost all segments. The significant changes that happened during 2015 lead to market consolidation, with two main integrated players that shape the telecommunications market in Macedonia.

In 2015, Vip Operator, a subsidiary of the Telekom Austria Group, was merged with Telekom Slovenije's subsidiary ONE, The merger was consolidated as of 1 October 2015.

Previously, in the first half of 2015, the Telekom Austria Group acquired 100% of eight cable operators in Macedonia

New MVNO Lyca-mobile entered the market in July 2016, on the network of Vip, but reached very low market share by year end 2016 (according internal estimation). They are limited to prepaid offers only, and focus on international calls.

The Balkan lower roaming fees agreed by the regulators of Macedonia, Serbia, Montenegro and Bosnia and Hercegovina in 2015 were further decreased as of July 2016.

Vip, as an integrated operator, was offering various services mobile and fixed voice, mobile and fixed broadband Internet and TV. The company operated with offers under the former brands Vip, One and Blizoo until May 2016, when they rebranded into the single Vip brand. Along with the rebranding, a new, simplified portfolio for all services was launched and promoted. The main focus was put on mobile postpaid as well as on bundled FMC offers. The lowest priced prepaid offer on the market Dzabest (previously prepaid form One) was removed from the portfolio. The mobile segment Vip continued to increase the contract ratio, which reached 58% in Q4 2016 but total base declined by 5.1% YoY, as customers move from multiple prepaid to single contract subscriptions (source: Telekom Austria Q4 2016 report). The pricing policy remained stable until November 2016, when the New Year campaign with an aggressive offer for the postpaid portfolio was launched. The market share declined to 49.5% in Q4 2016 (source: Telekom Austria Q4 2016 report).

VIP, as well as MKT, includes 4G/LTE products in the offers.

In the fixed segment, Vip offers triple play bundles (fixed voice/Internet/TV). They are also present on the FMC market with their combined offer Mobile+Fixed and the message 'Combine and Save'.

The cable operators also have a significant role in the telecommunications market and, as providers of cable television as their main service, they are well-established on the Macedonian market. Most of them offer Internet broadband services and fixed voice services on top of the TV service. Telekabel and VIP are the biggest cable providers among over 70 active cable operators. CaTV operators offer Hybrid Fibre Coaxial (HFC) services – optic near your home with a very high data rate for Internet services and digital television.

The product portfolio of all operators is driven by bundle products. The cable operators are bundling their TV offer with Internet and fixed voice services. The fixed voice service of the cable operators is usually perceived as a value added service As the overall market is price sensitive, the price perception plays a major role in the customers' choice and thus the cable operators' offers are seen as more competitive than MKT's.

The trend of number portability continued to increase in 2016, for both mobile and fixed numbers. By the end of Q2 2016, there were 185,644 mobile and 166,989 fixed ported numbers in total (source: Report for electronic communications development Q2 2016, the Agency).

As at 31 December 2016, MKT has a retail fixed voice market share of 60%, retail fixed broadband Internet market share of 42% and TV market share of 26% (source: internal best estimates). In the mobile market, the market share of MKT was 50% (source: internal calculations based on the Telekom Austria Q4'16 report and internal reports for active customers).

A LEADER IS THE ONE THAT FIRST SETS THE STANDARDS REQUIRED FOR MOVING THE ENTIRE INDUSTRY FORWARD

ACHIEVEMENTS IN 2016

217.000
fixed telephony customers

1,2 MILLION
mobile telephony customers

108.000
IPTV customers

189.000
DSL users

26%
households passed with FTTH or 147,000 homes passed with FTTH

6%
of the households are using Magenta 1

INNOVATIONS IN CUSTOMER EXPERIENCE

INNOVATIONS IN CUSTOMER EXPERIENCE

Operating in a highly competitive environment in all telecommunications segments, MKT was focused on the retention of the existing customers and the up-sales to bundled converged services, as well as on the acquiring of new customers on the fixed and mobile market, for both the residential and the business segment.

Strengthening Magenta 1 and the new fixed portfolio

MKT successfully continued the growth of Magenta 1 product which reached 6% of the households in the country. Magenta 1 portfolio was enriched with new product – Cool tariff as additional SIM. As a part of the complete household approach, the innovative feature offering child security was introduced in order to cover the needs of all family members.

A new Smart portfolio was introduced in 2016 with the simple principle of "more for more" for postpaid customers. MKT is the first operator on the market introducing the roll-over concept - non-used bundled data from this month to be used in the next month. This concept was very well perceived by the customers and increased their satisfaction with the new option.

A new fixed portfolio was introduced in the last quarter of 2016 with a simple and flexible approach, offering stable Internet on the best fixed network with a combination of IPTV with an exclusive content, to contribute in sustaining the customer base as well as to attract new households.

In the prepaid segment, the active base was increased by stimulating activity with tailor made offers for different segments. Different communication activities were executed, mainly driven by direct SMS instead of big ATL campaigns. Excellent results in the summer period were achieved by attracting visitors to MKT's offer. New weekly and monthly tariff options were introduced with positive results both on the customer and the financial side.

Customer retention and satisfaction as a main strategic direction continued also in 2016. Marketing activities based on the customer needs and habits are performed in order to build strong customer relations and provide the best customer experience. The value based approach continues in order to provide an excellent customer experience for the most valuable customers.

Premium business solutions

MKT's focus product during 2016 was Magenta 1 Business, a top premium business solution created for dynamic market trends. This solution includes fixed and mobile services with unlimited calls to all national networks, LTE in all mobile options, broadband connectivity, superior Cloud services and a possibility to buy the Max TV service as a soft bundle option. The product gives the customer a unique possibility to procure integrated services and to build up an individual offer according to their needs. A Smart working campaign was executed in Q4 2016, with an emphasis on Cloud services that enhance companies to increase their productivity.

The business portfolio for mobile only services that was launched in October 2015 was a mass market offering during 2016. There are five tariff options that are suitable for all levels of the company's employees, from starting positions to executives. All options have LTE access with higher data volumes accompanied with smart phones at attractive prices.

MKT repositioned the two play broadband portfolio (Office Complete) for Business customers. The Office Complete portfolio was significantly simplified and fully aligned with the Magenta 1 Business fixed voice and Internet components, providing a clear migration and up-sale path towards Magenta 1 Business.

SHARING BEAUTIFUL MOMENTS IS THE BASIS OF ALL OUR INNOVATIONS!

Managed and cyber security continued to be one of the main development focuses for the Business Customers. Following the key trends, MKT was positioned as an active player on this market not only as a custom solution provider, but also when robust coverage on the topic is needed. Third year in a row, MKT is providing a cloud security solution for all state schools and dormitories.

FTTH roll-out continued in 2016 with 26% homes passed with fiber technology giving the opportunity to the customers to have super fast Internet within the new portfolio.

Furthermore, special attention was paid to the ICT segment and the image of MKT as an innovator and driver of smart ICT solutions.

Sales channels

MKT has developed different sales channels in order to serve the customers from different segments. The direct sales channels comprise: own retail network, telesales, on-line sales channel, technicians, direct sales agents, account managers (for Institutional and Large Accounts) and a multichannel logic in the sales and service of the SME (Small & medium Enterprises) SOHO (Small-Office-Home-Office) segment. The development and sale of ICT solutions is performed for different types of business customers. The indirect sales channel is based on indirect master dealers with their own network of shops, partner shops and kiosks. An external company engaged in 2014 continues with telesales activities (proactive retention and loyalty activities were also introduced). The same external company is engaging people for newly established D2D sales channel.

The main sales channels are MKT's shops. There are 36 shops as at 31 December 2016. All shops are offering the complete mobile and fixed product portfolio under the same conditions and with the same customer service level. In addition to the sales, the employees in the shops were also focused on service excellence. By using the boost tools, they achieved the sales targets for 2016, with the main focus on Magenta 1 and post-paid packages. The biggest portion of the Magenta 1 sales transactions were done over shops.

The partners' presentation in the own shops continues in 2016 with the implementation of a new content on m-Walls and Window Digits. The partners' stages in the refurbished shops were used for the same purpose.

The existing channel of direct sales agents was replaced with D2D channel in June, 2016. The staff in this channel was engaged through an external company with the main focus on FTTH sale. In order to achieve a high level of service excellence, trainings with DT support were organized.

Sales activities that include home delivery via telesales were used in 2016 for the retention of fixed and mobile subscribers.

The e-business provided an upgraded Telekom MK self-care mobile application. The user experience of mobile version of www.telekom.mk was improved according to the highest standards. The online sales channel was further developed with the introduction of new features (such as payment with loyalty points and an online calculator for the customization of Magenta 1 according to the customers' needs) which increased the transactions through web shop. Several online sales campaigns were launched in 2016 to increase the online sales results. We introduced a Single Sign-on which provides a unique account sign-in credentials and a user centricity model for the authentication and authorization that allows a seamless interaction with all existing and future Telekom applications and e-services.

Another channel of the distribution network of MKT is the dealers' cooperation. As at 31 December 2016, the network consisted of 6 master dealers with 61 shops as MKT partners. The majority of the MKT master dealers' shops are offering the full MKT portfolio. In all master dealer's shops bill payment was fully implemented in 2016. In addition, prepaid vouchers are also available in 4,015 kiosks. More than 3,000 kiosks are performing top-up over MKT's processing centre. Additionally in Q4 2016 two new Master Dealers were introduced in the network, one authorized for Vouchers only, other for Vouchers and Business Segment.

A part of the MKT product portfolio (e.g. telephone sets, TV sets, computers, printers, network equipment and home appliances) is available to the customers using payment by instalments through their telephone bill.

Communication strategy

The communication strategy that was executed in 2016 supported and promoted the best network image of the company, as well as the unique and improved portfolio of services to suit the demands of different age target groups.

The image campaign with which MKT started the year relied on the best network in Macedonia attribute, as it was confirmed by the citizens in the research for the overall perception among the telco operators. For the post-paid customers, the new Smart post-paid portfolio, with more data and a unique feature-data rollover was communicated. The flagship portfolio Magenta 1 continued to be in the focus of communication, with the simplified and improved portfolio and the "Cool" option for the youth. All of the executed campaigns launched in 2016 aimed to strengthen the image as the best network operator and increase the awareness of the benefits provided with the services/products

An integrated marketing communication strategy using the available and adequate channels (TV, radio, print, out-of-home advertising, social media channels) was used to achieve a high-impact reach to all target groups. However, in 2016, the bigger focus and exploit was on digital communication as a fast developing communication trend with targeted digital campaigns to generate higher reach and customer engagement. With the focus on the digital aspect, social media was the pushed channel for interaction and engagement with the customers by delivering relevant and authentic content in line with the brand promise “Life is for sharing”. This approach aims at enhancing brand likeability and acceptance among all target groups. MKT was the first operator in Macedonia that introduced Viber communication and the first one that opened the Snapchat channel. All of the integrated communication activities are aimed at strengthening the relation with the brand in the era of digital communication.

In the business sector, the communication focus was placed on strengthening the image of MKT as an innovative operator offering integrated communication services, with an emphasis on the Magenta 1 Business portfolio, combining communication and innovative services in one package and a reliable partner for building a long-term partnership.

The competitive pressure in conjunction with the saturated Telco market, the complexity of the business environment with multiple and more sophisticated customer segments, multiple vendors and complex service offerings, fast changes in the technology with a new technology paradigm targeting one universal IP network and a Cloud based service delivery platform, as well as changes in the regulations, are only part of the challenges that MKT will face in the next few years.

BEST NETWORK

BEST NETWORK

In order to keep a sustainable business and major revenue streams in a very complex telecommunication environment, as well as proactively influence the market trends with new business opportunities, MKT is aiming to keep the technology leadership position and ensure growth through service improvement and innovation by continuously developing its infrastructure.

Development of the infrastructure and investment in the technology should encompass the following objectives/trends: broadband performance, integrated service delivery platforms, efficiency and quality leadership, self-service enablers, Cloud concept and “virtual” infrastructure, cost-efficiency, flexibility and responsiveness – reduced time-to-market, as well as competence development.

During 2016, we made significant steps towards the achievement of our goals with the development of the telecommunications network, service platforms and supporting systems.

In order to ensure high quality Broad Band (BB) performance, BB market and technology leadership, MKT is continuously investing in fixed and mobile access development. At the end of 2016, capacity was installed for more than 147,000 homes passed or 26.1% MKT network households’ coverage with FTTH was reached. A significant improvement was also achieved in LTE rollout, reaching 60% territory coverage and 80% population coverage.

Alongside the extensive mobile BB access rollout, during 2016, a strong focus was put on the network quality, which is confirmed by the P3 “Best in Test” certificate which represents an internationally recognized acknowledgement for mobile network quality, as well as by the National Report for Network Quality Parameters prepared by the Agency.

The growth of BB access and the continuous traffic increase are supported with the further development of the IP Core and the transport network as a cornerstone of all services. In 2016, the implementation of the IP Core & Transport Network Modernization” project started, which includes modernization, reorganization and extension of all IP Core Network elements, Transport and Aggregation systems. MKT managed to install a full DWDM network and finalize the IP Core implementation in one half of territory of Macedonia. After the successful Proof of Concept, an initial migration of services was performed. In the mobile segment, SW upgrade of MGW and SGSN were performed in order to extend the support of MSS and EPC. Additional PGW/GGSN and MSC-BC SW upgrades are planned and will be conducted in Q1 2017. In this timeframe, the CUDB project for upgrade of HLR/FNR and HSS-EPC on a joint CUDB platform was started and will continue in 2017.

DEVELOPMENT AND MODERNIZATION OF THE NETWORK INFRASTRUCTURE FOR AN IMPECCABLE CONNECTION

Also project for improvement of transport network redundancy based on building redundancy of all major cities based on 3 sided physical and logical path protection, creation of smaller protection rings by implementing new fiber optical routes between major sites and introduction of 2 sided network redundancy on all other IP Core sites as started.

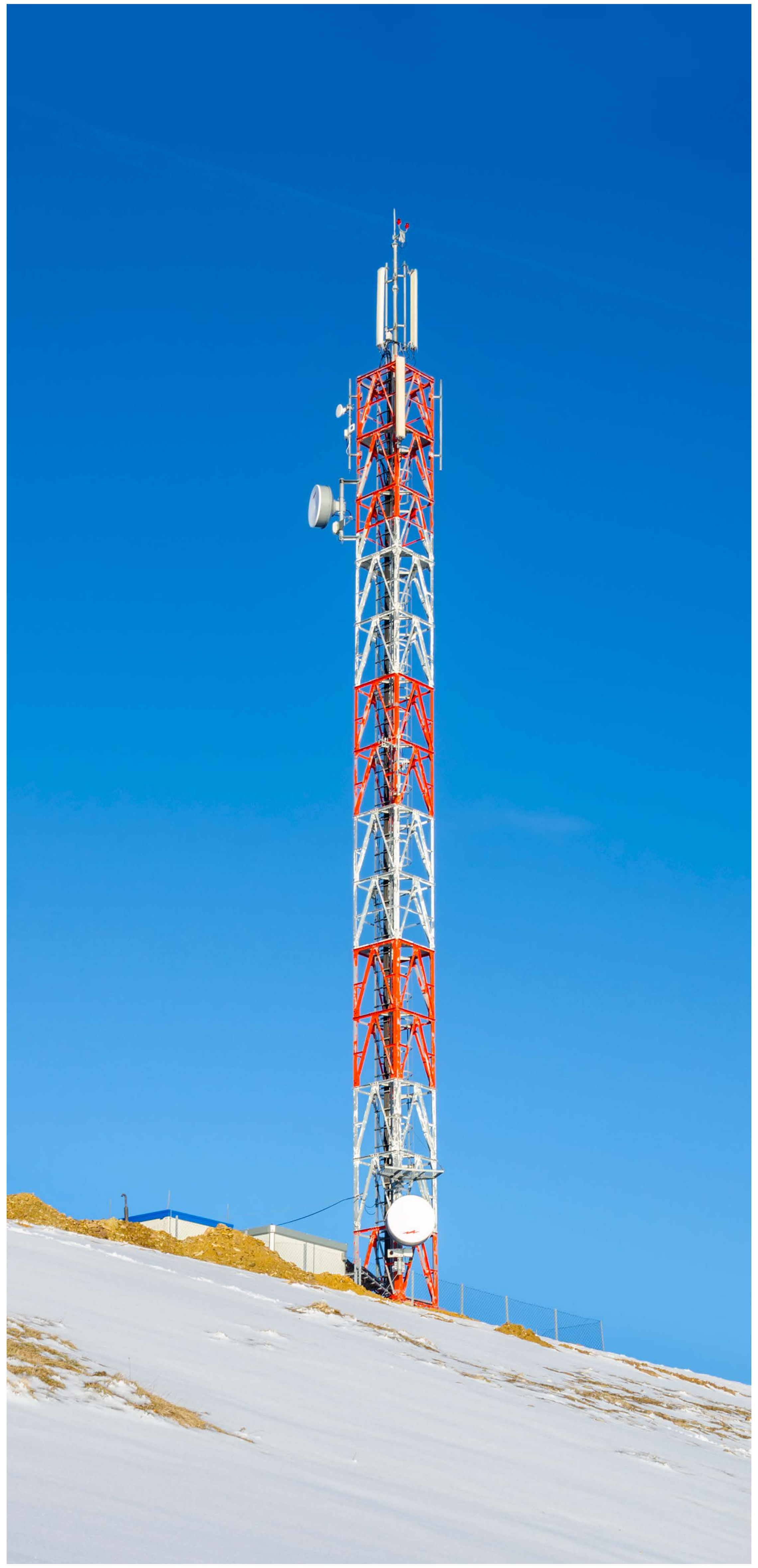
The increased mobile Internet traffic. is also supported with the modernization of the backhaul solutions for mobile base stations through fibre connections or radio links.

In terms of the Service Platforms, during 2016, the IPTV server platform was upgraded and the IPTV storage was replaced and extended with a higher capacity for deploying new VoD (Video on Demand) assets. The project for IPTV Headend enhancement and extension was based on replacing encoders with HD capabilities and implementing a new management system. A new OTT TV platform was implemented and, for the first time, a new service was launched for the Magenta customers to provide a better customer TV experience. The implementation of a Single Sign-on (SSO) system was finished, providing a possibility to the MKT customers to log in with a single ID and password and gain access to connected systems. A Hybrid Access Solution was implemented, which aggregates the bandwidth of both DSL and LTE transmission links and creates a single, powerful broadband pipe between the network service node and customer’s Broadband CPE.

A new SMS GW was implemented and a migration of content providers was performed. Also, during 2016, the Starhome platform for Inbound Roaming management was fully upgraded. Furthermore, improvement of the existing payment services and features, as well as integration of a new bank as an issuer and acquirer with the mobile payment platform, was performed.

NEW SYSTEMS FOR A GREATER EFFICIENCY AND TOP SERVICE

In order to provide higher efficiency, better flexibility and fast response in the provisioning, fault clearance and other processes in technology domain, we: finalized the implementation of the New Generation OSS, Broad Band Service Assurance (BBSA), and Trouble Ticketing (TT) extension.



INFORMATION TECHNOLOGY

INFORMATION TECHNOLOGY

The project for the replacement of the existing (IVR) and Call Center Solutions, with new consolidated IVR and Call Center, was successfully completed and deployed in production in mid of June 2016. The system brings together the core capabilities of customer service, collections, blended interaction and workforce optimization in a unified enterprise-class solution stack. The new system will dynamically adjust to the business conditions, it improves productivity and increases customer satisfaction by providing a rich, consistent customer experience across multiple channels.

Project for implementation of new OSS system based on NetCracker solution has been successfully finished and deployed in production in mid of July 2016, together with the new CRM solution for fixed services. Newly implemented modules for Fulfilment, Inventory, Work Force Management and Outside Plant, brings the new benefits for the company by:

- Increasing automation of Fixed B2C Service Fulfilment processes
- Improving inventory data quality via automated network data reconciliation
- Improving Outside Plant data access to improve data quality and new regulation rules and
- Improving Workforce operations, works and human resources optimization

As part of the implementation of a new OSS system, there was big improvement of the material management process by integration of the BSS and OSS systems with the SAP system.

Project for Consolidation of Systems of MKT and TMMK for Data Warehouse and Business Intelligence (DWH / BI) in a single system is in progress and it is planned to be finished in the second half of 2018.The new system will aggregate the data from the complete company portfolio and strengthen the company's possibilities for advanced analytics and data driven decisions to respond quickly to the market changes.

Besides the implementation of big transformation projects, we were successfully and efficiently supporting the business by means of the improvement of the operational activities and the implementation of changes in the IT systems, as well as the efficient implementation of a new fixed portfolio and new Magenta 1 products.

The project for redesigning the existing Customer Care system, based on the open source SugarCRM and JBPM platforms, was successfully finished and deployed in production in mid of July 2016, together with the new NetCracker OSS system for fixed services. The new web based CRM system, together with the all in one 360 degree view of the customer brought flexibility and swiftness in serving the customer needs in all the Sales Channels and for the first time a CRM system was used within our company for provisioning Data and ICT products for the Top customer segments.

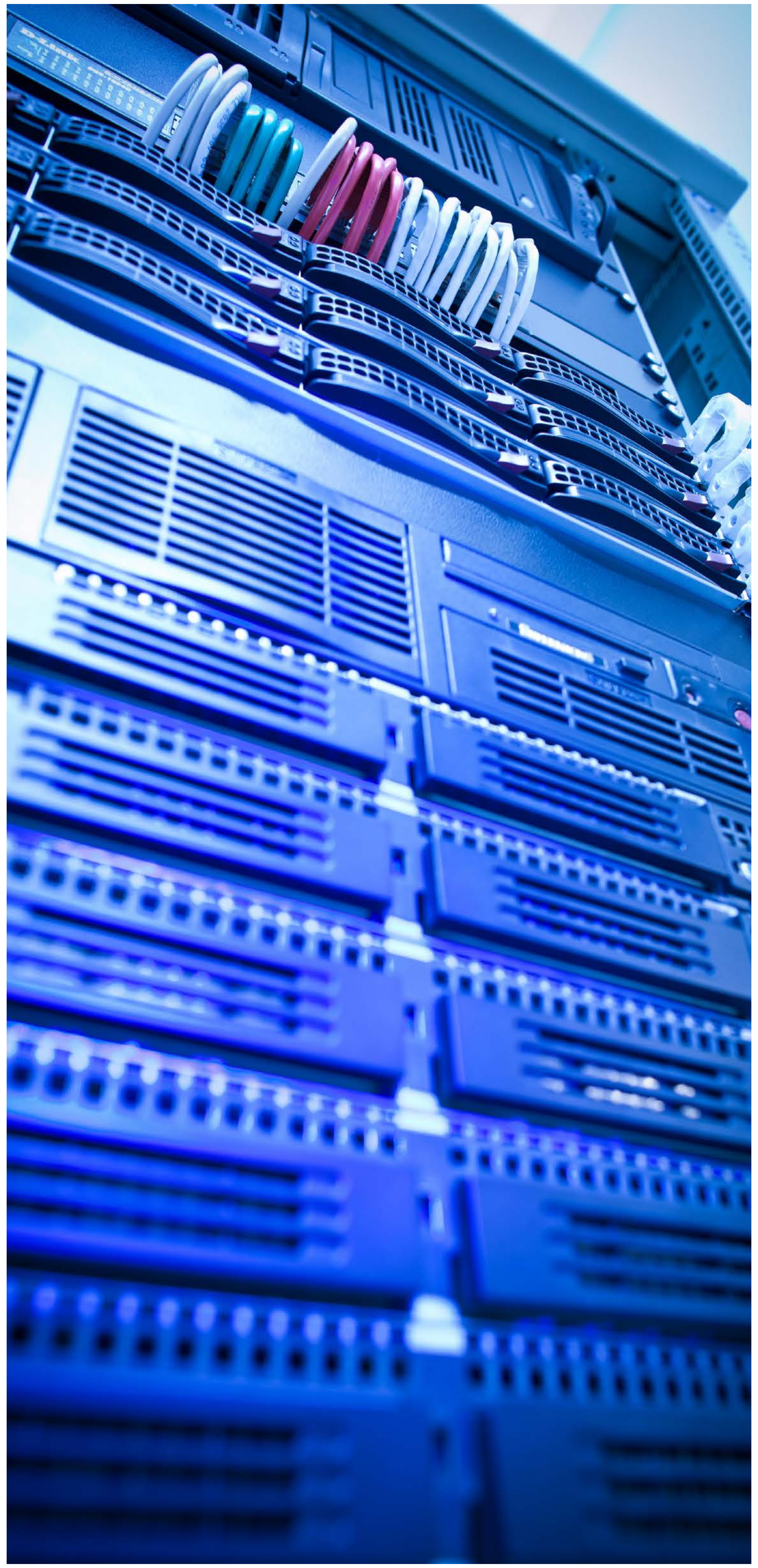
The newly implemented modules for the Sales Product Catalogue Configuration brought flexibility in the product offer definition, as well as independence from the other Billing and Provisioning platforms running in the background. Compared to the old Customer Care system, the Order Capture process has been decoupled from the Order Provisioning process which brought flexibility in the complex provisioning processes within our company. The newly defined Order Provisioning processes which are implemented on an open source JBPM platform enable easier integration with other ICT platforms besides the NetCracker OSS system.

TOP IT SOLUTIONS FOR A HIGHER PRODUCTIVITY AND A CONSISTENT CUSTOMER EXPERIENCE

In 2017 the system will be further enriched with SFA functionalities for the Top customer segments which will take us a step forward in having a unified CRM system for Fixed and Mobile customers.

The consolidation of the two Fraud Management Systems after the legal merger (one for fixed customers and one for mobile customers) is almost finished. Nearly all the streams for fixed and mobile are merged into one system and there is a new Customer Data import for all fixed and mobile subscribers. The migration of the alarms is in progress before the final end-to-end tests. After finishing the project, there will be only one Fraud Management System in MKT IT infrastructure.

The Project for consolidation of the business critical revenue management systems Net Cracker's Raiting&Billing Manager 5.3 and Ericson's BSCS iX R2 in one billing system was also underway in 2016. The purpose is to have all lines of business consolidated in a single billing system with the current functionality. The expected benefits are:



- OPEX reduction: the support contract with one supplier will be terminated. OPEX related to database, hardware etc., can be reduced.
- The utilization of IT resources will be much better for operations and development activities.
- Future CAPEX reduction for upgrades of the systems, because only one system will be in production.
- The convergent customer database gives opportunities for new bundle services (fixed-mobile convergence).
- The IT security standards have been improved by implementing several security relevant systems that decrease the operational risks and improve customer and personal data protection.

SMART CITY

SMART CITY

Based on the most advanced network infrastructure and service platforms, MKT continues with its determination and its work to be an innovation and technology leader on the market. This year, we continued our successful Smart City story by upgrading the Automatic vehicle location and Smart ticketing system for the public transport providers in the City of Skopje. With this project, MKT helps to lead the transformation of Skopje into a modern and smart city. As a proof for our dedication and competences in this area, on the 2016 World Congress on Information Technology (WCIT) in Brazil, our smart public transportation solution was awarded with the WITSA Global ICT Excellence Award in the "sustainable growth" category.

Further to this project, MKT is continuously pursuing other opportunities in the area of Smart City. In particular, in 2016 we put into demo operation a project for the smart light system in the MKT premises, with the aim to show and prove that the implementation of such a smart light system would bring electricity and maintenance costs savings for the cities, while maintaining the street lighting according to the required standards.

WE ARE BUILDING THE FUTURE, WE ARE MAKING THE DIGITAL SOCIETY DREAM COME TRUE!

Apart from the Smart City business area, we are thoroughly exploring other business possibilities for growth and development, in the field of finance, health, education, etc., especially considering their business prospects and potentials in terms of top line growth of our ICT and B2B business in general.

In 2016, MKT, as a firm supporter of the new era of smart, connected way of life and working, also started a pilot project in the area of Smart school. The Hybrid Classroom pilot project is about the implementation of an ICT assisted solution for interactive learning at classes and at a distance, in two secondary schools in the City of Skopje. The implementation of this project aims at a creating positive change of the way of education, providing an advanced, self-driven, collaborative and interactive classroom experience for youngsters. Furthermore, its aim is to demonstrate how the use of technology could support the quality and efficiency of education, thus impacting the long-term development of the educational system, as well as the society and economy.

Also, the utilizing of the potential arising from the EU funded projects in the smart Internet of Things (IoT) solutions, e-government, etc., was under a close loop as well.

In addition to the business development activities explained above, in 2016 we put our focus on the development of the projects and products for digitalization and smart working for the business segment, which we believe constitutes a growing market potential in the forthcoming years, expected to be driven by the advantages of the efficiency of ICT in the daily workflow systems and networks, as well as by the transparency and accountability of such solutions.

Under the motto - INNOVATION SYNERGIES – WIN WITH PARTNERS, concerning the technology partnerships, this year we got a recertification of our Cisco Gold and Microsoft Silver Data Centar partnerships, and we also became an EMC Cloud solution provider, which confirms our competences in the areas of enterprise networks, collaborations, network securities and Data Centar technologies. These competences are deemed to be crucial assets on which we can leverage further in our ICT business development activities.

HUMAN RESOURCES

HUMAN RESOURCES

In order to support the implementation of the Strategy and the accomplishment of the company goals, we provide a corporate culture in which the individuals are inspired to do their best. In 2016, we faced the challenges imposed by the organizational and business changes which demanded from us to yield our maximum. To that end, we are fully dedicated to our employees and to the establishment of a working atmosphere that reflects a team spirit, joint efforts with a view to ensuring quality of service and motivation for achieving outstanding results.

We support transformation in accordance with the dynamic market changes

In 2016, we implemented the Managed Services project, a project that encompasses a change in the operational model that could have a significant impact on the financial results of the company. The decision regarding this project and its start were preceded by a lengthy, very significant process for MKT and underwent several key stages: the feasibility stage, the announcement of the call for bids, the due diligence of the market conditions and the process of selecting the bidders, followed by the negotiations with the short-listed companies.

It all resulted in selecting Ericsson as a partner company which, first of all, offers the best possible conditions for our employees who, in accordance with their job descriptons, will become a part of a company that has demonstrated a career development potential for our colleagues in the domestic, regional, as well as international environment.

In line with the project, Ericsson is taking over a part of the operational activities of the mobile and fixed network, alongside a part of the employees from the Technical Area - a practice that has already been implemented in several European DT NatCos, while concurrently representing a worldwide trend in the improvement of the business processes in the telecom industry.

The Human Resources Area, while making sure that the best solution is provided for our employees, had a very active contribution in this process. In particular, the new company fully met the requirements posed by MKT in terms of the transfer conditions and the future professional perspectives of our employees. The most important elements in the employee programme comprise a guaranteed employment status for a period of 12 months, attractive

future professional opportunities and proper options, applicable in the event of the termination of the employment during the subsequent years of the agreed period.

A new manner of communication of the employees in the HR Area

In September 2016, we marked the start of the HR Shared Service Centre HR SSC (Aramis). Its start brought the novelty of introducing changes in the manner in which the Makedonski Telekom employees communicate and receive certain information from the Chief Human Resources Officer Area.

It means that the initial contact for answers to the employees' questions and administration of their data but ordinary Agents from Business Services of Deutsche Telekom. The employees shall contact the responsible agents by telephone or via e-mail.

The employees from Human Resources Area worked hard in order to transfer all their knowledge and experience to the agents, so that they would learn about our policies and acquire practical knowledge so as to be able to successfully respond to the employees' requests.

Specifically, the employees addressed the Agents directly with reference to the following processes:

- Employees' data administration – modifications pertaining to the personal data, such as submission of sick leave, notification on data changes, information on forgotten entry/exit ID card etc.
- Request Management – answers to frequently asked questions, such as by which date the employees can use their remaining annual leave from the previous year, how to initiate Request for overtime work, what is the procedure for return of assets etc.

The purpose of this project is to ensure timely service provision, increased efficiency and better quality. Thus the customers get enhanced service and the Company gets reliable and efficient human resources partner.

We responsibly monitor the development needs of our employees

We try to enrich the everyday work of the employees and invest in various areas which are essential for their overall development. The highly developed education and training system provides complete expertise and potential in order to meet the business opportunities in all areas of our operation.

WE ARE FULLY DEDICATED TO OUR EMPLOYEES!

Development programmes for the management

We prepare development programmes intended for our managers who directly manage the human resources. They are role models in terms of their conduct and they create our corporate culture.

In 2016 we continued what we started in 2015, which is the implementation of the new development programme for the heads of departments, in order to upgrade the needs for development of managerial skills. With 46 heads of departments we organised workshops at which we worked on the development of effective human resources management, acknowledgment of the good performance and handling poor performance, employees' motivation in time of challenges, effective managerial communication and change management.

Development programmes for all employees

We created several development programmes that refer to all employees, as well the front line employees in order to achieve the best results.

We implemented the initiative Project Management which is comprised of 3 parts as follows: Project Management Training, Preparation for Certification of Professionals for Project Management and Coaching for Project Management on the Job. The results is successfully certified 7 employees. Furthermore, in order to observe and assist in real situations of the everyday work, we provided 30 employees with the possibility to be part of the coaching programme for project management on the job, comprised of 6 sessions in duration of several months.

This year, we paid special attention to the employees in the Chief Technical and IT Officer Area, as well. Therefore, in order to provide successors for the specific job positions, to improve the transfer of knowledge, as well as to raise the personal and professional development to a higher level, we implemented a Loyalty Programme as a development programme for the key experts in this area. 20 key employees took part, and the programme was comprised of individual and virtual teaching of already defined development topics.

MKT was part of the DT pilot program for Skillsoft - digital learning platform. Global introduction of the platform is planned for the next year within the new international model for human resources development.

We continued with the implementation of several development programmes peratining to employees in direct contact with our customers, in order to achieve the best results. Approximately 90 colleagues from the sales network completed training in communication and sales skills.

Health, safety and wellbeing of our employees

Health, safety and wellbeing within our organization are the most important things. We provide a healthy environment for our employees by implementing the Company's policy in the field of health and safety of employees in accordance with the latest European regulations and practices. Thus, we provide a safe working environment and healthy working conditions for our employees.

Having regard to the nature of the work process, we provide our employees with adequate medical check-ups, thus, we take care of the health of each individual in the Company. Concurrently, in order to raise the awareness of the importance of our own health, we introduced a new benefit for the management with special expanded medical check-ups for 77 managers.

THE EMPLOYEES ARE THE MAIN PILLAR OF THE COMPANY'S SUCCESS!

We take care for the working environment to be adapted through various safety measures and standards, thus, in 2016, we had a successful re-certification for compliance with the requirements of the OHSAS 18001 standard - Occupational Health and Safety Management System, where, again, we are part of the DT Umbrella BS OHSAS 18001: 2007.

We continuously provide trainings for new employees in order for them to gain the necessary specific knowledge of health and safety, as well as to raise awareness of these issues. The employees are constantly informed about the latest situation in the field of health and safety through the internal information channels.

We believe that the employees' opinion can make a difference in changing the processes

We believe that the involvement of the employees in the decision-making and the exchange of opinions create an environment in which people influence the decisions and activities of the business operation, but also their jobs and environment. Therefore, we constantly monitor the opinion of the employees through regular pulse check of the Company. This helps us identify the trends and feelings of the employees, it shows us how the employees understand the processes within the Company, especially in times of transformation and they identify the strengths and weaknesses in the areas where additional measures for improvement need to be implemented.

SOCIAL RESPONSIBILITY

SOCIAL RESPONSIBILITY

Social responsibility is becoming increasingly important for the successful operation of the enterprises, both at global level and in Macedonia. Makedonski Telekom, as one of the most important players in the Macedonian business environment, has the responsibility to not only set high standards or distinguish itself from the other legal entities, but rather to be a driving force of the development of the society.

As pioneers in the area of social responsibility, our mission is not only to care for our employees, but to also enrich and promote the quality of life of all citizens in the country, as well as to invest in the community thereby improving the environment in which we operate. Therefore, for many years now we have been continuously supporting important cultural and sports events, donating and investing in education, health, social and child care, at the same time promoting the universally accepted social responsibility values.

Sports, music and culture are the three main pillars of the sponsorship strategy of Makedonski Telekom.

Thus, with our support, we have raised the sports to a higher level, continuing the cooperation in 2016 with our best handball and football club "Vardar", and we remained the main sponsor of the Futsal Business League. As supporters of the sports, we decided the National Arena "Philip II" to be rebranded to "Telekom Arena". By signing the Cooperation Agreement with the Joint Stock Company for Construction and Management of Residential and Commercial Properties, Makedonski Telekom showed that the national arena will get a reliable and trusted business partner for the future. The Stadium in the City Park is an impressive facility and a recognizable landmark of the City of Skopje and the surrounding area. Therefore, our support will not only ensure the promotion of the Telekom Arena in broader terms, in the style of the world famous stadiums, but we will additionally encourage the healthy lifestyle and the development of sports spirit among the citizens of the country.

WE ARE DEDICATED TO SOCIAL PROGRESS AND WELL-BEING

We traditionally supported the Ohrid Swimming Marathon which has grown into a top sporting event, the Skopje Marathon, the Macedonian Tennis Federation, the Basketball Club MZT Skopje and the humanitarian giant slalom which is organized in Mavrovo. In addition to sports, we also constantly invest in music as one of the most important segments of society. For many years we have been partners of the broadly recognizable and unique Skopje Jazz Festival, as well as the children's music festivals such as Zlatno Slavejce, Potocinja, Grozdoberce and the children's festival of Albanian songs "Rainbow". We strengthened and continued our support for the music stars Kaliopi, Karolina, Elena Risteska and Adrian Gadza.

We also unselfishly invest in culture. We single out the following as more important events: Ohrid Summer Festival, an event to which we have been friends for years, then the Novel of the Year which is organized by "Utrinski Vesnik", the event "See the Music, Hear the Picture, Get a Book", and we are also traditional supporters of "Baskerfest", the Macedonian Opera and Ballet, the "Investment Summit Macedonia 2025" and the "AllWeb event". We also supported projects of public interest in the field of international cooperation such as the "National Day of the Republic of Hungary" and the "Independence Day of America".

We were also partners of the traditional Albanian events in the Republic of Macedonia: "Golden Ant", "Sounds of the Bazaar", "Ensemble Ibe Palikukja", "Tetovo Cultural Summer". As one of the largest donors, we continued the cooperation and were part of the campaign "Go Pink 2016 - Steps Against Breast Cancer" organized by the organization "Borka".

Makedonski Telekom, for the purposes of the achievement of its strategy for connected life and work, supports the projects for support and development of the digital society and the promotion of the life and the education of the young people. So, we donated for the full reconstruction and refurbishment of the internet classroom and the reading room in the dormitory Skopje with completely new technical equipment (computers, printers, scanners and TV sets with Internet connection) whereby the students got a modern corner for learning, getting information and socializing.

Finally, we should point out that as a company we were the first to provide financial support and assistance to the population affected by the floods in Skopje. We also organized the employees who, through a voluntary action, donated the essential means so that the population would more easily overcome the crisis which affected them, and who even joined the clearing of the terrain for the purposes of mitigating the devastating effects of the storm which occurred at the beginning of August. We showed our humanity not only as a company, but we also proved that our employees nurture the spirit of providing help whenever it is needed the most!

FOUNDATION "TELEKOM FOR MACEDONIA"

Since 2016, only one Foundation has been functioning - "Telekom for Macedonia". The main focus of the Foundation remains the same: helping the children from the vulnerable groups, as well as development of the information society and equal involvement of all stakeholders. In this manner, the company aims to provide a better quality of life in the community in which it operates.

Workshops on the Topic of "Blockchain" Technology

The experts from IBM, one of the largest technological companies in the world held three workshops on the topic of "Blockchain" technology, the first of its kind in the region. The workshops, organized by the "Telekom for Macedonia" Foundation, were attended by over 100 participants from the Macedonian ICT companies, IT experts from the public institutions, as well as professors, teaching assistants and students from the ICT faculties at the state universities.

The participants in the workshops had a unique opportunity to learn about the new "Blockchain" technology which is considered to be revolutionary just like the Internet and that in the next period it will start to be massively used and gradually replace the current IT architectures and processes. It is considered a revolutionary technology, just like the Internet was a few years ago and this is a brand new method of processing the digital transactions through the use of so-called decentralized database and distributed processing that is performed on hundreds of computers. All these machines keep track of each transaction, so there is no chance to make any changes afterwards, which guarantees extremely high security and confidentiality of the transactions, as well as high speed processing.

In the next few years, this technology is expected to be widely applied in all sectors, ranging from finance, through trade, all through to government electronic services. For these reasons, the workshops organized with the support of the "Telekom for Macedonia" Foundation were of exceptional importance so that the Macedonian IT experts would be familiarized with it prior to its becoming a global trend.

Junior Balkan Olympiad in Informatics

This top programming contest, which was held from 17 to 21 September united nine participating countries and 39 junior participants up to 15 years of age. On the event, the best contestants were presented, among whom were also the representatives of Macedonia - Marko Chalasan won the silver medal and Josif Tepegjozov, Andrej Velickovski, Darijan Sekerov, Filip Sijakov and Mila Kjoseva won bronze medals. The gold medals went to the representatives of Moldova, Bulgaria and Romania.

The Junior Balkan Olympiad in Informatics was held for the tenth time with the participation of members of the Balkan Initiative: Macedonia, Cyprus, Romania, Moldova, Greece, Serbia, Bosnia and Herzegovina, Bulgaria and Slovenia.

The "Telekom for Macedonia" Foundation supported the event and hosted the closing ceremony and awarding of medals on this jubilee Olympiad.

Donation numbers

The donation telephone numbers are the only solution for many people who believe in the selfless help from the citizens. Thus, in 2016, the donation numbers were used 57 times, of which 51 time for natural persons and 6 times for legal entities.

Sea Hero Quest: Fighting Dementia with a Game

More than a Game - Quest for Salvation of the Human Brain

In May 2016, DT promoted the Sea Hero game for mobile phones in order to boost the research on dementia. After six months, the initial results showed that the digitization does not only improve the basic researches, but it also helps in the detection of the disease at an early stage. So far, 2.8 million people in 193 countries have played the game, including people from Macedonia. Over 20,000 citizens from Macedonia downloaded Sea Hero Quest, thus participating in the largest study in the history ever done for dementia.

If the outdated - conventional methods were used, the scientists would have taken several decades in order to collect the data in the laboratory. In addition, for the first time, the game created a global database which will allow the scientists to derive standardized data about the spatial awareness of the people of all ages and both sexes – which constitutes the basis for the largest study in the world for research of dementia.

Previously, the scientists assumed that the orientation ability declines only with advanced age. However, the analysis of the data of the game shows that the orientation ability begins to deteriorate in people at the age of 19. And when it starts, the deterioration usually continues throughout life.

Identifying dementia at an earlier stage, before the patients start having memory problems, will be a milestone. The data collected in the game will also enable the introduction of more targeted therapies.

The anonymous data from the game are stored in the high security data center in Munich, where it is available to researchers. Hence, we can be proud that Sea Hero Quest is not just a game which is fun to play, but which also encompasses a humane purpose and which will help scientists to find a cure or salvation for dementia.

AWARDS AND ACKNOWLEDGMENTS 2016

AWARDS AND ACKNOWLEDGMENTS

WITSA Award for the “Smart City” Project

Makedonski Telekom won a prestigious award for the “Smart City” Project from the World Information Technology and Services Alliance – WITSA. The important global recognition was handed in at a ceremony within the World Congress on Information Technology which was held in Brasilia (Brazil) from 3 to 5 October.

Makedonski Telekom won the award for the “Smart City” Project in the Sustainable Growth category. In this category, solutions were nominated that promote sustainable economic growth which is defined as the ability to improve the financial and the social situation in the country. The “Smart City” Project was nominated for this year’s WITSA awards, as one of five winning solutions at the local competition which was organized by the Macedonian ICT Chamber of Commerce - MASIT.

A GOOD IDEA KNOWS NO BOUNDARIES, IT IS VALUED EVERYWHERE IN THE WORLD!

Using the innovative approach of Makedonski Telekom, through the “Smart City” Project, a modern integrated system for automatic vehicle location and smart ticketing in the public transport was implemented, with a single central database that enables real-time monitoring of the traffic network and the movement of the passengers, as well as control and regulation of the transport service. It is the first project by means of which Makedonski Telekom started the transformation of Skopje into a modern and smart city, following the examples of the world metropoles. That improved the quality of the public transport, provided faster and more efficient transport for the citizens and the tourists in the capital, thereby increasing the attractiveness of the public transport on the long run. “Smart City” is not only a project for improvement of the quality of the bus transport, but it also marks the beginning of the era of Internet of Things in Macedonia.

Driven by our innovative spirit, we transformed our metropolis into a modern and smart city, following in the footsteps of the world’s great metropoles. Makedonski Telekom firmly believes in the new, growing era of connected smart technology aimed at creating a modern city. The smart city potentials are great, and we will continue to be focused on using the modern technology in the advancement of our life. Therefore, the award received at the WITSA World Congress is a confirmation that we are moving in the right direction.

The World Information Technology and Services Alliance (WITSA), a leading consortium of the members of the Association of the ICT Industry from over 80 countries around the world, was founded in 1978. The members of WITSA represent more than 90 percent of the world ICT market. At the WITSA Congress, which is held every two years, ICT awards are awarded to organizations that present outstanding IT achievements at global level.

Another Award for the Telekom Shop in GTC

The Telekom Shop in GTC won the best commercial shop award for the second time. This shop met all the high criteria set by the mystery shoppers from the Agency of the City of Skopje and SWOT Research and won the first place in the category “Computer, Audio, Audio - Video and Telecommunications Equipment.”

This award is a recognition of the previous work and the excellent attitude of the entire team towards the users. The recognition came at the right moment as the crown of the efforts aimed at achieving the planned company goals for 2016. The team from the Telekom store in GTC, together with the superiors and the colleagues from Marketing, with their exceptional dedication, contributed to the success of the shop. The award is certainly an incentive for the entire team to continue the good work, but also a motivation to keep the first place the following year as well.

Makedonski Telekom, as a customer-oriented company, constantly improves its portfolio which has been created exactly in order to meet the needs and the requirements of the users who know what they want and do not make any compromises.

Certainly, in addition to the excellent portfolio and the innovative services and solutions, what definitely distinguishes us from the competition are the excellent relations we have with our customers. The shop in GTC looks almost impeccable and it is equipped with the latest technology which is the responsibility of many colleagues who, with their back office work as well, provide a huge contribution so that everything would work smoothly.

CUSTOMER SATISFACTION IS OUR GREATEST REWARD!

STRATEGY FOR 2017

GROW & CHANGE!

Last year, we kicked off the long term “GO DIGITAL” Strategic Programme by increasing the level of the digital interaction with the customers and making the bus transportation in the capital smart.

On top of it, in 2016 after many years of negative trend, we achieved stabilization in terms of revenues.

And now, naturally, it is time to GROW. It is time for more positive CHANGES!

In order to GROW, we need to CHANGE. We need to push a new Digital Culture and create a Growth Mindset.

AREAS FOR GROWTH

- Own the household with Magenta 1
- Penetrate in Business with FMCC
- ICT and Smart Solutions

Makedonski Telekom always strives to be a leading Integrated Telco Operator that powers the digital society in Macedonia!

FINANCIAL STATEMENTS

FOR THE YEAR ENDED
31 DECEMBER 2016
WITH THE REPORT OF THE AUDITOR THEREON

LIFE IS FOR SHARING.

Independent auditor's report

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

We have audited the accompanying financial statements of Makedonski Telekom AD - Skopje (the "Company"), which comprise the statement of financial position as of 31 December 2016 and the statement of comprehensive income, statements of changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Standards on auditing applicable in Republic of Macedonia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

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

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

Opinion

In our opinion, the financial statements presents fairly, in all material respects, the financial position of the Company as of 31 December 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers Revizija DOO

PricewaterhouseCoopers REVIZIJA DOO

Skopje,

17 February 2017

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Statement of financial position

In thousands of denars	Note	As at 31 December 2016	As at 31 December 2015
Assets			
Current assets			
Cash and cash equivalents	5	941,022	1,550,123
Deposits with banks	6	178,457	-
Trade and other receivables	7	3,342,231	3,469,621
Income tax receivable		-	12,647
Other taxes receivable	8	12,845	12,581
Inventories	9	438,320	418,124
		4,912,875	5,463,096
Assets held for sale	10	3,296	61,778
Total current assets		4,916,171	5,524,874
Non-current assets			
Property, plant and equipment	11	12,497,665	13,053,012
Advances for property, plant and equipment		2,784	2,959
Intangible assets	12	2,321,148	2,237,522
Trade and other receivables	7	346,043	407,520
Financial assets at fair value through profit and loss		60,366	47,987
Other non-current assets		612	6,750
Total non-current assets		15,228,618	15,755,750
Total assets		20,144,789	21,280,624

In thousands of denars	Note	As at 31 December 2016	As at 31 December 2015
Liabilities			
Current liabilities			
Trade and other payables	13	4,338,917	4,782,086
Income tax payable		20,088	-
Other taxes payable	8	39,255	65,547
Provision for liabilities and charges	15	165,994	164,788
Total current liabilities		4,564,254	5,012,421
Non-current liabilities			
Other payables	13	168,621	391,403
Deferred income tax liabilities	14	151,595	175,557
Provision for liabilities and charges	15	65,808	67,991
Total non-current liabilities		386,024	634,951
Total liabilities		4,950,278	5,647,372
Equity			
Share capital		9,583,888	9,583,888
Share premium		540,659	540,659
Treasury shares		(3,738,358)	(3,738,358)
Other reserves		958,389	1,237,534
Retained earnings		7,849,933	8,009,529
Total equity	16	15,194,511	15,633,252
Total equity and liabilities		20,144,789	21,280,624

These financial statements were authorized for issue on 17 February 2017 by the Management of Makedonski Telekom AD - Skopje, and are subject to review and approval by the Board of Directors on 23 February 2017 and by the shareholders on date that will be subsequently agreed.

Andreas Maierhofer
Chief Executive Officer

Zarko Lukovski
Chief Operating Officer

Slavko Projkoski
Chief Financial Officer

Goran Tilovski
Accounting and Tax Director
Certified Accountant
Reg. No. 0105436

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

Statement of comprehensive income

In thousands of denars	Note	Year ended 31 December 2016	2015
Revenues	17	10,557,595	10,671,045
Depreciation and amortization		(2,540,576)	(2,678,301)
Personnel expenses	18	(1,424,049)	(1,219,485)
Payments to other network operators		(1,043,572)	(1,031,341)
Other operating expenses	19	(4,344,422)	(4,376,789)
Operating expenses		(9,352,619)	(9,305,916)
Other operating income	20	40,617	71,670
Operating profit		1,245,593	1,436,799
Finance expenses	21	(62,373)	(63,458)
Finance income	22	40,094	47,929
Finance expense - net		(22,279)	(15,529)
Profit before income tax		1,223,314	1,421,270
Income tax expense	23	(187,372)	(178,555)
Profit for the year		1,035,942	1,242,715
Total comprehensive income for the year		1,035,942	1,242,715
Earnings per share (EPS) information:			
Basic and diluted earnings per share (in denars)		12.01	14.41

Statement of cash flows

In thousands of denars	Note	Year ended 31 December 2016	2015
Operating activities			
Profit before tax		1,223,314	1,421,270
Adjustments for:			
Depreciation and amortization		2,540,576	2,678,301
Write down of inventories to net realizable value	19	(444)	2,474
Fair value gain on financial assets	22	(7,254)	(8,750)
Impairment on trade and other receivables	19	58,025	77,789
Net increase of provisions	15	14,174	24,836
Net gain on disposal of property, plant and equipment	20	(14,017)	(54,253)
Dividend income	22	(2,841)	-
Interest expense	21	48,252	48,625
Interest income	22	(15,693)	(34,546)
Effect of foreign exchange rate changes on cash and cash equivalents		(12,321)	(3,293)
Cash generated from operations before changes in working capital		3,831,771	4,152,453
(Increase)/ decrease in inventories		(19,752)	23,667
Decrease/(increase) in receivables		119,175	(189,033)
Increase in payables		78,631	82,593
Cash generated from operations		4,009,825	4,069,680
Interest paid		(33,642)	(15,797)
Taxes paid		(178,602)	(393,658)
Cash flows generated from operating activities		3,797,581	3,660,225
Investing activities			
Acquisition of property, plant and equipment		(1,541,714)	(1,446,518)
Acquisition of intangible assets		(453,989)	(476,678)
Loans collected		12,416	16,692
Deposits collected from banks		-	1,413,360
Deposits placed with banks		(178,457)	-
Dividends received		2,841	-
Proceeds from sale of property, plant and equipment		40,500	100,844
Interest received		15,693	39,862
Cash flows used in investing activities		(2,102,710)	(352,438)
Financing activities			
Dividends paid		(1,954,519)	(3,023,410)
Payments of other financial liabilities		(361,774)	(187,565)
Cash flows used in financing activities		(2,316,293)	(3,210,975)
Net (decrease)/increase in cash and cash equivalents		(621,422)	96,812
Cash and cash equivalents at 1 January		1,550,123	1,450,018
Effect of foreign exchange rate changes on cash and cash equivalents		12,321	3,293
Cash and cash equivalents at 31 December	5	941,022	1,550,123

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

Statement of changes in equity

In thousands of denars	Note	Share capital	Share premium	Treasury shares	Other reserves	Retained earnings	Total
Balance at 1 January 2015		9,583,888	540,659	(3,738,358)	1,237,534	10,270,331	17,894,054
Total comprehensive income for the year		-	-	-	-	1,242,715	1,242,715
Transaction with owners in their capacity of owners (dividends paid)		-	-	-	-	(3,503,517)	(3,503,517)
Balance at 31 December 2015	16	9,583,888	540,659	(3,738,358)	1,237,534	8,009,529	15,633,252
Balance at 1 January 2016		9,583,888	540,659	(3,738,358)	1,237,534	8,009,529	15,633,252
Total comprehensive income for the year		-	-	-	-	1,035,942	1,035,942
Transaction with owners in their capacity of owners (dividends paid)		-	-	-	-	(1,474,683)	(1,474,683)
Transfer (see note 2.12 and 16.2)		-	-	-	(279,145)	279,145	-
Balance at 31 December 2016	16	9,583,888	540,659	(3,738,358)	958,389	7,849,933	15,194,511

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

1. GENERAL INFORMATION

1.1. About the Company

These financial statements relate to the Company Makedonski Telekom AD - Skopje.

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

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

On 31 October 2013 an Accession Agreement has been concluded with T-Mobile Macedonia (hereinafter referred to as: “TMMK”) as an Accessing company to the Company, as an Acquiring Company. The Accession Agreement has been changed with the Annex thereof concluded on 20 April 2015. TMMK as fully owned subsidiary of the Company has been consolidated until 2014 inclusive.

In accordance with the Accession Agreement and the Annex thereof, and pursuant to the provisions from the Law on Trade Companies, 31 December 2014 is determined as the date from which all transactions of TMMK, from an accounting point of view, shall be considered as they are effectuated on behalf of the Company. Implicitly, as of 1 January 2015 the bookkeeping for the company and TMMK has been kept only by the Company.

In accordance with the Accession Agreement and the Annex thereof, which were adopted and confirmed by the Shareholders Assemblies of the Company and TMMK on the meetings held on 17 June 2015, the business activities of TMMK ceased as of 30 June 2015, when it has been deleted from the Central Register. With the deletion, TMMK no longer exists as a legal entity without a liquidation procedure to be conducted.

With cessation of TMMK, the assets and liabilities of TMMK were transferred to the Company by the way of universal transfer of the entire assets and liabilities.

The Macedonian telecommunications sector is regulated by the Electronic Communications Law (ECL) enacted in March 2014 (Official Gazette No. 39 from 28 February 2014) as primary legislation and rulebooks as secondary legislation.

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

The Company’s registered address is “Kej 13 Noemvri” No 6, 1000, Skopje, Republic of Macedonia. The average number of employees of the Company based on the working hours during 2016 was 1,162 (2015: 1,335).

1.2. Regulation environment - Mobile Line

On 5 September 2008 the Agency for Electronic Communications (Agency), ex officio, issued a notification to TMMK for those public electronic communication networks and/or services which have been allocated thereto under the Concession Contracts. The license for radiofrequencies used by TMMK with a bandwidth of 25 MHz in the GSM 900 band, was also issued in a form regulated in the ECL with a validity period until 5 September 2018, which can be renewed up to an additional 20 years in accordance with the ECL. Due to changes in the bylaws the 900 MHz band was opened for UMTS technology and based on TMMK’s request the radiofrequency license was changed so that these frequencies are now available for both GSM and UMTS technology.

After the analysis of the wholesale (WS) market “Call termination services in public mobile communication networks” the Agency in 2007 brought a decision by which TMMK was designated with Significant market player (SMP) status on this market. The price regulation on this relevant market continues as the Agency conducts periodical analysis of the market and updates the price regulation models. The current termination rate is symmetrical for both mobile operators: the Company and ONE.Vip Operator.

In 2008 a decision for granting three 3G licenses was published. The validity of the license is 10 years i.e. 17 December 2018, with a possibility for extension for 20 years in accordance with the ECL.

In 2010 TMMK was designated with SMP status on the WS market “Access and call origination in public mobile communication market”. Based upon Agency’s decision, in 2010 TMMK published a Referent Access Offer consisted of the following regulated services:

- call origination for Mobile Virtual Network Operator (MVNO)
- call origination for national roaming operator,
- SMS origination for MVNO and
- SMS origination for national roaming operator.

There has not been a second round analysis on this market since 2010, and there has not been MVNO or national roaming operator on TMMK network. An MVNO, Albafone hosted on ONE network entered the Macedonian market and started commercial operations in 2013. MVNO Albafone ceased the operations in June 2015.

In 2011, the Agency published the final analysis of the WS market “SMS termination in public mobile communication networks”, and in May 2011 all 3 mobile operators, at that time, were designated with SMP status on this relevant market. In July 2011 the RIOs were approved by the Agency with the regulated SMS termination price being symmetrical for all 3 operators but remaining the same as before the regulation.

On 19 December 2014, amendments of the ECL were enacted in the Official Gazette, No. 188. One of the most important changes was implemented by Article 75-a, which regulates the prices of international roaming. According to this article, the Agency has the right with Decision to determine the maximum prices for services which are offered to roaming users from countries with whom Republic of Macedonia has concluded agreement for reduction of prices of roaming services in public mobile communication networks, on reciprocal base, which cannot be higher from prices of the same services in the EU. In the period of 3 years from 2015, the prices will be reduced to the maximum determined.

The Director of the Agency brought a Decision on 10 December 2014 for the value of points for calculation of annual fee for the usage of radiofrequencies (RF). The value of the points is 0.8 EUR which means that all annual fees for radiofrequencies are reduced by 20% from 1 January 2015, compared to the previous value. Formulas for the calculation of annual RF fees are defined in the relevant rulebook.

An auction procedure concluded in August 2013 awarded the whole 790 – 862 MHz band together with the unassigned spectrum in the 1740–1880 MHz band for Long Term Evolution (LTE) technology in a public tender. Each of the 3 Macedonian mobile operators, at that time, acquired an LTE radiofrequency license of 2x10 MHz in the 800 MHz band and 2x15 MHz in the 1800 MHz band. Each license was acquired for a one-off fee of EUR 10.3 million. The license is for 20 years, until 1 December 2033, with an extension option for 20 years, in accordance with the ECL.

In 2013 the Agency conducted the second analysis on the WS SMS termination market and in October 2013, public debate was opened on the proposed new regulated prices symmetrical for all 3 operators, at that time, and 75% below the current price. After completion of the public debate, the Agency upheld its position to lower the regulated wholesale price for SMS termination by 75% for all 3 operators and the price became effective from 1 January 2014.

In 2013, TMMK was designated as SMP on the relevant WS market “Call termination services in public telephone network at a fixed location” by the Agency. Based upon the Agency’s decision, TMMK RIO was modified by including this service.

The new ECL was enacted on 5 March 2014. The ECL is aligned with the EU 2009 electronic communications’ regulatory framework. The process of harmonization of the existing secondary legislation with the new ECL was conducted through 2014.

In 2014, TMMK on its own decision returned 5 MHz of the spectrum owned in the 2100 MHz band as TMMK had not used this part since the assignment in 2008 and was not planned to be used in the future either.

In October 2014, VIP Operator, a subsidiary of Telekom Austria Group, and ONE, Telekom Slovenije’s subsidiary, announced a merger of their business in Macedonia consisting of mobile, fixed, internet and transmission of audiovisual content. The Competition Authority approved the merger on 8 July 2015 and on 2 October 2015, Vip Operator was merged with ONE.

After the new market analyses on the relevant market for mobile access (MVNO and national roaming regulation), in April 2016, the Agency brought a Decision for SMP designation of the Company and one.VIP.

Regulatory remedies imposed by the Agency: joint dominance of one.VIP and the Company, wherein the same remedies apply for both operators:

- mobile access obligation for all MVNO hybrid types (including Reseller),
- cost based price for Full MVNO
- retail minus (-35%) for the Reseller,
- obligation for access to MMS services and mobile data based on technology neutrality (including 4G access)

In July 2016, the Company published a new referent access offer for mobile access and services in line with the regulation.

An MVNO, Lyca-mobile hosted on One.VIP network entered the Macedonian market and started commercial operations in July 2016. The fulfillment of all MVNO obligations by Lyca-mobile is still under investigation by the Competition Authority (ex officio).

The Agency analyzed the efficient use of the RF's granted to operators. The revocation of the One.VIP RF 900 & 1800 MHz is expected as of March 2017. These RF's will be subject to a public tender already announced in the Agency's annual program for 2017 with a possibility for a new MNO and/or MVNO. However, One.VIP will still have a competitive advantage due to the significant amount (20 MHz) of spectrum on 800 MHz band.

1.3. Regulation environment - Fixed Line

In April 2012, the Agency published the general Regulatory strategy for the period of the next 5 years (2012 - 2016). The official document is "Five years regulatory strategy of AEC". Main focuses of the strategy are: fostering of wholesale and retail services regulation, introduction of methodology of pure Long Run Incremental Costs (LRIC) for fixed and mobile voice services, SMS etc, Next Generation Access (NGA) and Fiber To The Home (FTTH) regulation in line with NGA recommendation and refarming and frequency allocation for 4G services.

With amendments of the Rulebook for retail regulation, the Agency specified the manner and procedure for regulation of the retail prices for fixed voice telephone networks and services of the operator with significant market power on relevant retail markets. Ex-ante retail regulation shall be based on price squeeze methodology. These activities have resulted in price decrease of some wholesale and retail services of the Company. On retail side, standard monthly subscription for business customers was decreased (on equal level with residential one). On wholesale side there were changes in fees for interconnection (termination and origination), Unbundled Local Loop (ULL), Bitstream access and wholesale line rental (WLR).

During the last 2 years, following the EU, a deregulation market trend started on some markets: deregulation of the trunk segment of leased lines and avoiding regulation of the Ethernet leased line services; removal of the regulation of a minimal set of leased lines (retail); removal of the WLR (Wholesale Line Rental) obligations; lighter retail regulation on traditional fixed voice services. The Company has a cost based price obligation for the Regulated wholesale services, using Long Run Incremental Costs methodology (LRIC). In August 2012 the Agency published draft results from its own developed LRIC Bottom-up costing model for Local Bitstream (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 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). New fees were implemented as of 1February 2013. The Agency also approved the Reference offers for Wholesale digital leased line (WS DLL), Local bitstream access and minimal set of leased lines and new changed methodologies of calculation of prices (length dependent) are implemented. WS DLL and Local bitstream access fees were decreased from 1 December 2012 and fees for minimal set of leased lines from 1 January 2013.

The Agency approved new prices for duct rental services on 18 January 2013. The prices were determined by the Agency according to the LRIC methodology. The approved prices are less than half the previous prices set by the Company.

The Rulebook on physical access was amended in April 2015 and as of June 2015 the Company referent access offer has been aligned with the changes in Rulebook.

At the beginning of 2015, the regulation on access to fiber was implemented, with Local Bitstream Access over NGA on level 3 and 4 and VULA (Virtual Unbundled Local Access) regulation on level 2. The introduction of new technologies announced by the Company for the retail customers will lead to the introduction on new wholesale access products and reshaping the regulatory obligations.

Based on the Agency's operational plan for 2016 additional regulation on IMS (over the top) services could be expected.

In the middle of 2016, the obligation for IP interconnection (following the PSTN to IMS migration) was prolonged latest until the middle of 2017 for all operators with interconnection with the Company, and until the end of 2017 for interconnection between mobile or alternative operators. A decrease of the Fixed Termination Rate is expected at beginning of 2017, due to the finished migration to only one national interconnection point with all domestic operators.

In June 2013, the Agency announced starting the first analysis on wholesale market 13 (Transmission of broadcasting content to end users). The IP MATERIO was submitted for approval to the Agency in October 2013 on Company's initiative, in line with market analyses conclusion for submission of MATERIO changes with description and conditions for IP interconnection. On 27 December 2013 the Company received resolution for approval of IP MATERIO. In the process of approval additional changes were made (new interconnection prices based on "Top down LRIC" costing model were included). There are new prices for termination with no peak or off-peak prices. Changes in the IP MATERIO came into force from 1 January 2014. Regional and local termination prices will exist until last Time division multiplexing (TDM) switch is extinguished.

Final document for Broadband market analyses (Market 8) was published on 1 August 2014. For the first time the Agency imposed regulation of access to broadband services over optical access network. All existing obligations for the copper network remain unchanged. All obligations are only for the Company as SMP on the broadband market.

In December 2014 the Agency brought a Decision for designation of the Company as SMP on Market 8.

The third analysis of Market 9 and 10 Termination and Transmission segments of Leased Lines (LL) and Market 8 Wholesale broadband - Bitstream access was finished in November 2014. As a result of the analysis, on Market 9 and 10 Termination and Transmission segments of the LL were deregulated and on Market 8 regulations of fiber based products of the Company were included. In December 2014 the Agency brought a Decision for designation of the Company for SMP on Market 9 - Terminating segments of leased lines in the geographical area of Republic of Macedonia.

In December 2014 the Agency brought a Decision for designation of the Company for SMP on Market 1- Access to public telephone networks at a fixed location for residential and business customers including all types of networks technology neutral.

The relevant retail Market 3 (Minimum set of leased lines) was deregulated in March 2016.

According to the Rulebook for technical conditions and building infrastructure (from 15 July 2014), the Company is obliged to build its infrastructure underground in urban areas with over 15,000 citizens for buildings for collective living with more than eight apartments, The Company has a Digital Agenda obligation for coverage of 100% and 50% of all Macedonian households with 30 Mbps and 100 Mbps broadband speed respectively, with a technology neutral basis until the end of 2020.

The amendments in September 2016 with a new obligation for registering on the new & existing electronic networks (ATLAS), pertain to joint building and use of networks, a decreased obligation for underground networks around administrative, educational, cultural and religious buildings which should be done only in urban areas of cities with above 15,000 citizens, a modified Digital Agenda for data on network coverage of active and passive access lines and a new obligation for the Agency to publish the received reports on the optic backbone segment measurements by all operators.

The Agency analyzes of the retail fixed market have been published and based on the Company initiatives the Agency announced deregulation of retail fixed services.

The Agency issued a decision for a refund to the Company for the Universal Service Obligation (USO) net cost for 2015, following the Company's relevant submission in 2016.

The tender for a USO provider has been published and one of the main criteria is the required amount for a refund. The Company is preparing a proposal for its participation on the tender with the following considerations:

- Refund amount for fixed access and access to disabled users (voice and Internet of min. 2Mbit/s)
- Refund amount for public payphones and complete directory and directory enquiry services.

The tender for a USO provider is completed and the bids have been announced, the Company and R3 Infomedia (for the Telephone Directory) are the only bidders and they won the tender.

1.4. 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.

In relation to the local investigation by the state authorities in Macedonia and further to the previously disclosed information in the Financial Statements of the Company for the preceding years, the criminal procedure at the basic court is on-going.

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

2. SIGNIFICANT ACCOUNTING POLICIES

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

2.1. Basis of preparation

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

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

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

2.1.1. Standards, amendments and interpretations effective and adopted by the Company in 2016

- No standards, amendments and interpretation have been adopted by the Company in 2016 with significant impact on financial statements.

2.1.2. Standards, amendments and interpretations that are not yet effective and have not been early adopted by the Company

- IFRS 9 Financial Instruments. The standard addresses the classification, measurement and derecognition of financial assets and financial liabilities and introduces new rules for hedge accounting. In December 2011, in November 2013 and in July 2014, the IASB amended the standard in order to make further changes to the classification and measurement rules and also introduced a new impairment model. These latest amendments now complete the new financial instruments standard. The application of the new standard and its amendments is required for annual periods beginning on or after 1 January 2018. Earlier application is permitted. The adoption of the new standard and its amendments will likely result in changes in the financial statements of the Company, the exact extent of which we are currently analyzing.
- IFRS 15 Revenue from Contracts with Customers. The core principle of the new standard is for companies to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration (that is, payment) to which the company expects to be entitled in exchange for those goods or services. The new standard will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively (for example, service revenue and contract modifications) and new guidance for multiple-element arrangements. The adoption of the new standard will result in significant changes in the financial statements of the Company, primarily in respect of the timing of revenue recognition and in respect of capitalization of costs of obtaining a contract with a customer and contract fulfillment costs. The timing of revenue recognition and the classification of our revenues as either service or equipment revenue will be affected due to the allocation of consideration in multiple element arrangements no longer being affected by limitation cap methodology. Considering the current business models, the impact of applying the new standard would result in allocating more revenues upfront. Our operations and associated systems are complex and the currently estimated time and effort necessary to develop and implement the accounting policies, estimates, judgments and processes to comply with the new standard is expected to span a substantial time. As a result, at this time, it is not possible to make reasonable quantitative estimates of the effects of the new standard. The application of the new standard is required for annual periods beginning on or after 1 January 2018. Earlier application is permitted.
- IFRS 16 Leases. IFRS 16 requires entities when they are a lessee, to: recognize a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments on the statement of financial position, initially measured at the present value of non-cancellable lease payments (including inflation-linked payments), and payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease; recognize amortization of right-of-use assets and interest on lease liabilities over the lease term; and separate the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the statement of cash flows. The most significant effect of IFRS 16 will be an increase in right-of-use assets and lease liabilities, the extent of which will have to be determined after thorough analysis. The Company mainly leases cell sites, rooftops, space on masts or towers, retail shops that will be affected by the new standard. Details of the Company lease commitments are disclosed in note 26. On the lessor (sell) side, Company will mainly have to analyze the extent of which multiple element arrangements with embedded leases may be affected by the revised definition of leases. Other than that, we do not expect a considerable impact on the financial statements of the Company at this time, as lessor accounting itself is not changing significantly through the introduction of IFRS 16. An entity is required to apply IFRS 16 for annual periods beginning on or after 1 January 2019 and permits to apply the new Leases Standard early, if the entity also applies IFRS 15 Revenue from Contracts with Customers at or before the date of early application.

2.2. Foreign currency translation

2.2.1. Functional and presentation currency

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

2.2.2. Transactions and balances

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

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

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

	2016 MKD	2015 MKD
1 USD	58.33	56.37
1 EUR	61.48	61.59

2.3. 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.

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

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

The fair value of long term financial liabilities is also determined by using discounted cash flow valuation technique. The expected cash inflows or outflows are discounted by market based interest rates.

Assumptions applied in the fair value calculations are subject to uncertainties. Changes in the assumptions applied in the calculations would have an impact on the carrying amounts, the fair values and/or the cash flows originating from the financial instruments. Sensitivity analyses related to the Company's financial instruments are provided in Note 3.

2.3.1. 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.

Standard 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 Profit for the year.

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

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

Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the 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 Profit for the year (Finance income/ expense) in the period in which they arise.

Dividend income from financial assets at fair value through profit or loss is recognized in the Profit for the year when the 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 financial statement date. These are classified as non-current assets.

The following items are assigned to the "loans and receivables" measurement category:

- cash and cash equivalents
- deposits over 3 months
- trade receivables
- receivables and loans to third parties
- employee loans
- other receivables

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

Cash and cash equivalents

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

Should impairment on cash and cash equivalents occur, it would be recognized in the Profit for the year (Finance expenses).

Trade and other receivables

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

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

The 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 against Profit for the year (Other operating expenses – Impairment losses on trade and other receivables) with a parallel release of the cumulated impairment on the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against the recognized loss in the Profit for the year.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss shall be reversed by adjusting an allowance account. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortized cost would have been had the impairment not been recognized at the date the impairment is reversed. The amount of the reversal shall be recognized in the Profit for the year as a reduction to Other operating expenses (Impairment losses on trade and other receivables).

Amounts due to, and receivable from, other network operators are shown net where a right of set-off exists and the amounts are settled on a net basis (such as receivables and payables related to international traffic).

Employee loans

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

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

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

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

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the financial statement date. Purchases and sales of investments are recognized on the trade-date – the date on which the 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 Other comprehensive income. When financial assets classified as available for sale are sold or impaired, the accumulated fair value adjustments recognized in equity are included in the Profit for the year as gains and losses from investment securities.

The Company assesses at each financial statement date whether there is objective evidence that a financial asset is impaired. There is objective evidence of impairment if as a result of loss events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If such evidence exists for AFS financial assets, the cumulative unrealized gain (if any) is reclassified from Other comprehensive income to Profit for the year, and any remaining difference is also recognized in the Profit for the year (Finance income). Impairment losses recognized on equity instruments are not reversed through the Profit for the year.

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

2.3.2. Financial liabilities

Trade and other payables

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

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

2.4. Inventories

Inventories are stated at the lower of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated selling expenses.

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

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

Impairment losses on Inventories are recognized in Other operating expenses (Write down of inventories to net realizable value).

2.5. 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 Profit for the year (Depreciation and amortization) as an impairment loss.

2.6. Property, plant and equipment (PPE)

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see note 2.8).

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

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

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

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 Profit for the year during the financial period in which they are incurred.

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

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

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

The estimated useful lives are as follows:

	2016 Years	2015 Years
Buildings	20-40	20-40
Aerial and cable lines	20-25	20-25
Telephone exchanges	7-10	7-10
Base stations	10	10
Computers	4	4
Furniture and fittings	4-10	4-10
Vehicles	4-10	4-10
Other	2-15	2-15

2.7. Intangible assets

Intangible assets that are acquired by the Company are stated at cost less accumulated amortization and impairment losses (see note 2.8).

Subsequent expenditure on 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. New software modules that cannot be used independently of the existing software (releases), but rather only combined with the base version's functionalities and are implementations of enhanced software, characterized by systematic updates, revisions or expansions of previous versions of existing software represent subsequent costs for the previous version and are capitalized if they meet the capitalization criteria, i.e. if they coincide with the creation of additional functionalities. Consequently, the costs of releases is capitalized as part of the base version and amortized together with the residual carrying amount over the base software's remaining useful life. If indications exists that the software will be operated longer than the current useful life as a result of subsequently capitalized expenditure, the useful life of the base software is reviewed, and if applicable extended.

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

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

Content rights are capitalized as intangible assets if all of the following conditions are met: there is no doubt whatsoever that the content will be delivered as agreed in the contract; non-cancellable term of the contract is at least 12 months and cost can be estimated reliably. The financial liability recognized for capitalized content is presented in the statement of financial position within Other financial liabilities. Unwinding of an accrued interest is recognized as an interest expense and is presented within Financial expense. Consequently, the relevant cash outflows are presented as cash flows from financing activities.

The estimated useful lives are as follows:

	2016 Years	2015 Years
Software and licenses	2-5	2-5
Concession	18	18
3G and 2G License	10	10
4G License	20	20

Amortization is charged to the Profit for the year on a straight-line basis over the estimated useful lives of intangible assets. Intangible assets are amortized from the date they are available for use. The assets useful lives are reviewed, and adjusted if appropriate, at least once a year (see note 12).

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

2.8. Impairment of property, plant and equipment and intangible assets

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

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

Impairment losses are recognized in the Profit for the year (Depreciation and amortization). Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

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

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

2.10. Share capital

Ordinary shares are classified as equity.

2.11. Treasury shares

When the Company purchases the Company's equity share capital, the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to the owners as treasury shares until the shares are cancelled or reissued. When such shares are subsequently reissued, the treasury share balance decreases by the original cost of the shares, thereby increasing equity, while any gains or losses are also recognized in equity (Retained earnings). Treasury shares transactions are recorded on the transaction date.

2.12. Other reserves

Under local statutory legislation, the Company was required to set aside minimum 15 percent of its net 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 minimum 5 percent of its net profit for the year as per local GAAP (Generally accepted accounting principles) in a statutory reserve until the level of the reserve reaches 1/10 of the share capital. These reserves are used to cover losses and are not distributed to shareholders except in the case of bankruptcy of the Company.

2.13. Revenues

Revenues for all services and equipment sales (see note 17) 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 all other specific recognition criteria of IAS 18 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 operators of 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 Other liabilities (deferred revenue). On redemption (or expiry) of the points, the deferred revenue is released to revenue as the customer has collected (or waived) the undelivered element of the deemed bundle.

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

2.13.1. Fixed line and mobile telecommunications revenues

Revenue is primarily derived from services provided to 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, mobile and TV distribution networks. Service revenues are recognized when the services are provided in accordance with contractual terms and conditions. Airtime revenue is recognized based upon minutes of use and contracted fees less credits and adjustments for discounts, while subscription and flat rate revenues are recognized in the period they relate to.

Revenues 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.

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

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

2.13.2. 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 statement of financial position as Trade and other receivables.

2.14. Employee benefits

2.14.1. 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 Profit for the year in the same period as the related salary cost. No provision is created for holiday allowances for non-used holidays as according the local legislation the employer is obliged to provide condition for usage, and the employee to use the annual holiday within one year. This is also exercised as 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 financial statements 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.

2.14.2. 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.

2.14.3. 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.

2.15. Marketing expenses

Marketing costs are expensed as incurred. Marketing expenses are disclosed in note 19.

2.16. Taxes

2.16.1. Income tax

In January 2014 the profit tax law was amended whereby the income tax is payable at the moment of dividend distribution regardless of the ownership structure. In accordance with these changes applicable as of January 2014, the income tax in Macedonia ceased to have the characteristics of withholding taxes. Consequently, as per IAS 12, the income tax arising from the payment of dividends was accounted for as a liability and expense in the period in which dividends were declared, regardless of the actual payment date or the period for which the dividends were paid.

As of 1 August 2014, profit tax law came into force being applicable from 1 January 2015 for the net income for 2014, with which the base for income tax computation had been shifted from income "distribution" concept to the profit before taxes. According to the provisions of the law, the tax base is the profit generated during the fiscal year increased for non-deductible expenses and reduced for deductible revenue (i.e. dividends already taxed at the payer) and the income tax rate is 10%. In line with these changes income tax for the year was calculated and recorded in the Statement of comprehensive income.

2.16.2. Deferred income tax

As of 1 August 2014, new profit tax law came into force being applicable from 1 January 2015 for the net income for 2014, with which the base for income tax computation had been shifted from income "distribution" concept to the profit before taxes. According to the provisions of the new law, the tax base is the profit generated during the fiscal year increased for non-deductible expenses and reduced for deductible revenue (i.e. dividends already taxed at the payer) and the profit tax rate is 10%.

In line with the new profit tax law deferred tax was calculated and recorded in the Statement of comprehensive income.

Deferred tax is recognized applying the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit. Deferred tax is determined using income tax rates that have been enacted or substantially enacted by the financial statement date and are expected to apply when the related deferred tax asset is realized or the deferred tax liability is settled.

Deferred tax assets are recognized to the extent that it is probable that future taxable profit (or reversing deferred tax liabilities) will be available against which the temporary differences can be utilized.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.17. Leases

2.17.1. Operating lease – Company as lessor

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

2.17.2. Operating lease – Company as lessee

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

2.18. 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.

2.19. Dividend distribution

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

2.20. Segments

The operating segments of the Company are based on the business lines, residential, business, wholesale and other, which is consistent with the internal reporting provided to the chief operating decision makers, the Chief Executive Officer (CEO) and Chief Operating Officer (COO), who are advised by the Management Committee (MC) of the Company. The CEO and COO are responsible for allocating resources to, and assessing the performance of, the operating segments. The accounting policies and measurement principles of the operating segments are the same as those applied for the Company described in the Significant accounting policies (see note 2). In the financial statements, the segments are reported in a manner consistent with the internal reporting.

The operating segments' revenues include revenues from external customers and there are no internal revenues generated from other segments.

The operating segments' results are monitored by the CEO and COO and the MC to Direct margin, which is defined by the Company as revenues less direct costs less Impairment losses on trade and other receivables.

The CEO, COO and the MC do not monitor the assets and liabilities at segment level.

2.21. Comparative information

In order to maintain consistency with the current year presentation, certain items may have been reclassified for comparative purposes. No material changes have been made for comparative purposes, except those described in detail in the relevant notes, if any.

3. FINANCIAL RISK MANAGEMENT

3.1. Financial risk factors

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

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

3.1.1. Market risk

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

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

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

a) Foreign currency risk

The functional currency of the Company 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 net liability foreign exchange risk through maintaining higher amount of deposits in EUR.

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 2016, if MKD would have been 1% weaker or stronger against EUR, profit would have been MKD 14,509 thousand in net balance lower or higher, respectively. At 31 December 2015, if MKD would have been 1% weaker or stronger against EUR, profit would have been MKD 5,937 thousand in net balance higher or lower, respectively. At 31 December 2016, if MKD would have been 10% weaker or stronger against USD, profit would have been MKD 31,865 thousand in net balance higher or lower, respectively. At 31 December 2015, if MKD would have been 10% weaker or stronger against USD, profit would have been MKD 17,741 thousand in net balance higher or lower, respectively.

b) Interest rate risk

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

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

The 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 floating 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 1,111,256 thousand deposits (including call deposits) and cash in bank as at 31 December 2016, 1% rise in market interest rate would have caused (ceteris paribus) the interest received to increase with approximately MKD 11,113 thousand annually, while similar decrease would have caused the same decrease in interest received. Amount of call deposits and cash in bank is MKD 1,545,106 thousand as at 31 December 2015, therefore 1% rise in market interest rate would have caused (ceteris paribus) the interest received to increase with approximately MKD 15,451 thousand 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 2016 and 31 December 2015, the Company holds investments, which could be affected by risk variables such as stock exchange prices.

The Company had MKD 60,366 thousand investments in equity of other entities that are publically traded on the Macedonian Stock Exchange as at 31 December 2016, 20% rise in market price would have caused (ceteris paribus) MKD 12,073 thousand gain, while similar decrease would have caused the same loss in the Profit for the year. The amount of the investments in equity of other entities that are publically traded on the Macedonian Stock Exchange is MKD 47,987 thousand as at 31 December 2015, therefore 20% rise in market price would have caused (ceteris paribus) MKD 9,597 thousand gain, while similar decrease would have caused the same loss in the Profit for the year.

3.1.2. Credit risk

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

The 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 statement of financial position. 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 financial statement date.

Largest amount of one deposit in 2016 is MKD 178,295 thousand, denominated in EUR 2,900 thousand, (2015: MKD 480,000 thousand denominated in EUR 7,793 thousand). In addition, the Company has deposits with 1 domestic bank (2015: 1 domestic bank). The Company has obtained collateral (guarantee) that mitigate the credit risk for the extent of the deposited amount in the respective bank.

3.1.3. Liquidity risk

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

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

The investment portfolio should 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 Accounting and Tax Department.

The tables below show liabilities at 31 December 2016 and 2015 by their remaining contractual maturity. The amounts disclosed in the maturity table are the contractual undiscounted cash flows. Such undiscounted cash flows differ from the amount included in the statement of financial position because the statement of financial position amount is based on discounted cash flows. As the financial liabilities are paid from the cash generated from the ongoing operations, the maturity analysis of the financial assets as at the end of the reporting periods (in comparison with the financial liabilities) would not be useful, therefore, is not included in the tables below.

The maturity structure of the Company's financial liabilities as at 31 December 2016 is as follows:

In thousands of denars	Total	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 12 months to 5 years
Trade payables	1,075,843	345,188	730,655	-	-
Liabilities to related parties	507,701	505,209	2,492	-	-
Other financial liabilities	703,165	134,582	53,007	324,571	191,005
	2,286,709	984,979	786,154	324,571	191,005

The maturity structure of the Company's financial liabilities as at 31 December 2015 is as follows:

In thousands of denars	Total	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 12 months to 5 years
Trade payables	964,988	463,308	485,203	16,477	-
Liabilities to related parties	750,836	719,808	31,028	-	-
Other financial liabilities	1,497,106	739,377	48,770	316,592	392,367
	3,212,930	1,922,493	565,001	333,069	392,367

3.2. Capital 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 2016, is MKD 13,830,156 thousand, as per local GAAP (2015: MKD 14,053,241 thousand). Out of this amount MKD 9,583,888 thousand (2015: MKD 9,583,888 thousand) represent share capital and MKD 958,389 thousand (2015: MKD 1,237,534 thousand) represent statutory reserves, which are not distributable (see note 2.12). The Company has also acquired treasury shares (see notes 2.11 and 16.1). The transaction is in compliance with the local legal requirements that by acquiring treasury shares the total equity of the Company shall not be less than the amount of the share capital and reserves which are not distributable to shareholders by law or by Company's statute. In addition, according the local legal requirements dividends can be paid out to the shareholders in amount that shall not exceed the net profit for the year as presented in the local GAAP financial statements of the Company, increased for the undistributed net profit from previous years or increased for the other distributable reserves, i.e. reserves that exceed the statutory reserves and other reserves defined by the Company's statute. The Company is in compliance with all statutory capital requirements.

3.3. Fair value estimation

Cash and cash equivalents, trade receivables and other current financial assets mainly have short term maturity. For this reason, their carrying amounts at the reporting date approximate their fair values.

The fair value of the non-current portion of trade receivables comprising of employee loans is determined by using discounted cash-flow valuation technique.

Financial assets available for sale include investment in equity instruments that are measured at fair value.

The fair value of publicly traded financial assets at fair value through profit and loss is based on quoted market prices at the financial statement date.

Financial liabilities included in the category Trade and other payables mainly have short term maturity. For this reason, their carrying amounts at the reporting date approximate their fair values.

The fair value of the long term financial liabilities is determined by using discounted cash-flow valuation technique.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The 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 282,286 thousand (2015: MKD 297,555 thousand). See note 11 and 12 for the changes made to useful lives in 2016.

The Company constantly introduces a number of new services or platforms including, but not limited to, the Universal Mobile Telecommunications System (UMTS) and the Long Term Evolution (LTE) based broadband services in the mobile communications and the fiber-to-the-home rollout in the fixed line operations. 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 existing platforms, resulting in no change-over to the new technology. Consequently, the useful lives of the existing platforms usually do not require shortening.

In 2015 the Company conducted an item by item revision of the useful life of assets affected by the IP Core modernization project of the Company, which in general resulted in shortening of their useful life (see note 11).

4.2. Estimated impairment of property, plant and equipment, and intangible assets

We assess the impairment of identifiable property, plant, equipment and intangibles whenever there is a reason to believe that the carrying value may materially exceed the recoverable amount and where impairment of value is anticipated. The calculations of recoverable amounts are primarily determined by value in use calculations, which use a broad range of estimates and factors affecting those. Among others, we typically consider future revenues and expenses, technological obsolescence, discontinuance of services and other changes in circumstances that may indicate impairment. If impairment is identified using the value in use calculations, we also determine the fair value less cost to sell (if determinable), to calculate the exact amount of impairment to be charged. As this exercise is highly judgmental, the amount of a potential impairment may be significantly different from that of the result of these calculations. Management has performed an impairment test based on a 10 years cash flow projection and used a perpetual growth rate of 2% (2015: 2%) to determine the terminal value after 10 years. The discount rate used was 8.06% (2015: 8.44%). The impairment test did not result in impairment.

4.3. Estimated impairment of trade and other receivables

We calculate impairment for doubtful accounts based on estimated losses resulting from the inability of our customers to make the required payments. For the largest customers, international customers and for customers under liquidation and bankruptcy proceedings impairment is calculated on an individual basis, while for other customers it is estimated on a portfolio basis, for which we base our estimate on the aging of our account receivables balance and our historical write-off experience, customer credit-worthiness and recent changes in our customer payment terms (see note 2.3.1 (b)). These factors are reviewed periodically, and changes are made to the calculations when necessary. In 2016 the Company carried out detailed analysis on the groups of customers on which collective assessment of impairment is performed which resulted in changes in the related impairment rates due to different payment behavior, resulting in new impairment rates of trade and other receivables in 2016. If the financial condition of our customers were to deteriorate, actual write-offs of currently existing receivables may be higher than expected and may exceed the level of the impairment losses recognized so far (see note 3.1.2).

4.4. Provisions

Provisions in general are highly judgmental, especially in case of legal disputes. The 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 2.9). 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 (see note 15 and 28).

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 or retain the existing subscribers. 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 or mobile networks. 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. The total amount of agent fees in 2016 is MKD 98,083 thousand (2015: MKD 125,123 thousand).

5. CASH AND CASH EQUIVALENTS

In thousands of denars	2016	2015
Call deposits	645,033	934,058
Cash in bank	287,766	611,048
Cash on hand	8,223	5,017
	941,022	1,550,123

The interest rate on call deposits is 0.35% p.a. (2015: from 0.30% p.a. to 0.35% p.a.). These deposits have maturities of less than 3 months. The carrying amounts of the cash and cash equivalents are denominated in the following currencies:

In thousands of denars	2016	2015
MKD	732,005	1,001,228
EUR	157,221	511,477
USD	51,796	37,418
	941,022	1,550,123

Following is the breakdown of call deposits and cash in bank with bank guarantee by credit rating of the Guarantor (see note 3.1.2):

In thousands of denars	2016	2015
Credit rating of the Guarantor: A	903,953	1,494,453
	903,953	1,494,453

Following is the breakdown of call deposits and cash in bank by credit rating in local banks without bank guarantee (see note 3.1.2):

In thousands of denars	2016	2015
Credit rating: A+	-	16,301
Credit rating: B+	-	13,444
Credit rating: BBB+	304	-
Credit rating: BBB-	3,684	1,612
Credit rating: BB-	2,969	-
Credit rating: RD	20,884	18,669
Call deposits in local banks without rating	1,005	627
	28,846	50,653

The credit ratings in the table above represent either the credit rating of the local bank or the credit rating of the parent bank if no rating is available for the local bank.

6. DEPOSITS WITH BANKS

In 2016 deposits with banks represent cash deposits in reputable domestic banks, with interest rate from 0.90% p.a. to 1.20% p.a. and with maturity between 3 and 12 months.

The carrying amounts of the deposits with banks are denominated in the following currencies:

In thousands of denars	2016	2015
EUR	178,457	-
	178,457	-

Following is the breakdown of deposits with banks by categories and by credit rating of the Guarantor (see note 3.1.2):

In thousands of denars	2016	2015
Credit rating of the Guarantor: A	178,457	-
	178,457	-

7. TRADE AND OTHER RECEIVABLES

In thousands of denars	2016	2015
Trade debtors – domestic	4,494,769	4,194,426
Less: allowance for impairment	(1,839,150)	(1,799,273)
Trade debtors – domestic – net	2,655,619	2,395,153
Trade debtors – foreign	173,744	189,232
Less: allowance for impairment	(12,776)	(12,776)
Trade debtors – foreign – net	160,968	176,456
Receivables from related parties	392,513	829,606
Loans to third parties	-	3,550
Less: allowance for impairment	-	(3,550)
Loans to third parties– net	-	-
Loans to employees	66,920	81,822
Other receivables	16,187	13,550
Financial assets	3,292,207	3,496,587
Advances given to suppliers	137,227	126,556
Less: allowance for impairment	(62,923)	(62,923)
Advances given to suppliers – net	74,304	63,633
Prepayments and accrued income	321,763	316,921
	3,688,274	3,877,141
Less non-current portion: Loans to employees	(54,261)	(66,678)
Less non-current portion: Trade debtors – domestic	(291,782)	(340,842)
Current portion	3,342,231	3,469,621

Receivables from related parties represent receivables from members of Magyar Telekom Group and Deutsche Telekom Group (see note 29).

Loans to employees are collateralized by mortgages over real estate or with promissory note.

Loans to third parties represent loan with reference interest rate of 6 months EURIBOR with margin of 0.3%. Loans granted to employees carry effective interest rate of 4.55% p.a. (2015: 4.55% p.a.).

The non-current portion of Loans to employees represents receivables that are due within 11 years of the financial statement date. The non-current portion of domestic trade receivables represents receivables that are due within 4 years of the financial statement date.

As at 31 December 2016, domestic trade debtors of MKD 2,406,375 thousand (2015: MKD 2,151,715 thousand) are impaired. The aging of these receivables is as follows:

In thousands of denars	2016	2015
Less than 30 days	219,180	194,181
Between 31 and 180 days	234,794	148,322
Between 181 and 360 days	205,951	93,882
More than 360 days	1,746,450	1,715,330
	2,406,375	2,151,715

As at 31 December 2016, domestic trade receivables in amount of MKD 138,608 thousand (2015: MKD 253,139 thousand) were past due but not impaired. These are mainly related to customers for interconnection services assessed on individual basis in accordance with past Company experience and current expectations, as well as specified business and governmental customers that belong to certain age bands and are past due but not impaired, based on past experience of payment behavior (see notes 2.3 and 4.3).

The analysis of these past due domestic trade receivables is as follows:

In thousands of denars	2016	2015
Less than 30 days	73,953	77,659
Between 31 and 60 days	9,728	9,615
Between 61 and 90 days	13,625	9,928
Between 91 and 180 days	14,967	13,245
Between 181 and 360 days	6,359	64,304
More than 360 days	19,976	78,388
	138,608	253,139

The total amount of the provision for domestic trade debtors is MKD 1,839,150 thousand (2015: MKD 1,799,273 thousand). Out of this amount MKD 1,571,328 thousand (2015: MKD 1,542,269 thousand) relate to provision made according the aging structure of the above receivables, while the amount of MKD 60,972 thousand (2015: MKD 51,592 thousand) is from customers under liquidation and bankruptcy which are fully impaired. In addition, the Company has a specific provision calculated in respect of a certain group of customers in amount of MKD 206,850 thousand (2015: MKD 205,412 thousand). The total amount of the provision for foreign trade debtors is MKD 12,776 thousand (2015: MKD 12,776 thousand).

The amount of impairment is mainly a result of receivables which are overdue more than 720 days. The total amount of fully impaired receivables is MKD 1,640,519 thousand (2015: MKD 1,609,603 thousand). These receivables are mainly from two way disconnected customers, dismantled customers, litigated customers and customers that are no longer using the Company services.

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

In thousands of denars	2016	2015
Trade debtors – domestic	2,655,619	2,395,153
Trade debtors – foreign	160,968	176,456
Receivables from related parties	392,513	829,606
Loans to employees	66,920	81,822
Other receivables	16,187	13,550
	3,292,207	3,496,587

Movement in allowance for impairment of domestic trade debtors:

In thousands of denars	2016	2015
Impairment losses at 1 January	1,799,273	1,748,663
Charge for the year	58,025	77,789
Write off	(18,148)	(27,179)
Impairment losses at 31 December	1,839,150	1,799,273

In 2015 and 2016 there is no movement in allowance for impairment of advances given to suppliers.

Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

As at 31 December 2016, foreign trade debtors of MKD 12,776 thousand (2015: MKD 12,776 thousand) are impaired. The aging of these receivables is as follows:

In thousands of denars	2016	2015
More than 360 days	12,776	12,776
	12,776	12,776

As at 31 December 2016, foreign trade receivables in amount of MKD 136,146 thousand (2015: MKD 89,941 thousand) were past due but not impaired. These relate to a number of international customers assessed on individual basis in accordance with past Company experience and current expectations.

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

In thousands of denars	2016	2015
Less than 30 days	3,492	2,192
Between 31 and 60 days	14,063	35,379
Between 61 and 90 days	4,554	6,135
Between 91 and 180 days	53,893	11,805
Between 181 and 360 days	11,053	2,553
More than 360 days	49,091	31,877
	136,146	89,941

The Company has renegotiated domestic trade receivables in carrying amount of MKD 25,403 thousand (2015: MKD 15,803 thousand). The carrying amount of loans and receivables, which would otherwise be past due, whose terms have been renegotiated is not impaired if the collectability of the renegotiated cash flows are considered ensured.

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

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

In thousands of denars	2016	2015
MKD	2,566,837	2,259,099
EUR	301,591	998,489
USD	471,429	208,514
Other	2,374	3,519
	3,342,231	3,469,621

The credit quality of trade receivables that are neither past due nor impaired is assessed based on historical information about counterparty default rates.

Following are the credit quality categories of neither past due nor impaired domestic trade receivables:

In thousands of denars	2016	2015
Group 1	1,459,891	1,263,510
Group 2	116,229	86,547
Group 3	81,884	98,673
	1,658,004	1,448,730

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

In thousands of denars	2016	2015
Group 1	24,822	86,515
	24,822	86,515

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

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

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

8. TAXES

Commencing from 1 January 2014 the profit tax law was amended whereby the income tax is payable at the moment of dividend distribution regardless of the ownership structure. In accordance with these changes applicable as of January 2014, the income tax in Macedonia ceased to have the characteristics of withholding taxes. Consequently, as per IAS 12, the income tax arising from the payment of dividends was accounted for as a liability and expense in the period in which dividends were declared, regardless of the actual payment date or the period for which the dividends were paid. This resulted in recognition of income tax expense on the dividends distributed in 2014 in amount of MKD 502,623 thousand in the first quarter of 2014 (see note 23).

As of 1 August 2014, profit tax law came into force being applicable from 1 January 2015 for the net income for 2014, with which the base for income tax computation had been shifted from income "distribution" concept to the profit before taxes. According to the provisions of the law, the tax base is the profit generated during the fiscal year increased for non-deductible expenses and reduced for deductible revenue (i.e. dividends already taxed at the payer) and the income tax rate is 10%. In line with these changes income tax for the year was calculated and recorded in the statement of comprehensive income. In addition, following the changes in the law, the tax on the tax base adjusting items (the non-deductable expenses and tax credits) is presented as part of income tax expense in the statement of comprehensive income (see note 2.16).

Up to now the tax authorities had carried out a full-scope tax audits at the Company for 2005 and the years preceding. Additionally, audit of personal income tax was carried out by the tax authorities for the period 1 January 2005 to 31 March 2006. During 2010 there was tax audit conducted by the Public revenue office for Profit tax and VAT for the period 2005 - 2009, as well as, withholding tax for years 2007 and 2008. In addition, in 2011 the Public revenue office conducted tax audit for withholding tax for 2010 and tax audit over certain service contracts from Transfer pricing perspective. In 2012 the Public revenue office conducted specific tax audit for VAT for August 2012 for the Company. In 2012 the Public revenue office carried out a tax audit in TMMK for Profit tax for the years 2005-2011, as well as tax audit for VAT for 2005-2009.

There is ongoing Profit Tax Audit carried by Public revenue office for the period 2013 - 2015. The tax authorities may at any time inspect the books and records within 5 years subsequent to the reported tax year, and may impose additional tax assessments and penalties. In a case of tax evasion or tax fraud the statute of limitations may be extended up to 10 years. The Company's management is not aware of any circumstances, which may give rise to a potential material liability in this respect other than those provided for in these financial statements.

8.1. Other taxes receivable

In thousands of denars	2016	2015
VAT receivable	11,839	11,685
Other taxes receivable	1,006	896
	12,845	12,581

8.2. Other taxes payable

In thousands of denars	2016	2015
VAT payable	39,255	65,547
	39,255	65,547

9. INVENTORIES

In thousands of denars	2016	2015
Materials	121,106	131,116
Inventories for resale	336,491	307,926
Allowance for inventories	(19,277)	(20,918)
	438,320	418,124

Movement in allowance for inventories:

In thousands of denars	2016	2015
Allowance at 1 January	20,918	24,919
Write down of inventories to net realizable value	(444)	2,474
Write down of inventories	24,497	41,764
Write off	(25,694)	(48,239)
Allowance at 31 December	19,277	20,918

Allowance for inventory mainly relates to inventories for resale and obsolete materials. Write down of inventories to net realizable value is based on the analysis of the lower of cost and net realizable value at the financial statement dates.

10. ASSETS HELD FOR SALE

In December 2013, the Board of Directors of the Company brought a resolution for sale of the PSTN exchanges in line with the completion of the "All IP Transformation Project" where the Company migrated from PSTN to IP based services (see note 4.1). Accordingly, the carrying amount of these assets in amount of MKD 10,441 thousand was reclassified to assets held for sale in the statement of financial position as at 31 December 2013. During 2014 the Company recorded impairment for these assets in the amount of MKD 3,469 thousand recognized as Depreciation and amortization and part of these assets were sold, resulting in carrying amount of MKD 671 thousand as at 31 December 2014. The remaining of these assets was sold during 2015.

In addition, during 2014, the Company brought decisions for selling a number of other assets. The carrying amounts of the affected assets were reclassified to assets held for sale in the statement of financial position. As at 31 December 2014 the balance of assets held for sale includes vehicles with carrying amount of MKD 12,288 thousand for which the Company recorded impairment in the amount of MKD 1,800 thousand, based on the market offers received, recognized as Depreciation and amortization, buildings with carrying amount of MKD 86,159 thousand, and fiscal printers with carrying amount of MKD 13 thousand. Assets in amount of MKD 37,353 thousand, classified as asset held for sale at the end of 2014, were sold during 2015.

During 2015, the Company brought decisions for selling a number of other assets. The carrying amounts of the affected assets were reclassified to assets held for sale in the statement of financial position. As at 31 December 2015 the balance of assets held for sale includes vehicles with carrying amount of MKD 6,625 thousand for which the Company recorded impairment in the amount of MKD 307 thousand, based on the market offers received, recognized as Depreciation and amortization, buildings with carrying amount of MKD 55,140 thousand, and fiscal printers with carrying amount of MKD 13 thousand. Assets with carrying amount of MKD 4,981 thousand, classified as asset held for sale at the end of 2015, were sold during 2016.

Also, the Company transfer assets from assets held for sale to property, plant and equipment – buildings with carrying amount of MKD 51,234 thousand, and vehicles and fiscal printers from assets held for sale to property, plant and equipment – other with carrying amount of MKD 5,563 thousand. During 2016, the Company brought decision for selling one building. The carrying amount of the affected asset was reclassified to assets held for sale in the statement of financial position. As at 31 December 2016 the balance of asset held for sale includes affected building with carrying amount of MKD 3,296 thousand.

In accordance with IFRS 5, the assets presented as held for sale at the balance sheet date are accounted for at the lower of carrying value or fair value less cost to sell. The fair value less cost to sell is dominantly within level 3 of the fair value hierarchy.

11. PROPERTY, PLANT AND EQUIPMENT

In thousands of denars	Land	Buildings	Telecommunication equipment	Other	Assets under construction	Total
Cost						
At 1 January 2015	10,670	5,437,847	23,180,838	4,079,164	1,194,806	33,903,325
Additions	-	10,302	451,891	156,629	918,323	1,537,145
Transfer from assets under construction (see note 12)	-	6,235	245,260	64,116	(413,150)	(97,539)
Disposals	-	-	(190,119)	(149,681)	-	(339,800)
Transfer to assets held for sale	-	(12,941)	-	18	-	(12,923)
At 31 December 2015	10,670	5,441,443	23,687,870	4,150,246	1,699,979	34,990,208
Depreciation						
At 1 January 2015	-	1,847,419	15,558,193	2,963,672	-	20,369,284
Charge for the year	-	140,499	1,376,584	394,007	-	1,911,090
Disposals	-	-	(190,119)	(140,351)	-	(330,470)
Transfer to assets held for sale	-	(12,726)	-	18	-	(12,708)
At 31 December 2015	-	1,975,192	16,744,658	3,217,346	-	21,937,196
Carrying amount						
At 1 January 2015	10,670	3,590,428	7,622,645	1,115,492	1,194,806	13,534,041
At 31 December 2015	10,670	3,466,251	6,943,212	932,900	1,699,979	13,053,012

In thousands of denars	Land	Buildings	Telecommunication equipment	Other	Assets under construction	Total
Cost						
At 1 January 2016	10,670	5,441,443	23,687,870	4,150,246	1,699,979	34,990,208
Additions	17	845	345,898	66,377	1,038,611	1,451,748
Transfer from assets under construction (see note 12)	-	36,050	184,292	69,383	(607,227)	(317,502)
Disposals	-	-	(1,945,640)	(220,860)	-	(2,166,500)
Transfer from/to assets held for sale	-	85,323	-	10,798	-	96,121
At 31 December 2016	10,687	5,563,661	22,272,420	4,075,944	2,131,363	34,054,075
Depreciation						
At 1 January 2016	-	1,975,192	16,744,658	3,217,346	-	21,937,196
Charge for the year	-	148,146	1,236,658	336,788	-	1,721,592
Disposals	-	-	(1,945,640)	(199,358)	-	(2,144,998)
Transfer from/to assets held for sale	-	37,384	-	5,236	-	42,620
At 31 December 2016	-	2,160,722	16,035,676	3,360,012	-	21,556,410
Carrying amount						
At 1 January 2016	10,670	3,466,251	6,943,212	932,900	1,699,979	13,053,012
At 31 December 2016	10,687	3,402,939	6,236,744	715,932	2,131,363	12,497,665

In 2016, the Company capitalized MKD 87 thousand (2015: MKD 5,455 thousand) expenditures related to obtaining complete documentation for base stations and MKD 19,658 thousand (2015: MKD 142,045 thousand) expenditures related to obtaining complete documentation for fixed line infrastructure in accordance to applicable laws in Republic of Macedonia (see note 2.6).

The reviews of the useful lives and residual values of property, plant and equipment during 2016 affected the lives of a several types of assets, mainly optical cable lines and technical equipment. The change of the useful life on the affected assets was made due to technological changes and business plans of the Company (see note 4.1). The reviews resulted in the following change in the original trend of depreciation in the current and future years.

In thousands of denars	2016	2017	2018	2019	After 2019
(Decrease)/increase in depreciation	(151,154)	(142,761)	13,976	38,662	241,277
	(151,154)	(142,761)	13,976	38,662	241,277

12. INTANGIBLE ASSETS

In thousands of denars	Software and software licenses	Concession, 2G 3G and 4G license	Other	Assets under construction	Total
Cost					
At 1 January 2015	4,918,309	1,525,417	178,544	-	6,622,270
Additions	205,422	-	302,014	57,919	565,355
Transfer from assets under construction (see note 11)	97,539	-	-	-	97,539
Disposals	(481,070)	-	-	-	(481,070)
At 31 December 2015	4,740,200	1,525,417	480,558	57,919	6,804,094
Amortization					
At 1 January 2015	3,653,507	577,635	49,596	-	4,280,738
Charge for the year	556,639	117,194	93,071	-	766,904
Disposals	(481,070)	-	-	-	(481,070)
At 31 December 2015	3,729,076	694,829	142,667	-	4,566,572
Carrying amount					
At 1 January 2015	1,264,802	947,782	128,948	-	2,341,532
At 31 December 2015	1,011,124	830,588	337,891	57,919	2,237,522

In 2014 review of the TV content rights contracts was performed and two contracts were identified as qualifying for capitalization. Accordingly, these rights were recognized in 2014 in Intangible assets, category Other, at the net present value of future payments in amount of MKD 178,544 thousand and will be amortized over the contracts term, which is 3 years (see note 13 and 21).

In 2015 review of the TV content rights contracts was performed and one additional contract was identified as qualifying for capitalization. Accordingly, this right was recognized in 2015 in Intangible assets, category Other, at the net present value of future payments in amount of MKD 302,014 thousand and will be amortized over the contracts term, which is 3 years (see note 13 and 21).

In thousands of denars	Software and software licenses	Concession, 2G 3G and 4G license	Other	Assets under construction	Total
Cost					
At 1 January 2016	4,740,200	1,525,417	480,558	57,919	6,804,094
Additions	236,214	-	176,783	172,111	585,108
Transfer from assets under construction (see note 11)	361,145	-	-	(43,643)	317,502
Disposals	(483,349)	-	-	-	(483,349)
At 31 December 2016	4,854,210	1,525,417	657,341	186,387	7,223,355
Amortization					
At 1 January 2016	3,729,076	694,829	142,667	-	4,566,572
Charge for the year	512,140	117,194	189,650	-	818,984
Disposals	(483,349)	-	-	-	(483,349)
At 31 December 2016	3,757,867	812,023	332,317	-	4,902,207
Carrying amount					
At 1 January 2016	1,011,124	830,588	337,891	57,919	2,237,522
At 31 December 2016	1,096,343	713,394	325,024	186,387	2,321,148

In 2016 review of the TV content rights contracts was performed and two additional contracts were identified as qualifying for capitalization. Accordingly, these rights were recognized in 2016 in Intangible assets, category Other, at the net present value of future payments in amount of MKD 176,783 thousand and will be amortized over the contracts term, which is 3 years (see note 13 and 21).

The reviews of the useful lives of intangible assets during 2016 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 resulted in the following change in the original trend of amortization in the current and future years.

In thousands of denars	2016	2017	2018	2019	After 2019
(Decrease)/increase in amortization	(28,761)	(20,472)	19,389	28,323	1,521
	(28,761)	(20,472)	19,389	28,323	1,521

13. TRADE AND OTHER PAYABLES

In thousands of denars	2016	2015
Trade payables - domestic	845,162	695,085
Trade payables - foreign	230,681	269,903
Liabilities to related parties	507,701	750,836
Dividends payable	2,263	482,099
Other financial liabilities	652,008	976,167
Financial liabilities	2,237,815	3,174,090
Accrued expenses	1,706,818	1,449,922
Deferred revenue	280,151	355,065
Advances received	71,128	69,474
Other	211,626	124,938
	4,507,538	5,173,489
Less non-current portion:		
Deferred revenue	(8,834)	(39,650)
Other financial liabilities	(159,787)	(351,753)
Current portion	4,338,917	4,782,086

Liabilities to related parties represent liabilities to members Magyar Telekom Group and Deutsche Telekom Group (see note 29).

Non-current deferred revenues have maturity up to 9 years from the date of the statement of financial position.

In the category Other financial liabilities of MKD 187,872 thousand (2015: MKD 366,338 thousand) represent the carrying amount of long term payables related to the transaction for purchase and sale of buildings with an exchange completed in 2012. These liabilities are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method. Financial liabilities of MKD 368,866 thousand (2015: MKD 341,512 thousand) represent the carrying amount of long term payables related to the capitalization of certain content right contracts in 2014, 2015 and 2016 (see note 12). These liabilities are recognized initially at the net present value of future payments and subsequently measured at amortized cost using the effective interest method. The unwinding of the discount is being recognized in Interest expense in Profit and loss (see note 21). The carrying amount of these liabilities approximates their fair value as the related cash flows are discounted with an interest rate of 6% p.a. which is the observable at the market for similar long term financial liabilities. The remaining balance of other financial liabilities arises from contractual obligations for various transactions, from the ordinary course of business of the Company.

The carrying amounts of the current portion of trade and other payables are denominated in the following currencies:

In thousands of denars	2016	2015
MKD	2,040,547	3,790,463
EUR	2,088,175	916,249
USD	204,579	68,525
Other	5,616	6,849
	4,338,917	4,782,086

At the regular Board of Directors meeting as of 13 September 2016 the Board of Directors adopted the Resolution on the conclusion of a Credit Facility Agreement between the Company, as the Borrower, and Magyar Telekom Plc., as the Lender, with the following main terms and conditions: Magyar Telekom Plc shall lend to the Company frame loan for maximum amount up to EUR 6 million (excluding interest), the disbursement of the loan shall be made based on the Credit Facility Agreement and on the need to need basis, followed by signing of Utilization Notice to the Credit Facility Agreement specifying the value date of the disbursement and the amount of the loan and the loan should be repaid in accordance with the available cash and considering the operational liquidity of the Company up to 31 March 2017. As of financial statements date, the Company has not utilized any amount from the Credit Facility Agreement.

14. DEFERRED INCOME TAX

Recognized deferred income tax (assets)/liabilities are attributable to the following items:

In thousands of denars	Assets		Liabilities		Net	
	2016	2015	2016	2015	2016	2015
Property, plant and equipment	-	-	150,102	173,389	150,102	173,389
Intangible assets	-	-	1,493	2,168	1,493	2,168
Tax (assets)/liabilities	-	-	151,595	175,557	151,595	175,557
Net tax liabilities	-	-	151,595	175,557	151,595	175,557

Movement in temporary differences during the year

In thousands of denars	Balance 1 January 2016	Recognized in income	Balance 31 December 2016
Property, plant and equipment	173,389	(23,287)	150,102
Intangible assets	2,168	(675)	1,493
	175,557	(23,962)	151,595

In thousands of denars	Balance 1 January 2015	Recognized in income	Balance 31 December 2015
Property, plant and equipment	198,198	(24,809)	173,389
Intangible assets	3,134	(966)	2,168
	201,332	(25,775)	175,557

The temporary differences relate to different carrying amount of property, plant and equipment and intangible assets as these assets were restated in accordance with statutory requirements in previous years at the year-end using official revaluation coefficients based on the general manufactured goods price increase index.

15. PROVISION FOR LIABILITIES AND CHARGES

In thousands of denars	Legal cases	Other	Total
1 January 2015	250,361	62,739	313,100
Additional provision	26,957	24,292	51,249
Unused amount reversed	(22,029)	(4,384)	(26,413)
Used during period	(90,501)	(14,656)	(105,157)
31 December 2015	164,788	67,991	232,779

In thousands of denars	Legal cases	Other	Total
1 January 2016	164,788	67,991	232,779
Additional provision	15,324	20,153	35,477
Unused amount reversed	(10,720)	(10,583)	(21,303)
Used during period	(3,398)	(11,753)	(15,151)
31 December 2016	165,994	65,808	231,802

Analysis of total provisions:

In thousands of denars	2016	2015
Non-current (Other)	65,808	67,991
Current	165,994	164,788
	231,802	232,779

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

There are a number of legal cases for which provisions were recognized. Management recognizes a provision for its best estimate of the obligation but does not disclose the information required by paragraph 85 of IAS 37 because the management believes that to do so would seriously prejudice the outcome of the case. Management does not expect that the outcome of these legal claims will give rise to any significant loss beyond the amounts provided at 31 December 2016.

Other includes provision made for the legal or contractual obligation of the Company to pay to employees three average monthly salaries in Republic of Macedonia at their retirement date (see note 2.14.1) and provision made for the Variable II and LTI incentive programs (see note 30). The provision is recognized against Personnel expenses in the Profit for the year.

16. CAPITAL AND RESERVES

Share capital consists of the following:

In thousands of denars	2016	2015
Ordinary shares	9,583,878	9,583,878
Golden share	10	10
	9,583,888	9,583,888

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

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

As at 31 December 2016 and 2015, the shares of the Company were held as follows:

In thousands of denars	2016	%	2015	%
Stonebridge AD Skopje	4,887,778	51.00	4,887,778	51.00
Government of the Republic of Macedonia	3,336,497	34.81	3,336,497	34.81
The Company (treasury shares)	958,388	10.00	958,388	10.00
International Finance Corporation (IFC)	139,220	1.45	151,468	1.58
Other minority shareholders	262,005	2.74	249,757	2.61
	9,583,888	100.00	9,583,888	100.00

16.1. Treasury shares

The Company acquired 9,583,878 of its own shares, representing 10% of its shares, through the Macedonian Stock Exchange during June 2006. The total amount paid to acquire the shares, net of income tax, was MKD 3,843,505 thousand. The shares are held as treasury shares. As a result of the findings of the Investigation, for one consultancy contract, the payments of which was erroneously capitalized as part of treasury shares in 2006 has been retrospectively derecognized from treasury shares (see note 1.4).

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

16.2. Other reserves

The Shareholders' Assembly of the Company, at its meeting, held on 12 April 2016 adopted a Resolution for distribution of MKD 279,145 thousand, that exceeds the legally defined obligatory general reserve of the Company as a result of the accession of TMMK towards the Company, in the retained earnings of the Company.

17. REVENUES

In thousands of denars	2016	2015
Revenues from fixed line operations		
Internet	1,228,667	1,237,224
Voice retail	1,195,956	1,356,311
TV	600,147	522,089
Wholesale	546,844	691,916
Data	300,240	312,579
Equipment	122,002	203,223
Other	151,446	112,625
	4,145,302	4,435,967
Revenues from mobile operations		
Voice retail	2,771,223	2,846,933
Internet	920,508	673,258
Wholesale	837,700	965,990
Equipment	804,596	666,772
Data	373,186	417,470
Content	76,978	71,451
Voice visitor	68,274	61,755
Other	200,070	147,815
	6,052,535	5,851,444
SI/IT revenues	359,758	383,634
	10,557,595	10,671,045

18. PERSONNEL EXPENSES

In thousands of denars	2016	2015
Salaries	725,833	783,577
Other staff costs	430,391	117,349
Contributions on salaries	255,700	276,476
Bonus payments	86,965	131,492
Capitalized personnel costs	(74,840)	(89,409)
	1,424,049	1,219,485

Other staff costs include termination benefits for 360 employees leaving the Company in 2016 (2015: 32 employees), holiday's allowance and other benefits. Out of this, 244 employees continue to carry out their tasks in Ericsson as of 1 July 2016 as a result of signed Managed service agreement between the Company and Ericsson as a managed services partner in Macedonia. Under the Agreement, Ericsson has responsibility for network operations, second line operations, field operations and passive networks, as well as infrastructure maintenance services for fixed and mobile networks of the Company. Bonus payments also include the cost for Variable II and LTI programs (see note 30).

19. OTHER OPERATING EXPENSES

In thousands of denars	2016	2015
Purchase cost of goods sold	1,712,426	1,695,081
Services	651,150	650,460
Materials and maintenance	429,058	266,160
Marketing and donations	300,435	383,487
Subcontractors	278,475	237,843
Fees, levies and local taxes	276,203	311,727
Royalty payments	242,091	280,067
Energy	166,704	217,248
Rental fees	142,975	142,132
Impairment losses on trade and other receivables	58,025	77,789
Consultancy	47,117	27,319
Write down of inventories	24,497	41,764
Insurance	12,574	17,434
Write down of inventories to net realizable value	(444)	2,474
Other	3,136	25,804
	4,344,422	4,376,789

Services mainly include agent commissions, expenses for content services, postal expenses, security, cleaning, and utilities. In category materials and maintenance in 2016 included are costs for Managed service agreement between the Company and Ericsson as a managed services partner in Macedonia (see note 18).

20. OTHER OPERATING INCOME

In thousands of denars	2016	2015
Net gain on sale of PPE	14,017	54,253
Other	26,600	17,417
	40,617	71,670

In 2016 amount of MKD 8,564 thousand included in the category Net gain on sale of PPE represents gain from sales of two administrative building presented as asset held for sale in 2015.

21. FINANCE EXPENSES

In thousands of denars	2016	2015
Interest expense	48,252	48,625
Bank charges and other commissions	14,121	14,833
	62,373	63,458

Interest expense in amount of MKD 17,521 thousand (2015: MKD 27,908 thousand) represents the unwinding of the discount related to the carrying amount of long term payables from the transaction for purchase and sale of buildings with an exchange completed in 2012, recognized initially at fair value and subsequently measured at amortized cost using the effective interest method. Interest expense in amount of MKD 13,619 thousand (2015: MKD 6,114 thousand) represents the unwinding of the discount related to the carrying amount of long term payables from the content right contracts capitalized, recognized initially at the net present value of future payments and subsequently measured at amortized cost using the effective interest method (see note 13).

22. FINANCE INCOME

In thousands of denars	2016	2015
Interest income	15,693	34,546
Net foreign exchange gain	14,306	4,633
Fair value trough profit and loss	7,254	8,750
Dividend income	2,841	-
	40,094	47,929

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

23. INCOME TAX EXPENSE

Recognized in the statement of comprehensive income:

In thousands of denars	2016	2015
Current tax expense		
Current year	211,334	204,330
Deferred tax expense		
Origination and reversal of timing differences	(23,962)	(25,775)
Total income tax in the statement of comprehensive income	187,372	178,555

Reconciliation of effective tax rate:

In thousands of denars		2016		2015
Profit before tax		1,223,314		1,421,270
Income tax	10.00%	122,331	10.00%	142,127
Non-deductible expenses	5.47%	66,916	2.74%	39,008
Tax exempt revenues	(0.15%)	(1,875)	(0.18%)	(2,580)
	15.32%	187,372	12.56%	178,555

Commencing from January 2014 the profit tax law was amended whereby the income tax is payable at the moment of dividend distribution regardless of the ownership structure. In accordance with these changes applicable as of January 2014, the income tax in Macedonia ceased to have the characteristics of withholding taxes. Consequently, as per IAS 12, the income tax arising from the payment of dividends was accounted for as a liability and expense in the period in which dividends were declared, regardless of the actual payment date or the period for which the dividends were paid. This resulted in recognition of income tax expense on the dividends distributed in 2014 in amount of MKD 502,623 thousand in the first quarter of 2014.

As of 1 August 2014, profit tax law came into force being applicable from 1 January 2015 for the net income for 2014 with which the base for income tax computation had been shifted from income "distribution" concept to the profit before taxes. According to the provisions of this new law the tax base is the profit generated during the fiscal year increased for non-deductible expenses and reduced for deductible revenue (i.e. dividends already taxed at the payer), with income tax at rate of 10%. In line with these changes income tax for the year and deferred tax were calculated and recorded in the Statement of comprehensive income (see note 2.16 and 8).

24. DIVIDENDS

The Shareholders' Assembly of the Company, at its meeting, held on 12 April 2016 adopted a Resolution for the dividend payment for the year 2015. The Resolution on dividend payment for 2015 is in the gross amount of MKD 1,474,683 thousand from the net profit generated as per the Financial Statements of the Company for the year 2015 as per the local GAAP. The dividend was paid out in September 2016. Up to date of issuing of these financial statements, no dividends have been declared for 2016.

25. REPORTABLE SEGMENTS AND INFORMATION

25.1. Reportable segments

The Company's reportable segments are: business, residential, wholesale segments and other.

In line with the Accession Agreement concluded between TMMK as an Accessing company and the Company, as an Acquiring Company, and that as of 1 January 2015 the bookkeeping for the company and TMMK was kept only by the Company, less emphasis was put on the segregation by technology (fixed line or mobile services). As a replacement, the current segment structure was monitored, which is based on customer segments that require different technology and marketing strategies. Comparative information has been provided for 2015.

Residential segment is consisted of consumer subscribers which are all directly owned human subscribers without business subscribers (i.e. self-employed individuals or legal entities offering chargeable products and/or services to customers, non-profit organizations and public organizations). Business segment is consisted of business subscribers which are all directly owned human subscribers who are either self employed individuals or employees of a legal entity that offers chargeable products and/or services to customers. Employees or members of non-profit and public organizations are also business subscribers. Wholesale comprises all services with telecommunication carriers for both mobile and fixed line, i.e. carrier services, mobile VNO and visitors.

25.2. Information regularly provided to the chief operating decision maker

The following tables present the segment information by reportable segment regularly provided to the Chief operating decision maker of the Company. The information regularly provided to the MC (Management Committee) includes several measures of profit which are considered for the purposes of assessing performance and allocating resources. Management believes that direct margin which is defined as revenues less direct costs less Impairment losses on trade and other receivables is the segment measure that is most consistent with the measurement principles used in measuring the corresponding amounts in these financial statements.

Another important KPI monitored at Company level is EBITDA adjusted for the impact of certain items considered as "special influence". These items vary year-over-year in nature and magnitude.

Revenues

In thousands of denars	2016	2015
Residential segment revenues	6,614,632	6,561,966
Business segment revenues	2,813,875	2,902,697
Wholesale segment revenues	1,087,717	1,177,755
Other	41,371	28,627
	10,557,595	10,671,045

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

Segment results (Direct margin)

In thousands of denars	2016	2015
Direct margin		
Residential segment	4,704,126	4,715,320
Business segment	1,815,013	1,850,571
Wholesale segment	720,862	784,607
Other	40,792	27,961
Total direct margin of the Company	7,280,793	7,378,459
Indirect costs		
Personal expenses	(1,424,049)	(1,219,485)
Other operating expenses	(2,111,192)	(2,115,544)
Total Indirect costs of the Company	(3,535,241)	(3,335,029)
Other operating income	40,617	71,670
EBITDA	3,786,169	4,115,100
Depreciation and amortization	(2,540,576)	(2,678,301)
Total operating profit	1,245,593	1,436,799
Finance expense – net	(22,279)	(15,529)
Profit before tax	1,223,314	1,421,270
Income tax expense	(187,372)	(178,555)
Net profit for the year	1,035,942	1,242,715

26. LEASES AND OTHER COMMITMENTS

26.1. Operating lease commitments – where the Company is the lessee:

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

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

In thousands of denars	2016	2015
Not later than 1 year	103,205	104,946
Later than 1 year and not later than 5 years	173,654	199,017
Later than 5 years	21,009	26,578
	297,868	330,541

26.2. Operating lease commitments – where the Company is the lessor:

Operating lease commitments, concluded on temporary bases – where the Company is the lessor are mainly from lease of land sites for base stations.

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

In thousands of denars	2016	2015
Not later than 1 year	17,277	27,623
Later than 1 year and not later than 5 years	12,420	59,719
Later than 5 years	3,336	7,048
	33,033	94,390

26.3. Capital commitments

The amount authorized for capital expenditure as at 31 December 2016 was MKD 293,784 thousand (2015: MKD 474,745 thousand). The amount authorized for capital expenditure as at 31 December 2015 and 2016 mainly relates to telecommunication assets.

27. ADDITIONAL DISCLOSURES ON FINANCIAL ASSETS

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

(a) quoted prices (unadjusted) in active markets for identical assets (Level 1);
(b) inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly (Level 2); and
(c) inputs for the asset that are not based on observable market data (Level 3).

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

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

Financial assets carried at amortized cost

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

Liabilities carried at amortized cost

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

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

27.1. Financial assets – Carrying amounts and fair values

The table below shows the categorization of financial assets as at 31 December 2015.

Assets In thousands of denars	Financial assets				
	Loans and receivables	Available-for-sale (Level 2)	At fair value through profit and loss (Level 1)	Carrying amount	Fair value
Cash and cash equivalents	1,550,123	-	-	1,550,123	1,550,123
Trade and other receivables	3,496,587	-	-	3,496,587	3,496,587
Other non-current assets	-	6,750	-	6,750	6,750
Financial assets at fair value through profit and loss	-	-	47,987	47,987	47,987

The table below shows the categorization of financial assets as at 31 December 2016.

Assets In thousands of denars	Financial assets				
	Loans and receivables	Available-for-sale (Level 2)	At fair value through profit and loss (Level 1)	Carrying amount	Fair value
Cash and cash equivalents	941,022	-	-	941,022	941,022
Deposits with banks	178,457	-	-	178,457	178,457
Trade and other receivables	3,292,207	-	-	3,292,207	3,292,207
Other non-current assets	-	612	-	612	612
Financial assets at fair value through profit and loss	-	-	60,366	60,366	60,366

Loans and receivables are measured at amortized cost, while available-for-sale and held-for-trading assets are measured at fair value.

Cash and cash equivalents, deposits, trade receivables and other current financial assets mainly have short times to maturity. For this reason, their carrying amounts at the end of the reporting period approximate their fair values.

Financial assets available for sale include insignificant investment in equity instruments, measured at fair value.

Financial assets at fair value through profit or loss include investments in equity instruments in the amount of MKD 60,366 thousand (2015: MKD 47,987 thousand) calculated with reference to the Macedonian Stock Exchange quoted bid prices. Changes in fair values of other financial assets at fair value through profit or loss are recorded in finance income/expenses in the Profit for the year (see note 21 and 22). The cost of these equity investments is MKD 31,786 thousand (2015: MKD 31,786 thousand).

27.2. Offsetting financial assets and financial liabilities

For the financial assets and liabilities subject to enforceable netting arrangements, each agreement between the Company and the counterparty (typically roaming and interconnect partners) allows for net settlement of the relevant trade receivable and payable when both elect to settle on a net basis. In the absence of such an election, the trade receivables and payables will be settled on a gross basis, however, each party to the netting agreement will have the option to settle all such amounts on a net basis in the event of default of the other party.

The following trade receivables and trade payables are subject to offsetting agreements, and are presented after netting in the statements of financial position as at 31 December 2016:

In thousands of denars	Trade and other receivables	Trade payables
Gross amounts of recognized financial instruments	3,393,228	2,338,836
Gross amounts of financial instruments set off	(101,021)	(101,021)
Net amounts of recognized financial instruments	3,292,207	2,237,815

The following trade receivables and trade payables are subject to offsetting agreements, and are presented after netting in the statements of financial position as at 31 December 2015:

In thousands of denars	Trade and other receivables	Trade payables
Gross amounts of recognized financial instruments	3,585,284	3,262,787
Gross amounts of financial instruments set off	(88,697)	(88,697)
Net amounts of recognized financial instruments	3,496,587	3,174,090

27.3. Other disclosures about financial instruments

There were no financial assets or liabilities, which were reclassified into another financial instrument category.

No financial assets were transferred in such a way that part or all of the financial assets did not qualify for de-recognition.

28. CONTINGENCIES

The Company has contingent liabilities in respect of legal and regulatory claims arising in the ordinary course of business. The major part of the contingent liabilities relates to 3 requests for initiating misdemeanor procedures from regulatory bodies for alleged breach of deadlines for provision of certain services, number portability and failure to comply with the obligations for allowing access and use of specific network assets. The maximum possible fine for each individual case is 7% to 10% of the annual revenue from the previous year, in accordance with the applicable local legislation. Management believes, based on legal advice, that it is not probable that a significant liability will arise from these claims because of unsubstantial basis for initiating these misdemeanor procedures. It is not anticipated by the management that any material liabilities will arise from the contingent liabilities other than those provided for (see note 15).

29. RELATED PARTY TRANSACTIONS

All transactions with related parties arise in the normal course of business and their value is not materially different from prevailing market terms and conditions.

The Government of the Republic of Macedonia has 34.81% ownership in the Company (see note 16). Apart from payment of taxes, fees to Regulatory authorities according to local legislation and dividends (see note 24), in 2016 and 2015, the Company did not execute transactions with the Government of Republic of Macedonia, or any companies controlled or significantly influenced by it, that were outside normal day-to-day business operations of the Company.

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

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

In thousands of denars	2016		2015	
	Revenues	Expenses	Revenues	Expenses
Controlling owner Magyar Telekom Plc	1,344	19,766	3,642	25,980
Subsidiaries of the controlling owner	16,189	3,894	16,716	2,626
Ultimate parent company Deutsche Telekom AG	618,569	212,862	695,203	221,938
Subsidiaries of the ultimate parent company	49,076	13,457	30,806	65,477
Entity controlled by key management personnel				
Mobico Dooel	1,046	1,404	455	1,044

In addition to the above presented revenues and expenses from transactions with the related party Mobico Dooel, trading goods and assets in amount of MKD 59,732 thousand (2015: MKD 145,794 thousand), excluding VAT, were purchased.

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

In thousands of denars	2016		2015	
	Receivables	Payables	Receivables	Payables
Controlling owner Magyar Telekom Plc	3,717	8,893	3,795	9,805
Subsidiaries of the controlling owner	27,036	3,458	24,796	3,678
Ultimate parent company Deutsche Telekom AG	91,785	197,603	577,294	456,377
Subsidiaries of the ultimate parent company	269,727	297,747	222,100	267,860
Entity controlled by key management personnel				
Mobico Dooel	248	-	1,621	13,116

30. KEY MANAGEMENT COMPENSATION

The compensation of the key management of the Company, including taxation charges and contributions, is presented below:

In thousands of denars	2016	2015
Short-term employee benefits (including taxation)	116,245	129,180
State contributions on short-term employee benefits	13,377	17,297
Long-term incentive programs	17,018	18,359
Other payments	5,309	5,700
	151,949	170,536

The remuneration of the members of the Company's Board of Directors and its committees, which amounted to MKD 10,173 thousand (2015: MKD 10,629 thousand) is included in Short-term employee benefits. These are included in Personnel expenses (see note 18).

A variable performance-based long-term-incentive program, named Variable II Program, was launched in 2012 as part of the global DT Group-wide compensation tool for the companies, which promotes the medium and long-term value enhancement of DT Group, aligning the interests of management and shareholders.

The Variable II Program for 2012 is applicable from 1 January 2012 until 31 December 2015, with two bridging programs: Variable II Bridging program I, with implementation period from 1 January 2012 to 31 December 2013 and Variable II Bridging program II, with implementation period from 1 January 2012 to 31 December 2014. The Variable II Program for 2013 is applicable from 1 January 2013 until 31 December 2016. The Variable II Program for 2014 is applicable from 1 January 2014 until 31 December 2017.

The Variable II is measured based on the fulfillment of four equally weighted Company long term performance parameters (adjusted earnings per share (EPS); adjusted return on capital employed (ROCE); customer satisfaction and employee satisfaction). Each parameter determines a quarter of the award amount. Levels of target achievement are capped at 150% and target achievement levels greater than 150% are disregarded in all four performance parameters. The assessment period is four years and is based on average target achievement across the four years planned.

In 2015 a new performance-based long-term-incentive (LTI) program was launched as part of the global DT Group-wide compensation tool for the companies. The program is a cash settled share-based program. Executives receive virtual shares depending on their individual performance. The number of virtual shares at the end of the term is determined by the target achievement of KPIs. The value and quantity of shares fluctuates during the term of the plan on the basis of two indicators: development of the DT share price and target achievement in connection with 4 company targets: (adjusted earnings per share (EPS); adjusted return on capital employed (ROCE); customer satisfaction and employee satisfaction). The target achievement is measured at the end of each annual cycle and the number of virtual shares determined on this basis is fixed as the result of the annual cycle (non-forfeitable). At the end of the plan's term, the results from the four annual cycles are totaled and paid out in cash. In 2016 new cycle of long-term-incentive (LTI) program was launched.

Programs participants are Company's top managers who fulfilled the program criteria and have accepted participation in the designated time frame.

The expenses incurred by the Company related to the Variable II programs and the new LTI share-based program are shown within Long-term incentive programs (see note 15 and 18).

31. EVENTS AFTER THE FINANCIAL STATEMENT DATE

There are no material events after the financial statement date that would have impact on the 2016 profit for the year, statement of financial position or cash flows.

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