Consolidated Annual Report **2013**

Akton communications

1. MANAGEMENT REPORT

1.1 Performance Results of the Akton Group

The Group revenue

he Akton Group achieved net sales revenues of €83,385,343 in 2013, representing an increase of 15.5% over the year 2012 (2012: €72,188,278). This growth in revenue is the consequence of increased scope of minutes accepted and forwarded to regional and other global destinations in international wholesale market of voice services, and the increase in net revenue of all group companies. Therefore, in 2013 the Akton Group recorded as much as 20% growth of all international transit minutes. The Group's performance was excellent and thanks to orders received, the Group began to engage the new available capacities. The share of services sold on foreign markets accounted for 90.7% of total net sales (2012: 97.7%). The Group's sales on foreign markets increased by €5,138,271 in 2013 and on domestic market by €6,058,794 (2012: €2,122,414 increase of services on foreign markets and a €798,590 reduction in the sale of service on the domestic market). Hence, by taking advantages of all of its knowledge and competitive advantages, the Akton Group consolidated its position on the market of international telecommunications.

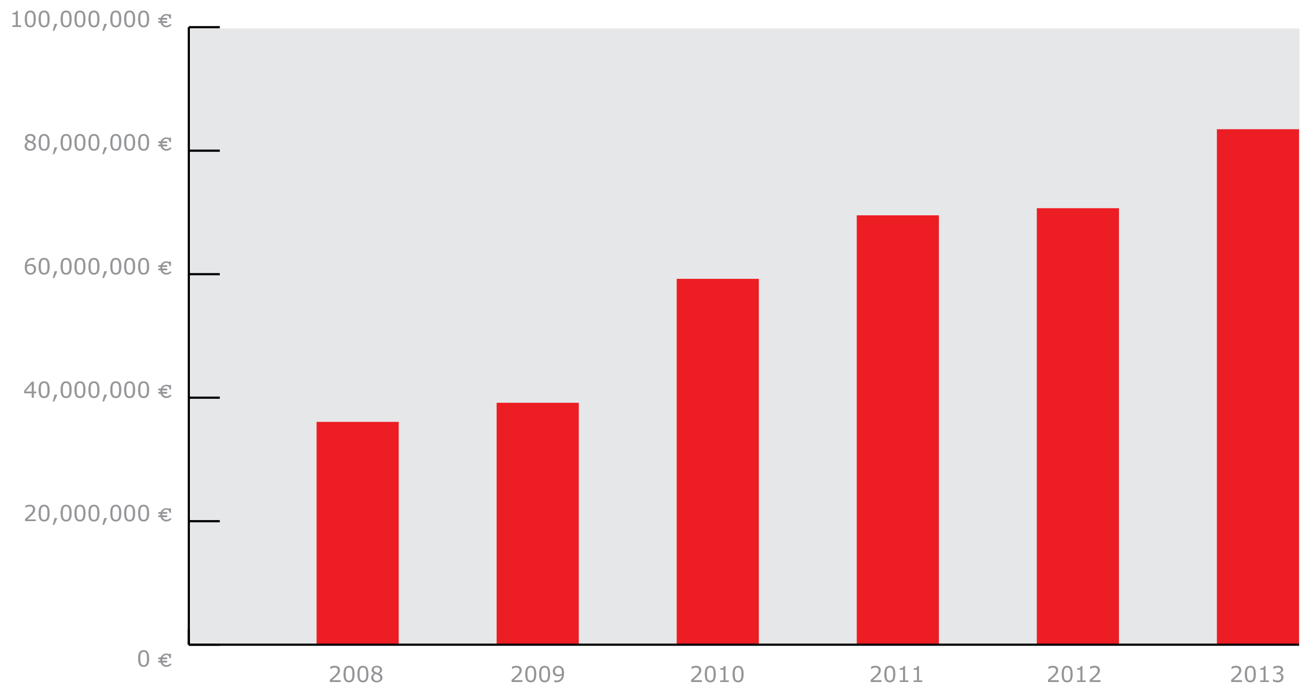
Sale of services on the domestic market, as well as on the markets of Croatia, Bosnia and Herzegovina, Serbia and Macedonia has increased in 2013. The largest growth was recorded in Slovenia, where year-on-year increase reached 190%, in Serbia it amounted to 16.8%, and in Bosnia and Herzegovina a 13% increase in sales was recorded. Considering current economic conditions the above results are excellent and, the management believes, a proof that in terms of its strategic orientation, the Group is on the right path.

Major contribution to the scope of sales was provided by telecommunications services in the inter-operator segment, rendered by the parent company in Ljubljana. The Group agreed several new contracts for interconnection of networks in the inter-operator segment - wholesale of voice services. In 2013 the Group significantly increased and further strengthened its cooperation with regional and alternative operators. Thus, the Group is successfully increasing the provision of international telecommunications services from the region and into the global sphere. Our cooperation with the largest global operators of telecommunications services has been successful. The Akton Group regards this as an exceptional success and recognition of the Group's knowledge and an expression of trust in the Akton Group's expertise by international market players. During the year the Group continued increasing the number of network interconnections with existing partners.

In the segment of data services, in 2013 the Akton Group achieved exceptional results despite challenging economic conditions on global markets. Several years of active investment of our efforts and knowledge in international market proved fruitful, resulting in further increase in the number of connections based on framework contracts agreed in the previous period with some of the largest international operators who were searching for a reliable regional partner. The Group provides services for some of the most important international institutions in the region and amongst other we supply technologically most advanced telecommunications solutions to one of the leading international multimedia television stations. In 2013 the Group further consolidated its position as "the preferred" contractor in the region and some of the largest international operators and with that also the largest business users, have entrusted the Akton Group to provide all of connections for their end business users in the whole region.

The challenges the Group is facing in this particular segment are above all further decline in sales prices on international markets and high fixed costs of local connections "last mile" in the region. In spite of all, Akton is committed to the highest quality of services and through economies of scale of new orders the Group is successfully weathering price conditions on the market. The Group provides highly reliable international connections for the most demanding users such as foreign embassies, banking systems, some of the most successful international and regional corporations, as well as other international institutions. The Akton Group is the largest and most reliable alternative provider of voice services in the region.
The Akton Group provides services to business users in the region, primarily in Croatia, Bosnia and Herzegovina, Serbia and Macedonia. The highest increase in the number of clients and capacities sold has been recorded in Bosnia and Herzegovina and Serbia.

Net sales growth (2008-2013)



The Group expenses

The Group's operating expenses reached €82,494,286 in 2013 (2012: €71,370,062), with costs of inter-operator telecommunications services, costs of leased telecommunications lines and costs of other services accounting for the bulk of the costs. Labour costs rose by 1.1% in 2013 (2012: 7.9% increase) and account for 2.2% of total expenses of the Group. According to the valuation performed by a certified independent assessor of companies, goodwill was not impaired in 2013. Year-on-year results show that certain operational costs fell further compared to 2012, whereas others remained stable in line with the long-term strategy of financial stability. The financial year 2013 was again rather challenging for the Group. In recent years, all our own financial resources have been swallowed-up by continued proceedings at independent state authorities as well as the courts in Slovenia and Bosnia and Herzegovina in order to claim damages for losses caused to the Akton Group by Telekom Slovenije d.d., Si.mobil d.d. and BH-Telecom. Members of the Management Board of the Group are personally affected by ongoing unjustifiable proceedings brought against the Group in particular due to unconventional approach and inappropriate actions of the national telecommunications providers. Operators, who fail to adhere to clear legislative framework of operations, and refuse to pay damages, are wilfully causing direct damage to the Group, as well as having detrimental effect on the telecommunications markets in Slovenia and Bosnia and Herzegovina. They continue to financially drain smaller operators, thus damaging the telecommunications market and indirectly penalising also the end users. In spite of all this, the Akton Group continues to have faith in independence of courts and expects beneficial outcome for the injured party.

The Group is continuing its investments in acquisition of new contracts at home and abroad by regular participation at business conferences, strengthening its relations with business partners and investing in training and development of its employees. We continue to and take part in business meetings and conferences organised abroad. Furthermore, the Akton Group continues to pursue its strategic cycle. n the next financial year the Group will continue to ensure operating costs optimization in line with the realized returns and the plan.

Group employees

At 1 January 2013, the Akton Group employed 49 staff. There were no changes in the organizational framework of the Group in 2013. In the second half of the year, the company in Ljubljana revised its job classification and optimized work processes in the administration. The Group is aware of the value of its human resources and has adopted a long-term employment and development policy. The environments in which we operate as well as our activity require high standards also in the area of human resources. Therefore, the Group recruits only the best and most talented staff. Organizational climate is positive and the goal of each and every member of staff is to achieve common objectives set by the Group by pursuing their own personal goals. Staff turnover is at its minimum. At 31 December 2013, the Akton Group employed 51 staff and the headcount is expected to remain unchanged in 2014 as no further recruitments are planned for the foreseeable future.

Group profit

In the financial year under review, the Group generated €402.681 of net profit (2012: €511,760), whereas losses of €2,054,118 were brought forward from previous periods (2012: losses of €2,561,448 were brought forward). At the year-end, accumulated losses of the Group carried forward amounted to €1,651,435 (2012: €2,049,688).

The net profit of €402,681 represents a 21% decline compared to the previous financial year. Despite of this drop in net profit, the Group recorded an increase in operating profit, reduction in interest paid on borrowings raised from banks (the Akrton Group makes regular repayments of long-term borrowings from NLB), and reported exchange rate gains. Income tax payable and reduction in other revenue as compared to the previous year are the two factors with major negative impact on the net profit.

Due to primarily wholesale nature of transactions, it is absolute, rather than relative numbers that apply to the Akton Group. Accordingly, certain relative indicators such as profit/revenue or EBITDA margin do not give the real picture of the Group's performance. The Group's objective is to ensure settlement of all of its operating liabilities with its own assets and is making regular repayments of all of its financial liabilities, including interest; furthermore, the Group is funding all the necessary investments on an ongoing basis. This can only be achieved on a regulated and transparent market, with full support and trust of our owners, business partners and banks.

In 2013 the company in Ljubljana devoted much of its efforts and time to the banking system. We have made contacts with two new banking groups, both of which have, to our great surprise, declined our business cooperation. As the Group's performance continues to improve from one year to the other, this response is a proof that Slovenian banking system has reached the depths of its crisis in 2013. The Group believes that the decision of the two banking groups is wrong. In spite of this setback, the Group continues to forge good business relations with all of the Slovene banks as well as foreign banks that are present in the region. This ensures smooth funding of the company and Akton Ljubljana operates on the international market with an enviable amount of borrowings raised from banks. The banking system is of key importance as it provides support to fast growing enterprises and corporations such as Akton and we are counting on continued support of banks for our business operations also in the future.

The impact of global financial and economic crisis eased slightly in 2013, although we are yet to see any major recovery. Nevertheless, the Akton Group succeeded in increasing its market share. The crisis continues to have a major impact on decline in sales prices and gross margin and we expect more marked improvements in the next financial year. Thanks to increased inputs at all levels and new business, the Group succeeded in improving its results in 2013, although the net profit was slightly below the profit generated in 2012. In the next financial year the Group is expecting more stability on international markets regarding the scope of business, and regarding the operating profit, we expect better results than those achieved in 2013.

Financially, the Group performed very successfully in 2013 in spite of irregularities of call completion to the Slovene network, which is a rather immature conduct for an EU member state and confirms suspicions of a system corruption in Slovenia.

Operating and financial liabilities were settled on a regular basis, and the majority of receivables were successfully collected, resulting in no major outstanding receivables, which is quite an achievement and a rare occurrence in given circumstances. The Group devotes much attention to collection of receivables and we have in place one of the best collection systems and have no need to take advantage of external factoring services. The Group does business with first-class business partners where financial discipline is a prerequisite for a long and successful cooperation. The Akton Group has proven again and again to be a reliable partner and the best among the middle-sized operators in the region.

Outstanding issues that have a direct impact on performance of the Akton Group

The Acton Group and above all Akton Ljubljana and Akt.online Sarajevo continue to face some unresolved business issues in the local markets. In Slovenia, these issues are present above all in agreeing new contracts on inter-operator market as well as the market of business users. The fact that the Akton Group is highly productive and extremely successful on foreign markets, yet this success is not reflected in the local, Slovenian market, is a proof that the local market is non transparent and, possibly, under a strong influence of the system's corruption. Unfortunately bad lobbying practices and the influence of the local politics continue to prevail over mature competitive approach which the Akton Group sees on international markets. Contrary to this mature approach, the Group believes that in Slovenia, measures persist that protect the monopole position of major operators, whilst at the same time causing additional damage to other market operators. In contrast to described practices, the Akton Group sees partners rather than competitors and complies with business ethics. This means that the Group is encountering issues at home and in the wider region. When the main market players fail to adhere to the Western standards of transparency, it impacts the whole of the market. The smaller spineless players choose to join the major ones rather than to highlight irregularities and fight to ensure the market is operating fairly and transparently. However, this approach can only lead to a short-term success. In contrast, the Akton Group has its eye on the long-term solution.

We are always willing to actively approach any unresolved issues and support compromise. Reaching a compromise implies that both parties involved waive some of their demands and claims. Furthermore, a comprise is acceptable for both parties involved. Blackmail, arrogance and disregard of the other party is never the right approach.

We hope that circumstance on the market will improve in the future with full compliance with applicable legislation in the Slovenian market by the competitor operators as well as by the "independent" state authorities.

It is very difficult to operate in a country where due to inactivity of supervisory authorities (e.g. Agency for Telecommunication Networks and Service of the Republic of Slovenia (AKOS) and Slovenian Competition Protection Agency), the major market players are allowed to continue to be in breach of the law, are unwilling to admit and rectify errors, and even less willing to compensate for damages caused. In these circumstances, a company is forced to bring unresolved issues to the court where excessively long procedures additionally drain the company and where the rule of law loses its meaning. However, this seems to be the way in which the state is striving to protect government owned enterprises and monopolies in times of crisis.

As members of the management board, we have a duty to conduct business with due responsibility and diligence, protect interests of the owners and the Group, and to alert the responsible ministries of violations. Since to date no response has been forthcoming from those ministries, we had no other choice but to bring these irregularities to the attention of the European Commission.

This resulted in an investigation by the National Bureau of Investigation who, as a result of unfounded false criminal complaint by the Telekom Slovenia, inspected business operations of the company in Ljubljana. A report was issued subsequently stating that there was a suspicion that the complaint was false. Immediately after the completion of the investigation, the Tax Administration began tax inspection of payments made abroad. As no irregularities were found, the tax inspection was widened to the area beyond the competencies of the Tax Administration, which resulted in the Tax Administration issuing a negative report on an issue to which it gave its consent in previous years, and illegally imposed retrospective tax. Slovenian Tax Administration (DURS) is playing a rather dangerous game when trying to impose a new legal precedence in given economic conditions, which may prove extremely damaging to the economy. It seems that DURS is another state body that has lost its grasp of reality when it comes to the circumstances in which Slovenian economy operates. The Management Board of the company in Ljubljana is resolved to pursue its fight for justice and prove the existence of irregularities associated with the DURS's decision also at international courts if necessary.

In 2011, Akton Ljubljana and its management suffered direct material and non-material damage as a result of a criminal complaint brought against the company by Telekom Slovenia. The Akton Group has in its possession data and documentation showing direct decline in turnover as a result of illicit and unethical intervention of Telekom Slovenia and its activities on foreign markets. If we consider all of the above issues, the net profit of Akton Ljubljana could have been in fact significantly higher. The Group and its Management Board are resolved to bring action against the offenders and claim damages. In the beginning of 2014, Akton lodged legal action against Telekom Slovenia claiming damages.

We expect the operators, who failed to comply with the legislation in the past and who have currently put their trust into rather expensive legal advisors and representatives that are protecting only their own interests and are fighting for their own businesses at the expense of the shareholders of those operators, to finally realize that their actions were inappropriate and accordingly, to act responsibly and compensate Akton for overcharged amounts and damages caused. It is intolerable that managers in state owned and some other companies are receiving their salaries despite the fact that they make no decisions in order to avoid criticism and responsibility. The fact which unfortunately neither the taxpayers nor the shareholders are aware of, is the cost of these actions (or inactions) by irresponsible management (e.g. default interest may accumulate to tens of thousands of euros a day).

In 2013 the High Court in Ljubljana withheld the ruling of the District Court in Ljubljana who ruled that the unjustified claim by Si.mobil regarding realization and payment of a bank guarantee for the settlement of receivables above the price prescribed by the APEK for call completion services in the Si.mobil mobile network. In its explanation of the ruling the Court stated that the call completion market encompasses all call completion services, including international calls and hence, the same price applies regardless of the origin of calls. In the beginning of 2014 the District Court of Ljubljana issued a partial ruling on a legal action brought by Si.mobil. In its ruling the District Court in Ljubljana ruled that there are no receivables of Si.mobil in excess of the price of call completion prescribed by APEK in the Si.mobil network, and rejected Si.mobil's claim for settlement of receivables. These rulings are clear and unquestionable and a confirmation that the company Akton is on the right track in terms of legal actions for overcharging of prices for call completion not only by Si.mobil, but also by Telekom Slovenia, as both operators applied a very similar practice. Management of neither of the two companies show any real interest in settlement or payment of damages caused to Akton. It remains for us to wait and see what price the owners of the two operators will have to pay for irresponsible actions of their managements.

Everyone at the Akton Group is very surprised that certain directors of companies that have breached legislation year after year appear on the list of the most successful Slovene managers. These same people failed to respond to our memos regarding breach of legislation and have not done anything to resolve the issues resulting from their infractions. While at the same time they are in charge of listed companies, which is in itself an absurd. It is said to see that companies in the region feel that to achieve justice, you need to lodge actions against the major players and fight using the same strategy of attrition of the other party. We can only hope that the courts will remain independent and impose sanctions on these offences. We wish to point out that management of these companies bear personal responsibility in particular for infractions of which they were informed in a timely manner. These companies and their managements include: Telekom Slovenije d.d. Ljubljana, which is listed on the Ljubljana stock exchange; Si.mobil d.d. Ljubljana, owned by Telekom Austria, which is listed on the Vienna stock exchange; and BH-Telecom Sarajevo, which is listed on the Sarajevo stock exchange.

On the Slovenian market and on the market of Bosnia and Herzegovina, the practice of protecting the monopolistic interests of the major players continues and this is causing additional damage to other operators in the market. The worst of all is the fact that no one gives a single thought to the fact that market liberalization resulted in a number of alternative operators appearing on the telecommunications market as a means of ensuring competitive environment and direct supervision over the liberalized markets as well as preventing an even increased exploitation of monopoly position. Of course, alternative operators also incur certain costs and have to make investments in the sector. In circumstances of non-compliance and protection of monopoly, where literally, any available means are allowed, the position of all alternative operators in the sector in Slovenia and in Bosnia and Herzegovina is seriously jeopardized. As Slovenia is perceived as a model and an example to other countries in the region, the said development of events causes direct damage to our local market, our neighbouring markets, as well as to markets of the European Union, in addition to damaging Slovenia's reputation.

In the long-term, the state cannot and must not in any way be a majority owner of the largest operator in the country since, due to its incorrect actions, it causes further direct damages to alternative operators, thus putting its so called neutral position under question. This results in financial draining of stable and well performing small companies in the local market. Akton Ljubljana has in the past successfully resolved one legal action through a court settlement. We believe that the said solution is a good example set for all other outstanding disputes.

The Akton Group and Akt.online (one of the enterprises in the Group) faced similar issues that we have encountered in Slovenia, also in Bosnia and Herzegovina. Obvious abuse of monopole position by BH Telecom as the operator and a rather strong market force, non-compliance and failure of the state's supervisory authorities such as »Konkurencijsko vječe and RAK« to act, left a negative impression on the Group's business in the year under review and indirectly, as a result of the loss of profit and investment restrictions, the company failed to develop as planned and to claim its rightful position in the market.
For example, despite several appeals, RAK failed to carry out any supervision in order to find if there was any breach of law and eliminate these infringements. KV did carry out supervision as a result of these violations however the process was brought to an end due to the statute of limitations. Under these strange conditions, the actual context of these violations was in fact never addressed. After lodging an action at the Administrative court in Sarajevo, the latter decided in favour of Akt.online and ordered KV to reinstate the supervision process and decide on infringements made by BH-Telecom. The main hearing was held in December 2013 and the ruling is expected shortly.

We are pleased to report positive actions of the RAK who has since assumed a more active role in carrying supervision of the market.

Due to described infringements and subsequent business damages, two actions have been brought against BH Telecom. The hearings have so far been progressing smoothly and impartially (in contrast to proceedings pending at Slovenian courts) and this fills up with hope and trust in the rule of law and final rulings in Bosnia and Herzegovina.

Unfortunately, the same cannot be said for legal proceedings currently in progress against the state-owned operator in Slovenia, where legal actions for damages were instigated almost simultaneously with those in Bosnia and Herzegovina. In Bosnia and Herzegovina, one of the two legal actions is nearing its conclusion, and in the second action the decision has been made at the first instance and the case is currently being heard at the court of appeal.

In one of the legal proceedings a request to replace the judge was lodged as there was a number of indications and evidence of biased and unprofessional conduct on the part of the judge (for example, she attended training organised by the lawyer for the opposing party, failed to comply with the decisions of the APEK and other court rulings regarding the regulated price of call completion, and instead took into account unproven claims by the opposing party, but to mentioned a few).

Another damaging factor is the fact that the said judge was allocated or reallocated more than €400 million worth of legal actions lodged against Telekom Slovenia.

Including:

1. Tušmobil, d.o.o., (formerly Tuš Telekom, d.o.o.) against Telekom Slovenia, (IV Pg 2122/2007, claiming damages of €28.2 million): the case was at initially assigned to another judge;
2. Si.mobil, against Telekom Slovenia, (formerly against Mobitel) (IV Pg 4883/2011, claiming damages of €286.4 million): the case was initially assigned to another judge;
3. Akton, against Telekom Slovenia, (formerly against Mobitel) (IV Pg 4477/2012, claiming damages of €2.6 million): the case was initially assigned to another judge;
4. Tušmobil, against Telekom Slovenia, (formerly against Mobitel) (IV Pg 303/2011, claiming damages of €86 million): the case was initially assigned to the presiding judge.

This puts into question one's constitutional right to legal representative. In particular the rights referred to in Article 23 of the Constitution of the Republic of Slovenia, to independent, impartial and legal appointment of a judge.

For your consideration: were the reasons for assignment of those cases consistent with the applicable Court Rules regulating the circumstances in which a case may be referred to another judge in accordance with the case plan based on the schedule of judges for 2013? We wonder whether the said judge will be able to cope with the given task and pressures.

In 2013 the Agency for Communication Networks and Services of the Republic of Slovenia increased the annual fee; this resulted in the increase of the annual fee payable by Akton by 725%. Other operators in Slovenia faired similarly. The applicable fee (€0.00124 for each euro of revenue) is in actual fact putting a halt to the major part of the transit of wholesale voice services and inhibiting market development. In our opinion the Agency should provide clear and specific instructions to the market that will apply to each individual case. General rules are no longer sufficient for highly developed telecommunications services and due to lack of clarity they may result in disputes and costs. While we believe the fee is clearly defined, it is overestimated and incorrectly regulated. The fact that the Agency equates international transit with domestic services yet is unable to find solutions to new technologies such as IP and similar shows that it has been left behind by new technologies. This may in future result in major disputes. For this reason in 2014 Akton is forced to waive off current transactions whose margin is lower than €0.00124 for each euro of income.

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Investments

In 2013, the Akton Group reduced its investment activity. As a result of unstable Slovenian banking system, the company in Ljubljana decided to agree a long-term lease of majority of the telecommunications equipment for Ethernet technology. The remaining investments were funded by the company's own assets. In 2013 investments in property, plant and equipment amounted to a total €190,653 (2012: 270,642). In addition, €14,250 was invested in intangible assets (2012: €115,618) primarily in acquisition of licences for basic equipment used in data services. The Group's investments in the Ethernet technology in 2013 have resulted in a significant increase of the Group's own capacities over the whole of the region, improved quality of services and provide the basis for further growth and development.

In 2013, Akton Ljubljana made no additional investments in its subsidiaries. On the other hand, subsidiaries repaid a total of €214,156.39 (2012: €105,692) of loans and the related interest to the account of the parent company Akton, Slovenia. This is the highest amount repaid since the establishment of the Group. At 31 December 2013, the outstanding amount of loans granted to subsidiaries is €569.883 (2012: €764,055). All the subsidiaries in which the parent holds a 100% interest are profitable.

In 2013 the Akton Group reduced its financial liabilities by €599,518 (2012: €2,080,691) and at the end of the year, total amount of the Group's financial liabilities stands at €1,427,042 (2012: €2,026,560).

The Group will continue investing in the development of data and voice services, provision of high quality services and implementation of new solutions. Investments are funded by the Group's own assets. The Group does not engage in R&D activities.

In the financial year under review, none of the Group's companies raised additional capital.

The Group possesses no real estate.

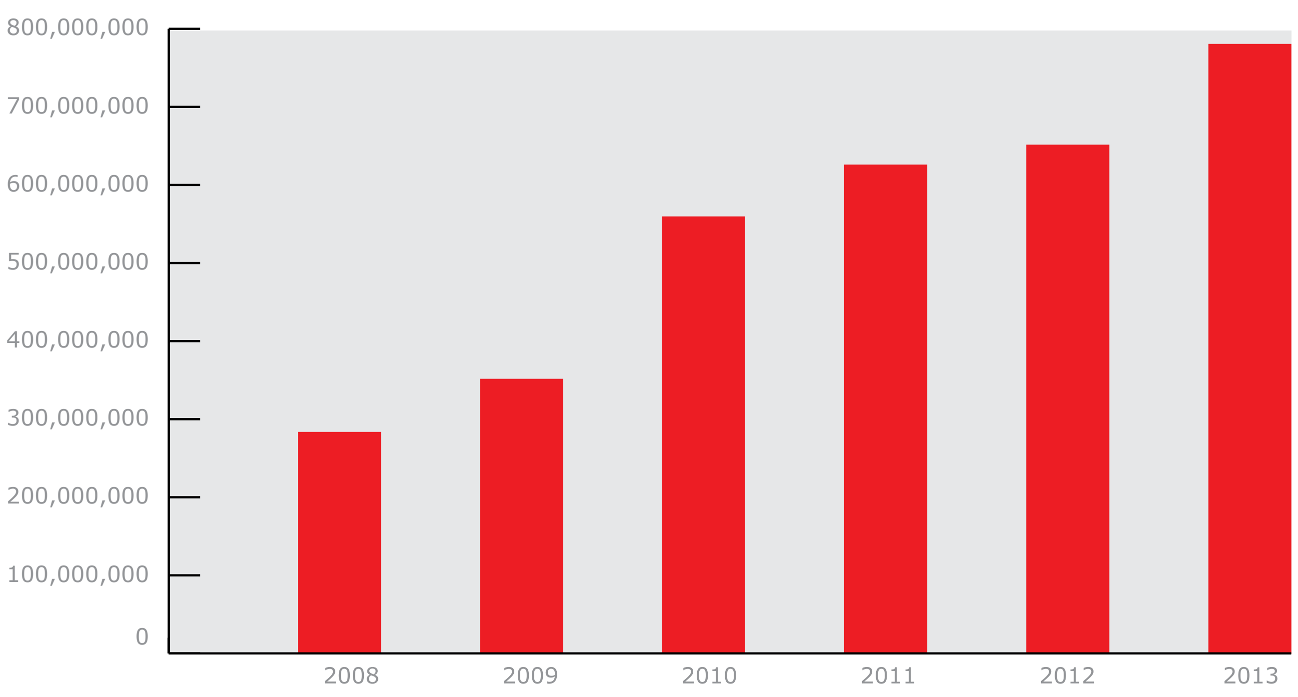
1.2 Products and Services

1.2.1 Inter-operator sale of voice services

The Akton Group is present on the four largest Central European intersections: PoP Vienna and PoP Frankfurt (both twice), which allows us to set up international network connections (TDM, IP) with the major European and global operators. Closer at home, we are linked with national operators of fixed and mobile communications in the Adriatic region though 8 local PoPs.

The Akton Group is the largest alternative provider of voice services in the region with over 780 million terminated minutes annually.

Voice wholesale growth in minutes



1.2.2 Origin of calls

Services of origin of international calls are provided by the Group in Croatia, Bosnia and Herzegovina, Serbia and Macedonia. In 2013, the operational growth in this particular segment was 11.8% above the result achieved in 2012, with the highest increase in services recorded on the Bosnian and the Serbian market. Both, the operating scope and growth are within the plan and expectations in current global circumstances and the Serbian market represents the highest potential among all the markets in the region.

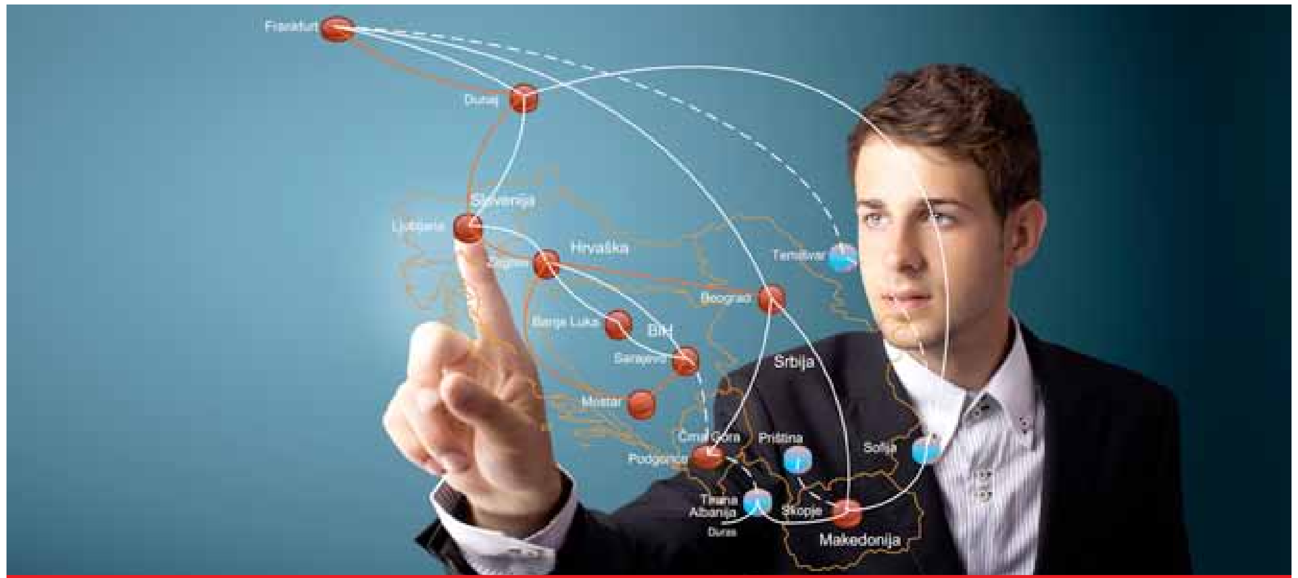


Figure 1: The Akton Group Backbone network in the region

1.2.3 Data services

In 2013, the Group consolidated its position as the leading integrator of technologically most advanced connections and applications in the Adriatic region and recorded the highest growth in the number of orders for international leased lines. The Group is continually investing in expansion of our international data capacities whilst protecting connections with a number of different routes. Further expansions were achieved in 2013, which resulted in an increase in the costs of leased lines. At the same time, the Group remains loyal to its primary objective: to be the »One-Stop-Shop« service provider for international business partners in the whole of the region. Akton successfully strengthened its cooperation with local operators to allow its customers access to all locations in the region.

In recent years the Group has developed into the preferred provider of IPLC services in the Adriatic region of a large number of operators and business users. The list of countries where the Group provides data services includes Slovenia, Croatia, Bosnia and Herzegovina, Serbia, Macedonia, Montenegro, Kosovo and Albania, which encompasses the whole of the Adriatic region. We believe Bulgaria is our potential for the future. The Group provides large number of data connections to its end used in the Adriatic region in the direction towards Western Europe including London, Frankfurt, Milan, Vienna, Bratislava and elsewhere.

In the international data communications market, in 2013 the scope of the Group's operations rose. The Group continues its excellent sales strategy in this particular segment, which has been acknowledged by all major international operators. The Group expects further growth in sales in this particular segment also in 2014.

The Group is continually investing in new technologies, allowing it to improve its backbone network and, along with it, increase security, ensure faster routing and better use of the available capacities. During the year under review, the Group completed the project of a parallel mpls backbone network. The Group offers to its customers standardized L3 MPLS connections for Intranet/Internet or Common Service VPN. Our own backbone network also supports CsC (Carrier supporting Carrier) connections and provides QoS (Quality of Service) parameters, which are individually specified in the SLA (Service Level Agreement) to ensure the level of quality agreed. Customer are able to distribute bandwidth among various applications and protocols such as VoIP, video conference, ERP, SIP, Citrix, X-Windows, PC-Anywhere, Netshow, Netbios, NFS, HTTP, Internet access, e-mail and much more.

1.3 Strategy

In the financial year 2013, the Group successfully pursued its strategic objectives, achieving its short-term goals. In the financial year 2014, we intend to further strengthen and improve our strategic objectives. The Group is well on its way of achieving its long-term goals and strategic priorities for the period 2010-2014.

Results achieved in recent years demonstrate without a doubt that the Akton Group is following its ambitious goals and has achieved excellent results in highly competitive markets. Our aim is to expand our success in international market by providing services to the largest companies in the region. International banking institutions and insurance undertakings, government institutions and trading companies represent target groups that are already beginning to emerge as users of our services.

The investments, which we plan in the future, will allow the Group to implement new connections in international hubs and to realize some key projects to ensure our future growth and development.

Key priorities of the Group in the period 2010-2014 are the following:

- One-Stop-Shop
- Competitive offerings
- Penetrating new markets
- Ensure financial stability
- Customer focus
- Searching for new niche
- Increase synergy between regional subsidiaries

The Akton Group is developing into the best provider of telecommunications services whose objective is to connect the region with the global world of telecommunications. Akton is focusing on partnerships, rather than competitors!

1.4 Corporate Responsibility

Akton consistently complies with the fundamental principles of corporate responsibility, which the Akton group perceives as our commitment to taking our part in the social environment in which we operate. We strive to ensure our business operations are carried out in a manner that conveys to all our stakeholders our spirit and our high social standards.

Care for employees

We operate in a highly technological industry where advancement is ensured only by having highly motivated and dedicated professionals who through their knowledge and experience achieve success on a daily basis in their own individual field. To Akton, every single employee is important as together we are building a culture of mutual trust, respect, efficient cooperation and teamwork. We continually learn and ensure that we are responsible and efficient in our approach to work and the environment.
Akton organizes a variety of professional trainings for its employees, enables their participation in international forums and conferences and, subsequently, personal growth and career development of each individual.

We are a united team and this is confirmed by our formal and informal socializing events. We regularly celebrate each individual's life achievements. Every year employees participate in different activities financed by the Company or each individual: sailing, culinary team building, indoor recreational pursuits, etc. Organization of recreational activities is very important to raise employees' awareness of the healthy life and we are proud that we are able to make up at least two basketball teams and two volleyball teams.

Time permitting, we annually organize a picnic for all employees and their families as family members are also a part of our Company as much as we are. At Christmas time children of our employees are awarded for accepting their parent's absence through work with a visit of Father Christmas who brings presents to each and every one of them.

Business partners

Satisfied business partners are a key factor in today's competitive environment and for this reason our motto is: to provide services with added value that are tailored to individual client's needs. A long time ago we realized that the key condition for successful performance is a commitment to long-term and mutual benefit of both partners. Accordingly, we do not only sell services to our partners, we create added value for them which ensures that both, our partner and ourselves become winners on international markets. In cooperation with each and every business partner we strive to find solution with a winning balance between quality and price of services. Quality of services and products are systematically monitored and upgraded.

Akton is a full member of internal communications forum OSS&ICDS (The International One-Stop-Shopping / Inter-Carrier Data Services Forum). As members of this forum, we strive to standardize processes in the implementation of privately leased lines in order to raise their quality.

Environment

Our activities and business operations are directed not only at providing the best quality solutions, but also solutions that are friendly to the environment and the Akton Group. All the employees in all departments recycle waste and use reusable packaging.

All business processes in the company are organized in a way that uses the minimum amount of paper and printers. All internal communication as well as some of the archived documents within the Akton Group are based on electronic, trees-friendly platforms. We use the same approach in our communication with partners who are able to participate in such cooperation.

Solidarity

In the Akton Group we are aware of the fact that in statistical terms every 5 minutes someone needs blood transfusion. Therefore, we support the fundamental idea that every blood donor is a hero and we support all who take this noble action and donate blood. We are extremely proud of all our employees who are voluntary blood donors. To acknowledge our appreciation for their noble gesture, we organize an "Akton day" where together, in the greatest numbers possible, we participate in this largest show of solidarity.

Sponsorship

Donor and sponsorship funds are awarded to various humanitarian organisations within our capabilities. We are primarily focused on long-term projects where we can expect best results and can assist the largest number of those in need of assistance. Everyone in the Akton Group appreciates and supports the work and efforts of all charity workers, particularly those involved in children charities.

It is our privilege and honour to be cooperating with the following institutions:

- Youth Association of Ljubljana – Moste
- Foundation »Vrabček Upanja«
- Safe house project

1.5 Exposure to Risk and Risk Management

Risk management

We are aware of a number of risks that are present in the business environment and for this reason an integrated approach to risk management is prerequisite for regular monitoring of risks and effective risk management. Risk management is involved in all areas of our business activities.

1.5.1 Currency risk

Currency risk is the risk of fluctuating value of financial instruments as a result of changes in foreign exchange rates.

Currency risk is a significant category and as such is being monitored particularly with regards to operating receivables and liabilities as the risk can neutralize the price margin. Currency risk exists in terms of individual countries and as part of the country risk management we also monitor past and projected currency fluctuations on our target markets.

The Group purchases USD on the market whilst constantly monitoring fluctuation of international exchange rate for the currency. The Group monitors daily transactions with services denominated in USD in order to mitigate the risk. Our sales division applies current USD exchange rate with the relevant discount which further reduces risks.

1.5.2 Interest and credit risk

Interest risk is the risk of the negative impact of changes in market interest rates on the value of financial instruments.

Credit risk is the risk that party to the financial instrument contract fails to settle its obligations thus reducing economic benefits flowing to the Company.

In terms of securing funds for our own investing activities, interest rate is minimized through borrowing funds at a variable rate of interest.

The Group has set an excellent system of monitoring receivables maturity on a daily basis. Our business partners are informed few days in advance that certain receivables will mature. Consequently, the Group has no outstanding receivables that are disputed.

1.5.3 Liquidity risk

Liquidity risk is the risk of a shortage of available financial assets and consequently the Group's inability to settle its obligations within contractual terms. The Group is doing its utmost to ensure the most efficient use of its assets and is managing liquidity through regular planning of cash inflows and outflows.

The interest rate policy also affects and ensures regulation of liquidity risks as we are able to determine monthly outflow of interest costs. Similarly, we also monitor other liquidity categories on a daily basis, which allows us to make additional projections for the future. Through daily monitoring of liquidity needs we try to optimize allocation of funds per individual company. The available revolving credits and overdraft facilities provide us with sufficient security in terms of our needs of funding working capital. The Group has no liquidity problems.

1.6 Subsequent Events

In 2014, the Company's operations are running as planned.

1.7 Related Party Transactions

In all transactions with the parent company, Akton obtained suitable payments and has not suffered any loss due to transactions carried out or as a result of any actions that were either taken or omitted in given circumstances.

1.8 Consolidated Financial Statements 2013

1.9 Consolidated Balance Sheet at 31 December 2013

	Notes	31.12.2013	31.12.2012
			EUR
ASSETS		17,132,037	17,100,694
A. NON-CURRENT ASSETS		**7,172,908**	**7,298,056**
I. Intangible assets and long-term deferred costs	1	6,091,359	6,100,164
1. Concessions, trademarks and licences		132,747	138,940
2. Goodwill		5,956,000	5,956,000
3. Other long-term deferred costs		2,612	5,224
II. Property, plant and equipment	2	1,079,079	1,195,367
1. Other plant and equipment		1,079,079	1,195,367
III. Long-term investments		2,470	2,525
1. Long-term investments, excluding loans		2,470	2,525
a) Other long-term investments		2,470	2,525
B. CURRENT ASSETS		**9,842,888**	**9,739,903**
I. Inventories		17,180	21,919
II. Short-term investments	3	670,004	50,022
1. Short-term loans		670,004	50,022
a) Short-term loans to others		670,004	50,022
III. Short-term operating receivables	4	8,767,412	9,561,345
1. Trade receivables		7,782,785	8,534,798
2. Short-term operating receivables due from others		984,627	1,026,547
IV. Cash and cash equivalents		388,292	106,617
C. SHORT-TERM DEFERRED COSTS AND ACCRUED INCOME		**116,241**	**62,735**
OFF BALANCE SHEET ASSETS	**8**	**3,193,779**	**3,948,695**

	Notes	31.12.2013	31.12.2012
			EUR
EQUITY AND LIABILITIES		17,132,037	17,100,694
A. EQUITY	**5**	**5,705,521**	**5,307,268**
I. Called-up capital		4,915,686	4,915,686
1. Share capital		4,915,686	4,915,686
II. Capital surplus		2,434,649	2,434,649
III. Profit reserves		6,621	6,621
1. Legal reserves		6,621	6,621
V. Retained earnings/accumulated loss		-2,028,514	-2,540,274
VI. Consolidation reserve		-25,602	-21,174
VII. Net profit for the year		402,681	511,760
B. LONG-TERM LIABILITIES		**1,054,500**	**1,496,500**
I. Long-term financial liabilities		1,054,500	1,496,500
1. Long-term financial liabilities to banks	6	1,054,500	1,496,500
C. SHORT-TERM FINANCIAL LIABILITIES		**10,260,514**	**10,202,155**
I. Short-term financial liabilities		372,572	530,060
1. Short-term financial liabilities to banks	6	183,739	351,073
2. Other short-term financial liabilities		188,833	178,987
II. Short-term operating liabilities	7	9,887,942	9,672,095
1. Short-term liabilities to suppliers		8,930,438	9,064,042
2. Short-term operating liabilities from advances		17,469	110
3. Other short-term operating liabilities		940,035	607,943
D. SHORT-TERM ACCRUED COSTS AND DEFERRED INCOME		**111,502**	**94,771**
OFF BALANCE SHEET LIABILITIES	**8**	**3,193,779**	**3,948,695**

Accounting policies used and notes are an integral part of consolidated financial statements and should be read in conjunction with them.

1.10 Consolidated Income Statement for the year ended 31 December 2013

	Notes	2013	EUR 2012
1. Net sales	9	83,385,343	72,188,278
1. Sales on the local market		7,728,524	1,669,730
2. Sales on foreign markets		75,656,819	70,518,548
2. Other operating revenue (including revaluation revenue)		10,473	2,816
3. Costs of goods, materials and services	10	-80,381,631	-68,993,901
a) Costs of goods and materials and costs of materials used		-71,887	-77,683
b) Costs of services		-80,309,744	-68,916,218
4. Labour costs	10	-1,783,270	-1,764,651
1. Payroll costs		-1,353,522	-1,320,533
2. Social insurance costs (separate disclosure of pension insurance costs)		-332,941	-346,383
a) Other social security insurance costs		-194,831	-155,752
b) Pension insurance costs		-138,110	-190,631
3. Other costs of labour		-96,807	-97,735
5. Write-downs	10	-318,021	-659,995
a) Amortization and depreciation expense		-308,254	-306,240
b) Revaluation operating expenses from fixed assets		-5,007	-347,701
c) Revaluation operating expenses from current assets		-4,760	-6,054
6. Other operating expenses	10	-11,364	-29,198
OPERATING PROFIT		**901,530**	**743,349**
7. Financial revenue from loans		3,139	1,230
a) Financial revenue from loans to others		3,139	1,230
8. Financial revenue from operating receivables		136,605	140,051
a) Financial revenue from operating receivables due from others		136,605	140,051
9. Financial expenses from financial liabilities		-144,940	-185,055
a) Financial expenses from borrowings from banks		-134,791	-168,131
b) Financial expenses from other financial liabilities		-10,149	-16,924
10. Financial expenses from operating liabilities		-121,978	-124,281
a) Financial expenses from supplier payables and bills payable		-2,049	-215
b) Financial expenses from other operating liabilities		-119,929	-124,066
PROFIT FROM ORDINARY ACTIVITIES		**774,356**	**575,294**
11. Other revenue		23,133	393,971
12. Other expenses		-37,937	-12,144
13. Income tax payable		-356,871	-266,418
14. Deferred tax		0	-178,943
NET PROFIT FOR THE YEAR		**402,681**	**511,760**

Accounting policies used and notes are an integral part of consolidated financial statements and should be read in conjunction with them.

1.11 Consolidated Statement of Comprehensive Income Year ended 31 December 2013

	2013	EUR 2012
1. Net profit for the year	402.681	511.760
2. Other comprehensive income – consolidation reserve	-4,428	-7,091
3. TOTAL COMPREHENSIVE INCOME	**398,253**	**504,669**

Accounting policies used and notes are an integral part of consolidated financial statements and should be read in conjunction with them.

1.12 Consolidated Cash Flow Statement Year ended 31 December 2013

	Notes	2013	EUR 2012
A. Cash flows from operating activities			
a) Items derived from the income statement		**1,044,611**	**1,352,764**
Operating revenue (except revaluation) and financial revenue from operating receivables		83,545,081	72,722,300
Operating expenses excluding amortization and depreciation (except from revaluation) and financial expenses from operating liabilities		-82,372,186	-70,924,175
Income tax and other taxes not included in operating expenses		-128,284	-445,361
b) Changes in net operating assets in balance sheet items (including accruals and deferrals, provisions and deferred tax assets and liabilities)		**780,435**	**685,107**
Opening less closing operating receivables		789,173	154,551
Opening less closing deferred costs and accrued income		-39,935	33,272
Opening less closing deferred tax assets		0	178,943
Opening less closing inventories		4,739	2,688
Closing less opening operating liabilities		9,727	287,612
Closing less opening accrued costs and deferred income, and provisions		16,731	28,041
c) Net cash from operating activities (a+b)		**1,825,046**	**2,037,871**
B. Cash flows from investing activities			
a) Cash receipts from investing activities		**4,828,169**	**1,230**
Interest and dividends received from investing activities		3,139	1,230
Cash receipts from disposal of short-term investments		4,825,030	0
b) Cash disbursements from investing activities		**-5,628,170**	**-406,934**
Cash disbursements to acquire intangible assets		-14,250	-120,502
Cash disbursements to acquire property, plant and equipment		-168,920	-236,645
Cash disbursements to acquire long-term investments		0	214
Cash disbursements to acquire short-term investments		-5,445,000	-50,000
c) Net cash from investing activities (a+b)		**-800,001**	**-405,704**
C. Cash flows from financing activities			
a) Cash receipts from financing activities		**14,990,000**	**16,942,877**
Cash proceeds from increase in short-term financial liabilities		14,990,000	16,942,877
b) Cash disbursements from financing activities		**-15,733,370**	**-19,220,960**
Interest paid on financing activities		-149,370	-192,146
Cash repayments of long-term financial liabilities		-262,000	-350,000
Cash repayments of short-term financial liabilities		-15,322,000	-18,678,814
c) Net cash from financing activities (a+b)		**-743,370**	**-2,278,083**
D. Closing balance of cash		**388,292**	**106,617**
Net cash inflow or outflow for the period (sum total of Ac, Bc and Cc)		**281,675**	**-645,916**
Opening balance of cash		**106,617**	**752,532**

Accounting policies used and notes are an integral part of consolidated financial statements and should be read in conjunction with them.

1.13 Consolidated Statement of Changes in Equity

Consolidated Statement of Changes in Equity in 2013:

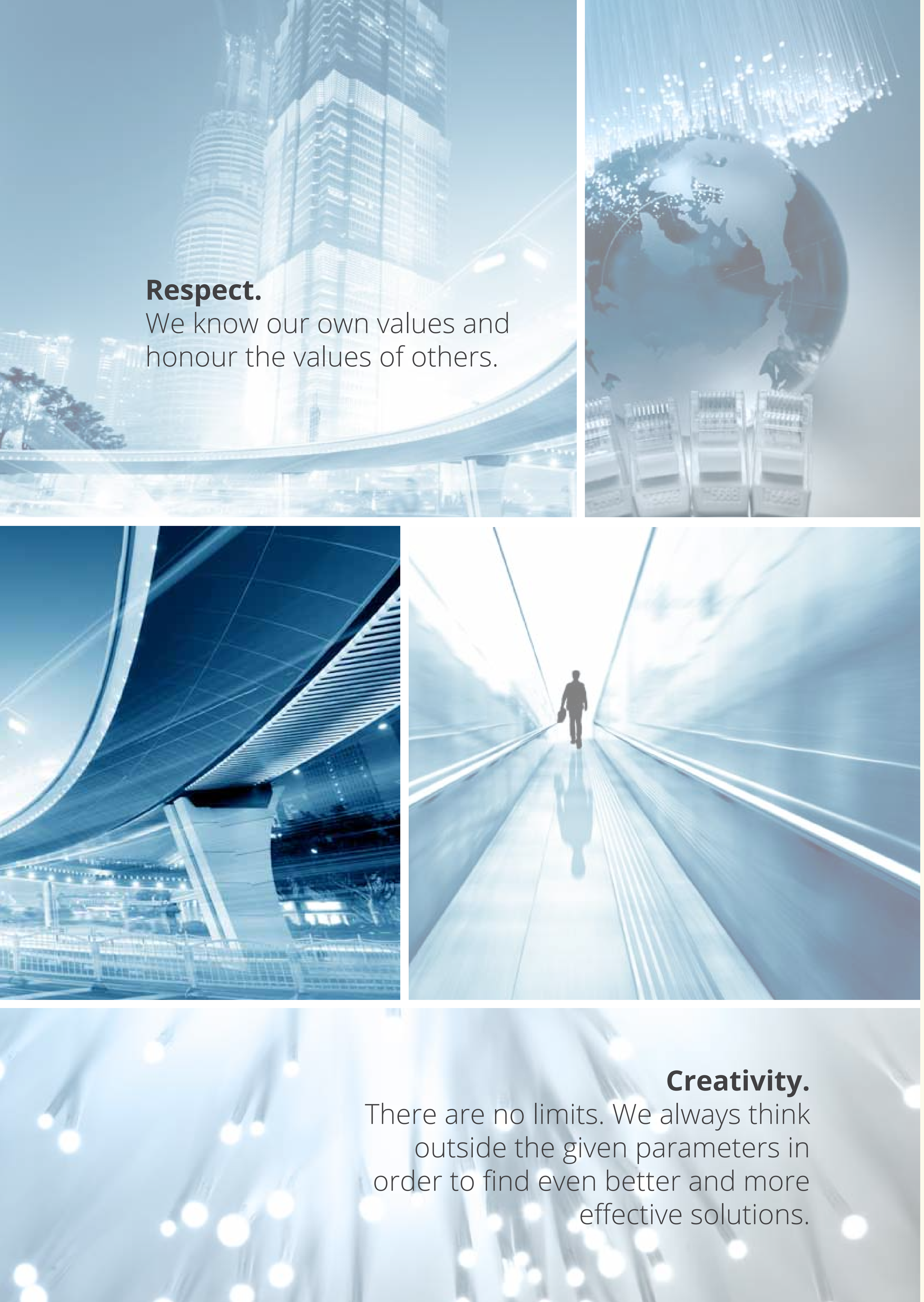
	Share capital	Capital surplus	Legal reserves	Retained earnings/accumulated loss	Net profit for the year	Consolidation reserve	EUR Total
A1. Opening balance at 31 Dec 2012	**4,915,686**	**2,434,649**	**6,621**	**-2,540,274**	**511,760**	**-21,174**	**5,307,268**
A2. Opening balance at 1 Jan 2013	**4,915,686**	**2,434,649**	**6,621**	**-2,540,274**	**511,760**	**-21,174**	**5,307,268**
B2. Total comprehensive income for the period	**0**	**0**	**0**	**0**	**402,681**	**-4.428**	**398.253**
a) Net profit for the year	0	0	0	0	402,681	0	402,681
b) Consolidation reserve	0	0	0	0	0	-4,428	-4,428
B3. Movements within equity	**0**	**0**	**0**	**511,760**	**-511,760**	**0**	**0**
a) Appropriation of the net profit to other equity elements - decision of the management and supervisory boards	0	0	0	511,760	-511,760	0	0
C. Closing balance at 31 Dec 2013	**4,915,686**	**2,434,649**	**6,621**	**-2,028,514**	**402,681**	**-25,602**	**5,705,521**

Accounting policies used and notes are an integral part of consolidated financial statements and should be read in conjunction with them.

Statement of Changes in Equity for 2012:

	Share capital	Capital surplus	Legal reserves	Retained earnings/accumulated loss	Net profit for the year	Consolidation reserve	EUR Total
A1. Opening balance at 31 Dec 2011	**4,915,686**	**2,434,649**	**6,621**	**-2,783,932**	**243,658**	**-14,083**	**4,802,599**
A2. Opening balance at 1 Jan 2012	**4,915,686**	**2,434,649**	**6,621**	**-2,783,932**	**243,658**	**-14,083**	**4,802,599**
B2. Total comprehensive income for the period	**0**	**0**	**0**	**0**	**511,760**	**-7,091**	**504,669**
a) Net profit for the year	0	0	0	0	511,760	0	511,760
b) Consolidation reserve	0	0	0	0	0	-7,091	-7,091
B3. Movements within equity	**0**	**0**	**0**	**243,658**	**-243,658**	**0**	**0**
a) Appropriation of the net profit to other equity elements - decision of the management and supervisory boards	0	0	0	243,658	-243,658	0	0
C. Closing balance at 31 Dec 2012	**4,915,686**	**2,434,649**	**6,621**	**-2,540,274**	**511,760**	**-21,174**	**5,307,268**

Accounting policies used and notes are an integral part of consolidated financial statements and should be read in conjunction with them.



2 APPENDIX TO CONSOLIDATED FINANCIAL STATEMENTS

2.1 Profile of the Group

Firm:	Akton Telekomunikacijski inženiring d.o.o.
Short name:	Akton d.o.o.
Registered office:	Dunajska cesta 9, Ljubljana
Legal form:	Limited liability company
Incorporated:	On 22 May 1990, registration number 1/06892/00
Principal activity:	Activity code 61.900 Other telecommunications
Share capital:	€4,915,685.55
Owner:	ATEL EUROPE B.V., Orlyplein 10, 1043DP Amsterdam, the Netherlands is the sole owner of the company
Management Board:	Igor Košir, Director Miha Novak, Procurator
Subsidiaries:	AKTON d.o.o. Croatia, AKT.ONLINE d.o.o. Bosnia and Herzegovina, AKTON d.o.o. Serbia, AKTON d.o.o.e.l. Macedonia.
Financial year:	Financial year covers the same period as the calendar year. The Management Board adopted and approved the consolidated Annual report 2013 for publication on 10 May 2014.

The following companies in the Akton Group are included in consolidation:

Company	Head office	Ownership share in 2013	Ownership share in 2012
AKTON d.o.o.	Bani 75, Buzin, Zagreb, Croatia	100%	100%
AKT.ONLINE d.o.o.	Fra Anđela Zvizdovića 1, Sarajevo, BIH	100%	100%
AKTON d.o.o.,	Beograd Bulevar Mihajla Pupina 6/16, Beograd, Serbia	100%	100%
AKTON d.o.o.e.l.	Belasica 2, Skopje, Macedonia	100%	100%

Average number of employees by educational level:

Educational level / year	2013	2012
Level 5	24	21
Level 6	6	6
Level 7	19	22
Total	49	49

2.2 Summarized Accounting Policies And Assumptions

The consolidated financial statements are compiled in accordance with Slovene Accounting Standards, the Companies Act (ZGD-1), and in consideration of the two fundamental accounting assumptions of accrual accounting and going concern. The qualitative characteristics of consolidated financial statements include understandability, relevance, reliability and comparability. The accounting policies used in the previous year were also applied in the financial year under review. The consolidated financial statements are prepared on the historical cost basis with exception of available-for-sale financial assets, which are measured at cost.

The consolidated cash flow statement format, selected by the Group, is specified in SAS 26.2 as format II, compiled under the indirect method and in a report form (SAS 26.4 and SAS 26.9). Data is derived from the consolidated balance sheet, consolidated income statement and other documents of the Group.

Exchange rate and translation into the local currency:
Foreign currency transactions were translated into euro at the reference rate of the European Central Bank on the transaction date. On the balance sheet date, assets and liabilities denominated in foreign currency were translated at the reference rate of the European Central Bank.

Rules and procedures, applied by the management board in the compilation and presentation of consolidated financial statements, are in accordance with SAS. As the selection of some of the accounting policies is subject to the entity's discretion, the management board is free to select one of the available accounting policies. The accounting policies used by the Group in the measurement of individual financial statement items, are as follows (summarized):

- Intangible assets and property, plant and equipment: assets that qualify for recognition are initially measured at cost, comprising purchase price, import duty and non-refundable purchase taxes as well as costs attributed to making the assets ready for their intended use. The items of property, plant and equipment and intangible assets with finite useful lives are depreciated individually under the straight-line depreciation method. Each year, goodwill is reviewed for impairment; any impairment losses are recognised in profit or loss. Impairment loss recognized on account of goodwill cannot be reversed. Subsequent expenditure on the item of fixed assets increases the asset's cost, if they increase future benefits from the asset over the previously assessed benefits. Carrying amount of an individual item of property, plant and equipment and intangible assets is derecognised on the asset's disposal or when no future economic benefits are expected from the assets continued use or subsequent disposal.

- Long-term financial assets are initially measured at cost. Initial costs are further increased by costs of transaction that arise directly from the acquisition or issue of the financial asset. Non-marketable financial assets are classified as available-for-sale and measured at cost. Marketable financial assets are classified as available-for-sale and measured at fair value through equity.

- Inventory of merchandise is measured at cost. Inventory consumption is accounted for under the FIFO method. Net realizable value of inventory of merchandise, its movement, and use is reviewed by the Group on a yearly basis. Inventories are measured at the lower of cost or net realizable value. Net realizable value of inventories required for completion of agreed contracts is calculated on the basis of contractually agreed prices.

- On initial recognition, receivables of all categories are recognized at amounts reported in the relevant documents under the assumption that they will be recovered. Impairment loss on receivables is recognized when their carrying amount is higher than their fair value. Reversal of impairment loss is recognized when their fair value or realizable amount exceeds their carrying amount. The Group recognizes receivable impairment on all receivables due and outstanding more than one year.

- Short-term financial assets are initially measured at fair value. Initial fair value of financial assets is increased by the cost of transaction that arise directly from the acquisition or issue of the financial assets (except for assets measured at fair value through profit or loss). All equity investments of the Group that are not quoted on stock markets are classified as available-for-sale. Changes in fair value of investments in securities are recognised when their identifiable fair value i.e. the price quoted on an active market, differs from their carrying amounts: if the quoted price is higher than the investment's carrying amount, the difference is recognised in the revaluation surplus, whereas if the price quoted on an active market is lower than the investment's carrying amount, the difference is recognised as a reduction in the revaluation surplus.

- Deferred costs and accrued income represent short-term deferred costs or short-term deferred expenses, and short-term accrued income. They are reported at amounts recorded in the relevant documents that evidence their incurrence and existence.

- Accrued costs and deferred income comprise short-term accrued costs or short-term accrued expenses and short-term deferred income. They are reported at amounts recorded in the relevant documents that evidence their incurrence and existence.

- Cash and cash equivalents comprise cash on the Group's accounts. Cash is reported at fair value. On the balance sheet date, cash denominated in foreign currency is translated into the euro currency at the mean exchange rate of the Bank of Slovenia.

- Total equity of the Group comprises called-up capital, capital surplus, profit reserves, retained earnings or accumulated loss brought forward, revaluation surplus, and undistributed net profit or unsettled net loss of the financial year.

- Provisions are made for obligations that arise from obligating past events and are expected to be settled in the period of more than one year and a reliable estimate can be made of the amount of the obligations. Amounts recognized as provisions represent the best estimate of expenditure required to settle obligations as at the balance sheet date.

- Long-term liabilities: non-interest bearing borrowings are recognized in the consolidated balance sheet at a discounted amount using the average rate of interest achieved by the Group in comparable transactions. Interest bearing borrowings whose actual or agreed rate of interest does not differ significantly from the effective rate of interest, are recognized in the consolidated balance sheet at initially recognized amount, decreased by any repaid amounts.

- Short-term liabilities are classified as financial or operating. Short-term financial liabilities are short-term loans received on the basis of loan contracts and short-term securities issued, except cheques that are considered as a deduction item within monetary terms. Short-term operating liabilities are short-term supplier credits for goods or services purchased, payables to employees for their work performed, short-term liabilities to providers of funds arising from accrued interest and similar items, short-term liabilities to the state arising from taxes, including the value added tax payable, and short-term liabilities associated with the distribution of profit or loss. A specific class of short-term operating liabilities are liabilities to customers arising from advances and short-term collaterals received.

- Provisions and long-term accrued costs and deferred income. Provisions are recognized and charged against the relevant costs or expenses when all the conditions are fulfilled in accordance with SAS 10.6. Provisions are made on the basis of a resolution of the management board indicating the purpose of provisions, the amount, the type of costs or expenses to which provisions are charged, and maturity or expected settlement date of the obligations (except for provisions made for guarantees). Long-term accrued costs and deferred income are recognized by the Group if they will cover costs or expenses expected to arise in a period of more than one year.

- Revenue comprises operating revenue, financial revenue and other revenue. Operating and financial revenue are ordinary revenues.
  Operating revenue comprises revenue from sales and other operating revenue associated with products and services. Sales revenue comprises sales value of services rendered in the accounting period and recorded in invoices and other documents, less any discounts granted, providing the Group can realistically expect their payment. Majority of other operating revenue relates to revaluation operating revenue associated with: disposal of property, plant and equipment and intangible assets; reduction in trade receivable allowances as a result of impairment reversal; and revenue resulting from derecognition of operating liabilities.
  Financial revenue is revenue generated by investing activities. Financial revenue arises in relation to investments as well as in association with receivables.

- Expenses are classified into operating expenses, financial expenses and other expenses. Operating expenses and financial expenses are ordinary expenses. Operating expenses are in principle equal to the calculated cost of the accounting period.
  Operating expenses comprise costs of materials, services, labour costs, amortization and depreciation costs, as well as revaluation operating expenses and other operating expenses. Expenses are recognized if decreases in economic benefits in the accounting period are associated with decreases in assets or increase in liabilities and these decreases can be measured reliably. Costs of salaries, salary substitutes and reimbursements of costs to employees are accounted for in consideration of labour legislation, collective agreement, internal rules of the companies in the Group, and employment contracts. Depreciation and amortization expenses of an individual accounting period are recognized as costs or operating expenses in the consolidated income statement. Depreciation and amortization rates applied to the items of intangible assets and property, plant and equipment, are determined in accordance with the assessed useful life of these assets. Revaluation operating expenses appear in association with fixed assets and current assets as a result of their impairment. They are recognized when the relevant revaluation is carried out.
  Financial expenses include financing expenses and investment expenses. The former primarily comprise interest paid, while the latter predominantly have the nature of revaluation financial expenses.

- Income tax: current tax liabilities are measured on the basis of tax rates effective on the consolidated balance sheet date.

- Deferred tax assets and liabilities are recognized for all taxable temporary differences. Deferred tax assets are also recognized for unused tax losses and non-utilized tax credits carried forward to the next period providing that in future periods taxable profits will be available against which these unused tax losses and tax credits can be utilized. On each balance sheet date, deferred tax assets are reassessed and impaired by the amount which the Group no longer expects that in future the relevant taxable profits will be available against which these unused tax losses may be utilized. Deferred tax assets and liabilities are measured on the basis of tax rates expected to be used when the asset is realized or the liability is settled, considering tax rates and tax legislation enacted on the balance sheet date. Deferred tax assets and liabilities are recognized directly in equity when the tax relates to items that are recognized in equity.

Consolidation

Subsidiaries

Subsidiaries are companies under control of the controlling entity. Control exists when the Group is able to make decisions about financial and operating policies of the subsidiary to gain returns from the subsidiary's operations. In assessing the influence, existence and impact of voting rights that may currently be either exercised or exchanged should be taken into account. The separate financial statements of the group companies are included in the consolidated financial statements from the date the parent obtains control over its subsidiary and until the control is lost.

Basis of consolidation

Consolidated financial statements of the Akton Group comprise separate financial statements of the parent Akton d.o.o. and its subsidiaries: Akton d.o.o., Zagreb, AKT.ONLINE d.o.o., Sarajevo, AKTON d.o.o., Beograd, and AKTON d.o.o.e.l., Skopje, as at 31 December 2013. The separate financial statements of the group companies are compiled for the same reporting period as those of the parent, using the uniform accounting policies.

All intercompany transactions, balances and unrealised profits are eliminated from consolidation.

Full consolidation method is applied to all subsidiaries from the date the parent or another group company gains control of the subsidiary. A subsidiary is eliminated from the group when the control of the parent or another company in the group, ceases. When a significant influence over the subsidiary is lost during the year, consolidated financial statements include the result of the whole group until the date the control over the subsidiary was lost. Investments in associates and interests in jointly controlled entities are recognised under the equity method.





2013

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