

**Makedonski Telekom AD - Skopje**

Separate Financial Statements

For the year ended

31 December 2010

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## **Independent Auditor's Report**

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

### **Report on separate financial statements**

We have audited the accompanying separate financial statements of Makedonski Telekom AD Skopje (the "Company") which comprise the separate statement of financial position as of 31 December 2010 and the separate statement of comprehensive income, separate statement of changes in equity and separate statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

#### *Management's Responsibility for the Separate Financial Statements*

Management is responsible for the preparation and fair presentation of these separate financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of separate 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 separate financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the separate financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the separate financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the separate 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 separate 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 separate 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 accompanying separate financial statements present fairly in all material respects the financial position of the Company as of 31 December 2010 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

*Pricewaterhousecoopers Revizija DOO, Skopje*

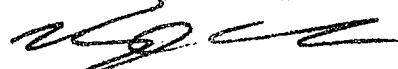
PRICEWATERHOUSECOOPERS REVIZIJA DOO Skopje

7 March 2011  
Skopje

**Separate statement of financial position**

In thousands of denars	Note	As at 31 December	
		2010	2009
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	5	1,009,511	600,819
Deposits with banks	6	5,777,401	7,126,056
Trade and other receivables	7	1,724,088	1,812,534
Other taxes receivable	8	92,161	2,195
Income tax receivable		8,882	121,753
Inventories	10	215,224	134,915
Assets held for sale	11	38,139	39,114
<b>Total current assets</b>		<b>8,865,406</b>	<b>9,837,386</b>
<b>Non-current assets</b>			
Property, plant and equipment	12	11,707,923	11,343,209
Advances for property, plant and equipment		12,272	37,566
Intangible assets	13	612,041	624,521
Investment in subsidiaries		2,792,171	2,792,171
Trade and other receivables	7	315,279	107,917
Available-for-sale financial assets		-	591
Financial assets at fair value through profit and loss		65,125	61,376
Deferred income tax assets	9	-	35,653
<b>Total non-current assets</b>		<b>15,504,811</b>	<b>15,003,004</b>
<b>Total assets</b>		<b>24,370,217</b>	<b>24,840,390</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	14	2,309,180	1,983,900
Other taxes payable	8	-	21,866
Provision for other liabilities and charges	15	60,753	545,793
<b>Total current liabilities</b>		<b>2,369,933</b>	<b>2,551,559</b>
<b>Non-current liabilities</b>			
Provision for other liabilities and charges	15	520,389	311,767
<b>Total non-current liabilities</b>		<b>520,389</b>	<b>311,767</b>
<b>Total liabilities</b>		<b>2,890,322</b>	<b>2,863,326</b>
<b>Equity</b>			
Share capital		9,583,888	9,583,888
Share premium		540,659	540,659
Treasury shares		(3,738,358)	(3,738,358)
Other reserves		1,916,777	1,916,777
Retained earnings		13,176,929	13,674,098
<b>Total equity</b>	16	<b>21,479,895</b>	<b>21,977,064</b>
<b>Total equity and liabilities</b>		<b>24,370,217</b>	<b>24,840,390</b>

The separate financial statements set out on pages 1 to 43 were authorised for issue on 4 March 2011 by the Management of Makedonski Telekom AD - Skopje, and are subject to review and approval by the Board of Directors on 9 March 2011 and by the shareholders on date that will be subsequently agreed.



Nikolai Beckers  
Chief Executive Officer



Slavko Projkoski  
Chief Finance Officer

**Separate statement of comprehensive income**

In thousands of denars	Note	Year ended 31 December	
		2010	2009
Revenues	17	8,483,703	8,719,574
Depreciation and amortisation		(1,829,676)	(1,558,927)
Personnel expenses	18	(1,146,979)	(1,065,498)
Payments to other network operators		(1,695,818)	(1,521,032)
Other operating expenses	19	(2,075,769)	(2,242,972)
<b>Operating expenses</b>		<b>(6,748,242)</b>	<b>(6,388,429)</b>
Dividend income	20	4,021,920	4,358,432
Other operating income		22,042	7,354
<b>Operating profit</b>		<b>5,779,423</b>	<b>6,696,931</b>
Finance expenses	22	(68,389)	(57,717)
Finance income	23	314,895	301,939
Finance income - net		246,506	244,222
<b>Profit before income tax</b>		<b>6,025,929</b>	<b>6,941,153</b>
Income tax expense	24	(53,069)	130,689
<b>Profit for the year</b>		<b>5,972,860</b>	<b>7,071,842</b>
<b>Total comprehensive income for the year</b>		<b>5,972,860</b>	<b>7,071,842</b>
<b>Earnings per share (EPS) information:</b>			
Basic earnings per share (in denars)		69.25	81.99

**Separate statement of cash flows**

In thousands of denars	Note	Year ended 31 December	
		2010	2009
<b>Operating activities</b>			
Profit before tax		6,025,929	6,941,153
Adjustments for:			
Depreciation and amortisation		1,829,676	1,558,927
Write down of inventories to net realisable value	19	4,872	12,464
Fair value (gains)/losses on financial assets	22/23	(3,159)	3,133
Impairment losses on trade and other receivables	19	18,845	68,434
Provisions		(44,742)	81,230
Net gain on disposal of equipment		(22,042)	(7,354)
Dividend income	20	(4,021,920)	(4,358,432)
Interest income	23	(270,891)	(301,939)
Effect of foreign exchange rate changes on cash and cash equivalents		2,859	20,045
<b>Cash generated from operations before changes in working capital</b>		<b>3,519,427</b>	<b>4,017,661</b>
Increase in inventories		(85,181)	(93,396)
(Increase)/decrease in receivables		(227,512)	25,820
Decrease in payables		(196,580)	(116,830)
<b>Cash generated from operations</b>		<b>3,010,154</b>	<b>3,833,255</b>
Income taxes received/(paid)		95,455	(227,614)
<b>Cash flows used in operating activities</b>		<b>3,105,609</b>	<b>3,605,641</b>
<b>Investing activities</b>			
Acquisition of property, plant and equipment		(1,799,608)	(1,548,985)
Acquisition of intangible assets		(94,214)	(55,084)
Loans collected/(granted)		1,713	(7,816)
Deposits collected from banks		14,023,032	13,616,919
Deposits placed with banks		(12,758,614)	(14,011,701)
Dividends received		4,021,920	4,358,432
Proceeds from sale of equipment		28,542	31,471
Interest received		353,200	262,950
<b>Cash flows used in investing activities</b>		<b>3,775,971</b>	<b>2,646,186</b>
<b>Financing activities</b>			
Dividends paid		(6,470,029)	(6,160,720)
<b>Cash flows used in financing activities</b>		<b>(6,470,029)</b>	<b>(6,160,720)</b>
Net increase in cash and cash equivalents		411,551	91,107
Cash and cash equivalents at 1 January		600,819	529,757
Effect of foreign exchange rate changes on cash and cash equivalents		(2,859)	(20,045)
<b>Cash and cash equivalents at 31 December</b>	5	<b>1,009,511</b>	<b>600,819</b>

**Separate 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 2009		9,583,888	540,659	(3,738,358)	1,916,777	12,762,976	21,065,942
Total comprehensive income for the year		-	-	-	-	7,071,842	7,071,842
Dividend payment		-	-	-	-	(6,160,720)	(6,160,720)
Balance at 31 December 2009	16	9,583,888	540,659	(3,738,358)	1,916,777	13,674,098	21,977,064
Balance at 1 January 2010		9,583,888	540,659	(3,738,358)	1,916,777	13,674,098	21,977,064
Total comprehensive income for the year		-	-	-	-	5,972,860	5,972,860
Dividend payment		-	-	-	-	(6,470,029)	(6,470,029)
Balance at 31 December 2010	16	9,583,888	540,659	(3,738,358)	1,916,777	13,176,929	21,479,895



Notes to the separate financial statements

## **1. GENERAL INFORMATION**

### **1.1. About the Company**

These separate financial statements relate to Makedonski Telekom AD - Skopje, (hereinafter referred as: "the Company"), a joint stock company incorporated and domiciled in the Republic of Macedonia.

In 2008 the Company adopted the T-Home brand and on 1 May 2008 changed its legal name from AD Makedonski Telekomunikacii Skopje into Makedonski Telekom AD - Skopje and its products are now marketed under the brand T-Home.

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

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

The Macedonian telecommunications sector is regulated by the Electronic Communications Law (ECL) enacted in March 2005. Under the ECL, the Company has been designated as a Significant Market Power operator (SMP) in the market for fixed line voice telephone networks and services, including the market for access to the networks for data transmission and leased lines. With the changes of the ECL published on 4 August 2008, the Concession Contracts of the Company ceased to be valid as of 5 August 2008. On 5 September 2008 the Agency for Electronic Communications ("The Agency"), ex officio, has issued a notification to the Company for those public electronic communication networks and/or services which have been allocated thereto under the Concession Contracts. Radiofrequency licenses were issued to the operators for the bands granted with the Concession Contracts in a form prescribed by the ECL. With the latest amendments on ECL, as of 1 July 2010 data retention obligation was introduced for the Company to keep unprocessed traffic data for 24 months. It is expected the Broadcasting Council to intensify actions against CaTV operators due to retransmission of TV Channels without regulated Intellectual property (IP) rights.

The Company is using Long run incremental costs methodology (LRIC) for wholesale regulated services. On 4 October 2010 the Agency has implemented LRIC Bottom – up costing model and published final results on 20 December 2010, which will be applicable from March 2011.

Based on the ECL, the Agency may prescribe retail regulation of fixed telephony services. The Agency finished the procedure for analyzes of relevant markets and based on the analysis conclusions, the Agency is planning to impose retail price regulation on the Company. In addition bigger pressure on retail pricing is expected due to the Guideline for price squeeze testing introduced by the Agency in 2010.

Additionally, the Agency organized public debate upon regulatory challenges in relation with the next generation access networks.

Based on several enacted bylaws published in second half of 2008 the Company has introduced several new regulated wholesale products, as Wholesale Line Rental, Wholesale Leased Line and Local Bit stream access. New Rulebook on access and use of specific network assets was published by the Agency in December 2010. According to the new Rulebook the Company has obligation to offer access to ducts and dark fibre.

On 27 May, 2010 new number portability (NP) service was introduced: WLR with NP, giving option for all WLR users to migrate their numbers into the Company's Wholesale Partner network.

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

The Company's registered address is "Orce Nikolov" Street bb, 1000, Skopje, Republic of Macedonia. The average number of employees during 2010 was 1,265 (2009: 1,287).

### **1.2. Investigation into certain consultancy contracts**

On 13 February 2006, Magyar Telekom Plc., the controlling owner of the Company, (via Stonebridge Communications AD - Skopje (under liquidation), majority shareholder of the Company), announced that it was investigating certain contracts entered into by another subsidiary of Magyar Telekom Plc. to determine whether the contracts were entered into in violation of

Notes to the separate financial statements

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.

For further information about the internal investigation, please refer to the consolidated financial statements of the Company for the year ended 31 December 2009.

According to the information provided to the Company by Magyar Telekom Plc., on 2 December 2009, the Audit Committee of Magyar Telekom Plc., provided the Magyar Telekom's Board of Directors with a "Report of Investigation to the Audit Committee of Magyar Telekom Plc." dated 30 November 2009 (the "Final Report"). The Audit Committee indicated that it considers that, with the preparation of the Final Report based on currently available facts, White & Case has completed its independent internal investigation.

According to the information provided to the Company by Magyar Telekom Plc., the Final Report includes the following findings and conclusions related to Magyar Telekom's Macedonian affiliates, based upon the evidence available to the Audit Committee of Magyar Telekom Plc. and its counsel:

- As previously disclosed, there is evidence that certain former employees intentionally destroyed documents relating to activities undertaken in Macedonia by Magyar Telekom Plc. and its affiliates.
- Between 2000 and 2006 a small group of former senior executives at Magyar Telekom and Magyar Telekom's Macedonian affiliates, authorized the expenditure of approximately EUR 24 million through over twenty suspect consultancy, lobbying, and other contracts (including certain contracts between Magyar Telekom and its subsidiaries on one hand, and affiliates of a Cyprus-based consulting company on the other hand). The Final Report concludes that "the available evidence does not establish that the contracts under which these expenditures were made were legitimate."
- "The evidence shows that, contrary to their terms, a number of these contracts were undertaken to obtain specific regulatory and other benefits from the government of Macedonia. The Companies generally received the benefits sought and then made expenditures under one or more of the suspect contracts. There is evidence that the remaining contracts were also illegitimate and created a pool of funds available for purposes other than those stated on the face of the agreements." However, the Magyar Telekom Audit Committee's counsel did not have access to evidence that would allow it to identify the ultimate beneficiaries of these expenditures.
- In entering into these contracts and approving expenditures under them, the former senior executives knowingly caused, structured, or approved transactions that shared most or all of the following characteristics:
  - intentional circumvention of internal controls;
  - false and misleading corporate documents and records;
  - lack of due diligence concerning, and failure to monitor performance of, contractors and agents in circumstances carrying a high risk of corruption; lack of evidence of performance; and
  - expenditures that were not for the purposes stated in the contracts under which they were made, but rather were intended to obtain benefits for the Magyar Telekom subsidiaries that could only be conferred by government action.
- The Final Report states that "the Investigation did not uncover evidence showing receipt of payments by any Macedonian government officials or political party officials."

As previously disclosed, Magyar Telekom has taken remedial steps to address issues previously identified by the independent investigation, including steps designed to revise and enhance the Magyar Telekom Group's internal controls. According to the information provided to the Company by Magyar Telekom, the Audit Committee of Magyar Telekom has not made recommendations relating to Magyar Telekom's compliance program or internal controls in connection with the issuance of the Final Report and Magyar Telekom is considering, in consultation with its Audit Committee, whether and to what extent the Final Report warrants additional remedial actions, including any personnel actions and/or changes in internal control policies and procedures at Magyar Telekom or its subsidiaries that have been or will be implemented to address the findings of the Final Report.

In relation to the issuance of the Final Report and the information provided to the Company by Magyar Telekom, in January 2010 the Chairman of the Company's Board of Directors requested third party legal and tax expertise for assessment of the

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potential accounting and tax implications arising from the transactions conducted by the Company and its subsidiary subject to the Final Report.

The external experts prepared reports (the "Reports") on their assessment and submitted the Reports to the Chairman of the Company's BoD and the Management of the Company and its subsidiary accordingly. As a result, based on the analysis of the Tax and Legal experts and information available to the Management related to the transactions subject of the Final Report, amount of MKD 216,577 thousand has been identified as potential tax impact (together with related penalty interest) as of 31 December 2009 arising from the transactions conducted by the Company and its subsidiary subject to the Final Report (see note 15). In 2010 the amount related to the identified potential tax impact (together with related penalty interest) amounted to MKD 227,972 thousand, which were paid in 2010 upon an executive decision issued by the Public Revenue Office. In addition, the value of one contract MKD 105,147 thousand capitalised within treasury shares is now corrected and accounted for as though these payments had been expensed in 2006 rather than capitalized as part of treasury shares as originally reported. The other contracts that were identified by the Final Report and the reports of the tax and legal experts related to transactions undertaken by the Company were expensed in the related periods (2001-2007).

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

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

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

The Primary Court Skopje 1 in Skopje, Investigative Department for Organized Crime delivered a summon to the Company in connection with the criminal charges against the above stated persons and asked for a statement whether the Company has suffered any damages on the basis of the said consultancy contracts.

After several postponements of the court hearing related to the investigation procedure handled in the Primary Court Skopje 1 Skopje, on the hearing held on 13 April 2009, the representatives of Makedonski Telekom AD Skopje declared the position of the Company that taking into consideration the ongoing independent internal investigation conducted by White & Case, approved by the Company's BoD, it was premature to preannounce any damage which may be caused by means of the implementation of the mentioned contracts or with reference to them. Upon completion of the independent internal investigation, the Company will inform the court on its final position in respect of the possible damage and the criminal prosecution of the accused persons. On 9 April 2010 the Company received notification from the Bureau of judicial expertise that based on the order of the Primary Court Skopje 1 Skopje the Bureau will perform expertise on the case. The expertise was performed on 11 May 2010 and the experts from Ministry of Justice of the Republic of Macedonia – Court Expertise Office – Skopje, asked for some additional documents from Company's side in order to prepare the expertise. The Company received Notification from the Court Expertise Office – Skopje that the expertise will continue on 18 October 2010. The experts asked additional information related to certain agreements concluded in 2005 and 2006, and related invoices. The Company has collected and submitted requested information/documentation to the Court Expertise Office on 1 November 2010. After preparation the expertise will be submitted from the responsible Judge to the Public Prosecutor. The Public Prosecutor should decide whether he/she will initiate prosecution act against accused persons or not depending on the expertise and other relevant proofs collected in the phase of investigation.

MOI of the RoM - Organized Crime Department, approached to the Company during August 2009, with request some additional documentation to be submitted to the MOI. The Company collected and submitted requested documentation on 27 August 2009.

Notes to the separate financial statements

The Chairman of the Company's BoD and the Company's Management have received information that the contents of the Final Report has also been made available to the Macedonian Public Prosecution Office. The Company's Management cannot foresee whether the Macedonian Public Prosecution Office will initiate any legal procedure or the type and scope of legal actions on the basis of the information contained in the Final Report.

We have become aware of no information as a result of a request from any regulators or other external parties, other than as described above, from which we have concluded that the financial statements may be misstated, including from the effects of a possible illegal act.

Notes to the separate financial statements

## 2. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these separate 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 company has prepared these separate financial statements to file with the Macedonian Stock Exchange in accordance with International Financial Reporting Standards (IFRS).

The Company has also prepared consolidated financial statements in accordance with IFRS for the Company and its subsidiaries. In the consolidated financial statements, subsidiary undertakings – which are those companies in which the group, directly or indirectly, has an interest of more than half of the voting rights or otherwise has power to exercise control over the operations – have been fully consolidated. The consolidated financial statements can be obtained from the Company.

Users of these separate financial statements should read them together with the Company's consolidated financial statements as at 31 December 2010 and for the year then ended in order to obtain full information on the financial position, results of operations and changes in financial position of the group as a whole.

The separate 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 separate 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 2010

- IAS 7 (amended) Statements of cash flows. Amendment requires that only expenditures that result in a recognised asset in the statement of financial position can be classified as investing activities. Effective for periods beginning on or after 1 January 2010. The Company applied the amended standard from 1 January 2010, which did not cause changes in the presentation of the Company's separate statements of cash flows.
- IFRS 3, IAS 27 (amended). In January 2008 the IASB published the amended Standards IFRS 3 - Business Combinations and IAS 27 - Consolidated and Separate Financial Statements. The major changes compared to the current version of the standards are summarized below:
  - With respect to accounting for non-controlling interest an option is added to IFRS 3 to permit an entity to recognize 100% of the goodwill of the acquired entity, not just the acquiring entity's portion of the goodwill ('full goodwill' option) or to measure non-controlling interest at its fair value. This option may be elected on a transaction-by-transaction basis.
  - In a step acquisition, the fair values of the acquired entity's assets and liabilities, including goodwill, are measured on the date when control is obtained. Accordingly, goodwill will be measured as the difference at the acquisition date between the fair value of any investment the business held before the acquisition, the consideration transferred and the net asset acquired.
  - A partial disposal of an investment in a subsidiary while control is retained is accounted for as an equity transaction with owners, and gain or loss is not recognized.
  - A partial disposal of an investment in a subsidiary that results in loss of control triggers re-measurement of the residual interest to fair value. Any difference between fair value and carrying amount is a gain or loss on the disposal, recognized in profit or loss.
  - Acquisition related costs will be accounted for separately from the business combination, and therefore, recognized as expenses rather than included in goodwill. An acquirer will have to recognize at the acquisition date a liability for any contingent purchase consideration. If the amount of contingent consideration accounted for as a liability changes as a result of a post-acquisition event (such as meeting an earnings target), it will be recognized in accordance with other applicable IFRSs, as appropriate rather than as an adjustment of goodwill.

#### Notes to the separate financial statements

- The revised standards require an entity to attribute their share of losses to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.
- Effects resulting from an effective settlement of pre-existing relationships (relationships between acquirer and acquiree before the business combination) must not be included in the determination of the consideration.
- In contrast to current IFRS 3, the amended version of this standard provides rules for rights that have been granted to the acquiree (e.g. to use its intellectual property) before the business combination and are re-acquired with the business combination.
- The revised IFRS 3 brings into scope business combinations involving only mutual entities and business combinations achieved by contracts alone.

The amended version of IFRS 3 has to be applied for Business Combinations with effective dates in annual periods beginning on or after 1 July 2009. The Company applied the amended standard from 1 January 2010. The amended standards did not have an impact on the Company's separate financial statements since the Company has no acquisitions or investment transactions.

- IFRS 2 (amended) Share-based Payment. The amendments related to Company Cash-settled Share-based Payment Transactions were published in June 2009. Previously effective IFRSs required attribution of group share-based payment transactions only if they are equity-settled. The amendments resolve diversity in practice regarding attribution of cash-settled share-based payment transactions and require an entity receiving goods or services in either an equity-settled or a cash-settled payment transaction to account for the transaction in its separate or individual financial statements. The Company has no share based compensations; therefore, we do not expect the amended standard to have an effect on the Company when applied. Amendments to IFRS 2 shall be applied retrospectively for annual periods beginning on or after 1 January 2010. The amendments also incorporate the guidance contained in IFRIC 8 (Scope of IFRS 2) and in IFRIC 11 (IFRS 2 - Group and Treasury Share Transactions). As a result, the Board withdrew IFRIC 8 and IFRIC 11.
- IFRS 5 (amended) Non-current assets held for sale and discontinued operations. Amendment to clarify that IFRS 5, specifies the disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations. Also clarifies that the general requirements of IAS 1 still apply, particularly paragraph 15 (to achieve a fair presentation) and paragraph 125 (sources of estimation uncertainty) of IAS 1. The effective date for this amendment is the period beginning on or after 1 January 2010.

#### 2.1.2. Standards, amendments and interpretations effective in 2010 but not relevant for the Company

- IAS 17 (amended) Leases. Deletion of specific guidance regarding classification of leases of land, so as to eliminate inconsistency with the general guidance on lease classification. As a result, leases of land should be classified as either finance or operating, using the general principles of IAS 17. Effective for periods beginning on or after 1 January 2010. The amendment is not relevant for the Company's separate financial statements.
- IAS 36 (amended) Impairment of assets. Amendment to clarify that the largest cash generating unit (or group of units) to which goodwill should be allocated for the purposes of impairment testing is an operating segment as defined by paragraph 5 of IFRS 8, 'Operating segments' (that is, before the aggregation of segments with similar economic characteristics permitted by paragraph 12 of IFRS 8). Effective for periods beginning on or after 1 January 2010. The amendment is not relevant for the Company's separate financial statements.
- IAS 38 (amended) Intangible assets. Amendments to paragraphs 36 and 37 of IAS 38, to clarify the requirements under IFRS 3 (revised) regarding accounting for intangible assets acquired in a business combination. In addition, paragraphs 40 and 41 are amended to clarify the description of valuation techniques commonly used by entities when measuring the fair value of intangible assets acquired in a business combination that are not traded in active markets. The effective date for this amendment is the period beginning on or after 1 January 2010. The amendment is not relevant for the Company's separate financial statements, since the Company does not have any intangible assets acquired in a business combination.
- IAS 39 (amended) Financial Instruments: Recognition and Measurement. The major amendments of the standard are summarized below:
  - The IASB published an amendment in August 2008 to IAS 39 with respect to hedge accounting. The amendment "Eligible Hedged Items" allows to designate only changes in the cash flows or fair value of a hedged item above or

## Notes to the separate financial statements

below a specified price or other variable (IAS 39.AG99BA). The amendment of IAS 39 shall be applied retrospectively for annual periods beginning on or after 1 July 2009. The amendment will not affect the Company's accounts as the Company does not apply hedge accounting.

- In addition, the IASB published an amendment in the treatment of loan pre-payment penalties as closely related derivatives. Namely, the amendment clarifies that, prepayment options, the exercise price of which compensates the lender for loss of interest by reducing the economic loss from investment risk, should be considered closely related to the host debt contract. The effective date for this amendment is the period beginning on or after 1 January 2010.
- Amendments to the scope exemption in paragraph 2(g) of IAS 39 to clarify that: (a) it only applies to binding (forward) contracts between an acquirer and a vendor in a business combination to buy an acquiree at a future date; (b) the term of the forward contract should not exceed a reasonable period normally necessary to obtain any required approvals and to complete the transaction; and (c) the exemption should not be applied to option contracts (whether or not currently exercisable) that on exercise will result in control of an entity, nor by analogy to investments in associates and similar transactions. The effective date for this amendment is the period beginning on or after 1 January 2010.
- Amendments regarding cash flow hedge accounting. Amendment to clarify when to recognise gains or losses on hedging instruments as a reclassification adjustment in a cash flow hedge of a forecast transaction that results subsequently in the recognition of a financial instrument. The amendment clarifies that gains or losses should be reclassified from equity to profit or loss in the period in which the hedged forecast cash flow affects profit or loss. The effective date for this amendment is the period beginning on or after 1 January 2010.
- IFRS for Small and Medium-sized Entities. In July 2009 the IASB issued its IFRS for Small and Medium-sized Entities, which is not relevant for the Company.
- IFRS 1 (amended) Additional Exemptions for First-time Adopters. The IASB issued the amendments to IFRS 1 in July 2009. As the Company has been reporting according to IFRS for many years, neither the original standard, nor any revision to that is relevant for the Company.
- IFRIC 17 Distributions of Non-cash Assets to Owners. This interpretation issued in November 2008 refers to the issue when to recognize liabilities accounted for non-cash dividends payable (e.g. property, plant, and equipment) and how to measure them. In addition, the interpretation refers to the issue how to account for any difference between the carrying amount of the assets distributed and the carrying amount of the dividend payable. IFRS 5 has also been amended to require that assets are classified as held for distribution only when they are available for distribution in their present condition and the distribution is highly probable. The interpretation shall be applied for annual periods beginning on or after 1 July 2009. As the Company does not distribute non-cash dividends, IFRIC 17 will have no impact on the Company's separate financial statements.
- IFRIC 18 Transfers of Assets from Customers. The Interpretation clarifies the requirements of IFRSs for agreements in which an entity receives from a customer an item of property, plant and equipment (or cash to be used explicitly for the acquisition of property, plant and equipment) that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services. The Interpretation is effective for annual periods beginning on or after 1 July 2009 and applies prospectively. However, limited retrospective application is permitted. IFRIC 18 is not expected to have any impact on the Company's separate financial statements.

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

- IAS 24 (revised) Related Party Disclosures. In November 2009, the IASB issued a revised version of IAS 24. Until now, if a government controlled, or significantly influenced, an entity, the entity was required to disclose information about all transactions with other entities controlled, or significantly influenced by the same government. The revised standard still requires disclosures that are important to users of financial statements but eliminates requirements to disclose information that is costly to gather and of less value to users. It achieves this balance by requiring disclosure about these transactions only if they are individually or collectively significant. Furthermore the IASB has simplified the definition of related party and removed inconsistencies. The revised standard shall be applied retrospectively for annual periods beginning on or after 1 January 2011. Earlier application is permitted.
- IFRS 9 Financial Instruments. The standard forms the first part of a three-phase project to replace IAS 39 (Financial Instruments: Recognition and Measurement) with a new standard, to be known as IFRS 9 Financial

Notes to the separate financial statements

Instruments. IFRS 9 prescribes the classification and measurement of financial assets and liabilities. The remaining phases of this project, dealing with the impairment of financial instruments and hedge accounting, as well as a further project regarding derecognition, are in progress.

Financial assets - At initial recognition, IFRS 9 requires financial assets to be measured at fair value. After initial recognition, financial assets continue to be measured in accordance with their classification under IFRS 9. Where a financial asset is classified and measured at amortized cost, it is required to be tested for impairment in accordance with the impairment requirements in IAS 39. IFRS 9 defines the below rules for classification.

- IFRS 9 requires that financial assets are classified as subsequently measured at either amortized cost or fair value. There are two conditions needed to be satisfied to classify financial assets at amortized cost: (1) The objective of an entity's business model for managing financial assets has to be to hold assets in order to collect contractual cash flows; and (2) The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Where either of these conditions is not satisfied, financial assets are classified at fair value.
- Fair Value Option: IFRS 9 permits an entity to designate an instrument, that would otherwise have been classified in the amortized cost category, to be at fair value through profit or loss if that designation eliminates or significantly reduces a measurement or recognition inconsistency ('accounting mismatch').
- Equity instruments: The default category for equity instruments is at fair value through profit or loss. However, the standard states that an entity can make an irrevocable election at initial recognition to present all fair value changes for equity investments not held for trading in other comprehensive income. These fair value gains or losses are not reported as part of a reporting entity's profit or loss, even when a gain or loss is realized. Only dividends received from these investments are reported in profit or loss.
- Embedded derivatives: The requirements in IAS 39 for embedded derivatives have been changed by no longer requiring that embedded derivatives be separated from financial asset host contracts.
- Reclassification: IFRS 9 requires reclassification between fair value and amortized cost when, and only when there is a change in the entity's business model. The 'tainting rules' in IAS 39 have been eliminated.

Financial liabilities - IFRS 9 "Financial Instruments" sets the requirements on the accounting for financial liabilities and replaces the respective rules in IAS 39 "Financial Instruments: Recognition and Measurement". The new pronouncement:

- Carries forward the IAS 39 rules for the recognition and derecognition unchanged.
- Carries forward most of the requirements in IAS 39 for classification and measurement.
- Eliminates the exception from fair value measurement for derivative liabilities that are linked to and must be settled by delivery of an unquoted equity instrument.
- Changes the requirements related to the fair value option for financial liabilities to address own credit risk.

An entity shall apply IFRS 9 for annual periods beginning on or after January 1, 2013. Earlier adoption is permitted. A reporting entity must apply IFRS 9 retrospectively. For entities that adopt IFRS 9 for periods before January 1, 2012 the IFRS provides transition relief from restating comparative information. The Company is currently analyzing the possible changes in the separate financial statements of the Company that will be a result of the adoption of the new standard.

- IFRS 7 (amended) - The IASB published an amendment to IFRS 7 Amendments to IFRS 7 Financial Instruments: Disclosures in October 2010. The amendment requires quantitative and qualitative disclosures regarding transfers of financial assets that do not result in entire derecognition, or that result in continuing involvement. This is intended to allow users of financial statements improve their understanding of such transactions (for example, securitizations), including understanding the possible effects of any risks that may remain with the entity that transferred the assets. The amendments also require additional disclosures if a disproportionate amount of such transactions are undertaken around the end of a reporting period. The application of the amendment is required for annual periods beginning on or after July 1, 2011. An earlier application is permitted. We do not expect that the adoption of the amended standard would result in significant changes in the separate financial statements disclosures of the Company.



Notes to the separate financial statements

**2.1.4. Standards, amendments and interpretations that are not yet effective and not relevant for the Company's operations**

- IAS 32 (amended) Financial Instruments: Presentation on classification of rights issue. The amendment clarifies the classification of rights issues as equity or liabilities for rights issues that are denominated in a currency other than the functional currency of the issuer. These rights issues are recorded as derivative liabilities before the amendment. The amendment requires that such right issues offered pro rate to all of an entity's existing shareholders are classified as equity. The classification is independent of the currency in which the exercise price is denominated. The application of the amendment is required for annual periods beginning on or after 1 February 2010. An earlier application is permitted. The amendment will have no impact on the Company's separate financial statements.
- IFRS 1 The IASB amended IFRS 1 in January 2010 and in December 2010. As the Company has been reporting according to IFRS for many years, neither the original standard, nor any revision to that is relevant for the Company.
- IFRIC 14 (amended) IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction. In November 2009, the IASB issued an amendment to IFRIC 14, which corrects an unintended consequence of IFRIC 14. Without the amendments, in some circumstances entities are not permitted to recognize some voluntary prepayments for minimum funding contributions as an asset. The amendment permits such an entity to treat the benefit of such an early payment as an asset. The amendments are effective for annual periods beginning 1 January 2011. The amendments must be applied retrospectively to the earliest comparative period presented. The amended interpretation is not applicable to the Company as the Company has no funded defined post-retirement benefit schemes.
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments. This interpretation issued in November 2009 clarifies the requirements of IFRSs when an entity renegotiates the terms of a financial liability with its creditor and the creditor agrees to accept the entity's shares or other equity instruments to settle the financial liability fully or partially. The interpretation is effective for annual periods beginning on or after 1 July 2010 with earlier application permitted. The interpretation shall be applied retrospectively. The interpretation is not applicable to the Company as the Company does not extinguish any of its financial liabilities with equity instruments.
- IAS 12 (amended) In December 2010, the IASB issued published the pronouncement "Deferred Tax: Recovery of Underlying Assets - Amendments to IAS 12". The new pronouncement "Deferred Tax: Recovery of Underlying Assets - Amendments to IAS 12" sets presumptions for the recovery (e.g. use or sale) of certain assets. This is relevant in cases where the type of recovery has different tax consequences. The pronouncement sets the rebuttable presumption that the carrying amount of investment property that is measured using the fair value model in IAS 40 will be recovered through sale. Moreover, the carrying amount of a non-depreciable asset measured using the revaluation model in IAS 16 is always deemed to be recovered through sale. The amendment supersedes SIC 21 and shall be applied for annual periods beginning on or after 1 January 2012. Earlier application is permitted. As the Company does not have investment properties or non-depreciable asset measured using the revaluation model in IAS 16, the amended standard will not have any impact on the Company's separate financial statements.

**2.2. Investments in subsidiaries**

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment.

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

	Country of incorporation	Ownership interest As at 31 December 2010	Ownership interest As at 31 December 2009
T-Mobile Macedonia AD	Macedonia	100	100
e-Makedonija	Macedonia	100	100

T-Mobile Macedonia AD is the leading mobile service provider in Macedonia, while e-Makedonija is a foundation, established to support application and development of information technology in Macedonia.

Notes to the separate financial statements

### 2.3. Foreign currency translation

#### 2.3.1. Functional and presentation currency

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

#### 2.3.2. 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 recognised 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 2010 and 31 December 2009 were as follows:

	2010	2009
	MKD	MKD
1 USD	46.31	42.67
1 EUR	61.51	61.17
1 CHF	49.30	41.12

### 2.4. 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.

#### 2.4.1. Financial assets

The Company classifies its financial assets in the following categories:

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

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

Regular way purchases and sales of financial assets are recognized on the trade-date, the date on which the Company commits to purchase or sell the asset. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognized at fair value, and transaction costs are expensed in the 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 the derecognition of the financial asset, when the net carrying amount (including any allowance for

Notes to the separate financial statements

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 favourable market conditions for their sale.

'Financial assets at fair value through profit or loss' are subsequently carried at fair value. Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are recognized in the Profit for the year (Finance income/expenses) in the period in which they arise.

(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 with bank
- trade receivables
- other receivables
- employee loans
- receivables and loans to third parties

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

**Cash and cash equivalents**

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

Should an impairment on cash and cash equivalents occur, it would be recognized in the 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 original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the trade receivable is impaired.

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

## Notes to the separate financial statements

Individual valuation is carried out for the largest customers and international customers and also for customers under litigation 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 Other operating expenses in the Profit for the Year (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. 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 recognised on the trade-date – the date on which the Company commits to purchase or sell the asset.

Subsequent to initial recognition all available-for-sale financial assets are measured at fair value, except that any instrument that does not have a quoted market price in an active market and whose fair value cannot be reliably measured is stated at cost, including transaction costs, less impairment losses. The intention of the Company is to dispose these assets when there are favourable market conditions for their sale. Changes in the fair value of financial assets classified as available for sale are recognised in equity. When financial assets classified as available for sale are sold or impaired, the accumulated fair value adjustments recognised 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 any 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).

### **2.4.2. 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.

Notes to the separate financial statements

## **2.5. Inventories**

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

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

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

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

## **2.6. Non current assets held for sale**

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

## **2.7. Property, plant and equipment (PPE)**

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see note 2.9).

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 labour.

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).

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 12.

Notes to the separate financial statements

The estimated useful lives are as follows:

	2010	2009
	Years	Years
Buildings	20-40	20-40
Aerial and cable lines	20-25	20-25
Telephone exchanges	10	10
Computers	4	4
Furniture and fittings	4-10	4-6
Vehicles	4-10	4-10
Other	2-15	2-15

## 2.8. Intangible assets

Intangible assets that are acquired by the Company are stated at cost less accumulated amortisation and impairment losses (see note 2.9).

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

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 13).

The estimated useful lives are as follows:

	2010	2009
	Years	Years
Software and software licences	2-5	2-5
Concession	18	18

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

In determining whether an asset that incorporates both 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.

## 2.9. Impairment of PPE and intangible assets

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

Assets that are subject to 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.

## 2.10. 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.

Notes to the separate financial statements

Provisions are measured and recorded as the best estimate of the expenditure required to settle the present obligation at the financial statement date. 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.

**2.11. Share capital**

Ordinary shares are classified as equity.

**2.12. Treasury shares**

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

**2.13. Other reserves**

Under local statutory legislation, the Company is required to set aside 15 percent of its net statutory profit for the year in a statutory reserve until the level of the reserve reaches 1/5 of the share capital. These reserves are used to cover losses and are not distributed to shareholders except in the case of bankruptcy of the Company.

**2.14. 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 specific criteria of IAS18 on the sale of goods and rendering of services are met for the provision of each of the Company's services and sale of goods.

Customers of the Company are granted loyalty awards (credit points) based on their usage of the Company's services including timely payment of their invoices. Loyalty awards can be accumulated and redeemed to obtain future benefits (e.g. handsets, telecommunication equipment, etc.) from the Company. When customers earn their credit points, the fair value of the credit points earned are deducted from the revenue invoiced to the customer, and recognized as Other liabilities (deferred revenue). On redemption (or expiry) of the points, the deferred revenue is released to revenue as the customer collected (or waived) the undelivered element of the deemed bundle.

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

**2.14.1. Fixed line telecommunications revenues**

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

Customer subscriber arrangements typically include an equipment sale, subscription fee and charge for the actual voice, internet, data or multimedia services used. The Company considers the various elements of these arrangements to be separate earnings processes for IFRS purposes 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.

## Notes to the separate financial statements

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

Revenue and expenses associated with the sale of telecommunications equipment and accessories are recognized when the products are delivered, provided there are no unfulfilled company obligations that affect the customer's final acceptance of the arrangement.

Revenues from premium rate services (voice and non-voice) are recognized on a gross basis when the delivery of the service over the network is the responsibility of the Company, the Company establishes the prices of these services and bears substantial risks of these services, otherwise presented on a net basis.

Customers may also purchase prepaid 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 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 separate 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.

### **2.14.2. 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.

### **2.15. Dividend Income**

Dividend income 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.

### **2.16. Employee benefits**

#### **2.16.1. 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. Food allowances, travel expenses and 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



## Notes to the separate financial statements

scheme or post retirement benefits plan and consequently, has no obligation in respect of pensions. The Company has legal obligation to pay to employees two average monthly salaries in Republic of Macedonia at their retirement date, for which appropriate liability is recognized in the separate financial statements measured at the present value of two 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.

### **2.16.2. Bonus plans**

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

### **2.16.3. 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.

### **2.17. Marketing expenses**

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

### **2.18. Income taxes**

#### **2.18.1. Income tax**

Companies do not have to pay income tax on their profit before tax (earned since 1 January 2009) until that profit is distributed in a form of dividend or other forms of profit distributions. If dividend is paid, 10% income tax is payable at the moment of the dividend payment, regardless of whether in monetary or non-monetary form, to the foreign non resident legal entities and, foreign and domestic individuals. The dividends paid out to the resident legal entities are tax exempted. Apart of distribution of dividends, the tax is still payable on the non-deductable expenses incurred in that fiscal year, decreased by the amount of tax credits and other tax relief's (see note 2.19).

#### **2.18.2. Deferred income tax**

Due to the changes in the Macedonian tax legislation effective from 1 January 2009, the tax rate for undistributed profits was effectively reduced to zero, as tax is only payable when profits are distributed. According IAS 12.52A, deferred tax assets and liabilities should be measured using the undistributed rate. This resulted in reversal of part of the deferred tax asset and all deferred tax liability balances as of 31 December 2009, and reversal of all deferred tax assets as of 31 December 2010. In line with the requirements of SIC 25, the Company accounted the impact of this change in the profit and loss in 2009 and 2010, respectively (see note 9).

Notes to the separate financial statements

#### **2.19. Tax on non-deductible expenses**

At the end of fiscal year the companies are liable to pay tax on non deductible expenses, regardless of their financial results. The basis is expenses which are not within the scope of the company business i.e. non deductible expenses (representation expenses, provisions, gifts etc) less tax credits and other tax reliefs. The tax on non-deductible expenses is recognized in the Profit for the year (Other operating expenses) against Other taxes (see note 8).

#### **2.20. Leases**

##### **2.20.1. 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.

##### **2.20.2. 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.

#### **2.21. 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.

#### **2.22. Dividends declared by the Company**

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

#### **2.23. Comparative information**

The comparative information as presented in these separate financial statements is consistent with the current year presentation.

### **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 recognised 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 its assets and liabilities. Financial risk management aims to limit these market risks through ongoing operational and finance activities.

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

##### **3.1.1. Market risk**

Market risk is defined as the 'risk that the fair value or value or 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

Notes to the separate financial statements

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. As the global economic situation has not changed significantly compared to the end of the previous reporting period, the methods and assumptions used in the sensitivity calculations did not change significantly.

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 currencies giving rise to this risk are primarily 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 as well as local currency risk in accordance with the available banks offers. The Company manages the foreign exchange risk exposure through maintaining higher amount of deposits in EUR as a proven stable currency and by striving to lower the number of contracts with foreign operators in USD as relatively unstable currency in the period and by executing payments in USD from cash reserves in that currency.

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

The Company accumulated more cash in EUR and USD than its trade payables in EUR and USD. At 31 December 2010, if MKD would have been 1% (2009: 1%) weaker or stronger against EUR, profit would have been MKD 41,500 thousand (2009: 35,867 MKD thousand) in net balance higher or lower, respectively. At 31 December 2010, if MKD would have been 1% (2009: 1%) weaker or stronger against USD, profit would have been MKD 1,022 thousand (2009: MKD 373 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 interest rate risk and return on investment is of secondary importance compared to the safety and liquidity objectives described above. The Company is minimizing interest rate risk through defining of fixed interest rates in the period of the validity of certain financial investments. The investments are limited to relatively low risk financial investment forms in anticipation of earning a fair return relative to the risk being assumed.

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

The Company had MKD 6,786,872 thousand deposits (including call deposits) as of 31 December 2010, 1% rise in market interest rate would have caused (ceteris paribus) the interest received to increase with approx. MKD 67,869 thousand annually, while similar decrease would have caused the same decrease in interest received. Amount of deposit is MKD 7,726,842 thousand (including call deposits) as of 31 December 2009, therefore 1% rise in market interest rate would have caused (ceteris paribus) the interest received to increase with approx. MKD 77,268 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 favourable market conditions for their sale.

## Notes to the separate financial statements

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 of 31 December 2009 and 31 December 2010, the Company holds investments, which could be affected by risk variables such as stock exchange prices.

The Company had MKD 65,125 thousand investments in equity of other entities that are publically traded on the Macedonian Stock Exchange as of 31 December 2010, 20% rise in market price would have caused (ceteris paribus) MKD 13,025 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 61,376 thousand as of 31 December 2009, therefore 20% rise in market price would have caused (ceteris paribus) MKD 12,275 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.
- If the total amount of deposits can not be placed in banks covered with bank guarantees with at least BBB+ rating (or equivalent credit rating), then depositing will be performed in local banks without bank guarantee. In this case, the determination of counterparty limits per banks shall be performed in accordance with CAEL methodology (evaluation of bank risk components – capital, assets, earning and liquidity).

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

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

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

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

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

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

Notes to the separate financial statements

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.

The following table represents Company exposure to credit risk in 2010 and 2009:

In thousands of denars	2010	2009
Deposits with banks	5,777,401	7,126,056
Cash and cash equivalents	1,009,471	600,786
Trade debtors – domestic	1,556,551	1,475,611
Trade debtors – foreign	39,057	34,818
Loans to employees	123,035	121,924
Receivables from related parties	251,470	205,889
Other receivables	11,443	16,212
	<u>8,768,428</u>	<u>9,581,296</u>

Cash and cash equivalents in the table above exclude cash on hand as no credit risk exists for this category.

Largest amount of one deposit in 2010 is MKD 1,383,862 thousand, denominated in EUR 22,500 thousand, (2009: MKD 1,260,000 thousand). In addition, the Company has deposits with 5 domestic banks (2009: 5 domestic banks).

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

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

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

### 3.2. Capital risk management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The total amount of equity managed by the Company, as at 31 December 2010, is MKD 17,470,439 thousand, as per local GAAP (2009: MKD 17,970,698 thousand). Out of this amount MKD 9,583,888 thousand (2009: MKD 9,583,888 thousand) represent share capital and MKD 1,916,777 thousand (2009: MKD 1,916,777 thousand) represent statutory reserves, which are not distributable (see note 2.13). The Company has also acquired treasury shares (see notes 2.12 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 separate 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.

Notes to the separate financial statements

### **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 non current portion of trade receivables comprising of employee loans are 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.

## **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 194,410 thousand (2009: MKD 168,824 thousand). See note 12 for the changes made to useful lives in the reported years.

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

### **4.2. Estimated impairment of investments in subsidiaries**

We assess the impairment of investments in subsidiaries whenever there is a reason to believe that the carrying value may materially exceed the recoverable amount and where impairment of value is anticipated. In 2010 there are no indicators for impairment of investment in subsidiaries.

### **4.3. Estimated impairment of property, plant and equipment, and intangibles**

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% (2009: 1%) to determine the terminal value after 10 years. Value in use was determined using discounted cash flow analysis. The discount rate used was 9.38% (2009: 8.55%).

Notes to the separate financial statements

#### 4.4. 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 and international customers, impairment is calculated on an individual basis, while for other customers it is estimated on a portfolio basis, for which we base our estimate on the ageing of our account receivables balance and our historical write-off experience, customer credit-worthiness and recent changes in our customer payment terms (see note 2.4.1 (b)). These factors are reviewed periodically, and changes are made to the calculations when necessary. 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).

#### 4.5. 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. 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.

#### 4.6. Subscriber acquisition costs

Subscriber acquisition costs primarily include the loss on the equipment sales (revenues and costs disclosed separately) and fees paid to subcontractors that act as agents to acquire new customers. The Company's agents also spend a portion of their agent fees for marketing the Company's products, while a certain part of the Company's marketing costs could also be considered as part of the subscriber acquisition costs. The up-front fees collected from customers for activation or connection are marginal compared to the acquisition costs. These revenues and costs are recognized when the customer is connected to the Company's fixed network. No such costs or revenues are capitalized or deferred. These acquisition costs (losses) are recognized immediately as they are not accurately separable from other marketing costs. The total amount of agent fees in 2010 is MKD 7,778 thousand (2009: MKD 12,526 thousand).

### 5. CASH AND CASH EQUIVALENTS

In thousands of denars	2010	2009
Call deposits	1,009,471	600,786
Cash on hand	40	33
	<u>1,009,511</u>	<u>600,819</u>

The interest rate on call deposits is in range from 0.50% p.a. to 2.00% p.a. (2009: from 2.21% p.a. to 4.10% 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	2010	2009
MKD	993,990	452,593
EUR	15,404	146,964
USD	113	1,250
Other	4	12
	<u>1,009,511</u>	<u>600,819</u>

Notes to the separate financial statements

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

In thousands of denars	2010	2009
Credit rating of the Guarantor : A+	816,177	-
Credit rating of the Guarantor : A	142,576	83
Credit rating of the Guarantor : A-	44,965	1,513
Credit rating of the Guarantor : BB+	5,753	-
Credit rating of the Guarantor : BBB+	-	599,190
	<u>1,009,471</u>	<u>600,786</u>

**6. DEPOSITS WITH BANKS**

Deposits with banks represent cash deposits in reputable domestic banks, with interest rates in range from 1.00% p.a. to 4.35% p.a. (2009: from 2.00% p.a. to 4.85% 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	2010	2009
MKD	1,317,224	3,112,436
EUR	4,460,177	4,013,620
	<u>5,777,401</u>	<u>7,126,056</u>

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	2010	2009
Credit rating of the Guarantor : A+	1,634,103	927,013
Credit rating of the Guarantor : A	1,238,307	528,237
Credit rating of the Guarantor : A-	2,904,952	3,097,995
Credit rating of the Guarantor : BB+	39	-
Credit rating of the Guarantor : BBB+	-	2,572,811
	<u>5,777,401</u>	<u>7,126,056</u>



Notes to the separate financial statements

## 7. TRADE AND OTHER RECEIVABLES

In thousands of denars	2010	2009
Trade debtors – domestic	2,690,041	2,901,596
Less: allowance for impairment	(1,133,490)	(1,425,985)
Trade debtors – domestic – net	1,556,551	1,475,611
Trade debtors – foreign	39,057	34,818
Receivables from related parties	251,470	205,889
Loans to third parties	3,088	3,033
Less: allowance for impairment	(3,088)	(3,033)
Loans to third parties– net	-	-
Loans to employees	123,035	121,924
Other receivables	11,443	16,212
Financial assets	1,981,556	1,854,454
Advances given to suppliers	80,296	103,445
Less: allowance for impairment	(74,050)	(74,050)
Advances given to suppliers – net	6,246	29,395
Prepayments and accrued income	51,565	36,602
	<u>2,039,367</u>	<u>1,920,451</u>
Less non-current portion: Other receivables	(8,714)	(6,841)
Less non-current portion: Loans to employees	(99,363)	(101,076)
Less non-current portion: Trade debtors -domestic	(207,202)	-
Current portion	<u>1,724,088</u>	<u>1,812,534</u>

Receivables from related parties represent receivables from T-Mobile Macedonia AD Skopje, Magyar Telekom Group and Deutsche Telekom Group (see note 29).

Loans to employees are collateralised 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 rates of 6.25% p.a., 7% p.a. and 9.45% p.a. (2009: 4.55% and 7% p.a.).

Other receivables contain restricted cash in amount of MKD 9,570 thousand (2009: MKD 13,966 thousand) representing performance guaranties issued for sales projects.

All non-current receivables are due within 15 years of the financial statement date.

As of 31 December 2010, domestic trade debtors of MKD 1,503,455 thousand (2009: MKD 1,750,705 thousand) are impaired. The ageing of these receivables is as follows:

In thousands of denars	2010	2009
Less than 30 days	172,964	183,007
Between 31 and 180 days	226,489	199,001
Between 181 and 360 days	55,956	101,147
More than 360 days	1,048,046	1,267,550
	<u>1,503,455</u>	<u>1,750,705</u>

The total amount of the provision for domestic trade debtors is MKD 1,133,490 thousand (2009: MKD 1,425,985 thousand). Out of this amount MKD 1,125,017 thousand (2009: MKD 1,380,783 thousand) relate to provision made according the ageing structure of the above receivables, while, the amount of MKD 1,007 thousand (2009: MKD 4,560 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 amounting to MKD 7,466 thousand (2009: MKD 40,642 thousand).

The amount of impairment compared to the gross value of the domestic trade receivables is mainly a result of receivables which are overdue more than 360 days. The total amount of fully impaired receivables is MKD 923,264 thousand (2009 MKD 1,174,233 thousand). These receivables are mainly from two way disconnected customers, dismantled customers, litigated customers and customers that are no longer using the Company services.

Notes to the separate financial statements

The fair values of trade and other receivables are as follows:

In thousands of denars	2010	2009
Trade debtors – domestic	1,556,551	1,475,611
Trade debtors – foreign	39,057	34,818
Receivables from related parties	251,470	205,889
Loans to employees	123,035	121,924
Other receivables	11,443	16,212
Financial assets	<u>1,981,556</u>	<u>1,854,454</u>
Advances given to suppliers	6,246	29,395
Prepayments and accrued income	<u>51,565</u>	<u>36,602</u>
	<u>2,039,367</u>	<u>1,920,451</u>

Movement in allowance for impairment of domestic trade debtors

In thousands of denars	2010	2009
Impairment losses at 1 January	1,425,985	1,469,889
Charged to expense	18,845	68,434
Write off	<u>(311,340)</u>	<u>(112,338)</u>
Impairment losses at 31 December	<u>1,133,490</u>	<u>1,425,985</u>

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

As of 31 December 2010, foreign trade receivables in amount of MKD 27,009 thousand (2009: MKD 24,601 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 foreign trade receivables is as follows:

In thousands of denars	2010	2009
Less than 30 days	3,299	6,099
Between 31 and 60 days	624	906
Between 61 and 90 days	426	8,638
Between 91 and 180 days	7,565	460
Between 181 and 360 days	7,448	1,279
More than 360 days	<u>7,647</u>	<u>7,219</u>
	<u>27,009</u>	<u>24,601</u>

There are no other past due but not impaired receivables except above mentioned.

The Company has renegotiated domestic trade receivables in carrying amount of MKD 33,437 thousand (2009: MKD 19,269 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 the following currencies:

In thousands of denars	2010	2009
MKD	315,279	102,263
EUR	-	5,654
	<u>315,279</u>	<u>107,917</u>

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

In thousands of denars	2010	2009
MKD	1,580,309	1,721,000
EUR	138,812	85,474
USD	280	762
Other	4,687	5,298
	<u>1,724,088</u>	<u>1,812,534</u>

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

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

In thousands of denars	2010	2009
Group 1	632,897	761,688
Group 2	110,937	259,796
Group 3	235,550	129,407
	<u>979,384</u>	<u>1,150,891</u>

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

In thousands of denars	2010	2009
Group 1	9,419	7,969
Group 2	2,629	2,248
	<u>12,048</u>	<u>10,217</u>

Group 1 –customers that on average are paying their bills before due date.

Group 2 –customers that on average are paying their bills on due date.

Group 3 –customers that on average are paying their bills after due date.

## 8. OTHER TAXES

Commencing from 1 January 2009 and during 2010 the Government of the Republic of Macedonia has introduced several modifications and changes in the Profit Tax Law. According these changes the base for computation of income tax are non-deductible expenses incurred during the fiscal year, while the income tax is payable at the moment of profit distribution in a form of dividend to a foreign legal entities, foreign and domestic individuals. Dividend distribution among domestic companies is tax exempted. Therefore as of 31 December 2010 the tax computed on non-deductable expenses are presented as part of Other operating expenses in the Profit for the year and Other taxes in the Financial position statement (see note 24).

### 8.1. Other taxes receivable

In thousands of denars	2010	2009
VAT receivable	62,611	2,195
Tax on non-deductable expenses receivable	29,550	-
	<u>92,161</u>	<u>2,195</u>

### 8.2. Other taxes payable

In thousands of denars	2010	2009
VAT payable	-	21,285
Other taxes payable	-	581
	<u>-</u>	<u>21,866</u>

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## 9. DEFERRED INCOME TAX

Recognised deferred income tax (assets)/liabilities

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

In thousands of denars	Assets		Liabilities		Net	
	2010	2009	2010	2009	2010	2009
Property, plant and equipment	-	(1,951)	-	-	-	(1,951)
Trade and other receivables	-	(1,426)	-	-	-	(1,426)
Financial assets at fair value through profit and loss	-	(1,555)	-	-	-	(1,555)
Trade and other payables	-	(5,284)	-	-	-	(5,284)
Provisions	-	(25,437)	-	-	-	(25,437)
Tax (assets)/liabilities	-	(35,653)	-	-	-	(35,653)
Net tax assets/(liabilities)	-	(35,653)	-	-	-	(35,653)

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 relate to the same fiscal authority. The offset amounts are as follows:

In thousands of denars	2009
Deferred income tax assets:	
Deferred income tax asset to be recovered after more than 12 months	21,535
Deferred income tax asset to be recovered within 12 months	14,118
	<u>35,653</u>
Deferred tax liabilities:	
Deferred income tax liability to be recovered after more than 12 months	-
Deferred income tax liability to be recovered within 12 months	-
	<u>-</u>
Deferred income tax assets/(liabilities) net	<u>35,653</u>

Due to the changes in the Macedonian tax legislation, part of the deferred tax asset and all the liability balances were reversed as of 31 December 2009 and all deferred tax assets were reversed as of 31 December 2010 (see note 2.18.2).

Movement in temporary differences during the year

In thousands of denars	Balance 1 January 2010	Recognised in income	Balance 31 December 2010
Property, plant and equipment	(1,951)	1,951	-
Trade and other receivables	(1,426)	1,426	-
Financial assets at fair value through profit and loss	(1,555)	1,555	-
Trade and other payables	(5,284)	5,284	-
Provision	(25,437)	25,437	-
	<u>(35,653)</u>	<u>35,653</u>	<u>-</u>

Notes to the separate financial statements

In thousands of denars	Balance 1 January 2009	Recognised in income	Balance 31 December 2009
Property, plant and equipment	368,433	(370,384)	(1,951)
Intangible assets	8,026	(8,026)	-
Inventory	(34)	34	-
Trade and other receivables	(154,394)	152,968	(1,426)
Financial assets at fair value through profit and loss	1,591	(3,146)	(1,555)
Trade and other payables	(6,523)	1,239	(5,284)
Provision	(90,740)	65,303	(25,437)
	<u>126,359</u>	<u>(162,012)</u>	<u>(35,653)</u>

Due to the changes in the Macedonian tax legislation, the temporary differences in 2009 relate to non-deductible expenses giving rise to future tax credits, mainly for provisions charged to the Profit for the year (see note 2.18 and note 24).

**10. INVENTORIES**

In thousands of denars	2010	2009
Materials	131,972	73,919
Inventory for resale	87,681	68,890
Write down of inventories to net realisable value	<u>(4,429)</u>	<u>(7,894)</u>
	<u>215,224</u>	<u>134,915</u>

Movement in allowance for inventories to net realizable value:

In thousands of denars	2010	2009
Allowance at 1 January	7,894	16,382
Charged to expense	4,872	12,464
Write off	<u>(8,337)</u>	<u>(20,952)</u>
Allowance at 31 December	<u>4,429</u>	<u>7,894</u>

Allowance for inventory mainly relates to obsolete materials.

**11. ASSETS HELD FOR SALE**

Assets held for sale represent property, plant and equipment which are unusable within the Company and are identified for sale. Management intentions are to sell these assets within one year, subject to extension in certain circumstances. There is a plan to sell these assets and management has started to actively market them at a reasonable price.

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**12. PROPERTY, PLANT AND EQUIPMENT**

In thousands of denars	Land	Buildings	Telecomm unication equipment	Other	Assets under construction	Total
<b>Cost</b>						
At 1 January 2009	6,292	3,893,882	18,930,436	2,532,670	204,117	25,567,397
Additions	-	31,143	743,783	250,702	708,394	1,734,022
Transfer from assets under construction (see note 13)	-	298	65,930	65,826	(188,853)	(56,799)
Disposals	-	(2,300)	(175,863)	(183,558)	-	(361,721)
Transfer to assets held for sale	-	(68,047)	-	(32,723)	-	(100,770)
At 31 December 2009	6,292	3,854,976	19,564,286	2,632,917	723,658	26,782,129
<b>Depreciation</b>						
At 1 January 2009	-	1,370,425	11,254,400	1,832,975	-	14,457,800
Charge for the year	-	114,784	1,012,560	214,507	-	1,341,851
Disposals	-	(610)	(138,959)	(158,520)	-	(298,089)
Transfer to assets held for sale	-	(30,137)	-	(32,505)	-	(62,642)
At 31 December 2009	-	1,454,462	12,128,001	1,856,457	-	15,438,920
<b>Carrying amount</b>						
At 1 January 2009	6,292	2,523,457	7,676,036	699,695	204,117	11,109,597
At 31 December 2009	6,292	2,400,514	7,436,285	776,460	723,658	11,343,209

In thousands of denars	Land	Buildings	Telecomm unication equipment	Other	Assets under construction	Total
<b>Cost</b>						
At 1 January 2010	6,292	3,854,976	19,564,286	2,632,917	723,658	26,782,129
Additions	-	37,001	1,085,436	226,603	706,972	2,056,012
Transfer from assets under construction (see note 13)	-	2,427	409,034	125,913	(615,374)	(78,000)
Disposals	-	(15,716)	(313,016)	(376,767)	(15,149)	(720,648)
Transfer to assets held for sale	-	(26,841)	-	-	-	(26,841)
Transfer between group of assets (see note 13)	-	50,363	-	-	-	50,363
At 31 December 2010	6,292	3,902,210	20,745,740	2,608,666	800,107	28,063,015
<b>Depreciation</b>						
At 1 January 2010	-	1,454,462	12,128,001	1,856,457	-	15,438,920
Charge for the year	-	125,412	1,182,652	238,451	-	1,546,515
Disposals	-	(8,658)	(262,681)	(366,272)	-	(637,611)
Transfer to assets held for sale	-	(24,367)	-	-	-	(24,367)
Transfers between categories (see note 13)	-	31,628	-	7	-	31,635
At 31 December 2010	-	1,578,477	13,047,972	1,728,643	-	16,355,092
<b>Carrying amount</b>						
At 1 January 2010	6,292	2,400,514	7,436,285	776,460	723,658	11,343,209
At 31 December 2010	6,292	2,323,733	7,697,768	880,023	800,107	11,707,923

The transfer between asset categories had no impact on depreciation expense.

The review of the useful lives of property, plant and equipment during 2010 affected the lives of a several types of assets. The assets affected by the change of useful life were mainly modems/routers, electronic securities systems for monitoring and

Notes to the separate financial statements

burglary protection, fiscal printers, air-conditioner and fix line phone sets. The change on the useful life on the affected assets was made due to technological changes and business plans of the Company.

The review results in the following change in the original trend of depreciation in the current and future years.

In thousands of denars	2010	2011	2012	2012	After 2013
Increase / (decrease) in depreciation	33,650	25,869	20,998	18,932	(99,449)
	<u>33,650</u>	<u>25,869</u>	<u>20,998</u>	<u>18,932</u>	<u>(99,449)</u>

**13. INTANGIBLE ASSETS**

In thousands of denars	Software and software licences	Concession	Other	Total
<b>Cost</b>				
At 1 January 2009	1,920,317	154,757	62,319	2,137,393
Additions	102,160	-	3,425	105,585
Transfer from assets under construction (see note 12)	46,469	-	10,330	56,799
Disposals	-	-	-	-
At 31 December 2009	<u>2,068,946</u>	<u>154,757</u>	<u>76,074</u>	<u>2,299,777</u>
<b>Amortisation</b>				
At 1 January 2009	1,378,584	68,781	50,329	1,497,694
Charge for the year	163,664	8,598	5,300	177,562
Disposals	-	-	-	-
At 31 December 2009	<u>1,542,248</u>	<u>77,379</u>	<u>55,629</u>	<u>1,675,256</u>
<b>Carrying amount</b>				
At 1 January 2009	541,733	85,976	11,990	639,699
At 31 December 2009	<u>526,698</u>	<u>77,378</u>	<u>20,445</u>	<u>624,521</u>

In thousands of denars	Software and software licences	Concession	Other	Total
<b>Cost</b>				
At 1 January 2010	2,068,946	154,757	76,074	2,299,777
Additions	124,981	-	6,444	131,425
Transfer from assets under construction (see note 12)	78,000	-	-	78,000
Disposals	-	-	-	-
Transfers between categories (see note 12)	-	-	(50,363)	(50,363)
At 31 December 2010	<u>2,271,927</u>	<u>154,757</u>	<u>32,155</u>	<u>2,458,839</u>
<b>Amortisation</b>				
At 1 January 2010	1,542,248	77,379	55,629	1,675,256
Charge for the year	188,230	8,597	6,349	203,176
Disposals	-	-	-	-
Transfers between categories (see note 12)	-	-	(31,634)	(31,634)
At 31 December 2010	<u>1,730,478</u>	<u>85,976</u>	<u>30,344</u>	<u>1,846,798</u>
<b>Carrying amount</b>				
At 1 January 2010	526,698	77,378	20,445	624,521
At 31 December 2010	<u>541,449</u>	<u>68,781</u>	<u>1,811</u>	<u>612,041</u>

The transfer between asset categories had no impact on depreciation expense.

The review of the useful lives of intangible assets during 2010 confirmed the useful lives of these assets.

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#### 14. TRADE AND OTHER PAYABLES

In thousands of denars	2010	2009
Trade payables		
-Domestic	720,424	551,924
-Foreign	156,340	175,341
Liabilities to related parties	469,354	270,933
Other liabilities	112,249	44,749
Financial liabilities	1,458,367	1,042,947
Accrued expenses	721,270	815,847
Deferred revenue	54,570	56,076
Advances received	40,208	34,265
Other	34,765	34,765
	<u>2,309,180</u>	<u>1,983,900</u>

Liabilities to related parties represent liabilities to T-Mobile Macedonia AD Skopje, Magyar Telekom Group and Deutsche Telekom Group (see note 29).

The ageing analysis of domestic and foreign trade payables are as follows:

In thousands of denars	2010	2009
Less than 90 days	797,071	683,038
Between 90 and 180 days	42,610	10,826
More than 181 days	37,083	33,401
	<u>876,764</u>	<u>727,265</u>

The table above does not represent a contractual maturity but rather an aging analysis where the major part of the payables are within 90 days which is the Company's regular term for payment to suppliers.

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

In thousands of denars	2010	2009
MKD	1,724,747	1,266,384
EUR	464,429	665,014
USD	102,550	39,359
Other	17,454	13,143
	<u>2,309,180</u>	<u>1,983,900</u>

#### 15. PROVISION FOR OTHER LIABILITIES AND CHARGES

In thousands of denars	Legal cases	Other	Total
1 January 2010	625,802	231,758	857,560
Additional provision	76,565	22,567	99,132
Unused amount reversed	(137,850)	(6,024)	(143,874)
Used during period	(3,704)	(227,972)	(231,676)
31 December 2010	<u>560,813</u>	<u>20,329</u>	<u>581,142</u>

In thousands of denars	Legal cases	Severance	Other	Total
1 January 2009	741,384	153,720	212,030	1,107,134
Additional provision	140,095	2,673	23,053	165,821
Unused amount reversed	(26,794)	(54,729)	(3,068)	(84,591)
Used during period	(228,883)	(101,664)	(257)	(330,804)
31 December 2009	<u>625,802</u>	<u>-</u>	<u>231,758</u>	<u>857,560</u>



Notes to the separate financial statements

Analysis of total provisions:

In thousands of denars	2010	2009
Non current (legal cases and other)	520,389	311,767
Current	60,753	545,793
	<u>581,142</u>	<u>857,560</u>

Provisions for legal cases mainly relate to certain legal and regulatory claims brought against the Company. There are numerous legal cases for which provisions were recognized, none of which are individually material, therefore not disclosed. For certain legal cases information required under IAS 37 is not disclosed, if we have concluded that the disclosure can be expected to seriously prejudice the outcome of the proceedings.

Based on legal advice, the 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 2010.

Other includes provision made for the legal obligation of the Company to pay to employees two average monthly salaries in Republic of Macedonia at their retirement date (see note 2.16.1) and provision made for MTIP (see note 30). The provision is recognized against Personnel expenses in the Profit for the year. In addition, as a result of the findings of the Investigation, the identified impact was recognized under Provision for other liabilities and charges (see note 1.2).

**16. CAPITAL AND RESERVES**

Share capital consists of the following:

In thousands of denars	2010	2009
Ordinary shares	9,583,878	9,583,878
Golden share	10	10
	<u>9,583,888</u>	<u>9,583,888</u>

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 of 31 December 2010, the ordinary shares of the Company were held as follows:

In thousands of denars	2010	%
Stonebridge AD Skopje, in liquidation	4,887,778	51.00
Government of the Republic of Macedonia	3,336,497	34.81
The Company (treasury shares)	958,388	10.00
International Finance Corporation (IFC)	179,698	1.88
Other minority shareholders	221,527	2.31
	<u>9,583,888</u>	<u>100.00</u>

**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.

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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 1.2).

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.

**17. REVENUES**

In thousands of denars	2010	2009
Voice retail	3,401,760	4,367,896
Voice wholesale	1,922,963	1,317,792
Internet	1,284,049	1,179,299
Data	1,036,982	961,012
Equipment	359,350	373,178
TV	298,534	224,613
Other revenues	180,065	295,784
	<u>8,483,703</u>	<u>8,719,574</u>

**18. PERSONNEL EXPENSES**

In thousands of denars	2010	2009
Salaries	747,027	666,428
Contributions on salaries	242,725	230,637
Bonus payments	152,974	120,709
Other staff costs	92,754	113,954
Capitalised personnel costs	(88,501)	(66,230)
	<u>1,146,979</u>	<u>1,065,498</u>

Other staff costs mainly include holiday's allowance, termination benefits for 15 employees leaving the Company in 2010 (2009: 12 employees) and other benefits.

Bonus payments also include the cost for the Magyar Telekom's Mid Term Incentive Plan ("MTIP") (see note 30).

**19. OTHER OPERATING EXPENSES**

In thousands of denars	2010	2009
Services	406,969	426,443
Purchase cost of goods sold	405,602	469,063
Materials and maintenance	365,208	384,074
Premium rate services	216,232	232,450
Marketing and donations	203,045	225,761
Energy	180,222	152,651
Consultancy	75,070	53,958
Rental fees	37,322	40,236
Fees, levies and local taxes	36,584	181,467
Tax on non-deductable expenses	22,405	-
Impairment losses on trade and other receivables	18,845	68,434
Insurance	13,780	13,406
Write down of inventories to net realisable value	4,872	12,464
Other	89,613	(17,435)
	<u>2,075,769</u>	<u>2,242,972</u>

Services mainly include postal expenses, expenses for maintenance of IT equipment and other service fees (such as cleaning, security and mobile telecommunication services).

Notes to the separate financial statements

Commencing from 1 January 2009 and during 2010 the Government of the Republic of Macedonia has introduced several modifications and changes in the Profit Tax Law. According these changes the base for computation of income tax are non-deductible expenses incurred during the fiscal year, while the income tax is payable at the moment of profit distribution in a form of dividend to a foreign legal entities, foreign and domestic individuals. Dividend distribution among domestic companies is tax exempted. Therefore as of 31 December 2010 the tax computed on non-deductible expenses are presented as part of Other operating expenses in the Profit for the year and as part of Other taxes in the Financial position statement (see note 24).

**20. DIVIDEND INCOME**

The major part of dividend income in 2010 is dividend received from T-Mobile Macedonia AD Skopje in the amount of MKD 4,019,131 thousand (2009: MKD 4,355,314 thousand).

**21. OTHER OPERATING INCOME**

Other operating income represents gain on sale of PPE.

**22. FINANCE EXPENSES**

In thousands of denars	2010	2009
Interest expense	41,660	8,681
Bank charges and other commissions	26,083	18,112
Fair value and available for sale – loss	646	3,133
Net foreign exchange loss	-	27,791
	<u>68,389</u>	<u>57,717</u>

**23. FINANCE INCOME**

In thousands of denars	2010	2009
Interest income	270,891	301,939
Net foreign exchange gain	40,254	-
Fair value gain	3,750	-
	<u>314,895</u>	<u>301,939</u>

Interest income is generated from financial assets classified as loans and receivables.

**24. INCOME TAX EXPENSE**

Recognized in the Profit for the year:

In thousands of denars	2010	2009
Current tax expense		
Current year	<u>17,416</u>	<u>31,323</u>
Deferred tax expense		
Origination and reversal of temporary differences	<u>35,653</u>	<u>(162,012)</u>
Total income tax in profit for the year	<u>53,069</u>	<u>(130,689)</u>

Commencing from 1 January 2009 and during 2010 The Government of the Republic of Macedonia has introduced several modifications and changes in the Profit Tax Law. According these changes the base for computation of income tax are non-deductible expenses incurred during the fiscal year while the income tax is payable at the moment of profit distribution in a form of dividend to a foreign legal entities, foreign and domestic individuals. Dividend distribution among domestic companies is tax exempted. In addition, the income tax shall apply at the moment of the distribution of the profits in a form of dividends. Subsequently, as long as the undistributed profits are retained within the company the income tax would not be applied (see note 2.18).

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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 income tax for 2008 and 2009, withholding tax for 2007 and 2008 and VAT for 2009. 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 separate financial statements.

**25. DIVIDENDS**

The Shareholders' Assembly of the Company, at its meeting, held on 2 July 2010 adopted a Resolution for the dividend payment for the year 2009. The Resolution on dividend payment for 2009 is in the amount of MKD 6,470,029 thousand from the net profit for the year 2009. The dividend was paid out on July 2010. Up to date of issuing of these separate financial statements, no dividends have been declared for 2010.

**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 and other telecommunications facilities.

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

In thousands of denars	2010	2009
Not later than 1 year	28,095	14,338
Later than 1 year and not later than 5 years	37,341	36,464
Later than 5 years	276	391
	<u>65,712</u>	<u>51,193</u>

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

Operating lease commitments – where the Company is the lessor are mainly from lease of working premises.

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

In thousands of denars	2010	2009
Not later than 1 year	554	581
Later than 1 year and not later than 5 years	378	718
	<u>932</u>	<u>1,299</u>

**26.3. Capital commitments**

The amount authorized for capital expenditure as at 31 December 2010 was MKD 244,821 thousand (2009: MKD 382,583 thousand).

**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).

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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.

There was no transfer between Level 1 and Level 2 financial assets.

**27.1. Financial assets – Carrying amounts and fair values**

The table below shows the categorization of financial assets as at 31 December 2009.

Assets In thousands of denars	Loans and receivables	Financial assets			Carrying amount	Fair value
		Held-to- maturity	Available-for- sale (Level 2)	At fair value through profit and loss (Level 1)		
Cash and cash equivalents	600,819	-	-	-	-	600,819
Deposits with banks	7,126,056	-	-	-	-	7,126,056
Trade and other receivables	1,812,534	-	-	-	-	1,812,534
Available-for-sale financial assets	-	-	591	-	-	591
Financial assets at fair value through profit and loss	-	-	-	61,376	61,376	61,376

The table below shows the categorization of financial assets as at 31 December 2010.

Assets In thousands of denars	Loans and receivables	Financial assets			Carrying amount	Fair value
		Held-to- maturity	Available-for- sale (Level 2)	At fair value through profit and loss (Level 1)		
Cash and cash equivalents	1,009,511	-	-	-	-	1,009,511
Deposits with banks	5,777,401	-	-	-	-	5,777,401
Trade and other receivables	1,724,088	-	-	-	-	1,724,088
Financial assets at fair value through profit and loss	-	-	-	65,125	65,125	65,125

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, 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 65,125 thousand (2009: MKD 61,376 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 22 and 23). The cost of these equity investments is MKD 31,786 thousand (2009: MKD 31,786 thousand).

**27.2. Other disclosures about financial instruments**

The Company is also exposed to risks that arise from the possible drawdown of guarantees in a nominal amount of MKD 9,570 thousand as at 31 December 2010 (2009: MKD 13,966 thousand). These guarantees were issued by Macedonian

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banks on behalf of Company as collaterals to secure the fulfilment of the Company's certain contractual obligations. The Company has been delivering on its contractual obligations and expects to continue doing so in the future, therefore no drawdown of the guarantees has happened so far, and is not expected to happen in the future.

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. It is not anticipated by the management of the Company 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 the terms and conditions that would prevail in arms-length transactions.

Transactions with related parties include provision and supply of telecommunication services and equipment, loans granted and supply of management consultancy services. The amounts receivable and payable are disclosed in the appropriate notes (see note 7 and 14).

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

In thousands of denars	2010		2009	
	Revenues	Expenses	Revenues	Expenses
T-Mobile Macedonia AD Skopje	694,405	1,064,570	664,929	970,903
Magyar Telekom Group				
Magyar Telekom Plc	23,579	66,107	30,877	111,634
IQSYS Magyar Telekom	-	11,282	-	11,868
Telemakedonija AD	248	-	251	-
Crnogorski Telekom	12	-	-	-
Novatel	2,697	151	10,209	5,853
Origo Zrt	-	469	-	-
Deutsche Telekom Group				
Deutsche Telekom AG	1,321,963	213,278	812,539	195,518
Hrvatski Telekom	21	-	250	2,224
Slovak Telekom	-	-	-	18
T-Systems	6,268	2,030	32,593	5,384
Detecon	-	21,111	-	612
Cosmofon OTE	-	-	10,694	57,227
OTE Globe	18,847	16,047	16,662	6,508
Romtelekom	198	150	327	-

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

In thousands of denars	2010		2009	
	Receivables	Payables	Receivables	Payables
T-Mobile Macedonia AD Skopje	148,573	359,293	159,965	191,068
<b>Magyar Telekom Group</b>				
Magyar Telekom Plc	1,784	50,269	2,967	57,103
IQSYS Magyar Telekom	-	5,635	-	5,016
Telemakedonija AD	21	-	24	-
Novatel	367	1,553	311	672
<b>Deutsche Telekom Group</b>				
Deutsche Telekom AG	97,362	37,329	39,934	6,906
OTE Globe	925	-	-	1,056
Romtelekom	66	7,884	329	-
T-Systems	2,372	3,733	2,359	8,500
Detecon	-	3,658	-	612

### 30. KEY MANAGEMENT COMPENSATION

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

In thousands of denars	2010	2009
Short-term employee benefits (including taxation)	115,636	99,672
State contributions on short-term employee benefits	6,185	5,599
Share-based payments	1,591	2,689
	<u>123,412</u>	<u>107,960</u>

The remuneration of the members of the Company's Board of Directors amounted to MKD 4,650 thousand (2009: MKD 6,120 thousand) included in Short-term employee benefits.

The share-based payments represent compensation of key management from the Company as part of a Mid Term Incentive Plan (MTIP) launched by Magyar Telekom Plc., whereby the targets to be achieved are based on the performance of the Magyar Telekom Plc. shares. Participants include top and senior managers of the Magyar Telekom Group.

The MTIP is operated by Magyar Telekom Plc. while the compensation of key management from the Company related to the MTIP is incurred by the Company (for MTIP programs launched 2008 and 2009) and is included in Personnel expenses (Bonus Payments) recognized against Other provisions (see notes 15 and 18).

### 31. EVENTS AFTER THE FINANCIAL STATEMENT DATE

There are no events after the financial statement date that would have impact on the 2010 profit for the year, separate statement of financial position or cash flows.