Makedonski Telekom AD - Skopje
Consolidated Annual Accounts

INCOME STATEMENT
(PROFIT AND LOSS ACCOUNT)
for the period of 01.01 until 31.12 2014

(in denars)

No.	POSITION	Designation for ADP	Note number	Amount	
				Current year	Previous year
1	2	3	4	5	6
1.	**I. OPERATING REVENUES (202+203+206)**	201		**11,144,508,986**	**12,623,217,991**
2.	Sales revenues	202	13	11,022,222,496	12,406,117,680
3.	Other income	203	14	122,286,490	217,100,311
4.	Change of the value of the inventories of the finished products and work in progress	xxx			
4.a.	Inventories of finished products and work in progress - opening balance	204			
4.b.	Inventories of finished products and work in progress - closing balance	205			
5.	Capitalized own production and services	206			
6.	**II. OPERATING EXPENSES (208+209+210+211+212+213+218+219+220+221+222)**	207		**8,913,654,373**	**10,047,551,771**
7.	Costs for raw materials and other materials	208		287,684,823	342,569,533
8.	Cost of goods sold	209		1,542,491,542	1,402,223,659
9.	Cost of sold materials, spare parts, small inventory, packaging material and car tires	210			
10.	Services with a character of material costs	211	15	2,176,290,551	2,688,490,604
11.	Other operating costs	212	15	1,201,148,108	1,237,622,437
12.	Employees related costs (214+215+216+217)	213		1,214,273,030	1,814,767,417
12.a.	Salaries and salary remunerations (net)	214		710,608,982	806,110,791
12.б.	Costs for taxes to salaries and salary remunerations	215		65,835,698	74,554,773
12.в.	Contributions for mandatory social insurance	216		269,945,288	319,075,318
12.г.	Other employees related costs	217		167,883,062	615,026,535
13.	Depreciation/amortisation of tangible and intangible assets	218		2,383,989,809	2,349,335,379
14.	Impairment of non - current assets	219			
15.	Impairment of current assets	220	15	55,962,591	65,680,339
16.	Provisions for liabilities and expenses	221		21,719,421	35,963,960
17.	Other operating expenses	222	15	30,094,498	110,898,443
18.	**III. FINANCE INCOME (224+229+230+231+232+233)**	223		**79,635,103**	**141,247,831**
19.	Finance income from the operation with related parties (225+226+227+228)	224			
19.a.	Income from investments in related parties	225			
19.b.	Interest income from the operation with related parties	226			
19.c.	Foreign exchange income from the operation with related parties	227			
19.d.	Other finance income from the operation with related parties	228			
20.	Income from investments in unrelated parties	229		130,958	1,640,182
21.	Interest income from the operation with unrelated parties	230		70,607,316	139,607,649
22.	Foreign exchange income from the operation with unrelated parties	231		8,103,076	
23.	Unrealised gains (income) from financial assets	232		793,753	
24.	Other finance income	233			
25.	**IV. FINANCE EXPENSES (235+239+240+241+242+243)**	234		**133,543,643**	**67,912,713**
26.	Finance expenses from the operation with related parties (236+237+238)	235			
26.a.	Interest expenses from the operation with related parties	236			
26.b.	Foreign exchange expenses from the operation with related parties	237			
26.c.	Other finance expenses from the operation with related parties	238			
27.	Interest expenses from the operation with unrelated parties	239		118,080,006	60,180,332
28.	Foreign exchange expenses from the operation with unrelated parties	240			659,116
29.	Unrealised losses (expenses) from financial assets	241			7,073,265
30.	Impairment of the financial assets and investments	242			
31.	Other finance expenses	243		15,463,637	
32.	Share in the profit of the associated companies	244			
33.	Share in the loss of the associated companies	245			
34.	Profit from the regular operation (201+223+244) - (204-205+207+234+245)	246		2,176,946,073	2,649,001,338
35.	Loss from the regular operation (204-205+207+234+245) - (201+223+244)	247			
36.	Net profit from discontinued operation	248			
37.	Net loss from discontinued operation	249			
38.	Profit before tax (246+248) or (246-249)	250		2,176,946,073	2,649,001,338
39.	Loss before tax (247+249) or (247-248)	251			
40.	Income tax	252		754,264,764	87,262,004
41.	Deferred tax income	253			
42.	Deferred tax expenses	254			
43.	NET PROFIT FOR THE BUSINESS YEAR (250-252+253-254)	255		1,422,681,309	2,561,739,334
44.	NET LOSS FOR THE BUSINESS YEAR (251+252-253+254)	256			
45.	Average number of employees based on the working hours in the accounting period (in absolute amount)	257		1,379	1,534
46.	Number of months of operation (in absolute amount)	258		12	12
47.	PROFIT/LOSS FOR THE PERIOD	259		1,422,681,309	2,561,739,334
47.a.	Profit that belongs to the shareholders in the parent company	260		806,186,102	1,451,652,338
47.b.	Profit that belongs to the uncontrolled share	261		616,495,207	1,110,086,996
47.c.	Loss that applies to the shareholders in the parent company	262			
47.d.	Loss that applies to the uncontrolled share	263			
48.	EARNINGS PER SHARE	264		16	27
48.a.	Total basic earning per share	265		16	27
48.b.	Total diluted earning per share	266			
48.c.	Basic earning per share after discontinued operation	267			
48.d.	Diluted earning per share after discontinued operation	268			

STATEMENT OF OTHER COMPREHENSIVE INCOME
for the period of 01.01 until 31.12 2014

(in denars)

No.	POSITION	Designation for ADP	Note number	Amount	
				Current year	Previous year
1	2	3	4	5	6
1.	Profit for the year	269		1,422,681,309	2,561,739,334
2.	Loss for the year	270			
3.	Other comprehensive income (273+275+277+279+281+283) - (274+276+278+280+282+284)	271			
4.	Other comprehensive loss (274+276+278+280+282+284) - (273+275+277+279+281+283)	272			
5.	Gains arising from translation of foreign operations	273			
6.	Losses arising from translation of foreign operations	274			
7.	Gains from re-measurement of the financial assets available-for-sale	275			
8.	Losses from re-measurement of the financial assets available-for-sale	276			
9.	Effective part of the gains from hedging instruments for hedging of cash flows	277			
10.	Effective part of the losses from hedging instruments for hedging of cash flows	278			
11.	Changes in the revaluation reserves for non-current assets (+)	279			
12.	Changes in the revaluation reserves for non-current assets (-)	280			
13.	Actuarial gains from defined plans for employees' benefits	281			
14.	Actuarial losses from defined plans for employees' benefits	282			
15.	Share in the other comprehensive income of the associated companies (only for consolidation purposes)	283			
16.	Share in the other comprehensive loss of the associated companies (only for consolidation purposes)	284			
17.	Profit tax on the components of the other comprehensive income	285			
18.	Net other comprehensive income (271-285)	286		1,422,681,309	2,561,739,334
19.	Net other comprehensive loss (285-271) or (272+285)	287			
20.	Total comprehensive income for the year (269+286) or (286-270)	288		1,422,681,309	2,561,739,334
20.a.	Comprehensive income that belongs to the shareholders in the parent company	289		806,186,102	1,451,652,338
20.b.	Comprehensive income that belongs to the uncontrolled share	290		616,495,207	1,110,086,996
21.	Comprehensive loss for the year (270+287) or (270-286) or (287-269)	291			
21.a.	Comprehensive loss that applies to the shareholders in the parent company	292			
21.b.	Comprehensive loss that applies to the uncontrolled share	293			

BALANCE SHEET
(STATEMENT OF FINANCIAL POSITION)
on 31 December 2014

(in denars)

No.	POSITION	Designation for ADP	Note number	Amount	
				Current year	Previous year
1	2	3	4	5	6
	ASSETS:				
1.	**A.NON-CURRENT ASSETS (002+009+020+021+031)**	001		**14,226,936,656**	**15,005,748,954**
2.	**I. INTANGIBLE ASSETS (003+004+005+006+007+008)**	002		**2,310,197,434**	**2,318,573,505**
3.	Development expenses	003			
4.	Concessions, patents, licences, trade marks and similar rights	004	7	2,310,197,434	2,318,573,505
5.	Goodwill	005			
6.	Advances for procurement of intangible assets	006			
7.	Intangible assets under construction	007			
8.	Other intangible assets	008			
9.	**II. TANGIBLE ASSETS (010+013+014+015+016+017+018+019)**	009		**11,508,191,703**	**12,289,124,407**
10.	Real Estate (011+012)	010		3,859,109,920	4,167,812,782
10.a.	Land	011	8	27,815,977	25,260,364
10.b.	Buildings	012	8	3,831,293,943	4,142,552,418
11.	Plants and equipment	013	8	5,360,956,808	5,267,650,405
12.	Means of transport	014	8	213,890,940	232,669,267
13.	Tools, plant and office inventory and furniture	015	8	876,562,605	943,404,295
14.	Biological assets	016			
15.	Advances for procurement of tangible assets	017		2,811,415	2,810,673
16.	Tangible assets under construction	018	8	1,194,860,015	1,674,776,985
17.	Other tangible assets	019			
18.	**III. INVESTMENT IN REAL ESTATE**	020			
19.	**IV. LONG-TERM FINANCIAL ASSETS (022+023+024+025+026+030)**	021		**128,529,519**	**132,863,497**
20.	Investment in subsidiaries	022			
21.	Investments in associated companies and participations in joint ventures	023			
22.	Receivables from long-term loans to related parties	024			
23.	Receivables from long-term loans	025		83,368,617	88,489,406
24.	Investments in long-term securities (027+028+029)	026		44,548,578	43,761,767
24.a.	Investments in long-terms securities held to maturity	027			
24.b.	Investments in securities available-for-sale	028			
24.c.	Investments in securities at fair value through profit or loss	029		44,548,578	43,761,767
25.	Other long-term financial assets	030		612,324	612,324
26.	**V. LONG-TERM RECEIVABLES (032+033+034)**	031		**280,018,000**	**265,187,545**
27.	Receivables from related parties	032			
28.	Trade receivables	033	9	280,018,000	265,187,545
29.	Other long-terms receivables	034			
30.	**VI. DEFERRED TAX ASSETS**	035			
31.	**B.CURRENT ASSETS (037+045+052+059)**	036		**6,213,663,580**	**6,013,942,391**
32.	**I. INVENTORIES (038+039+040+041+042+043)**	037		**444,264,885**	**412,087,008**
33.	Inventory of raw materials and materials	038		97,888,894	121,902,501
34.	Inventory of spare parts, small inventory, packaging material and car tires	039		10,703,606	10,329,029
35.	Inventory of unfinished and semi-finished products	040			
36.	Inventory of finished products	041			
37.	Inventory of trade goods	042		335,672,385	279,855,478
38.	Inventory of biological assets	043			
39.	**II. ASSETS (OR GROUPS FOR DISPOSAL) AVAILABLE FOR SALE AND DISCONTINUED OPERATIONS**	044		145,815,876	12,053,000
40.	**III. SHORT-TERM RECEIVABLES (046+047+048+049+050+051)**	045		**2,900,704,930**	**2,632,962,637**
41.	Receivables from related parties	046	16	576,787,889	455,318,591
42.	Trade receivables	047	9	2,220,156,639	2,072,705,582
43.	Receivables for advances given to vendors	048		57,640,514	60,641,493
44.	Receivables from the state based on taxes, contributions, custom duties, excises and for other state levies (prepayments)	049		11,672,375	10,638,952
45.	Receivables from employees	050		25,549,288	26,469,497
46.	Other short-term receivables	051		8,898,225	7,188,522
47.	**IV. SHORT-TERM FINANCIAL ASSETS (053+056+057+058)**	052		**1,418,676,167**	**1,565,249,498**
48.	Investments in securities (054+055)	053			
48.a.	Investments held to maturity	054			
48.b.	Investments at fair value through profit or loss	055			
49.	Receivables from loans to related parties	056			
50.	Receivables from loans	057			
51.	Other short-term financial assets	058		1,418,676,167	1,565,249,498
52.	**V. CASH AND CASH EQUIVALENTS (060+061)**	059		**1,450,017,598**	**1,403,643,248**
52.a.	Cash	060	10	295,931,109	369,455,059
52.b.	Cash equivalents	061		1,154,086,489	1,034,188,189
53.	**VI. PREPAYMENTS AND ACCRUED INCOME**	062		**531,904,307**	**527,537,750**
54.	**TOTAL ASSETS (001+035+036+044+062)**	063		**21,118,320,419**	**21,559,282,095**
55.	**B. OFF BALANCE RECORDS - ASSETS**	064		52,968,905	49,274,531

BALANCE SHEET
(STATEMENT OF FINANCIAL POSITION)
on 31 December 2014

(in denars)

No.	POSITION	Designation for ADP	Note number	Amount Current year	Amount Previous year
1	2	3	4	5	6
	LIABILITIES:				
56.	**A. CAPITAL AND RESERVES (066+067-068-069+070+071+075-076+077-078)**	065		**16,082,075,522**	**17,104,032,438**
57.	**I. SHARE CAPITAL**	066	11	**9,583,887,733**	**9,583,887,733**
58.	**II. SHARE PREMIUM ACCOUNT**	067		**540,659,375**	**540,659,375**
59.	**III. TREASURY SHARES (-)**	068	11	**3,738,357,351**	**3,738,357,351**
60.	**IV. CALLED-UP CAPITAL (-)**	069			
61.	**IV. REVALUATION RESERVE AND DIFFERENCES FROM VALUATION OF COMPONENTS OF OTHER COMPREHENSIVE INCOME**	070		**872,841,754**	**872,862,987**
62.	**VI. RESERVES (072+073+074)**	071		**1,259,824,990**	**1,259,824,990**
63.	Legal reserves	072		1,237,534,034	1,237,534,034
64.	Statutory reserves	073			
65.	Other reserves	074		22,290,956	22,290,956
66.	**VI. RETAINED EARNINGS**	075		**6,140,537,712**	**6,023,415,370**
67.	**VIII. CARRIED LOSS (-)**	076			
68.	**IX. PROFIT FOR THE BUSINESS YEAR**	077		**1,422,681,309**	**2,561,739,334**
69.	**X. LOSS FOR THE BUSINESS YEAR**	078			
70.	**XI. SHARE CAPITAL OF THE OWNERS OF THE PARENT COMPANY**	079			
71.	**XII. UNCONTROLLED SHARE**	080			
72.	**B. LIABILITIES (082+085+095)**	081		**3,188,988,428**	**2,294,953,752**
73.	**I. LONG-TERM PROVISIONS FOR LIABILITIES AND EXPENSES (083+084)**	082		**60,355,605**	**57,068,367**
74.	Provisions for pensions, severance payments and similar liabilities towards the employees	083		60,355,605	57,068,367
75.	Other long-term provisions for liabilities and expenses	084			
76.	**II. LONG-TERM LIABILITIES (from 086 to 093)**	085		**416,434,774**	**502,873,588**
77.	Liabilities to related parties	086			
78.	Trade payables	087		416,434,774	502,873,588
79.	Liabilities for advances, deposits and bails	088			
80.	Liabilities for loans and credits to related parties	089			
81.	Liabilities for loans and credits	090			
82.	Liabilities for securities	091			
83.	Other financial liabilities	092			
84.	Other long-term liabilities	093			
85.	**III. DEFERRED TAX LIABILITIES**	094			
86.	**IV. SHORT-TERM LIABILITIES (from 096 to 108)**	095		**2,712,198,049**	**1,735,011,797**
87.	Liabilities to related parties	096	16	574,253,243	257,465,003
88.	Trade payables	097	12	1,456,087,449	1,038,101,905
89.	Liabilities for advances, deposits and bails	098		65,987,954	60,156,703
90.	Liabilities for taxes and salary contributions and salary remunerations	099		28,008,791	29,614,834
91.	Liabilities to employees	100		61,681,599	64,615,496
92.	Current tax liabilities	101		232,896,534	141,749,457
93.	Short-term provisions for liabilities and expenses	102		252,744,056	117,884,297
94.	Liabilities for loans and credits to related companies	103			
95.	Liabilities for loans and credits	104			
96.	Liabilities for securities	105			
97.	Liabilities for dividends	106		1,991,810	1,882,108
98.	Other financial liabilities	107			
99.	Other short-term liabilities	108		38,546,613	23,541,994
100.	**V. ACCRUED EXPENSES AND DEFERRED REVENUE**	109		**1,847,256,469**	**2,160,295,905**
101.	**VI. LIABILITIES BASED ON NON-CURRENT ASSETS (OR GROUPS FOR DISPOSAL) AVAILABLE FOR SALE AND DISCONITINUED OPERATIONS**	110			
102.	**TOTAL LIABILITIES: SHARE CAPITAL AND RESERVES AND LIABILITIES (065+081+094+109+110)**	111		**21,118,320,419**	**21,559,282,095**
103.	**C. OFF BALANCE RECORDS - LIABILITIES**	112		52,968,905	49,274,531

LIFE IS FOR SHARING.

Makedonski Telekom AD - Skopje

Explanatory Notes to the

Consolidated Annual Accounts

For the year ended

31 December 2014

Notes to the consolidated annual accounts

1. GENERAL INFORMATION

1.1. About the Company

These notes to the consolidated annual accounts relate to the group of Makedonski Telekom AD - Skopje, which includes Makedonski Telekom AD - Skopje, T-Mobile Macedonia AD Skopje and e-Makedonija foundation – Skopje (hereinafter referred as: "the Group").

Makedonski Telekom AD - Skopje, (hereinafter referred as: "the Company") is a joint stock company incorporated and domiciled in the Republic of Macedonia, for provision of telecommunication services.

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

As of 31 December 2014, shareholders structure of Company is as follows:

Shareholders of Makedonski Telekom AD - Skopje	Number of shares	%
Stonebridge AD Skopje	48,877,780	51.00
Government of the Republic of Macedonia	33,364,875	34.81
The Company (treasury shares)	9,583,878	10.00
International Finance Corporation (IFC)	1,574,676	1.64
Other minority shareholders	2,437,572	2.55
	95,838,781	100.00

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

	Country of incorporation	Ownership interest
T-Mobile Macedonia AD Skopje	Macedonia	100%
Foundation e-Makedonija	Macedonia	100%

The Company is the leading fixed line service provider while T-Mobile Macedonia AD (hereinafter referred as: "the subsidiary") is the leading mobile service provider in Macedonia. e-Makedonija is a foundation, established to support application and development of information technology in Macedonia.

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

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

The Company's registered address is "Kej 13 Noemvri" No 6, 1000, Skopje, Republic of Macedonia. The average number of the employees of Company and its subsidiary based on the working hours during 2014 was 1,379 (2013: 1,534).

Notes to the consolidated annual accounts

As of 31 December 2014, structure of the employees of Group by educational attainment is as follows:

	%
University level education	49.41
Higher education	3.73
4 years secondary education/specialist	8.86
4 years secondary education	33.02
3 years secondary education	4.76
Primary education	0.22
	100.00

1.2. Regulation environment

The Macedonian telecommunications sector is regulated by the Electronic Communications Law (ECL) enacted in March 2014 (Official Gazette No. 39 from 28 February 2014) as primary legislation and rulebooks as secondary legislation. On 19 December 2014 in Official Gazette of RoM, No. 188, amendments of ECL were enacted.

The most important change relates to regulation of the prices of international roaming. According this change, the Agency for Electronic Communications ("the Agency" or "AEC") has the right with Decision to determine the maximal prices for services which are offered to roaming users from countries with whom Republic of Macedonia has concluded agreement for reduction of prices of roaming services in public mobile communication networks (Bosnia and Herzegovina, Montenegro and Serbia), on reciprocal base, which cannot be higher from prices of the same services in the EU. In period of 3 years starting from 2015, the prices will be reduced to the maximum determined.

AEC brought a decision from 10 December 2014 for the value of points for calculation of annual fee for usage of radiofrequencies (RF). Value of the points is 0,8 EUR which compared to the previous value of the points (1 EUR-according to LEC from Official Gazette 13/2005) means that all annual fees for radiofrequencies will be reduces by 20%, starting from the 1 January 2015. Formulas for calculation of annual RF fees is defined in the Rulebook for calculation of annual RF, the amounts are in points and the value of the points is defined in the above mentioned Decision.

All secondary legislation has to be amended according to the new ECL until 1 December 2014. Some of the existing Rulebooks were amended by the Agency relating to:

- retail price regulation;
- determination of calculation method for number and frequency usage and annual fees;
- assignment of numbers and series of numbers from the numbering and frequency plan;
- numbering plan;
- number portability;
- general terms and conditions in customer relations;
- building of electronic communications network -"including underground cabling";
- Bit-stream access services and resale of Bit-stream service;
- condition for use of the unique emergency number E-112;
- universal service and functional broadband access;
- interconnection;
- unbundling of local loop;
- access to specific network facilities;
- security and integrity of communication networks and data protection;
- Quality of service (QoS) parameter for fix and mobile networks.

In April 2012, the Agency published the general Regulatory strategy for the period of 5 years (2012-2016). The official document is "Five years regulatory strategy of AEC". Main focuses of the strategy are: fostering of wholesale and retail services

Notes to the consolidated annual accounts

regulation, introduction of methodology of pure Long Run Incremental Costs (LRIC) for fixed and mobile voice services, SMS etc, Next Generation Access (NGA) and Fiber To The Home (FTTH) regulation in line with NGA recommendation and refarming and frequency allocation for 4G services.

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

The Company has a cost based price obligation for the Regulated wholesale services, using Long Run Incremental Costs methodology (LRIC). In August 2012 the Agency published draft results from its own developed LRIC Bottom-up costing model for Local Bit-stream (cost based) and for retail and wholesale Leased Lines, ducts and dark fiber and minimal set of leased lines (cost based). As a result, on 15 January 2013 AEC brought a decision for decrease of fees and approved the changed Reference offer for provision of physical access and usage of electronic communication infrastructure and associated facilities (ducts and dark fiber). New fees were implemented as of 1 February 2013. AEC also approved the Reference offers for WS DLL (wholesale digital leased line), Local bit-stream access and minimal set of leased lines and new changed methodologies of calculation of prices (length dependent) are implemented. WS DLL and Local bit-stream access fees were decreased from 1 December 2012 and fees for minimal set of leased lines from 1 January 2013.

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

On 5 August 2013 AEC issued its final document on market analyses for call origination, call termination and transit of calls on the public telephone network provided at a fixed location (Market 4, Market 5 and Market 6). Only the Company is assigned as SMP on Market 4.

New remedies are the following:

- Implementation of IP (Internet Protocol) IC (interconnection) latest by 2016 for fixed and mobile operators;
- Transitional period for IP interconnection for alternative fixed and mobile operators up to 3 years;
- Submission of updated MATERIO (the Company Referent Interconnect Offer) with IP IC description (service and fees) and conditions latest by 31 October 2013 with content at least for:
  - IP network structure and information on the IP IC equipment
  - Number and location of IP PoIs
  - Voice transmission protocols and IP signalization
  - Technical parameters and interface for IP IC
  - Deadline for IP IC testing
  - Continuous update of MATERIO in the prices and cost oriented prices segments
- Other remedies for Market 4 are the same as before (IC and access, access to specific network facilities, CS (carrier selection) and CPS (carrier pre-selection), transparency, non discrimination, accounting separation, price control and cost accounting).

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

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

Notes to the consolidated annual accounts

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

On 30 December 2014 AEC brought a decision for designation of the Company for SMP on market 8 - Access to broadband services based on copper pair and broadband services fully or partly based on optic including the following services:

- Point of access on IP level
- Point of access on Ethernet level, Virtual unbundling local access (VULA)
- Bit-stream access which the Company provides for its own needs based partly or fully on optics

The third analysis of market 9 and 10 (Transmission and termination segments of Leased Lines (LL) and market 7 (Physical access to network infrastructure) was finished in November 2014. As a result of the analysis, on market 9 and 10 transmission segments of the LL were deregulated and on market 7 regulations of fiber based products of the Company were included.

On 30 December 2014 AEC brought a decision for designation of the Company for SMP on market 9-Terminating segments of leased lines in the geographical area of Republic of Macedonia.

Public debate for draft document for second market analysis on relevant retail Market 1 (Access to public telephone networks at a fixed location for residential and business customers) was held in September 2014. AEC shall regulate fiber based products of the Company with margin squeeze tests which are already implemented for copper based product regulation. The final document was published on 7 October 2014.

On 30 December 2014 AEC brought a decision for designation of the Company for SMP on market 1- Access to public telephone networks at a fixed location for residential and business customers including all types of networks technology neutral.

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

After the analysis of the wholesale (WS) market "Call termination services in public mobile communication networks" the Agency in 2007 brought a decision by which the subsidiary was designated with SMP status on this market. The subsidiary published a RIO (Referent Interconnection Offer) with regulated termination rate effective from 1 August 2008. The price regulation on this relevant market continues as AEC conducts periodical analysis of the market and updates the price regulation models. The current termination rate is symmetrical for all 3 mobile operators T-Mobile, ONE and VIP Operator.

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

In 2010 the subsidiary was designated with SMP status on the wholesale market "Access and call origination in public mobile communication market". Based upon Agency's decision, in 2010 the subsidiary published a Referent Access Offer consisted of the following regulated services:

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

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

In March 2011, the Agency published the final analysis of the wholesale market "SMS termination in public mobile communication networks", and in May 2011 all 3 mobile operators were designated with SMP status on this relevant market.

Notes to the consolidated annual accounts

In July 2011 the RIOs were approved by the Agency with the regulated SMS termination price being symmetrical for all 3 operators but remaining the same as before the regulation.

In October 2012, the Agency requested changes of the subsidiary's RIO in direction of allowing termination of transit traffic into the subsidiary's network. This Agency intervention was made in the RIOs of all operators in order to enable wider space for transit of traffic.

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

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

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

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

The subsidiary has frequency usage rights for the following radiofrequencies for public mobile communication systems:

- 2 x 12.5 MHz in the 900 MHz band, validity period: 8 September 2008 – 8 September 2018 (10 years)
- 2 x 10 MHz in the 1800 MHz band, validity period: June 9, 2009 – 9 June 2019 (10 years)
- 2 x 15 MHz in the 2100 MHz band, validity period: 17 December 2008 – 17 December 2018 (10 years)
- 2 x 10 MHz in the 800 MHz band, validity period: 1 December 2013 – 30 November 2033 (20 years)
- 2 x 15 MHz in the 1800 MHz band, validity period: 1 December 2013 – 30 November 2033 (20 years)

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

In October 2014, VIP and ONE announced a merger of their business in Macedonia consisted of mobile, fixed, internet and transmission of audiovisual content services. The Competition Authority has been officially approached by the operators on 30 December 2014 with information of a planned merger between the two. On 8 January 2015 the Competition Authority published the information of the planned merger and thus concentration, and invited all interested parties to submit their comments and opinions. On 23 January 2015, the Company and the subsidiary submitted a joint document to the Competition Authority with comments and opinions on the announced merger. On 3 February 2015, the Competition Authority published a conclusion for initiation of a procedure for evaluation of the concentration, which in accordance with the Law for Protection of Competition is to result with a decision for approval or disapproval of the concentration within 90 working days from the date of the initiation of the procedure.

1.3. Investigation into certain consultancy contracts

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

Notes to the consolidated annual accounts

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

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

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

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

Notes to the consolidated annual accounts

2. BASIS OF PREPARATION OF ANNUAL ACCOUNTS

These consolidated annual accounts are prepared, in all material respects, in accordance with the Company Law (published in Official Gazette No. 28/04, 84/05, 25/07, 87/08, 42/10, 48/10, 24/11 166/12, 70/13, 119/13, 120/13, 187/13, 38/14 and 41/14) and Rule Book for Accounting (published in Official Gazette No.159/2009 and No.164/2010), whereby the International Financial Reporting Standards (IFRS) comprising IFRS 1 to IFRS 8, International Accounting Standards (IAS) comprising IAS 1 to IAS 41, International Financial Reporting Interpretations Committee (IFRIC) comprising IFRIC 1 to IFRIC 17 and Standing Interpretations Committee (SIC) Interpretations comprising SIC 7 to SIC 32, were published. IFRS 9, IFRS 10, IFRS 11, IFRS 12, IFRS 13, IFRIC 18, IFRIC 19, IFRIC 20 and IFRIC 21 are not included in the Rule Book for Accounting and are not applied by the Group. IFRS (including IFRS 1), were initially published in the Official Gazette in 1997, and since then several updates have followed. The last update was in December 2010.

The Group applies all relevant standards and the amendments and interpretations which were published in the Official Gazette.

The consolidated annual accounts are presented in Macedonian denars.

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

3. SIGNIFICANT ACCOUNTING POLICIES

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

3.1. Foreign currency translation

3.1.1. Functional and presentation currency

The consolidated annual accounts are presented in Macedonian denars, which is the Company's functional and presentation currency.

3.1.2. Transactions and balances

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

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

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

	2014	2013
	MKD	MKD
1 USD	50.56	44.63
1 EUR	61.48	61.51

3.2. Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial assets of the Group 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.

Notes to the consolidated annual accounts

Financial liabilities of the Group include liabilities that originate from contractual obligations to deliver cash or another financial asset to another entity (non-derivatives). In particular, financial liabilities include trade and other payables.

3.2.1. Financial assets

The Group classifies its financial assets in the following categories:

(a) financial assets at fair value through profit or loss

(b) loans and receivables

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

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

Standard purchases and sales of financial assets are recognized on the trade-date, the date on which the Group commits to purchase or sell the asset. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognized at fair value, and transaction costs are expensed in the Income statement.

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

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

Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Group 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 Group manages such asset and makes purchase and sale decisions based on its fair value in accordance with the Group investment strategy for keeping investments within portfolio until there are favorable market conditions for their sale.

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

Dividend income from financial assets at fair value through profit or loss is recognized in the Income statement when the Group's right to receive payments is established and inflow of economic benefits is probable.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except those with maturities over 12 months after the balance sheet date. These are classified as non-current assets.

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

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

Notes to the consolidated annual accounts

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

Cash and cash equivalents

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

Should impairment on cash and cash equivalents occur, it would be recognized in the Income statement (Finance expenses).

Trade and other receivables

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

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

The Group's policy for collective assessment of impairment is based on the aging of the receivables due to the large number of relatively similar type of customers.

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

When a trade receivable is established to be uncollectible, it is written off in the Income statement (Other operating expenses) with a parallel release of the cumulated impairment on the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are recognized as income in the Income statement.

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

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

Employee loans

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

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

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

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

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date. Purchases and sales of investments are recognized on the trade-date – the date on which the Group commits to purchase or sell the asset.

Notes to the consolidated annual accounts

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 Group is to dispose these assets when there are favorable market conditions for their sale. Changes in the fair value of financial assets classified as available for sale are recognized in Statement of other comprehensive income. When financial assets classified as available for sale are sold or impaired, the accumulated fair value adjustments recognized in equity are included in the Income statement as gains and losses from investment securities.

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

If such evidence exists for AFS financial assets, the cumulative unrealized gain (if any) is reclassified from Statement of other comprehensive income to Income statement, and any remaining difference is also recognized in the Income statement (Finance income). Impairment losses recognized on equity instruments are not reversed through the Income statement.

When AFS financial assets are sold or redeemed, therefore derecognized, the fair value adjustments accumulated in equity are reclassified from Statement of other comprehensive income to Income statement (Finance income).

3.2.2. Financial liabilities

Trade and other payables

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

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

3.3. Inventories

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

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

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

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

3.4. Assets held for sale

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

3.5. Tangible assets

Tangible assets are stated at cost less accumulated depreciation and impairment losses (see note 3.7).

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

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

In 2011, Law on acting with illegally built facilities was enacted, according to which the Group will incur certain expenditures related to obtaining complete documentation for base stations and fix line infrastructure in accordance to applicable laws in Republic of Macedonia. The Group capitalizes those expenditures as incurred. The capitalized expenditures are included within Tangible assets (see note 8).

Items of tangible assets were restated at the year-end using official revaluation coefficients based on the general manufactured goods price increase index. Such coefficients have been applied to historical cost or later valuation and to accumulated depreciation as to approximate replacement cost. The net effect of revaluation was recorded against revaluation reserves. The last revaluation of tangible assets was made in year 2000.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the Income statement during the financial period in which they are incurred.

When assets are scrapped, the cost and accumulated depreciation are removed from the accounts and the loss is recognized in the Income statement as Other operating expenses.

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

Depreciation is charged to the Income statement on a straight-line basis over the estimated useful lives of items of tangible assets. Assets are not depreciated until they are available for use. Land is not depreciated. The assets useful lives and residual values are reviewed, and adjusted if appropriate, at least once a year. For further details on the groups of assets impacted by the most recent useful life revisions (see note 8).

The estimated useful lives are as follows:

	2014	2013
	Years	Years
Buildings	20-40	20-40
Aerial and cable lines	20-25	20-25
Telephone exchanges	7-10	7-10
Base stations	10	10
Computers	4	4
Furniture and fittings	4-10	4-10
Vehicles	4-10	4-10
Other	2-15	2-15

3.6. Intangible assets

Intangible assets that are acquired by the Group are stated at cost less accumulated amortization and impairment losses (see note 3.7).

Items of intangible assets were restated at the year-end using official revaluation coefficients based on the general manufactured goods price increase index. Such coefficients have been applied to historical cost or later valuation and to accumulated amortization as to approximate replacement cost. The net effect of revaluation was recorded against revaluation reserves. The last revaluation of intangible assets was made in year 2000.

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

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

The estimated useful lives are as follows:

	2014	2013
	Years	Years
Software and other intangible assets	2-5	2-5
3G and 2G Licenses	10	10
4G License	20	20

Amortization is charged to the Income statement on a straight-line basis over the estimated useful lives of intangible assets. Intangible assets are amortized from the date they are available for use. The assets useful lives are reviewed, and adjusted if appropriate, at least once a year (see note 7).

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

3.7. Impairment of tangible and intangible assets

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

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

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

3.8. Provisions and contingent liabilities

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Provisions are measured and recorded as the best estimate of the economic outflow required to settle the present obligation at the balance sheet date. The estimate can be calculated as the weighted average of estimated potential outcomes or can also be the single most likely outcome. The provision charge is recognized in the Income statement (Provisions for liabilities and charges).

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

3.9. Share capital

Ordinary shares, together with golden share of Government of RM are classified as equity.

3.10. Treasury shares

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

3.11. Statutory reserves

Under local statutory legislation, the Group members were required to set aside minimum 15 percent of its net profit for the year in a statutory reserve until the level of the reserve reaches 1/5 of the share capital. With the changes of the Law on Trading Companies effective from 1 January 2013, the Group members are required to set aside minimum 5 percent of its net profit for the year as per local GAAP (Generally accepted accounting principles) in a statutory reserve until the level of the reserve reaches 1/10 of the share capital (see note 11). These reserves are used to cover losses and are not distributed to shareholders except in the case of bankruptcy of the Group members.

3.12. Revaluation reserves

The revaluation reserve relates to tangible and intangible assets and comprises the cumulative increased carrying value using official revaluation coefficients based on the general manufactured goods price increase index producers price index on the date of revaluation. The last revaluation of tangible and intangible assets was made in year 2000. When the revaluated assets are fully depreciated or disposed the relevant portion of the revaluation reserve is transferred to Retained earnings.

3.13. Revenues

Revenues for all services and equipment sales (see note 13) are shown net of VAT, discounts and after elimination of the sales within the Group. 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 Group and all other specific recognition criteria of IAS 18 on the sale of goods and rendering of services are met for the provision of each of the Group's services and sale of goods.

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

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

3.13.1. Fixed line and mobile telecommunications revenues

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

Customer subscriber arrangements typically include an equipment sale, subscription fee and charge for the actual voice, internet, data or multimedia services used. The Group considers the various elements of these arrangements to be separate earnings processes and recognizes the revenue for each of the deliverables using the residual method. These units are identified and separated, since they have value on a standalone basis and are sold not only in a bundle, but separately as well. Therefore the Group recognizes revenues for all of these elements using the residual method that is the amount of consideration allocated to the delivered elements of the arrangements equals the total consideration less the fair value of the undelivered elements.

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

Notes to the consolidated annual accounts

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

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

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

Third parties using the telecommunications network include roaming customers of other service providers and other telecommunications providers which terminate or transit calls on the network. These wholesale (incoming) traffic revenues are recognized in the period of related usage. A proportion of the revenue received is often paid to other operators (interconnect) for the use of their networks, where applicable. The revenues and costs of these terminate or transit calls are stated gross in these consolidated annual accounts as the Group is the principal supplier of these services using its own network freely defining the pricing of the service, and recognized in the period of related usage.

3.13.2. System integration and IT revenues

Contracts for network services consist of the installation and operation of communication networks for customers. Revenues for voice and data services are recognized under such contracts when used by the customer.

Revenue from system integration contracts requiring the delivery of customized products and/or services is generally covered by fixed-price contracts and revenue is recognized based on percentage of completion taking into account the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs.

Revenue from hardware and sales is recognized when the risk of ownership is substantially transferred to the customer, provided there are no unfulfilled obligations that affect the customer's final acceptance of the arrangement. Any costs of these obligations are recognized when the corresponding revenue is recognized.

Revenues from construction contracts are accounted for using the percentage-of-completion method. The stage of completion is determined on the basis of the costs incurred to date as a proportion of the estimated total costs. Receivables from construction contracts are classified in the Balance sheet as Trade receivables.

3.14. Employee benefits

3.14.1. Short term employee benefits and pensions

The Group, in the normal course of business, makes payments on behalf of its employees for pensions, health care, employment and personnel tax which are calculated according to the statutory rates in force during the year, based on gross salaries and wages. Holiday allowances are also calculated according to the local legislation. The Group makes these contributions to the Governmental and private funds. The cost of these payments is charged to the Income statement in the same period as the related salary cost. No provision is created for holiday allowances for non-used holidays as according the local legislation the employer is obliged to provide condition for usage, and the employee to use the annual holiday within one year. This is also exercised as Group policy and according the historical data employees use their annual holiday within the one year legal limit. The Group does not operate any other pension scheme or post retirement benefits plan and consequently, has no obligation in respect of pensions. The Group 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 consolidated annual accounts measured at the present value of two average monthly salaries together with adjustments incorporated in the actuarial calculation. Further to the legal obligation the Company has contractual obligation to pay to employees three average monthly salaries in Republic of Macedonia at their retirement date according the Collective agreement between the Company and the Trade Union of the Company. Accordingly, appropriate liability for one additional salary for the Company's employees is recognized in the consolidated annual accounts measured at the present value of one average monthly salary 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 Group is not obligated to provide further benefits to current and former employees.

3.14.2. Bonus plans

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

3.14.3. Termination benefits

Termination benefits are payable whenever an employee's employment is terminated before the nominal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognizes termination benefits when it is demonstrably committed to either terminate the employment of current employees according to a detailed formal plan without the possibility of withdrawal or to provide termination benefits as a result of an offer made to encourage voluntary redundancy.

3.15. Marketing expenses

Marketing costs are expensed as incurred. Marketing expenses are disclosed in note 15.

3.16. Income tax

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

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

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

3.17. Leases

3.17.1. Operating lease –Group as lessor

Assets leased to customers under operating leases are included in tangible assets in the Balance sheet. They are depreciated over their expected useful lives on a basis consistent with similar fixed assets. Rental income is recognized on a straight-line basis over the lease term.

3.17.2. Operating lease –Group as lessee

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

Notes to the consolidated annual accounts

3.18. Earnings per share

Basic earnings per share is calculated by dividing profit attributable to the equity holders of the Company for the period by the weighted average number of common stocks outstanding.

3.19. Dividend distribution

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

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The Group 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 Group. 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 Group 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 267,408,961 (2013: MKD 269,874,548). See notes 7 and 8 for the changes made to useful lives in 2014.

The Group constantly introduces a number of new services or platforms including, but not limited to the Universal Mobile Telecommunications System (UMTS) and the Long Term Evolution (LTE) based broadband services used in the mobile communications and the fiber-to-the-home rollout in the fixed line operations. In case of the introduction of such new services, the Group conducts a revision of useful lives of the already existing platforms, but in the vast majority of the cases these new services are designed to co-exist with the existing platforms, resulting in no change-over to the new technology. Consequently, the useful lives of the existing platforms usually do not require shortening.

In 2012 Company conducted an item by item revision of the useful life of assets affected by the PSTN migration project of the Company, which in general resulted in shortening of their useful life. In January 2014 the Company performed the migration of the last PSTN customer thus completing the PSTN migration project.

4.2. Estimated impairment of tangible and intangible assets

We assess the impairment of identifiable tangibles and intangibles whenever there is a reason to believe that the carrying value may materially exceed the recoverable amount and where impairment of value is anticipated. The calculations of recoverable amounts are primarily determined by value in use calculations, which use a broad range of estimates and factors affecting those. Among others, we typically consider future revenues and expenses, technological obsolescence, discontinuance of services and other changes in circumstances that may indicate impairment. If impairment is identified using the value in use calculations, we also determine the fair value less cost to sell (if determinable), to calculate the exact amount of impairment to be charged. As this exercise is highly judgmental, the amount of a potential impairment may be significantly different from that of the result of these calculations. Management has performed an impairment test based on a 10 years cash flow projection and used a perpetual growth rate of 2% (2013: 2%) to determine the terminal value after 10 years. The discount rate used was 9.36% (2013: 9.64%). The impairment test did not result in impairment. Management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of the cash-generating units to materially exceed its recoverable amount.

Notes to the consolidated annual accounts

4.3. Estimated impairment of trade and other receivables

We calculate impairment for doubtful accounts based on estimated losses resulting from the inability of our customers to make the required payments. For the largest customers, international customers and for customers under liquidation and bankruptcy proceedings impairment is calculated on an individual basis, while for other customers it is estimated on a portfolio basis, for which we base our estimate on the aging of our account receivables balance and our historical write-off experience, customer credit-worthiness and recent changes in our customer payment terms (see note 3.2.1 (b)). These factors are reviewed periodically, and changes are made to the calculations when necessary. In 2014 the Group carried out detailed analysis on the groups of customers on which collective assessment of impairment is performed which resulted in changes in the related impairment rates due to different payment behavior, resulting in new impairment rates of trade and other receivables in 2014. If the financial condition of our customers were to deteriorate, actual write-offs of currently existing receivables may be higher than expected and may exceed the level of the impairment losses recognized so far (see note 6.1.2).

4.4. Provisions

Provisions in general are highly judgmental, especially in case of legal disputes. The Group 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 Group fully provides for the total amount of the estimated liability (see note 3.8). As the assessment of the probability is highly judgmental in some cases the evaluation may not prove to be in line with the eventual outcome of the case. In order to determine the probabilities of an adverse outcome, the Group uses internal and external legal counsel.

4.5. Subscriber acquisition costs

Subscriber acquisition costs primarily include the loss on the equipment sales (revenues and costs presented on a gross basis) and fees paid to subcontractors that act as agents to acquire new customers or retain the existing subscribers. The Group’s agents also spend a portion of their agent fees for marketing the Group’s products, while a certain part of the Group’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 Group’s fixed or mobile networks. No such costs or revenues are capitalized or deferred. These acquisition costs (losses) are recognized immediately as expense (Other operating expenses) as they are not accurately separable from other marketing costs.

5. CHANGE IN ACCOUNTING POLICY AND ERORRS

Accounting policy is consistently applied in periods presented in these consolidated annual accounts.

6. FINANCIAL RISK MANAGEMENT

6.1. Financial risk factors

The Group does not apply hedge accounting for its financial instruments, all gains and losses are recognized in the Income statement except financial assets classified as available for sale that are recognized in Statement of other comprehensive income. The Group is exposed in particular to credit risks related to its financial assets and risks from movements in exchange rates, interest rates, and market prices that affect the fair value and/or the cash flows arising from financial assets and liabilities. Financial risk management aims to limit these market and credit risks through ongoing operational and finance activities.

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

6.1.1. Market risk

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

Notes to the consolidated annual accounts

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

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

a) Foreign currency risk

The functional currency of the Company and of the Group is the Macedonian denar.

The foreign exchange risk exposure of the Group is related to holding foreign currency cash balances, and operating activities through revenues from and payments to international telecommunications carriers as well as capital expenditure contracted with vendors in foreign currency.

The currency giving rise to this risk is primarily the EUR. The Group uses cash deposits in foreign currency, predominantly in EUR, and cash deposits in denars linked to foreign currency, to economically hedge its foreign currency risk in accordance with the available banks offers. The Group manages the foreign exchange risk exposure through maintaining higher amount of deposits in EUR as a proven stable currency

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

At 31 December 2014, if MKD would have been 1% weaker or stronger against EUR, profit would have been MKD 6,635,467 in net balance lower or higher, respectively. At 31 December 2013, if MKD would have been 1% weaker or stronger against EUR, profit would have been MKD 9,138,980 in net balance higher or lower, respectively. At 31 December 2014, if MKD would have been 10% weaker or stronger against USD, profit would have been MKD 2,959,179 in net balance higher or lower, respectively. At 31 December 2013, if MKD would have been 10% weaker or stronger against USD, profit would have been MKD 5,461,601 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 Group is minimizing interest rate risk through defining of fixed interest rates in the period of the validity of certain financial investments. On the other hand fix term deposits may be prematurely terminated, since the contracts contain a clause that, the bank will calculate and pay interest by interest rate which is valid on the nearest maturity period of the deposit in accordance with the interest rates given in the offer.

In case of significant increase of the market interest rates, deposit may be terminated and replaced by new deposit with interest rate more favorable for the Group at lowest possible cost.

The investments are limited to relatively low risk financial investment forms in anticipation of earning a fair return relative to the risk being assumed.

The Group 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 Group had MKD 2,854,510,271 deposits (including call deposits) and cash in bank as at 31 December 2014, 1% rise in market interest rate would have caused (ceteris paribus) the interest received to increase with approximately MKD 28,545,103 annually, while similar decrease would have caused the same decrease in interest received. Amount of deposits is MKD 2,957,481,702 (including call deposits) and cash in bank as at 31 December 2013, therefore 1% rise in market interest rate would have caused (ceteris paribus) the interest received to increase with approximately MKD 29,574,817 annually, while similar decrease would have caused the same decrease in interest received.

c) Other price risk

The Group'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 Group strategy, the investments within portfolio are kept until there are favorable market conditions for their sale.

As part of the presentation of market risks, IFRS 7 also requires disclosures on how hypothetical changes in risk variables affect the price of financial instruments. As at 31 December 2014 and 31 December 2013, the Group holds investments, which could be affected by risk variables such as stock exchange prices.

The Group had MKD 44,548,578 investments in equity of other entities that are publically traded on the Macedonian Stock Exchange as at 31 December 2014, 20% rise in market price would have caused (ceteris paribus) MKD 8,909,716 gain, while similar decrease would have caused the same loss in the Income statement. The amount of the investments in equity of other entities that are publically traded on the Macedonian Stock Exchange is MKD 43,761,767 as at 31 December 2013, therefore 20% rise in market price would have caused (ceteris paribus) MKD 8,752,353 gain, while similar decrease would have caused the same loss in the Income statement.

6.1.2. Credit risk

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

The Group 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 Group.

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 Group's available funds are exceeding the total amount of the provided bank guarantees mentioned above, the financial investment of the available free cash is to be performed in accordance to the evaluation of the bank risk based on CAEL methodology ratings as an off – site rating system.

The depositing decisions are made based on the following priorities:

- To deposit in banks (Deutsche Telekom core banks, if possible) with provided bank guarantee from the banks with the best rating and the best quality wording of the bank guarantee.
- To deposit in banks with provided bank guarantee from the banks with lower rating and poorer quality wording of the bank guarantee.
- Upon harmonization and agreement with the parent company these rules can be altered for ensuring full credit risk coverage. If the total amount of deposits cannot be placed in banks covered with bank guarantees with at least BBB+ rating (or equivalent credit rating), then depositing will be performed in local banks without bank guarantee.

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

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

The Group has no significant concentration of credit risk with any single counter party or group of counter parties having similar characteristics.

Notes to the consolidated annual accounts

The Group's procedures ensure on a permanent basis that sales are made to customers with an appropriate credit history and not exceed an acceptable credit exposure limit.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the Balance sheet. Consequently, the Group considers that its maximum exposure is reflected by the amount of debtors net of provisions for impairment recognized and the amount of cash deposits in banks at the balance sheet date.

Largest amount of one deposit in 2014 is MKD 300,000,000 denominated in EUR 4,875,932 (2013: MKD 430,579,100 denominated in EUR 7,000,000). In addition, the Group has deposits with 1 domestic bank (2013: 1 domestic bank). The Group has obtained collateral (guarantee) that mitigate the credit risk for the extent of the deposited amount in the respective bank.

6.1.3. Liquidity risk

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

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

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

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

6.2. Capital risk management

The Group's objectives when managing capital are to safeguard the Group'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 2014, is MKD 14,057,428,120, as per local GAAP (2013: MKD 14,239,209,176). Out of this amount MKD 9,583,887,733 (2013: MKD 9,583,887,733) represent share capital and MKD 958,388,774 (2013: MKD 958,388,774) represent statutory reserves, which are not distributable (see note 3.11). The Company has also acquired treasury shares (see notes 3.10 and 11.1). The transaction is in compliance with the local legal requirements that by acquiring treasury shares the total equity of the Company shall not be less than the amount of the share capital and reserves which are not distributable to shareholders by law or by Company's statute. In addition, according the local legal requirements dividends can be paid out to the shareholders in amount that shall not exceed the net profit for the year as presented in the annual accounts of the Company, increased for the undistributed net profit from previous years or increased for the other distributable reserves, i.e. reserves that exceed the statutory reserves and other reserves defined by the Company's statute. The Company is in compliance with all statutory capital requirements.

6.3. Fair value estimation

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

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

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

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

Financial liabilities included in the Balance sheet mainly have short term maturity. For this reason, their carrying amounts at the reporting date approximate their fair values.

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

Notes to the consolidated annual accounts

7. INTANGIBLE ASSETS

In denars	Software and licenses	2G, 3G and 4G licence	Other	Total
Cost				
At 1 January 2014	4,895,314,733	1,370,659,878	154,757,378	6,420,731,989
Additions	172,098,465	-	178,543,943	350,642,408
Disposals	(518,480,405)	-	-	(518,480,405)
Transfer from assets under construction (see note 8)	378,463,213	-	-	378,463,213
At 31 December 2014	4,927,396,006	1,370,659,878	333,301,321	6,631,357,205
Amortization				
At 1 January 2014	3,598,729,062	348,672,044	154,757,378	4,102,158,484
Charge for the year	579,289,953	108,596,198	49,595,540	737,481,691
Disposals	(518,480,404)	-	-	(518,480,404)
At 31 December 2014	3,659,538,611	457,268,242	204,352,918	4,321,159,771
Carrying amount				
At 1 January 2014	1,296,585,671	1,021,987,834	-	2,318,573,505
At 31 December 2014	1,267,857,395	913,391,636	128,948,403	2,310,197,434

In denars	Software and licenses	2G,3G and 4G licence	Other	Assets under construction	Total
Cost					
At 1 January 2013	6,123,571,686	736,649,281	186,911,885	99,052,641	7,146,185,493
Additions	184,629,172	-	-	634,010,597	818,639,769
Disposals	(1,557,695,273)	-	(32,154,507)	-	(1,589,849,780)
Transfer from assets under construction (see note 8)	203,688,197	634,010,597	-	(634,010,597)	203,688,197
Transfer from assets held for sale	(58,879,049)	-	-		(58,879,049)
Transfers between group of assets (see note 8)	-	-	-	(99,052,641)	(99,052,641)
At 31 December 2013	4,895,314,733	1,370,659,878	154,757,378	-	6,420,731,989
Amortization					
At 1 January 2013	4,572,215,044	269,134,665	186,911,885	-	5,028,261,594
Charge for the year	642,163,345	79,537,379	-	-	721,700,724
Disposals	(1,557,695,273)	-	(32,154,507)	-	(1,589,849,780)
Transfer from assets held for sale	(57,954,054)	-	-	-	(57,954,054)
At 31 December 2013	3,598,729,062	348,672,044	154,757,378	-	4,102,158,484
c					
At 1 January 2013	1,551,356,642	467,514,616	-	99,052,641	2,117,923,899
At 31 December 2013	1,296,585,671	1,021,987,834	-	-	2,318,573,505

In 2013, the Group acquired a 4G LTE radiofrequency license for a one-time fee of MKD 634,010,597. The license duration is 20 years, until 1 December 2033, with a possibility for extension for 20 years in accordance with the LEC (see note 1.2). The commercial start of the license was in December 2013.

In 2014 review of the TV content rights contracts was performed and two contracts were identified as qualifying for capitalization, considering the prospective application - the contracts are new or renegotiated after 1 January 2014; the noncancellable term of the contracts being at least 12 months; the certainty of the content delivery; and that the cost of the content rights can be reliably estimated. Accordingly, these rights were recognized in 2014 in Intangible assets, category Other, at the net present value of future payments in amount of MKD 178,543,943 and will be amortized over the contracts term, which is 3 years (see note 12).

The reviews of the useful lives of intangible assets during 2014 affected the lives of a number of assets, mainly software. The change on the useful life of the affected assets was made according to technological changes and business plans of the Group member companies.

The reviews resulted in the following change in the original trend of amortization in the current and future years.

In denars	2014	2015	2016	2017	After 2017
(Decrease)/increase in amortization	(20,370,170)	(15,465,361)	18,463,795	14,426,936	2,944,800
	(20,370,170)	(15,465,361)	18,463,795	14,426,936	2,944,800

8. TANGIBLE ASSETS

In denars	Land	Buildings	Plants and other equipment	Assets under construction	Total
Cost					
At 1 January 2014	25,260,364	6,458,378,461	27,329,157,962	1,674,776,985	35,487,573,772
Additions	2,555,613	6,614,763	511,401,689	923,775,158	1,444,347,223
Transfer from assets under construction (see note 7)	-	10,129,439	1,015,099,477	(1,403,692,128)	(378,463,212)
Disposals	-	(31,560,348)	(290,581,837)	-	(322,142,185)
Transfer to assets held for sale	-	(333,132,332)	(80,968,341)		(414,100,673)
At 31 December 2014	27,815,977	6,110,429,983	28,484,108,950	1,194,860,015	35,817,214,925
Depreciation					
At 1 January 2014	-	2,315,826,043	20,885,433,995	-	23,201,260,038
Charge for the year	-	166,490,387	1,502,708,569	-	1,669,198,956
Disposals	-	(34,980,365)	(283,786,789)	-	(318,767,154)
Transfer to assets held for sale	-	(166,536,895)	(73,320,308)	-	(239,857,203)
Transfers between group of assets	-	(1,663,130)	1,663,130	-	-
At 31 December 2014	-	2,279,136,040	22,032,698,597	-	24,311,834,637
Carrying amount					
At 1 January 2014	25,260,364	4,142,552,418	6,443,723,967	1,674,776,985	12,286,313,734
At 31 December 2014	27,815,977	3,831,293,943	6,451,410,353	1,194,860,015	11,505,380,288

Notes to the consolidated annual accounts

In denars	Land	Buildings	Plants and other equipment	Assets under construction	Total
Cost					
At 1 January 2013	25,175,547	6,486,964,140	33,846,448,339	893,830,745	41,252,418,771
Additions	84,817	15,739,421	1,034,966,218	1,282,462,940	2,333,253,396
Transfer from assets under construction (see note 7)	-	2,527,955	394,353,189	(600,569,341)	(203,688,197)
Disposals	-	(43,229,080)	(1,159,898,688)	-	(1,203,127,768)
Transfer to assets held for sale	-	(3,623,975)	(6,786,711,096)	-	(6,790,335,071)
Transfers between group of assets (see note 7)	-	-	-	99,052,641	99,052,641
At 31 December 2013	25,260,364	6,458,378,461	27,329,157,962	1,674,776,985	35,487,573,772
Depreciation					
At 1 January 2013	-	2,180,398,124	27,243,251,990	-	29,423,650,114
Charge for the year	-	180,633,721	1,526,536,488	-	1,707,170,209
Disposals	-	(42,873,327)	(1,139,559,741)	-	(1,182,433,068)
Transfer to assets held for sale	-	(2,332,475)	(6,744,794,742)	-	(6,747,127,217)
At 31 December 2013	-	2,315,826,043	20,885,433,995	-	23,201,260,038
Carrying amount					
At 1 January 2013	25,175,547	4,306,566,016	6,603,196,349	893,830,745	11,828,768,657
At 31 December 2013	25,260,364	4,142,552,418	6,443,723,967	1,674,776,985	12,286,313,734

In 2014, the Group capitalised MKD 23,718,975 (2013: MKD 226,202,792) related to obtaining complete documentation for base stations and 45,699,280 (2013: nil) expenditures related to obtaining complete documentation for fixed line infrastructure in accordance to applicable laws in Republic of Macedonia (see note 3.5).

The reviews of the useful lives and residual values of tangible assets during 2014 affected the lives of a several types of assets mainly transmission equipment, hardware and network equipment, digital exchanges and IT equipment. The change of the useful life on the affected assets was made due to technological changes and business plans of the Group member companies. The reviews resulted in the following change in the original trend of depreciation in the current and future years.

In denars	2014	2015	2016	2017	After 2017
(Decrease)/ increase in depreciation	(32.347.295)	(31.849.379)	23.578.801	26.159.583	14.458.290
	(32.347.295)	(31.849.379)	23.578.801	26.159.583	14.458.290

9. TRADE RECEIVABLES

In denars	2014	2013
Trade receivables – domestic	4,135,382,190	3,984,313,675
Trade receivables – foreign	126,231,453	101,724,577
Impairment of receivables	(1,761,439,004)	(1,748,145,125)
	2,500,174,639	2,337,893,127

10. CASH

In denars	2014	2013
Cash in banks – domestic currency	45,154,586	33,425,420
Cash in banks – foreign currency	236,593,029	324,618,595
Cash on hand – domestic currency	14,182,533	11,410,083
Cash on hand – foreign currency	961	961
	295,931,109	369,455,059

Notes to the consolidated annual accounts

11. SHARE CAPITAL

In denars

Type of shares	Ownership	1 January 2014	%	Increase	Decrease	31 December 2014	%
Ordinary shares	Private persons	190,711,000	1.99	6,344,100	-	197,055,100	2.06
	Legal entities	5,098,291,800	53.20	-	(6,344,100)	5,091,947,700	53.13
	Treasury shares	958,387,800	10.00	-	-	958,387,800	10.00
	Government of RM	3,336,487,400	34.81	-	-	3,336,487,400	34.81
Preference shares	Government of RM	9,733	0.00	-	-	9,733	0.00
	Total	9,583,887,733	100.00	6,344,100	(6,344,100)	9,583,887,733	100.00

Type of shares	Ownership	1 January 2013	%	Increase	Decrease	31 December 2013	%
Ordinary shares	Private persons	189,034,700	1.97	1,676,300	-	190,711,000	1.99
	Legal entities	5,099,968,100	53.22	-	(1,676,300)	5,098,291,800	53.20
	Treasury shares	958,387,800	10.00	-	-	958,387,800	10.00
	Government of RM	3,336,487,400	34.81	-	-	3,336,487,400	34.81
Preference shares	Government of RM	9,733	0.00	-	-	9,733	0.00
	Total	9,583,887,733	100.00	1,676,300	(1,676,300)	9,583,887,733	100.00

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

11.1. Treasury shares

The Company acquired 9,583,878 of its own shares, representing 10% of its shares, through the Macedonian Stock Exchange during June, 2006. The total amount paid to acquire the shares, net of income tax, was MKD 3,843,504,722. The shares are held as treasury shares.

As a result of the findings of the Investigation, for one consultancy contract, the payments of which was derecognized from treasury shares (see note 1.3).

The amount of treasury shares of MKD 3,738,357,351 (after derecognition), has been deducted from shareholders' equity. The Company has the right to reissue these shares at a later date. All shares issued by the Company were fully paid.

11.2. Statutory reserves

With the changes of the Law on Trading Companies effective from 1 January 2013, the Group members were required to set aside 5 percent of its net statutory profit for the year in a statutory reserve until the level of the reserve reaches 1/10 of the share capital. As the Group members have reached the 1/5 of the share capital in statutory reserves in prior years, in 2013, the excess over the 1/10 of the share capital in the amount of MKD 1,237,534,034 was transferred from statutory reserves to retained earnings.

Notes to the consolidated annual accounts

12. CURRENT TRADE PAYABLES

In denars	2014	2013
Trade payables – domestic	893,574,647	745,979,078
Trade payables – foreign	474,450,102	193,878,330
Trade payables for un-invoiced goods	88,062,700	98,244,497
	1,456,087,449	1,038,101,905

In the category Trade payables – domestic MKD 187,445,506 (2013: 187,310,812) represent the carrying amount of short term payables related to the transaction for purchase and sale of buildings with an exchange completed in 2012. The long term part of the liabilities related to this transaction is presented as long - term trade payables in the Balance sheet in amount of MKD 345,643,669 (2013: 502,873,588). These liabilities are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method. In the category Trade payables – foreign MKD 74,559,986 (2013: nil) represent the carrying amount of short term payables related to the capitalization of certain content right contracts in 2014 (see note 7). The long term part of the liabilities related to this transaction is presented as long - term trade payables in the Balance sheet in amount of MKD 70,791,105 (2013: nil). These liabilities are recognized initially at the net present value of future payments and subsequently measured at amortized cost using the effective interest method. The unwinding of the discount is being recognized in Interest expenses in Income statement. The carrying amount of these liabilities approximates their fair value as the related cash flows are discounted with an interest rate of 6% p,a, which is the observable at the market for similar long term financial liabilities.

13. SALES REVENUES

In denars	2014	2013
Sales revenues – domestic	9,833,258,226	10,840,515,257
Sales revenues – foreign	1,188,964,270	1,565,602,423
	11,022,222,496	12,406,117,680

14. OTHER INCOME

In denars	2014	2013
Income from penalties	48,131,679	60,989,873
Income from insurance compensation	22,842,425	9,800,047
Net gain on disposal of non-current assets	13,715,329	19,649,765
Collected written off receivables	4,222,225	4,915,464
Written off liabilities	1,360,790	2,477,510
Compensation for project termination	-	95,556,082
Other income	32,014,042	23,711,570
	122,286,490	217,100,311

In 2014 amount of MKD 11,850,417 in the category Income from insurance compensation represents compensation for damaged CPE devices and amount of MKD 20,191,821 in the category Other represents credit notes issued by Deutsche Telekom for invoices from previous years.

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

Notes to the consolidated annual accounts

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

In denars	2014	2013
Payment to network operators	996,058,812	1,484,182,937
Services	640,228,093	697,997,834
Fees, levies and local taxes	418,101,236	265,248,359
Marketing and donations	354,895,032	455,661,244
Royalty payments	279,074,769	238,217,282
Maintenance	257,187,272	264,693,911
Subcontractors	239,536,616	256,701,898
Rental fees	117,024,536	123,674,429
Impairment losses on trade receivables	41,998,528	59,235,884
Consultancy	29,468,905	77,968,247
Scraping of non-current assets	22,690,839	97,746,973
Insurance	14,755,477	16,260,512
Write down of inventories to net realizable value	11,586,796	1,027,423
Write down of inventories	9,060,609	11,764,868
Other	31,828,228	52,310,022
	3,463,495,748	4,102,691,823

Notes to the consolidated annual accounts

16. TRANSACTIONS WITH RELATED PARTIES

All transactions with related parties arise in the normal course of business and their value is not materially different from the terms and conditions that would prevail in arms-length transactions.

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

In denars	2014		2013	
	Revenues	Expenses	Revenues	Expenses
Controlling owner				
Magyar Telekom Plc	(808,433)	31,442,921	501,410	39,374,751
Subsidiaries of the controlling owner				
Telemakedonija AD	13,894	-	40,026	-
T-Systems Magyarország Zrt.	-	-	23,078,853	11,094
Novatel	11,910,847	2,992,745	7,186,485	3,978,481
Crnogorski Telekom	395,498	739,471	496,809	1,046,390
Ultimate parent company				
Deutsche Telekom AG	934,699,223	146,188,600	1,287,297,957	194,251,635
Subsidiaries of the ultimate parent company				
Hrvatski Telekom	352,674	79,512	2,104,172	5,853,961
T-Systems International GmbH	12,749,001	2,769,049	4,552,531	14,002,907
OTE Globe	18,320,738	16,271,163	22,898,018	22,099,168
Telekom Romania Communications	37,315	915,407	-	915,046
Detecon International GmbH	-	-	2,485	132,373
Slovak Telekom	(200,647)	152,191	109,097	179,695
T-Mobile Polska S.A.	197,876	47,561	241,157	348,035
T-Mobile Czech Republic	237,439	343,367	261,706	538,747
T-Mobile Austria	796,860	6,096,361	1,764,090	2,733,523
T-Mobile International Austria GmbH	-	2,914		
Everything Everywhere Ltd	1,551,461	1,245,278	3,271,507	982,351
T-Mobile USA	686,796	1,096,622	875,277	1,626,934
T-Mobile Netherlands B.V.	479,218	164,714	626,548	421,391
T-Mobile International UK Limited	547,319	25,843	506	569,457
Cosmo Bulgaria Mobile	-	-	624,044	1,709,176
Albanian Mobile Communications	584,975	1,950,320	921,214	3,102,511
Telekom Romania Mobile Telecommunications S.A	41,074	71,366	27,962	86,745
COSMOTE-Mobile Telecommunications. S.A.	(229,677)	2,829,159	2,126,778	4,675,491
Entity controlled by subsidiary's key management personnel				
Mobico DOOEL	592,468	563,804	380,882	286,525

Notes to the consolidated annual accounts

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

In denars	2014		2013	
	Receivables	Payables	Receivables	Payables
Controlling owner				
Magyar Telekom Plc.	1,895,567	7,415,822	3,884,487	7,130,517
Subsidiaries of the controlling owner				
Crnogorski Telekom	11,571,572	6,399,101	10,090,478	-
Telemakedonija AD	-	-	5,549	-
T-Systems Magyarország Zrt.	-	-	1,057,474	-
Novatel	1,350,621	165,904	3,445,386	1,334,540
Ultimate parent company				
Deutsche Telekom AG	414,833,176	388,218,394	196,140,284	212,665,634
Subsidiaries of the ultimate parent company				
T-Systems International GmbH	3,217,193	17,092,604	88,926,578	7,253,717
OTE Globe	2,863,260	2,421,387	6,862,467	6,407,813
Telekom Romania Communications	-	2,120,893	-	3,005,467
Slovak Telekom	917,729	648,999	-	127,277
Hrvatski Telekom	6,812,782	7,167,439	19,764,529	-
T-Mobile Polska S.A.	629,792	742,503	541,215	-
T-Mobile Czech Republic	672,828	750,616	626,692	-
T-Mobile Austria	40,947,245	41,488,810	12,157,526	-
T-Mobile International Austria GmbH	-	298,525		
Everything Everywhere Ltd	17,370,495	29,193,214	-	7,097,844
T-Mobile USA	27,342,441	34,030,686	-	2,967,866
T-Mobile Netherlands B.V.	1,015,090	492,991	-	6,686,740
T-Mobile International UK Limited	32,089	-	-	32,317
Albanian Mobile Communications	36,984,700	27,257,739	20,105,511	-
Telekom Romania Mobile Communications S.A	2,585,163	2,031,679	615,651	-
COSMOTE-Mobile Telecommunications S.A.	5,370,561	6,011,113	90,963,548	-
Entity controlled by subsidiary's key management personnel				
Mobico DOOEL	375,582	304,824	131,216	2,755,271

17. EVENTS AFTER THE BALANCE SHEET DATE

There are no events after the balance sheet date that would have impact on the 2014 Income statement and Balance sheet.

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