



LIFE IS FOR SHARING.

Makedonski Telekom AD - Skopje
Consolidated Financial Statements
For the year ended
31 December 2014
With the Report of the Auditor Thereon

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Independent Auditor's Report

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Independent auditor's report

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

We have audited the accompanying consolidated financial statements of Makedonski Telekom AD – Skopje (the “Company”) and its subsidiaries T-Mobile Macedonia AD Skopje and E-Makedonija foundation – Skopje (together “the Group”), which comprise the consolidated statement of financial position as of 31 December 2014 and the consolidated statement of comprehensive income, consolidated statement of changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditor's responsibility

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

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

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

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



Opinion

In our opinion, the accompanying consolidated financial statements presents fairly, in all material respects, the financial position of the Group as of 31 December 2014, and of its financial performance and its cash flows for the year than ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers Kavčičeva DOO
PricewaterhouseCoopers REVIZIJA DOO

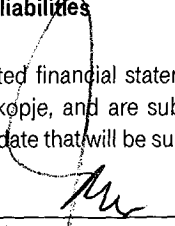
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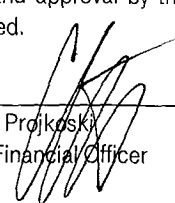
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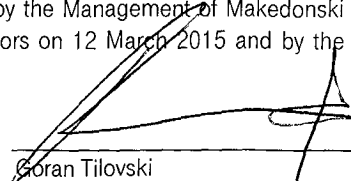
Consolidated statement of financial position

In thousands of denars	Note	As at 31 December	
		2014	2013
Assets			
Current assets			
Cash and cash equivalents	5	1,450,018	1,403,643
Deposits with banks	6	1,418,676	1,565,249
Trade and other receivables	7	3,420,937	3,151,591
Taxes receivable	8	11,672	10,640
Inventories	9	444,265	412,087
Total current assets		6,745,568	6,543,210
Assets held for sale	10	99,131	21,547
Non-current assets			
Property, plant and equipment	11	13,534,041	14,590,361
Advances for property, plant and equipment		2,811	2,811
Intangible assets	12	2,341,532	2,357,548
Trade and other receivables	7	363,387	353,677
Financial assets at fair value through profit and loss		44,549	43,762
Other non-current assets		612	612
Total non-current assets		16,286,932	17,348,771
Total assets		23,131,631	23,913,528
Liabilities			
Current liabilities			
Trade and other payables	13	4,019,481	3,571,681
Taxes payable	8	232,897	141,750
Provision for other liabilities and charges	15	252,744	117,884
Total current liabilities		4,505,122	3,831,315
Non-current liabilities			
Trade and other payables	13	470,767	566,867
Deferred income tax liabilities	14	201,332	-
Provision for other liabilities and charges	15	60,356	57,068
Total non-current liabilities		732,455	623,935
Total liabilities		5,237,577	4,455,250
Equity			
Share capital		9,583,888	9,583,888
Share premium		540,659	540,659
Treasury shares		(3,738,358)	(3,738,358)
Other reserves		1,237,534	1,237,534
Retained earnings		10,270,331	11,834,555
Total equity	16	17,894,054	19,458,278
Total equity and liabilities		23,131,631	23,913,528

These consolidated financial statements were authorized for issue on 2 March 2015 by the Management of Makedonski Telekom AD - Skopje, and are subject to review and approval by the Board of Directors on 12 March 2015 and by the shareholders on date that will be subsequently agreed.


Andreas Maierhofer
Chief Executive Officer


Slavko Projkoski
Chief Financial Officer


Goran Tilovski
Accounting and Tax Director
Certified Accountant
Reg. No. 11-2504/2

Consolidated statement of comprehensive income

In thousands of denars	Note	Year ended 31 December	
		2014	2013
Revenues	17	11,126,496	12,543,728
Depreciation and amortization		(2,740,313)	(3,007,966)
Personnel expenses	18	(1,225,870)	(1,830,905)
Payments to other network operators		(996,060)	(1,484,183)
Other operating expenses	19	(4,281,489)	(4,355,943)
Operating expenses		<u>(9,243,732)</u>	<u>(10,678,997)</u>
Other operating income	20	<u>44,442</u>	<u>121,001</u>
Operating profit		1,927,206	1,985,732
Finance expenses	21	(132,987)	(84,023)
Finance income	22	<u>41,791</u>	<u>88,669</u>
Finance income - net		<u>(91,196)</u>	<u>4,646</u>
Profit before income tax		1,836,010	1,990,378
Income tax expense	23	<u>(955,596)</u>	<u>-</u>
Profit for the year		880,414	1,990,378
Total comprehensive income for the year		<u>880,414</u>	<u>1,990,378</u>
Earnings per share (EPS) information:			
Basic and diluted earnings per share (in denars)		<u>10.21</u>	<u>23.08</u>

Consolidated statement of cash flows

In thousands of denars	Note	Year ended 31 December	
		2014	2013
Operating activities			
Profit before tax		1,836,010	1,990,378
Adjustments for:			
Depreciation and amortization		2,740,313	3,007,966
Write down of inventories to net realizable value	19	11,587	1,028
Fair value (gain)/losses on financial assets	22/21	(794)	7,073
Impairment on trade and other receivables	19	41,999	59,236
Net increase of provisions	15	160,023	11,501
Net gain on disposal of property, plant and equipment	20	(8,142)	(14,536)
Dividend income	22	(131)	(1,640)
Interest expense	21	117,514	59,486
Interest income	22	(32,763)	(87,029)
Effect of foreign exchange rate changes on cash and cash equivalents		1,112	6,725
Cash generated from operations before changes in working capital		4,866,728	5,040,188
(Increase)/decrease in inventories		(43,765)	9,910
Increase in receivables		(327,202)	(168,562)
Increase/(decrease) in payables		572,634	(112,049)
Cash generated from operations		5,068,395	4,769,487
Interest paid		(42,108)	(52,397)
Taxes paid		(579,797)	-
Cash flows generated from operating activities		4,446,490	4,717,090
Investing activities			
Acquisition of property, plant and equipment		(1,597,600)	(2,260,785)
Acquisition of intangible assets		(411,359)	(689,758)
Loans collected		5,121	27,219
Deposits collected from banks		1,554,962	6,350,036
Deposits placed with banks		(1,413,362)	(1,554,962)
Dividends received		131	1,640
Proceeds from sale of property, plant and equipment		57,571	88,513
Interest received		37,736	95,764
Cash flows (used in)/generated from investing activities		(1,766,800)	2,057,667
Financing activities			
Dividends paid		(2,444,638)	(5,646,607)
Payments of other financial liabilities		(187,565)	(143,016)
Cash flows used in financing activities		(2,632,203)	(5,789,623)
Net increase in cash and cash equivalents		47,487	985,134
Cash and cash equivalents at 1 January		1,403,643	425,234
Effect of foreign exchange rate changes on cash and cash equivalents		(1,112)	(6,725)
Cash and cash equivalents at 31 December	5	1,450,018	1,403,643

Consolidated statement of changes in equity

In thousands of denars	Note	Share capital	Share premium	Treasury shares	Other reserves	Retained earnings	Total
Balance at 1 January 2013		9,583,888	540,659	(3,738,358)	2,475,068	14,253,250	23,114,507
Total comprehensive income for the year		-	-	-	-	1,990,378	1,990,378
Transaction with owners in their capacity of owners (dividends paid)		-	-	-	-	(5,646,607)	(5,646,607)
Transfer (see note 2.13 and 16.2)		-	-	-	(1,237,534)	1,237,534	-
Balance at 31 December 2013	16	9,583,888	540,659	(3,738,358)	1,237,534	11,834,555	19,458,278
Balance at 1 January 2014		9,583,888	540,659	(3,738,358)	1,237,534	11,834,555	19,458,278
Total comprehensive income for the year		-	-	-	-	880,414	880,414
Transaction with owners in their capacity of owners (dividends paid)		-	-	-	-	(2,444,638)	(2,444,638)
Balance at 31 December 2014	16	9,583,888	540,659	(3,738,358)	1,237,534	10,270,331	17,894,054

Notes to the consolidated financial statements

1. GENERAL INFORMATION

1.1. About the Company

These consolidated financial statements 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.

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.

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 employees of the Company and its subsidiary based on the working hours during 2014 was 1,379 (2013: 1,534).

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 can not 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;

Notes to the consolidated financial statements

- 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 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:

Notes to the consolidated financial statements

- IP network structure and information on the IP IC equipment
 - Number and location of IP Pools
 - Voice transmission protocols and IP signaling
 - 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.

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.

Notes to the consolidated financial statements

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. 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)

Notes to the consolidated financial statements

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, T-Mobile Macedonia AD Skopje, 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.

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 Financial Statements 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 financial statements may be misstated, including from the effects of a possible illegal act.

Notes to the consolidated financial statements

2. SIGNIFICANT ACCOUNTING POLICIES

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

2.1. Basis of preparation

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

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

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the 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 financial statements are disclosed in note 4. Actual results may differ from those estimated.

2.1.1. Standards, amendments and interpretations effective and adopted by the Group in 2014

- IAS 32 (amended). In December 2011 the IASB published amendments to IAS 32 Financial Instruments: Presentation. The amendments to IAS 32 clarify the IASB's requirements for offsetting financial instruments. The amendments address inconsistencies in current practice when applying the offsetting criteria in IAS 32. The pronouncement clarifies:

- the meaning of "currently has a legally enforceable right of set off the recognized amounts"; and
- that some gross settlement systems may be considered equivalent to net settlement.

The Group adopted the amended standard as of 1 January 2014. The amended standard did not have material impact on the disclosures in the Group's financial statements.

- IFRS 10, IFRS 11, IFRS 12, IAS 27 and IAS 28 (amended). In May 2011 the IASB published IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, IFRS 12 Disclosures of Interests in Other Entities and amendments to IAS 27 Separate Financial Statements and IAS 28 Investments in Associates and Joint Ventures.

IFRS 10 replaces the consolidation guidance in IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation – Special Purpose Entities by introducing a single consolidation model for all entities based on control, irrespective of the nature of the investee (i.e., whether an entity is controlled through voting rights of investors or through other contractual arrangements as is common in special purpose entities). Under IFRS 10, control is based on whether an investor has:

- power over the investee;
- exposure, or rights, to variable returns from its involvement with the investee; and
- the ability to use its power over the investee to affect the amount of the returns.

IFRS 11 introduces new accounting requirements for joint arrangements, replacing IAS 31 Interests in Joint Ventures. The option to apply the proportional consolidation method when accounting for jointly controlled entities is removed. Additionally, IFRS 11 eliminates jointly controlled assets to now only differentiate between joint operations and joint ventures. A joint operation is a joint arrangement whereby the parties that have joint control have rights to the assets and obligations for the liabilities. A joint venture is a joint arrangement, whereby the parties that have joint control have rights to the net assets.

IFRS 12 requires enhanced disclosures about both consolidated entities and unconsolidated entities in which an entity has involvement. The objective of IFRS 12 is to require information so that financial statement users may evaluate the basis of control, any restrictions on consolidated assets and liabilities, risk exposures arising from involvements with unconsolidated structured entities and non-controlling interest holders' involvement in the activities of consolidated entities.

The requirements relating to separate financial statements are unchanged and are included in the amended IAS 27 Separate Financial Statements. The other portions of IAS 27 are replaced by IFRS 10.

Notes to the consolidated financial statements

IAS 28 Investments in Associates and Joint Ventures is amended for conforming changes based on the issuance of IFRS 10, IFRS 11 and IFRS 12.

The IASB issued amendments to IFRS 10, IFRS 11 and IFRS 12 in June 2012. The amendments clarify the transition guidance in IFRS 10 Consolidated Financial Statements and provide additional transition relief in IFRS 10, IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities, limiting the requirement to provide adjusted comparative information to only the preceding comparative period. Furthermore, for disclosures related to unconsolidated structured entities, the amendments remove the requirement to present comparative information for periods before IFRS 12 is first applied.

The Group adopted this package of five new and revised standards as of 1 January 2014. Their adoption did not result in significant changes in the disclosures in the Group's financial statements.

- IAS 36 (amended). In May 2013 the IASB published Recoverable Amount Disclosures for Non-Financial Assets, amendments to IAS 36 Impairment of Assets. The amendments address the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal. When developing IFRS 13 Fair Value Measurement, the IASB decided to amend IAS 36 to require disclosures about the recoverable amount of impaired assets. The amendments clarify the IASB's original intention: that the scope of those disclosures is limited to the recoverable amount of impaired assets that is based on fair value less costs of disposal. The Group adopted the amended standard as of 1 January 2014. The amended standard did not have any impact on the Group's financial statements.
- IAS 39 (amended). In June 2013 the IASB published Novation of Derivatives and Continuation of Hedge Accounting, amendments to IAS 39 Financial Instruments: Recognition and Measurement. The amendments allow hedge accounting to continue in a situation where a derivative, which has been designated as a hedging instrument, is novated to effect clearing with a central counterparty as a result of laws or regulation, if specific conditions are met (in this context, a novation indicates that parties to a contract agree to replace their original counterparty with a new one). This relief has been introduced in response to legislative changes across many jurisdictions that would lead to the widespread novation of over-the-counter derivatives. These legislative changes were prompted by a G20 commitment to improve transparency and regulatory oversight of over-the-counter derivatives in an internationally consistent and non-discriminatory way. Similar relief will be included in IFRS 9 Financial Instruments. The Group adopted the amended standard as of 1 January 2014. The amended standard did not have any impact on the Group's financial statements.
- IFRIC 21 In May 2013 the IASB issued IFRIC Interpretation 21: Levies, an Interpretation on the accounting for levies imposed by governments. IFRIC 21 is an interpretation of IAS 37 Provisions, Contingent Liabilities and Contingent Assets. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (known as an obligating event). The new interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. The Group adopted the interpretation as of 1 January 2014. The interpretation did not have any impact on the Group's financial statements as the Group's interpretation of the standard was identical to the IFRIC applied in 2014.

2.1.2. Standards, amendments and interpretations effective in 2014 but not relevant for the Group

- IFRS 10, IFRS 12, IAS 27 (amended). In October 2013 the IASB published "Investment Entities" (Amendments to IFRS 10, IFRS 12 and IAS 27). As the Company does not have investment entities, the amendments did not have any impact on the Group's financial statements.

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

- IFRS 9 Financial Instruments The standard forms the first part of a three-phase project to replace IAS 39 (Financial Instruments: Recognition and Measurement) with a new standard, to be known as IFRS 9 Financial Instruments. IFRS 9 prescribes the classification and measurement of financial assets and liabilities. The remaining phases of this project, dealing with the impairment of financial instruments and hedge accounting, as well as a further project regarding derecognition, are in progress.

Financial assets – At initial recognition, IFRS 9 requires financial assets to be measured at fair value. After initial recognition, financial assets continue to be measured in accordance with their classification under IFRS 9. Where a

Notes to the consolidated financial statements

financial asset is classified and measured at amortized cost, it is required to be tested for impairment in accordance with the impairment requirements in IAS 39. IFRS 9 defines the below rules for classification.

IFRS 9 requires that financial assets are classified as subsequently measured at either amortized cost or fair value. There are two conditions needed to be satisfied to classify financial assets at amortized cost: (1) The objective of an entity's business model for managing financial assets has to be to hold assets in order to collect contractual cash flows; and (2) The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Where either of these conditions is not satisfied, financial assets are classified at fair value.

Fair Value Option: IFRS 9 permits an entity to designate an instrument, that would otherwise have been classified in the amortized cost category, to be at fair value through profit or loss if that designation eliminates or significantly reduces a measurement or recognition inconsistency ('accounting mismatch').

Equity instruments: The default category for equity instruments is at fair value through profit or loss. However, the standard states that an entity can make an irrevocable election at initial recognition to present all fair value changes for equity investments not held for trading in other comprehensive income. These fair value gains or losses are not reported as part of a reporting entity's profit or loss, even when a gain or loss is realized. Only dividends received from these investments are reported in profit or loss.

Embedded derivatives: The requirements in IAS 39 for embedded derivatives have been changed by no longer requiring that embedded derivatives be separated from financial asset host contracts.

Reclassification: IFRS 9 requires reclassification between fair value and amortized cost when, and only when there is a change in the entity's business model. The 'tainting rules' in IAS 39 have been eliminated.

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

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

The IASB issued amendments to IFRS 9 in December 2011 and in November 2013 and deferred the mandatory effective date of IFRS 9. The deferral will make it possible for all phases of the IFRS 9 project to have the same mandatory effective date. The amendments also provide relief from the requirement to restate comparative financial statements for the effect of applying IFRS 9. This relief was originally only available to companies that chose to apply IFRS 9 prior to 2012. Instead, additional transition disclosures will be required to help investors understand the effect that the initial application of IFRS 9 has on the classification and measurement of financial instruments.

The IASB completed the final element of IFRS 9 Financial Instruments in July 2014. The package of improvements introduced by IFRS 9 includes a model for classification and measurement, a single, forward-looking 'expected loss' impairment model and a substantially-reformed approach to hedge accounting.

Classification and Measurement: Classification determines how financial assets and financial liabilities are accounted for in financial statements and, in particular, how they are measured on an ongoing basis. IFRS 9 introduces an approach for the classification of financial assets, which is driven by cash flow characteristics and the business model in which an asset is held. This single, principle-based approach replaces existing rule-based requirements that are generally considered to be overly complex and difficult to apply. The new model also results in a single impairment model being applied to all financial instruments.

Impairment: During the financial crisis, the delayed recognition of credit losses on loans (and other financial instruments) was identified as a weakness in existing accounting standards. As part of IFRS 9, the IASB has introduced a new, expected-loss impairment model that will require more timely recognition of expected credit losses. Specifically, the new Standard requires entities to account for expected credit losses from when financial instruments are first recognized and to recognize full lifetime expected losses on a timelier basis.

Notes to the consolidated financial statements

Hedge accounting: IFRS 9 introduces a substantially-reformed model for hedge accounting, with enhanced disclosures about risk management activity. The new model represents a significant overhaul of hedge accounting that aligns the accounting treatment with risk management activities, enabling entities to better reflect these activities in their financial statements.

Own credit: IFRS 9 also removes the volatility in profit or loss that was caused by changes in the credit risk of liabilities elected to be measured at fair value. This change in accounting means that gains caused by the deterioration of an entity's own credit risk on such liabilities are no longer recognized in profit or loss.

The application of the new standard and its amendments is required for annual periods beginning on or after 1 January 2018. Earlier application is permitted. The Group is currently analyzing the possible changes in the financial statements of the Group that will be a result of the adoption of the new standard and its amendments.

- IFRS 11 (amended). In May 2014 the IASB published amendments to IFRS 11 Joint Arrangements. IFRS 11 addresses the accounting for interests in joint ventures and joint operations. The amendment explicitly requires the acquirer of an interest in a joint operation in which the activity constitutes a business to apply all of the principles on business combinations accounting in IFRS 3. The application of the amendment is required for annual periods beginning on or after 1 January 2016. We do not expect that the adoption of the amendment would result in significant changes in the financial statements of the Group.
- IAS 16 and IAS 38 (amended). In May 2014 the IASB published amendments to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets in May 2014. IAS 16 and IAS 38 both establish the principle for the basis of depreciation and amortization as being the expected pattern of consumption of the future economic benefits of an asset. The IASB has clarified that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The IASB also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. This presumption, however, can be rebutted in certain limited circumstances. The application of the amendments is required for annual periods beginning on or after 1 January 2016. The adoption of the amendments will not result in any changes in the financial statements of the Group as we apply linear depreciation and amortization.
- IFRS 15 In May 2014 the IASB and the US FASB jointly issued a converged Standard on the recognition of revenue from contracts with customers. The core principle of the new Standard is for companies to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration (that is, payment) to which the company expects to be entitled in exchange for those goods or services. The new Standard will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively (for example, service revenue and contract modifications) and new guidance for multiple element arrangements. The application of the new standard is required for annual periods beginning on or after 1 January 2017. Earlier application is permitted. The adoption of the new standard will result in significant changes in the financial statements of the Group, primarily in respect of the timing of revenue recognition and in respect of capitalization of costs of obtaining a contract with a customer and contract fulfillment costs. The timing of revenue recognition, and the classification of our revenues as either service or equipment, will be affected due to the allocation of consideration in multiple element arrangements (solutions for our customers that may involve the delivery of multiple services and products occurring at different points in time and/or over different periods of time) no longer being affected by limitation cap methodology. Our operations and associated systems are complex and the currently estimated time and effort necessary to develop and implement the accounting policies, estimates, judgments and processes to comply with the new standard is expected to span a substantial period of time. As a result, at this time, it is not possible to make reasonable quantitative estimates of the effects of the new standard.
- IFRS 10 and IAS 28 The IASB issued narrow-scope amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures. The amendments address the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. The application of the amendments is required for annual periods beginning on or after 1 January 2016. We do not expect that the adoption of the amendments would result in significant changes in the financial statements of the Group.

Notes to the consolidated financial statements

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

- IAS 19 (amended). In November 2013 the IASB published amendments to IAS 19 Employee Benefits. The amendments apply to contributions from employees or third parties to defined benefit plans which are not relevant for the Group. Therefore the amended standard will not have any impact on the Group's financial statements.
- IFRS 14 In January 2014 the IASB issued an interim Standard, IFRS 14 Regulatory Deferral Accounts. The new interim standard is applicable for first-time adopters which is not relevant for the Group. Therefore the new interim standard will not have any impact on the Group's financial statements.
- IAS 16 and IAS 41 (amended) In June 2014 the IASB published amendments that change the financial reporting for bearer plants, such as grape vines, rubber trees and oil palms. Since the Group is not engaged in agricultural activity, the amendments will not have any impact on the Group's financial statements.
- IAS 27 (amended) In August 2014 the IASB published Equity Method in Separate Financial Statements (Amendments to IAS 27). The amendment is applicable for separate financial statements which is not relevant for the Group. Therefore the amendment will not have any impact on the Group's financial statements.

2.2. Consolidation

2.2.1. Subsidiaries

Subsidiaries are those enterprises controlled by the Company. Control exists when the Company has power over the investee, exposure, or rights, to variable returns from its involvement with the investee, and the ability to use its power over the investee to affect the amount of the investor's returns.. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Intra-group balances and transactions, and any unrealized gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

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

	Country of incorporation	Ownership interest	
		As at 31 December 2014	As at 31 December 2013
T-Mobile Macedonia AD	Macedonia	100	100
e-Makedonija	Macedonia	100	100

2.3. Foreign currency translation

2.3.1. Functional and presentation currency

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

2.3.2. Transactions and balances

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

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

Notes to the consolidated financial statements

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

2.4. Financial instruments

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

Financial assets of the 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.

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.

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

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

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

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

2.4.1. 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 Profit for the year.

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

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

Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

Notes to the consolidated financial statements

(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 Profit for the year (Finance income/expense) in the period in which they arise.

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

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

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

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

Cash and cash equivalents

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

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

Trade and other receivables

Trade and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the 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 Profit for the year (Other operating expenses – Impairment losses on trade and other receivables).

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.

Notes to the consolidated financial statements

When a trade receivable is established to be uncollectible, it is written off against Profit for the year (Other operating expenses – Impairment losses on trade and other receivables) with a parallel release of the cumulated impairment on the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against the recognized loss in the Profit for the year.

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

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

Employee loans

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

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

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

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

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

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

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

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

2.4.2. Financial liabilities

Trade and other payables

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

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

Notes to the consolidated financial statements

2.5. Inventories

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

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

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

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

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

2.7. Property, plant and equipment (PPE)

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

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

The cost of self-constructed assets includes the cost of materials and direct 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 Property, plant and equipment (see note 11).

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the 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 Profit for the year during the financial period in which they are incurred.

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

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

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

Notes to the consolidated financial statements

The estimated useful lives are as follows:

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

2.8. Intangible assets

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

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

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

The estimated useful lives are as follows:

	2014 Years	2013 Years
Software and licenses	2-5	2-5
Concession	18	18
3G and 2G License	10	10
4G License	20	20

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

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

Notes to the consolidated financial statements

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

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

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

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

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

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

2.11. Share capital

Ordinary shares are classified as equity.

2.12. 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.

2.13. Other 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 16). These reserves are used to cover losses and are not distributed to shareholders except in the case of bankruptcy of the Group members.

2.14. Revenues

Revenues for all services and equipment sales (see note 17) are shown net of VAT, discounts and after elimination of 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.

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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 Other liabilities (deferred revenue). On redemption (or expiry) of the points, the deferred revenue is released to revenue as the customer has collected (or waived) the undelivered element of the deemed bundle.

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

2.14.1. 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.

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 financial statements 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.

2.14.2. System integration and IT revenues

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

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

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

Notes to the consolidated financial statements

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 Consolidated statement of financial position as Trade and other receivables.

2.15. Employee benefits

2.15.1. 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 Profit for the year in the same period as the related salary cost. No provision is created for holiday allowances for non-used holidays as according to 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 to 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 a 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 financial statements 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 to 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 financial statements 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.

2.15.2. 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.

2.15.3. 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.

2.16. Marketing expenses

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

2.17. Taxes

2.17.1. 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

Notes to the consolidated financial statements

distribution of dividends, the tax was still payable on the non-deductible expenses incurred in that fiscal year, decreased by the amount of tax credits and other tax reliefs (see note 2.17.3).

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 Consolidated statement of comprehensive income.

2.17.2. Deferred income tax

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

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

In line with the new profit tax law deferred tax was calculated and recorded in the 2014 Consolidated statement of comprehensive income.

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

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

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

2.17.3. Tax on non-deductible expenses

Under the previous profit tax law, applicable to the net income for 2013, at the end of fiscal year companies were liable to pay tax on non deductible expenses, regardless of their financial results. The basis was expenses which are not within the scope of the company business i.e. non deductible expenses (representation expenses, gifts etc) less tax credits and other tax reliefs. The tax on non-deductible expenses was recognized in the Profit for the year (Other operating expenses) against Other taxes. With the new profit tax law from 1 August 2014, being applicable for the net income for 2014 the base for income tax computation had been shifted from income "distribution" concept to the profit before taxes and the taxation of the non-deductible expenses (less tax credits) is now part of the tax base and within the Income tax line in the Profit for the year. The

Notes to the consolidated financial statements

tax base is defined as the profit generated during the fiscal year increased for non-deductible expenses and reduced for deductible revenue (i.e. dividends already taxed at the payer) and the profit tax rate is 10% (see note 8).

2.18. Leases

2.18.1. Operating lease – Group as lessor

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

2.18.2. Operating lease – Group as lessee

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

2.19. Earnings per share

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

2.20. Dividend distribution

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

2.21. Segments

The operating segments of the Group are based on the business lines, fixed line and mobile, which is consistent with the internal reporting provided to the chief operating decision maker, the Chief Executive Officer (CEO), who is advised by the Group Management Committee (GMC) of the Company. The CEO is responsible for allocating resources to, and assessing the performance of, the operating segments. The accounting policies and measurement principles of the operating segments are the same as those applied for the Group described in the Significant accounting policies (see note 2). In the financial statements, the Group's segments are reported in a manner consistent with the internal reporting. The two operating segments, fixed line and mobile, are represented mainly by the two separate legal entities, Makedonski Telekom AD – Skopje and T-Mobile Macedonia AD Skopje, respectively.

The operating segments' revenues include revenues from external customers as well as the internal revenues generated from other segments. The operating segments, being two separate legal entities, charge revenues for the services delivered to the other operating segments identically as for external customers.

The operating segments' results are monitored by the CEO and the GMC to EBITDA (Earnings before interest, tax, depreciation and amortization), which is defined by the Group as Operating profit without Depreciation and amortization expense.

The CEO and the GMC do not monitor the assets and liabilities at segment level.

Another important KPI monitored at segment level is capital expenditure (Capex), which is determined as the additions to PPE and Intangible assets.

2.22. Comparative information

In order to maintain consistency with the current year presentation, certain items may have been reclassified for comparative purposes. Material changes in disclosures, if any, are described in detail in the relevant notes.

Notes to the consolidated financial statements

3. FINANCIAL RISK MANAGEMENT

3.1. Financial risk factors

The Group does not apply hedge accounting for its financial instruments, all gains and losses are recognized in the Profit for the year except financial assets classified as available for sale that are recognized in Other comprehensive income. The 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.

3.1.1. Market risk

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

As the vast majority of the revenues and expenses of the 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 financial statement date. The balances at the end of the reporting period are usually representative for the year as a whole, therefore the impacts are calculated using the year end balances as though the balances had been constant throughout the reporting period. The methods and assumptions used in the sensitivity calculations have been updated to reflect the current economic situation.

a) Foreign currency risk

The functional currency of the Company 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 thousand 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 9,139 thousand 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 thousand 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 5,462 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

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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 2,854,511 thousand 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 thousand annually, while similar decrease would have caused the same decrease in interest received. Amount of deposits is MKD 2,957,481 thousand (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 29,575 thousand 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 44,549 thousand 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 8,910 thousand gain, while similar decrease would have caused the same loss in the Profit for the year. The amount of the investments in equity of other entities that are publically traded on the Macedonian Stock Exchange is MKD 43,762 thousand as at 31 December 2013, therefore 20% rise in market price would have caused (ceteris paribus) MKD 8,752 thousand gain, while similar decrease would have caused the same loss in the Profit for the year.

3.1.2. Credit risk

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

The 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.

Notes to the consolidated financial statements

- 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.

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 Consolidated statement of financial position. 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 financial statement date.

Largest amount of one deposit in 2014 is MKD 300,000 thousand, denominated in EUR 4,876 thousand, (2013: MKD 430,579 thousand denominated in EUR 7,000 thousand). 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.

3.1.3. Liquidity risk

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

Liquidity risk is defined as the risk that the 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.

The tables below show liabilities at 31 December 2014 and 2013 by their remaining contractual maturity. The amounts disclosed in the maturity table are the contractual undiscounted cash flows. Such undiscounted cash flows differ from the amount included in the statement of financial position because the statement of financial position amount is based on discounted cash flows. As the financial liabilities are paid from the cash generated from the ongoing operations, the maturity analysis of the financial assets as at the end of the reporting periods (in comparison with the financial liabilities) would not be useful, therefore, is not included in the tables below.

Notes to the consolidated financial statements

The maturity structure of the Group's financial liabilities as at 31 December 2014 is as follows:

In thousands of denars	Total	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 12 months to 5 years
Trade payables	1,152,423	740,927	408,154	3,342	-
Liabilities to related parties	574,253	553,277	20,976	-	-
Other financial liabilities	836,015	103,819	15,375	245,090	471,731
	<u>2,562,691</u>	<u>1,398,023</u>	<u>444,505</u>	<u>248,432</u>	<u>471,731</u>

The maturity structure of the Group's financial liabilities as at 31 December 2013 is as follows:

In thousands of denars	Total	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 12 months to 5 years
Trade payables	804,677	496,701	307,976	-	-
Liabilities to related parties	257,465	241,327	16,138	-	-
Other financial liabilities	855,917	74,580	-	195,334	586,003
	<u>1,918,059</u>	<u>812,608</u>	<u>324,114</u>	<u>195,334</u>	<u>586,003</u>

3.2. 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 14,057,432 thousand, as per local GAAP (2013: MKD 14,239,213 thousand). Out of this amount MKD 9,583,888 thousand (2013: MKD 9,583,888 thousand) represent share capital and MKD 958,389 thousand (2013: MKD 958,389 thousand) represent statutory reserves, which are not distributable (see note 2.13). The Company has also acquired treasury shares (see notes 2.12 and 16.1). The transaction is in compliance with the local legal requirements that by acquiring treasury shares the total equity of the Company shall not be less than the amount of the share capital and reserves which are not distributable to shareholders by law or by Company's statute. In addition, according the local legal requirements dividends can be paid out to the shareholders in amount that shall not exceed the net profit for the year as presented in the local GAAP financial statements of the Company, increased for the undistributed net profit from previous years or increased for the other distributable reserves, i.e. reserves that exceed the statutory reserves and other reserves defined by the Company's statute. The Company is in compliance with all statutory capital requirements.

3.3. Fair value estimation

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

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

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

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

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

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

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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 303,894 thousand (2013: MKD 334,218 thousand). See note 11 and 12 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 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 the Company conducted an item by item revision of the useful life of assets affected by the PSTN migration project of the Company, which in general resulted in shortening of their useful life. In January 2014 the Company performed the migration of the last PSTN customer thus completing the PSTN migration project (see note 10).

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

We assess the impairment of identifiable property, plant, equipment and intangibles whenever there is a reason to believe that the carrying value may materially exceed the recoverable amount and where impairment of value is anticipated. The calculations of recoverable amounts are primarily determined by value in use calculations, which use a broad range of estimates and factors affecting those. Among others, we typically consider future revenues and expenses, technological obsolescence, discontinuance of services and other changes in circumstances that may indicate impairment. If impairment is identified using the value in use calculations, we also determine the fair value less cost to sell (if determinable), to calculate the exact amount of impairment to be charged. As this exercise is highly judgmental, the amount of a potential impairment may be significantly different from that of the result of these calculations. Management has performed an impairment test based on a 10 years cash flow projection and used a perpetual growth rate of 2% (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.

4.3. Estimated impairment of trade and other receivables

We calculate impairment for doubtful accounts based on estimated losses resulting from the inability of our customers to make the required payments. For the largest customers, international customers and for customers under liquidation and bankruptcy proceedings impairment is calculated on an individual basis, while for other customers it is estimated on a portfolio basis, for which we base our estimate on the aging of our account receivables balance and our historical write-off experience, customer credit-worthiness and recent changes in our customer payment terms (see note 2.4.1 (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

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receivables may be higher than expected and may exceed the level of the impairment losses recognized so far (see note 3.1.2).

4.4. Provisions

Provisions in general are highly judgmental, especially in case of legal disputes. The 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 2.10). 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. The total amount of agent fees in 2014 is MKD 155,753 thousand (2013: MKD 183,013 thousand).

5. CASH AND CASH EQUIVALENTS

In thousands of denars	2014	2013
Call deposits	1,154,086	1,034,130
Cash in bank	281,749	358,102
Cash on hand	14,183	11,411
	<u>1,450,018</u>	<u>1,403,643</u>

The interest rate on call deposits is in range from 0.30% p.a. to 1.00% p.a. (2013: from 0.30% p.a. to 1.00% p.a.). These deposits have maturities of less than 3 months.

The carrying amounts of the cash and cash equivalents are denominated in the following currencies:

In thousands of denars	2014	2013
MKD	1,213,425	1,079,025
EUR	209,039	250,327
USD	27,492	74,210
Other	62	81
	<u>1,450,018</u>	<u>1,403,643</u>

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

In thousands of denars	2014	2013
Credit rating of the Guarantor: A	<u>1,395,258</u>	<u>1,332,230</u>
	<u>1,395,258</u>	<u>1,332,230</u>

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

In thousands of denars	2014	2013
Credit rating: BBB-	344	2,146
Credit rating: BB+	-	117
Credit rating: BB-	17,888	37,970
Credit rating: B-	22,095	18,364
Call deposits in local banks without rating	250	1,405
	<u>40,577</u>	<u>60,002</u>

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

6. DEPOSITS WITH BANKS

Deposits with banks represent cash deposits in reputable domestic banks, with interest rates from 1.45% p.a. to 1.70% p.a. (2013: 2.35% p.a.) and with maturity between 3 and 12 months.

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

In thousands of denars	2014	2013
MKD	962,388	664,689
EUR	456,288	900,560
	<u>1,418,676</u>	<u>1,565,249</u>

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

In thousands of denars	2014	2013
Credit rating of the Guarantor: A	<u>1,418,676</u>	<u>1,565,249</u>
	<u>1,418,676</u>	<u>1,565,249</u>

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7. TRADE AND OTHER RECEIVABLES

In thousands of denars	2014	2013
Trade debtors – domestic	4,135,382	3,986,043
Less: allowance for impairment	<u>(1,748,663)</u>	<u>(1,748,145)</u>
Trade debtors – domestic – net	2,386,719	2,237,898
Trade debtors – foreign	126,231	101,725
Less: allowance for impairment	<u>(12,776)</u>	-
Trade debtors – foreign – net	113,455	101,725
Receivables from related parties	576,788	455,319
Loans to third parties	3,533	3,518
Less: allowance for impairment	<u>(3,533)</u>	<u>(3,518)</u>
Loans to third parties– net	-	-
Loans to employees	101,703	108,247
Other receivables	<u>16,114</u>	<u>13,900</u>
Financial assets	3,194,779	2,917,089
Advances given to suppliers	120,564	123,564
Less: allowance for impairment	<u>(62,923)</u>	<u>(62,923)</u>
Advances given to suppliers – net	57,641	60,641
Prepayments and accrued income	<u>531,904</u>	<u>527,538</u>
	<u>3,784,324</u>	<u>3,505,268</u>
Less non-current portion: Loans to employees	(83,369)	(88,489)
Less non-current portion: Trade debtors – domestic	<u>(280,018)</u>	<u>(265,188)</u>
Current portion	<u>3,420,937</u>	<u>3,151,591</u>

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

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

Loans to third parties represent loan with reference interest rate of 6 months EURIBOR with margin of 0.3%. Loans granted to employees carry effective interest rate of 4.55% p.a. (2013: 6.25% p.a. and 9.45% p.a.).

The non-current portion of Loans to employees represents receivables that are due within 14 years of the financial statement date. The non-current portion of domestic trade receivables represents receivables that are due within 4 years of the financial statement date.

As at 31 December 2014, domestic trade debtors of MKD 2,103,291 thousand (2013: MKD 2,030,553 thousand) are impaired. The aging of these receivables is as follows:

In thousands of denars	2014	2013
Less than 30 days	195,732	176,999
Between 31 and 180 days	153,403	102,749
Between 181 and 360 days	78,692	106,859
More than 360 days	<u>1,675,464</u>	<u>1,643,946</u>
	<u>2,103,291</u>	<u>2,030,553</u>

As at 31 December 2014, domestic trade receivables in amount of MKD 236,337 thousand (2013: MKD 315,233 thousand) were past due but not impaired. These are mainly related to customers for interconnection services assessed on individual basis in accordance with past Group experience and current expectations, as well as specified business and governmental customers that belong to certain age bands and are past due but not impaired, based on past experience of payment behavior (see notes 2.4.1 and 4.3).

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

In thousands of denars	2014	2013
Less than 30 days	104,455	137,659
Between 31 and 60 days	44,683	73,285
Between 61 and 90 days	31,915	32,085
Between 91 and 180 days	19,881	40,729
Between 181 and 360 days	31,295	16,800
More than 360 days	4,108	14,675
	<u>236,337</u>	<u>315,233</u>

The total amount of the provision for domestic trade debtors is MKD 1,748,663 thousand (2013: MKD 1,748,145 thousand). Out of this amount MKD 1,538,064 thousand (2013: MKD 1,529,364 thousand) relate to provision made according the aging structure of the above receivables, while the amount of MKD 47,339 thousand (2013: MKD 48,663 thousand) is from customers under liquidation and bankruptcy which are fully impaired. In addition, the Group has a specific provision calculated in respect of a certain group of customers in amount of MKD 163,260 thousand (2013: MKD 170,118 thousand). The total amount of the provision for foreign trade debtors is MKD 12,776 thousand (2013: nil).

The amount of impairment is mainly a result of receivables which are overdue more than 720 days. The total amount of fully impaired receivables is MKD 1,557,900 thousand (2013: MKD 1,528,362 thousand). These receivables are mainly from two way disconnected customers, dismantled customers, litigated customers and customers that are no longer using the Group services.

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

In thousands of denars	2014	2013
Trade debtors – domestic	2,386,719	2,237,898
Trade debtors – foreign	113,455	101,725
Receivables from related parties	576,788	455,319
Loans to employees	101,703	108,247
Other receivables	16,114	13,900
	<u>3,194,779</u>	<u>2,917,089</u>

Movement in allowance for impairment of domestic trade debtors:

In thousands of denars	2014	2013
Impairment losses at 1 January	1,748,145	1,719,381
Charge for the year	41,999	59,236
Write off	(28,705)	(30,472)
Impairment losses at 31 December	<u>1,761,439</u>	<u>1,748,145</u>

In 2013 and 2014 there is no movement in allowance for impairment of advances given to suppliers

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

As at 31 December 2014, foreign trade debtors of MKD 12,776 thousand (2013: nil) are impaired. The aging of these receivables is as follows:

In thousands of denars	2014
Less than 30 days	326
Between 31 and 180 days	1,629
Between 181 and 360 days	1,955
More than 360 days	8,866
	<u>12,776</u>

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As at 31 December 2014, foreign trade receivables in amount of MKD 104,036 thousand (2013: MKD 62,124 thousand) were past due but not impaired. These relate to a number of international customers assessed on individual basis in accordance with past Group experience and current expectations.

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

In thousands of denars	2014	2013
Less than 30 days	25,652	9,249
Between 31 and 60 days	11,107	22,326
Between 61 and 90 days	25,667	22,585
Between 91 and 180 days	25,400	470
Between 181 and 360 days	6,684	1
More than 360 days	9,526	7,493
	<u>104,036</u>	<u>62,124</u>

The Group has renegotiated domestic trade receivables in carrying amount of MKD 35,915 thousand (2013: MKD 69,115 thousand). The carrying amount of loans and receivables, which would otherwise be past due, whose terms have been renegotiated is not impaired if the collectability of the renegotiated cash flows are considered ensured.

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

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

In thousands of denars	2014	2013
MKD	2,648,968	2,360,817
EUR	702,351	744,701
USD	67,571	43,832
Other	2,047	2,241
	<u>3,420,937</u>	<u>3,151,591</u>

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

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

In thousands of denars	2014	2013
Group 1	1,320,702	1,027,233
Group 2	81,037	234,392
Group 3	113,997	113,444
	<u>1,515,736</u>	<u>1,375,069</u>

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

In thousands of denars	2014	2013
Group 1	9,419	33,191
Group 2	-	6,410
	<u>9,419</u>	<u>39,601</u>

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

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

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

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8. TAXES

Commencing from 1 January 2009 and during 2010 the Government of the Republic of Macedonia has introduced several modifications and changes in the Profit Tax Law. According these changes the base for computation of income tax were non-deductible expenses incurred during the fiscal year, while the income tax was payable at the moment of profit distribution in a form of dividend to a foreign legal entities, foreign and domestic individuals. Dividend distribution among domestic companies was tax exempt. Therefore as of 31 December 2011 until December 2013 the tax computed on non-deductable expenses was presented as part of Other operating expenses in the Profit for the year and Other taxes in the Statement of financial position (see note 19).

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. This resulted in recognition of income tax expense in amount of MKD 502,623 thousand in the first quarter of 2014 (MKD 271,615 thousand for the Company and MKD 231,008 thousand for the subsidiary) on the dividends distributed in 2014 (see note 23).

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 Consolidated statement of comprehensive income. In addition, following the changes in the law, the tax on the tax base adjusting items (the non-deductable expenses and tax credits), presented as part of operating expenses in 2013, is now presented as part of income tax expense in the 2014 Consolidated statement of comprehensive income (see note 2.17.1 and 2.17.3).

Up to now the tax authorities had carried out a full-scope tax audits at the Company for 2005 and the years preceding. Additionally, audit of personal income tax was carried out by the tax authorities for the period 1 January 2005 to 31 March 2006. During 2010 there was tax audit conducted by the Public revenue office for income tax for 2008 and 2009, withholding tax for 2007 and 2008 and VAT for 2009. In addition, in 2011 the Public revenue office conducted tax audit for withholding tax for 2010 and tax audit over certain service contracts from Transfer pricing perspective which were without any findings. In 2012 the Public revenue office conducted tax audit for VAT for August 2012 at the Company which was without findings.

In 2012 the Public revenue office carried out a tax audit in the subsidiary for income tax (including tax on non-deductable expenses) for the years 2009 to 2011 and tax audit for VAT for 2009.

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

8.1. Taxes receivable

In thousands of denars	2014	2013
VAT receivable	11,169	10,138
Other taxes receivable	503	502
	<u>11,672</u>	<u>10,640</u>

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8.2. Taxes payable

In thousands of denars	2014	2013
Current income tax payable	176,682	-
VAT payable	56,215	79,826
Payable for tax on non-deductable expenses	-	59,709
Payable for monthly advance payment for tax on non-deductable expenses	-	2,215
	<u>232,897</u>	<u>141,750</u>

9. INVENTORIES

In thousands of denars	2014	2013
Materials	114,383	134,544
Inventories for resale	354,801	291,747
Allowance for inventories	(24,919)	(14,204)
	<u>444,265</u>	<u>412,087</u>

Movement in allowance for inventories:

In thousands of denars	2014	2013
Allowance at 1 January	14,204	10,401
Write down of inventories to net realizable value	11,587	1,028
Write down of inventories	9,060	11,764
Write off	(9,932)	(8,989)
Allowance at 31 December	<u>24,919</u>	<u>14,204</u>

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

10. ASSETS HELD FOR SALE

Assets held for sale represent property, plant and equipment, within the Group which carrying amount will be recovered principally through sale transaction or exchange rather than through continuing use which is not considered by management to be probable. Management intentions are to sell these assets within one year, subject to extension in certain circumstances. There is a plan to sell or exchange these assets and either the management has started to actively market them at a reasonable price or there is already an arrangement for sale with a specific customer.

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

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

In accordance with IFRS 5, the assets presented as held for sale at the balance sheet date are accounted for at the lower of carrying value or fair value less cost to sell. The fair value less cost to sell is a non-recurring fair value which has been measured using observable inputs, being the price quotes from unrelated third parties, and is therefore within level 2 of the fair value hierarchy.

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11. PROPERTY, PLANT AND EQUIPMENT

In thousands of denars	Land	Buildings	Telecommunication equipment	Other	Assets under construction	Total
Cost						
At 1 January 2013	8,029	5,704,583	27,138,624	4,316,662	992,830	38,160,728
Additions	85	15,739	854,492	180,474	1,282,462	2,333,252
Transfer from assets under construction (see note 12)	-	2,528	334,125	60,228	(600,569)	(203,688)
Disposals	-	(36,258)	(789,480)	(341,175)	-	(1,166,913)
Transfer to assets held for sale	-	(3,624)	(5,411,468)	(244,539)	-	(5,659,631)
At 31 December 2013	8,114	5,682,968	22,126,293	3,971,650	1,674,723	33,463,748
Depreciation						
At 1 January 2013	-	1,736,159	18,811,893	2,818,393	-	23,366,445
Charge for the year	-	155,445	1,631,419	474,003	-	2,260,867
Disposals	-	(36,034)	(789,479)	(319,182)	-	(1,144,695)
Transfer to assets held for sale	-	(2,332)	(5,401,027)	(205,871)	-	(5,609,230)
Transfer between group of assets	-	-	3,754	(3,754)	-	-
At 31 December 2013	-	1,853,238	14,256,560	2,763,589	-	18,873,387
Carrying amount						
At 1 January 2013	8,029	3,968,424	8,326,731	1,498,269	992,830	14,794,283
At 31 December 2013	8,114	3,829,730	7,869,733	1,208,061	1,674,723	14,590,361

In thousands of denars	Land	Buildings	Telecommunication equipment	Other	Assets under construction	Total
Cost						
At 1 January 2014	8,114	5,682,968	22,126,293	3,971,650	1,674,723	33,463,748
Additions	2,556	6,615	350,277	161,125	923,775	1,444,348
Transfer from assets under construction (see note 12)	-	10,129	839,479	175,620	(1,403,692)	(378,464)
Disposals	-	(31,313)	(135,211)	(150,266)	-	(316,790)
Transfer to assets held for sale	-	(230,552)	-	(78,965)	-	(309,517)
At 31 December 2014	10,670	5,437,847	23,180,838	4,079,164	1,194,806	33,903,325
Depreciation						
At 1 January 2014	-	1,853,238	14,256,560	2,763,589	-	18,873,387
Charge for the year	-	144,489	1,436,844	408,590	-	1,989,923
Disposals	-	(31,313)	(135,211)	(142,726)	-	(309,250)
Transfer to assets held for sale	-	(117,332)	-	(67,444)	-	(184,776)
Transfer between group of assets	-	(1,663)	-	1,663	-	-
At 31 December 2014	-	1,847,419	15,558,193	2,963,672	-	20,369,284
Carrying amount						
At 1 January 2014	8,114	3,829,730	7,869,733	1,208,061	1,674,723	14,590,361
At 31 December 2014	10,670	3,590,428	7,622,645	1,115,492	1,194,806	13,534,041

In 2014, the Group capitalized MKD 23,719 thousand (2013: MKD 226,203 thousand) expenditures related to obtaining complete documentation for base stations and MKD 45,699 thousand (2013: nil) expenditures related to obtaining complete documentation for fixed line infrastructure in accordance to applicable laws in Republic of Macedonia (see note 2.7).

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The reviews of the useful lives and residual values of property, plant and equipment during 2014 affected the lives of a several types of assets, mainly transmission equipment, hardware, base stations and exchanges. 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 thousands of denars	2014	2015	2016	2017	After 2017
(Decrease)/increase in depreciation	(45,296)	(42,255)	29,110	45,413	13,028
	<u>(45,296)</u>	<u>(42,255)</u>	<u>29,110</u>	<u>45,413</u>	<u>13,028</u>

12. INTANGIBLE ASSETS

In thousands of denars	Software and software licenses	Concession, 2G 3G and 4G license	Other	Total
Cost				
At 1 January 2013	6,111,577	891,406	32,155	7,035,138
Additions	184,629	634,011	-	818,640
Transfer from assets under construction (see note 11)	203,688	-	-	203,688
Disposals	(1,554,799)	-	(32,155)	(1,586,954)
Transfer to assets held for sale	(58,879)	-	-	(58,879)
At 31 December 2013	<u>4,886,216</u>	<u>1,525,417</u>	<u>-</u>	<u>6,411,633</u>
Amortization				
At 1 January 2013	4,561,455	372,305	32,155	4,965,915
Charge for the year	641,312	88,136	-	729,448
Disposals	(1,554,799)	-	(32,155)	(1,586,954)
Transfer to assets held for sale	(54,324)	-	-	(54,324)
At 31 December 2013	<u>3,593,644</u>	<u>460,441</u>	<u>-</u>	<u>4,054,085</u>
Carrying amount				
At 1 January 2013	<u>1,550,122</u>	<u>519,101</u>	<u>-</u>	<u>2,069,223</u>
At 31 December 2013	<u>1,292,572</u>	<u>1,064,976</u>	<u>-</u>	<u>2,357,548</u>

In 2013, the Group acquired a 4G LTE radiofrequency license for a one-time fee of MKD 634,011 thousand. The license duration is 20 years, until 1 December 2033, with a possibility for extension for 20 years in accordance with the ECL (see note 1.2). The commercial start of the license was in December 2013.

Notes to the consolidated financial statements

In thousands of denars	Software and software licenses	Concession, 2G 3G and 4G license	Other	Total
Cost				
At 1 January 2014	4,886,216	1,525,417	-	6,411,633
Additions	172,098	-	178,544	350,642
Transfer from assets under construction (see note 11)	378,464	-	-	378,464
Disposals	(518,469)	-	-	(518,469)
At 31 December 2014	<u>4,918,309</u>	<u>1,525,417</u>	<u>178,544</u>	<u>6,622,270</u>
Amortization				
At 1 January 2014	3,593,644	460,441	-	4,054,085
Charge for the year	578,332	117,194	49,596	745,122
Disposals	(518,469)	-	-	(518,469)
At 31 December 2014	<u>3,653,507</u>	<u>577,635</u>	<u>49,596</u>	<u>4,280,738</u>
Carrying amount				
At 1 January 2014	<u>1,292,572</u>	<u>1,064,976</u>	-	<u>2,357,548</u>
At 31 December 2014	<u>1,264,802</u>	<u>947,782</u>	<u>128,948</u>	<u>2,341,532</u>

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 non-cancellable 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 178,544 thousand and will be amortized over the contracts term, which is 3 years (see note 13 and 21).

The reviews of the useful lives of intangible assets during 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 thousands of denars	2014	2015	2016	2017	After 2017
(Decrease)/increase in amortization	(19,992)	(15,087)	17,858	14,251	2,970
	<u>(19,992)</u>	<u>(15,087)</u>	<u>17,858</u>	<u>14,251</u>	<u>2,970</u>

Notes to the consolidated financial statements

13. TRADE AND OTHER PAYABLES

In thousands of denars	2014	2013
Trade payables - domestic	706,129	558,668
Trade payables - foreign	446,294	246,009
Liabilities to related parties	574,253	257,465
Other financial liabilities	767,530	764,764
Financial liabilities	2,494,206	1,826,906
Accrued expenses	1,421,072	1,704,548
Deferred revenue	390,657	420,204
Advances received	65,988	60,157
Other	118,325	126,733
	<u>4,490,248</u>	<u>4,138,548</u>
Less non-current portion:		
Deferred revenue	(54,332)	(63,993)
Other financial liabilities	(416,435)	(502,874)
Current portion	<u>4,019,481</u>	<u>3,571,681</u>

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

Non-current deferred revenues have maturity up to 10 years from the date of the Consolidated statement of financial position.

In the category Other financial liabilities of MKD 533,089 thousand (2013: MKD 690,184 thousand) represent the carrying amount of long term payables related to the transaction for purchase and sale of buildings with an exchange completed in 2012. These liabilities are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method. Financial liabilities of MKD 145,351 thousand (2013: nil) represent the carrying amount of long term payables related to the capitalization of certain content right contracts in 2014 (see note 12). These liabilities are recognized initially at the net present value of future payments and subsequently measured at amortized cost using the effective interest method. The unwinding of the discount is being recognized in Interest expense in Profit and loss (see note 21). The carrying amount of these liabilities approximates their fair value as the related cash flows are discounted with an interest rate of 6% p.a. which is the observable at the market for similar long term financial liabilities

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

In thousands of denars	2014	2013
MKD	1,916,194	2,519,642
EUR	2,031,225	981,691
USD	65,470	63,426
Other	6,592	6,922
	<u>4,019,481</u>	<u>3,571,681</u>

14. DEFERRED INCOME TAX

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

In thousands of denars	Assets 2014	Liabilities 2014	Net 2014
Property, plant and equipment	-	198,198	198,198
Intangible fixed assets	-	3,134	3,134
Tax (assets)/liabilities	-	201,332	201,332
Net tax liabilities	-	<u>201,332</u>	<u>201,332</u>

Notes to the consolidated financial statements

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The offset amounts are as follows:

In thousands of denars	2014
Deferred tax liabilities:	
Deferred income tax liability to be recovered after more than 12 months	201,332
Deferred income tax liability to be recovered within 12 months	-
	<u>201,332</u>
Deferred income tax liabilities (net)	<u>201,332</u>

Movement in temporary differences during the year

In thousands of denars	Balance 1 January 2014	Recognized in income	Balance 31 December 2014
Property, plant and equipment	-	(198,198)	198,198
Intangible assets	-	(3,134)	3,134
	<u>-</u>	<u>(201,332)</u>	<u>201,332</u>

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

15. PROVISION FOR OTHER LIABILITIES AND CHARGES

In thousands of denars	Legal cases	Other	Total
1 January 2013	195,791	41,559	237,350
Additional provision	8,018	38,589	46,607
Unused amount reversed	(27,804)	(7,302)	(35,106)
Used during period	(60,505)	(13,394)	(73,899)
31 December 2013	<u>115,500</u>	<u>59,452</u>	<u>174,952</u>

In thousands of denars	Legal cases	Other	Total
1 January 2014	115,500	59,452	174,952
Additional provision	137,808	23,561	161,369
Unused amount reversed	(1,346)	-	(1,346)
Used during period	(1,601)	(20,274)	(21,875)
31 December 2014	<u>250,361</u>	<u>62,739</u>	<u>313,100</u>

Analysis of total provisions:

In thousands of denars	2014	2013
Non-current (Other)	60,356	57,068
Current	<u>252,744</u>	<u>117,884</u>
	<u>313,100</u>	<u>174,952</u>

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

There are a number of legal cases for which provisions were recognized. Management recognizes a provision for its best estimate of the obligation but does not disclose the information required by paragraph 85 of IAS 37 because the management believes that to do so would seriously prejudice the outcome of the case. Management does not expect that the outcome of these legal claims will give rise to any significant loss beyond the amounts provided at 31 December 2014.

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Other includes provision made for the legal or contractual obligation of the Group to pay to employees certain amounts at their retirement date (see note 2.15.1) and provision made for the Variable II incentive programs (see note 30). The provision is recognized against Personnel expenses in the Profit for the year.

16. CAPITAL AND RESERVES

Share capital consists of the following:

In thousands of denars	2014	2013
Ordinary shares	9,583,878	9,583,878
Golden share	10	10
	<u>9,583,888</u>	<u>9,583,888</u>

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

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

As at 31 December 2014 and 2013, the shares of the Company were held as follows:

In thousands of denars	2014	%	2013	%
Stonebridge AD Skopje	4,887,778	51.00	4,887,778	51.00
Government of the Republic of Macedonia	3,336,497	34.81	3,336,497	34.81
The Company (treasury shares)	958,388	10.00	958,388	10.00
International Finance Corporation (IFC)	157,468	1.64	171,122	1.79
Other minority shareholders	243,757	2.55	230,103	2.40
	<u>9,583,888</u>	<u>100.00</u>	<u>9,583,888</u>	<u>100.00</u>

16.1. Treasury shares

The Company acquired 9,583,878 of its own shares, representing 10% of its shares, through the Macedonian Stock Exchange during June 2006. The total amount paid to acquire the shares, net of income tax, was MKD 3,843,505 thousand. The shares are held as treasury shares. As a result of the findings of the Investigation, for one consultancy contract, the payments of which was erroneously capitalized as part of treasury shares in 2006 has been retrospectively derecognized from treasury shares (see note 1.3).

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

16.2. Other reserves

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 thousand was transferred from statutory reserves to retained earnings.

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17. REVENUES

In thousands of denars	2014	2013
Fixed line revenues		
Voice retail	1,538,631	1,823,226
Voice wholesale	820,537	894,529
Internet	1,185,294	1,178,407
TV	544,504	446,367
Data	338,509	392,163
Equipment	254,534	363,366
SI/IT revenues	144,542	80,924
Other	104,229	124,319
	<u>4,930,780</u>	<u>5,303,301</u>
Mobile revenues		
Voice retail	3,108,615	3,522,309
Voice wholesale	1,185,977	1,830,661
Equipment	571,810	509,839
Data	539,116	694,728
Internet	472,682	389,037
Voice visitor	118,839	72,507
Content	71,046	83,914
Other	127,631	137,432
	<u>6,195,716</u>	<u>7,240,427</u>
	<u>11,126,496</u>	<u>12,543,728</u>

18. PERSONNEL EXPENSES

In thousands of denars	2014	2013
Salaries	788,055	890,618
Contributions on salaries	269,945	319,075
Bonus payments	133,637	199,914
Other staff costs	114,246	546,097
Capitalized personnel costs	(80,013)	(124,799)
	<u>1,225,870</u>	<u>1,830,905</u>

Other staff costs include termination benefits for 15 employees leaving the Group in 2014 (2013: 234 employees), holiday's allowance and other benefits.

Bonus payments also include the cost for Variable II programs (see note 30).

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19. OTHER OPERATING EXPENSES

In thousands of denars	2014	2013
Purchase cost of goods sold	1,556,312	1,554,877
Services	661,198	726,549
Fees, levies and local taxes	417,907	265,248
Marketing and donations	344,772	306,426
Materials and maintenance	291,289	312,861
Royalty payments	279,075	238,217
Energy	244,543	289,964
Subcontractors	239,932	256,702
Rental fees	117,025	123,674
Impairment losses on trade and other receivables	41,999	59,236
Consultancy	29,469	77,968
Insurance	15,848	17,404
Write down of inventories to net realizable value	11,587	1,028
Write down of inventories	9,060	11,764
Tax on non-deductable expenses	-	87,262
Other	21,473	26,763
	<u>4,281,489</u>	<u>4,355,943</u>

Services mainly include agent commissions, expenses for content services, postal expenses, security, cleaning, and utilities.

20. OTHER OPERATING INCOME

In thousands of denars	2014	2013
Net gain on sale of PPE	8,142	14,536
Other	36,300	106,465
	<u>44,442</u>	<u>121,001</u>

In 2014 amount of MKD 11,850 thousand in the category Other represents income from insurance compensation for damaged CPE devices and amount of MKD 20,192 thousands represents credit notes issued by Deutsche Telekom for invoices from previous years. In 2013 Other mainly includes compensation from T-Systems International for the contribution of the Group members 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.

21. FINANCE EXPENSES

In thousands of denars	2014	2013
Interest expense	117,514	59,486
Bank charges and other commissions	15,473	16,805
Fair value trough profit and loss	-	7,073
Net foreign exchange loss	-	659
	<u>132,987</u>	<u>84,023</u>

Interest expense in amount of MKD 38,607 thousand (2013: MKD 49,586 thousand) represents the unwinding of the discount related to the carrying amount of long term payables from the transaction for purchase and sale of buildings with an exchange completed in 2012, recognized initially at fair value and subsequently measured at amortized cost using the effective interest method. Interest expense in amount of MKD 1,330 thousand (2013: nil) represents the unwinding of the discount related to the carrying amount of long term payables from the content right contracts capitalized in 2014, recognized initially at the net present value of future payments and subsequently measured at amortized cost using the effective interest method (see note 13).

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22. FINANCE INCOME

In thousands of denars	2014	2013
Interest income	32,763	87,029
Net foreign exchange gain	8,103	-
Fair value through profit and loss	794	-
Dividend income	131	1,640
	<u>41,791</u>	<u>88,669</u>

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

23. INCOME TAX EXPENSE

Recognized in the statement of comprehensive income:

In thousands of denars	2014
Current tax expense	
Current year	<u>754,264</u>
Deferred tax expense	
Origination and reversal of timing differences	<u>201,332</u>
Total income tax in the statement of comprehensive income	<u>955,596</u>

Reconciliation of effective tax rate:

In thousands of denars	2014
Profit before tax	<u>1,836,010</u>
Income tax	10.00% 183,601
Non-deductible expenses	3.99% 73,222
Tax exempt revenues	(0.26)% (4,755)
Tax incentives	(0.02)% (427)
Income tax on distributed dividend	27.38% 502,623
Effect of change in tax rate/income tax legislation on deferred tax expense	10.96% 201,332
	<u>52.05% 955,596</u>

Commencing from 1 January 2009 and during 2010 the Government of the Republic of Macedonia has introduced several modifications and changes in the Profit Tax Law. According these changes the base for computation of income tax were non-deductible expenses incurred during the fiscal year, while the income tax was payable at the moment of profit distribution in a form of dividend to a foreign legal entities, foreign and domestic individuals. Dividend distribution among domestic companies was tax exempt.

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. This resulted in recognition of income tax expense in amount of MKD 502,623 thousand in the first quarter of 2014 (MKD 271,615 thousand for the Company and MKD 231,008 thousand for the subsidiary) on the dividends distributed in 2014.

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 this new law the tax base is the profit generated during the fiscal year increased for non-deductible expenses and reduced for deductible revenue (i.e. dividends already taxed at the payer), with income tax at rate of

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10%. In line with these changes income tax for the year and deferred tax were calculated and recorded in the 2014 the Consolidated statement of comprehensive income (see note 2.17 and 8).

24. DIVIDENDS

The Shareholders' Assembly of the Company, at its meeting, held on 27 March 2014 adopted a Resolution for the dividend payment for the year 2013. The Resolution on dividend payment for 2013 is in the gross amount of MKD 2,716,253 thousand from the net profit for the year 2013. The dividend was paid out in April 2014. Up to date of issuing of these financial statements, no dividends have been declared for 2014.

25. REPORTABLE SEGMENTS AND INFORMATION

25.1. Reportable segments

The Group's reportable segments are: fixed line and mobile segment.

The fixed line segment provides local, national and international long distance telephone services, VoIP services, leased line services, Internet services and TV distribution services under the T-Home brand.

The mobile segment provides mobile telecommunication services under the T-Mobile brand.

25.2. Information regularly provided to the chief operating decision maker

The following tables present the segment information by reportable segment regularly provided to the Chief operating decision maker of the Company, reconciled to the corresponding Group numbers. The information regularly provided to the GMC includes several measures of profit which are considered for the purposes of assessing performance and allocating resources, including EBITDA adjusted for the impact of certain items considered as "special influence". These items vary year-over-year in nature and magnitude. Management believes that EBITDA is the segment measure that is most consistent with the measurement principles used in measuring the corresponding amounts in these financial statements.

Revenues

In thousands of denars	2014	2013
Total Fixed Line segment revenues	5,615,742	5,899,794
Less: Fixed Line segment revenues from other segment	(684,962)	(596,493)
Fixed Line segment revenues from external customers	4,930,780	5,303,301
Total Mobile segment revenues	6,847,626	8,238,930
Less: Mobile segment revenues from other segment	(651,910)	(998,503)
Mobile segment revenues from external customers	6,195,716	7,240,427
Total revenues of the Group	11,126,496	12,543,728

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

Revenues from mobile terminating traffic from DT in the amount of MKD 494,760 thousand (2013: MKD 800,495 thousand) originated from the Company are presented as mobile segment revenues following the substance of the transactions. These revenues are managed and part of the mobile segment revenues in these consolidated financial statements.

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Segment results (EBITDA)

In thousands of denars	2014	2013
Fixed Line segment	2,149,257	2,237,633
Mobile segment	2,518,262	2,756,065
Total EBITDA of the Group	<u>4,667,519</u>	<u>4,993,698</u>
Depreciation and amortization of the Group	2,740,313	3,007,966
Total operating profit of the Group	<u>1,927,206</u>	<u>1,985,732</u>
Finance (expense)/income – net	(91,196)	4,646
Profit before tax of the Group	<u>1,836,010</u>	<u>1,990,378</u>
Income tax expense	(955,596)	-
Net profit for the year	<u>880,414</u>	<u>1,990,378</u>

Capital expenditure (CAPEX) on PPE and Intangible assets

In thousands of denars	2014	2013
Fixed Line segment	1,201,481	1,803,127
Mobile segment	593,509	1,348,765
Total capital expenditure on PPE and Intangible assets of the Group	<u>1,794,990</u>	<u>3,151,892</u>

The amounts disclosed as Capital expenditure on PPE and Intangible assets correspond to the Investment line disclosed in notes 11 and 12.

26. LEASES AND OTHER COMMITMENTS

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

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

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

In thousands of denars	2014	2013
Not later than 1 year	142,200	117,828
Later than 1 year and not later than 5 years	262,189	291,629
Later than 5 years	38,634	49,234
	<u>443,023</u>	<u>458,691</u>

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

Operating lease commitments – where the Group is the lessor are mainly from lease of land sites for base stations.

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

In thousands of denars	2014	2013
Not later than 1 year	27,575	26,839
Later than 1 year and not later than 5 years	80,068	94,420
Later than 5 years	12,014	16,925
	<u>119,657</u>	<u>138,184</u>

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26.3. Capital commitments

The amount authorized for capital expenditure as at 31 December 2014 was MKD 443,327 thousand (2013: MKD 551,021 thousand). The amount authorized for capital expenditure as at 31 December 2014 mainly relates to telecommunication assets.

27. ADDITIONAL DISCLOSURES ON FINANCIAL ASSETS

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

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

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

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

Financial assets carried at amortized cost

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

Liabilities carried at amortized cost

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

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

27.1. Financial assets – Carrying amounts and fair values

The table below shows the categorization of financial assets as at 31 December 2013.

Assets In thousands of denars	Financial assets				
	Loans and receivables	Available-for- sale (Level 2)	At fair value through profit and loss (Level 1)	Carrying amount	Fair value
Cash and cash equivalents	1,403,644	-	-	1,403,644	1,403,644
Deposits with banks	1,565,249	-	-	1,565,249	1,565,249
Trade and other receivables	2,917,089	-	-	2,917,089	2,917,089
Other non-current assets	-	612	-	612	612
Financial assets at fair value through profit and loss	-	-	43,762	43,762	43,762

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The table below shows the categorization of financial assets as at 31 December 2014.

Assets In thousands of denars	Financial assets				
	Loans and receivables	Available-for- sale (Level 2)	At fair value through profit and loss (Level 1)	Carrying amount	Fair value
Cash and cash equivalents	1,450,018	-	-	1,450,018	1,450,018
Deposits with banks	1,418,676	-	-	1,418,676	1,418,676
Trade and other receivables	3,194,779	-	-	3,194,779	3,194,779
Other non-current assets	-	612	-	612	612
Financial assets at fair value through profit and loss	-	-	44,549	44,549	44,549

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

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

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

Financial assets at fair value through profit or loss include investments in equity instruments in the amount of MKD 44,549 thousand (2013: MKD 43,762 thousand) calculated with reference to the Macedonian Stock Exchange quoted bid prices. Changes in fair values of other financial assets at fair value through profit or loss are recorded in finance income/expenses in the Profit for the year (see note 21 and 22). The cost of these equity investments is MKD 31,786 thousand (2013: MKD 31,786 thousand).

27.2. Offsetting financial assets and financial liabilities

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

The following trade receivables and trade payables are subject to offsetting agreements, and are presented after netting in the Consolidated statements of financial position as at 31 December 2014:

In thousands of denars	Trade and other receivables	Trade payables
Gross amounts of recognized financial instruments	3,266,642	2,566,069
Gross amounts of financial instruments set off	(71,863)	(71,863)
Net amounts of recognized financial instruments	<u>3,194,779</u>	<u>2,494,206</u>

The following trade receivables and trade payables are subject to offsetting agreements, and are presented after netting in the Consolidated statements of financial position as at 31 December 2013:

In thousands of denars	Trade and other receivables	Trade payables
Gross amounts of recognized financial instruments	2,989,923	1,899,740
Gross amounts of financial instruments set off	(72,834)	(72,834)
Net amounts of recognized financial instruments	<u>2,917,089</u>	<u>1,826,906</u>

Notes to the consolidated financial statements

27.3. Other disclosures about financial instruments

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

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

28. CONTINGENCIES

The Group has contingent liabilities in respect of legal and regulatory claims arising in the ordinary course of business. The major part of the contingent liabilities relate to 36 requests for initiating misdemeanor procedures from regulatory bodies for alleged breach of certain deadlines for decision upon subscriber's request and related to alleged abuse of dominant position on the market. The maximum possible fine for each individual case is 4% in 33 cases; 7% in 1 case and 10% in 2 cases of the annual revenue from the previous year, in accordance with the previously effective local legislation possibly applicable. Management believes, based on legal advice, that it is not probable that a significant liability will arise from these claims because of unsubstantial basis for initiating of these misdemeanor procedures. It is not anticipated by the management that any material liabilities will arise from the contingent liabilities other than those provided for (see note 15).

29. RELATED PARTY TRANSACTIONS

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

The Government of the Republic of Macedonia has 34.81% ownership in the Company (see note 16). Apart from payment of taxes, fees to Regulatory authorities according to local legislation and dividends (see note 24), in 2014 and 2013, the Group did not execute transactions with the Government of Republic of Macedonia, or any companies controlled or significantly influenced by it, that were outside normal day-to-day business operations of the Group.

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

Notes to the consolidated financial statements

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

In thousands of denars	2014		2013	
	Revenues	Expenses	Revenues	Expenses
Controlling owner				
Magyar Telekom Plc	(808)	31,443	501	39,375
Subsidiaries of the controlling owner				
T-Systems Magyarország Zrt.	-	-	23,079	11
Telemakedonija AD	14	-	40	-
Crnogorski Telekom	395	739	497	1,046
Novatel	11,911	2,993	7,186	3,978
Ultimate parent company				
Deutsche Telekom AG	934,700	146,190	1,287,298	194,252
Subsidiaries of the ultimate parent company				
Hrvatski Telekom	353	80	2,104	5,854
Slovak Telekom	(201)	152	109	180
T-Mobile Polska S.A.	198	48	241	348
T-Mobile Czech Republic	237	343	262	539
T-Mobile Austria	797	6,096	1,764	2,734
T-Mobile International Austria GmbH	-	3	-	-
Everything Everywhere Ltd	1,551	1,245	3,272	982
T-Mobile USA	687	1,097	875	1,627
T-Systems International GmbH	12,749	2,769	4,552	14,003
T-Mobile Netherlands B.V.	479	165	626	421
T-Mobile International UK Limited	547	26	1	569
Detecon International GmbH	-	-	2	132
OTE Globe	18,321	16,271	22,898	22,099
Telekom Romania Communications	37	915	-	915
Cosmo Bulgaria Mobile	-	-	624	1,709
Albanian Mobile Communications	585	1,950	921	3,103
Telekom Romania Mobile Communications S.A	41	71	28	87
COSMOTE-Mobile Telecommunications S.A.	(230)	2,829	2,127	4,676
Entity controlled by subsidiary's key management personnel				
Mobico Doel	592	564	381	287

Notes to the consolidated financial statements

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

In thousands of denars	2014		2013	
	Receivables	Payables	Receivables	Payables
Controlling owner				
Magyar Telekom Plc	1,896	7,416	3,885	7,131
Subsidiaries of the controlling owner				
T-Systems Magyarország Zrt.	-	-	1,058	-
Telemakedonija AD	-	-	6	-
Crnogorski Telekom	11,572	6,399	10,090	-
Novatel	1,351	166	3,445	1,334
Ultimate parent company				
Deutsche Telekom AG	414,832	388,217	196,141	212,666
Subsidiaries of the ultimate parent company				
Hrvatski Telekom	6,813	7,167	19,764	-
Slovak Telekom	918	649	-	127
T-Mobile Polska S.A.	630	743	541	-
T-Mobile Czech Republic	673	751	627	-
T-Mobile Austria	40,947	41,489	12,157	-
T-Mobile International Austria GmbH	-	299	-	-
Everything Everywhere Ltd	17,370	29,193	-	7,098
T-Mobile USA	27,342	34,030	-	2,968
T-Systems International GmbH	3,217	17,093	88,926	7,254
T-Mobile Netherlands B.V.	1,015	493	-	6,687
T-Mobile International UK Limited	32	-	-	32
OTE Globe	2,863	2,421	6,862	6,408
Telekom Romania Communications	-	2,121	-	3,005
Albanian Mobile Communications	36,985	27,258	20,106	-
Telekom Romania Mobile Communications S.A	2,585	2,032	616	-
COSMOTE-Mobile Telecommunications S.A.	5,371	6,011	90,964	-
Entity controlled by subsidiary's key management personnel				
Mobico Doel	376	305	131	2,755

30. KEY MANAGEMENT COMPENSATION

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

In thousands of denars	2014	2013
Short-term employee benefits (including taxation)	87,341	86,746
State contributions on short-term employee benefits	6,333	6,950
Long-term incentive programs	9,554	15,675
	<u>103,228</u>	<u>109,371</u>

The remuneration of the members of the Company's Board of Directors, which amounted to MKD 5,961 thousand (2013: MKD 5,373 thousand) is included in Short-term employee benefits. These are included in Personnel expenses (see note 18).

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

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

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program II, with implementation period from 1 January 2012 to 31 December 2014. The Variable II Program for 2013 is applicable from 1 January 2013 until 31 December 2016. The Variable II Program for 2014 is applicable from 1 January 2014 until 31 December 2017.

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

Program participants are Company's top managers who have accepted participation in the designated time frame.

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

31. EVENTS AFTER THE FINANCIAL STATEMENT DATE

There are no events after the financial statement date that would have impact on the 2014 profit for the year, consolidated statement of financial position or cash flows.