ANNUAL REPORT 2014

Makedonski Telekom AD – Skopje & T-Mobile Macedonia AD Skopje

FIT FOR THE FUTURE

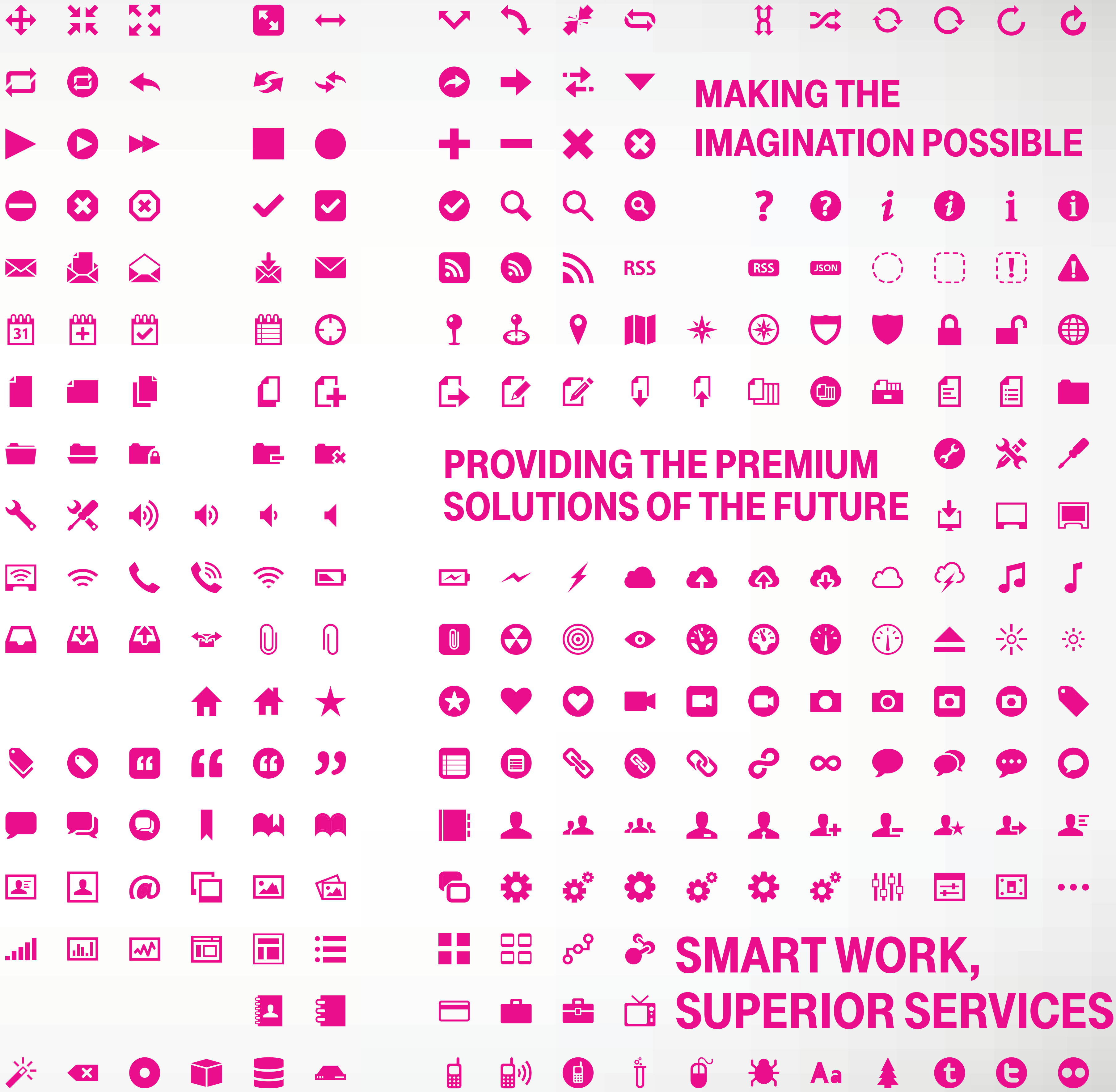
LIFE IS FOR SHARING.

TECHNOLOGY LEADERSHIP

CONTENTS

READY FOR CHANGES, READY FOR THE FUTURE

BEST CUSTOMER EXPERIANCE


MAKING THE
IMAGINATION POSSIBLE
RSS
RSS
JSON
31
PROVIDING THE PREMIUM
SOLUTIONS OF THE FUTURE
SMART WORK,
SUPERIOR SERVICES
Aa

CORPORATE GOVERNANCE

MANAGEMENT AND GOVERNANCE OF MAKEDONSKI TELEKOM AD – SKOPJE

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

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

MAKEDONSKI TELEKOM STRUCTURE

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

SHAREHOLDERS' ASSEMBLY – BOARD OF DIRECTORS – CHIEF EXECUTIVE OFFICER

In accordance with the Law on Trade Companies and the Statute of Makedonski Telekom AD - Skopje, the Shareholders' Assembly, the Board of Directors and the Chief Executive Officer of the Company are authorized to adopt resolutions within their competence.
T –Mobile Macedonia (TMMK) is a subsidiary in a 100% ownership of Makedonski Telekom AD - Skopje.

SHAREHOLDERS' ASSEMBLY

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

1. Modifications to the Statute of the Company
2. Approval of the Annual Accounts, Financial Statements and Annual Report on the Operations of the Company in the previous business year, deciding upon the distribution of the profit and defining the amount and method of dividend payments
3. Defining the means of covering losses incurred in the accounting period, additional approval of the method of utilization of the proceeds from the Reserve Fund
4. Appointment and release of the members of the Board of Directors and determining the remuneration which shall be paid to the non-executive members of the Board of Directors for their operation
5. Approval of the operation and management of the operation of the Company by the members of the Board of Directors
6. Change in the share type and class and change in the rights linked to certain types and classes of shares
7. Increase and decrease of the share capital of the Company
8. Issuing shares and other securities
9. Appointment of an authorized auditor for auditing the Annual Accounts and Financial Statements
10. Transformation of the Company into another form of a Company and status modifications of the Company
11. Approval of major transactions in accordance with the Statute
12. Alterations of the Company's property structure, if the accounting value of the relevant part of the property affected by the alteration exceeds ten percent (10%) of the Company's property net value as set forth in its latest Financial Statements
13. Termination of the Company
14. Other issues defined by law or the Statute of the Company
15. Adoption of Rules of Procedure for its operation

The Shareholders' Assembly of the Company may not decide upon issues in the field of managing and governing the Company, which fall within the competence of the Board of Directors.

The share capital of Makedonski Telekom AD – Skopje consists of 95,838,780 ordinary shares and one cumulative preference share (golden share). The ordinary shares of Makedonski Telekom are listed and traded on the Official Market of the Macedonian Stock Exchange, on the Obligatory Listing sub-segment.

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

*Out of the total number of shares with voting rights - 86,254,903, for 3,361 shares which are part of the 2% of shares which the Government of the Republic of Macedonia granted to the Makedonski Telekom's employees, the owners are either not identified in the shareholders book of MKT due to incomplete personal data (3,320 shares), or they are not distributed yet (41 shares).

** Preference cumulative share (golden share) owned by the Government of the Republic of Macedonia has one voting right and special rights in accordance with the Company Statute. It has restriction on tradable and non-tradable transfer.

*** Decreased for the treasury shares owned by Makedonski Telekom which rights in accordance with the Law on Trade Companies (article 338) are suspended.

DIVIDEND CALENDAR

YEAR	GROSS DIVIDEND PER SHARE IN MKD	FIRST DATE OF PAYMENT	ANNOUNCEMENT DATE
2012	65,46	17.04.2013	29.03.2013
2011	71,46	25.04.2012	04.04.2012
2010	68,95	29.04.2011	14.04.2011
2009	75,01	12.07.2010	02.07.2010
2008	71,42	22.05.2009	29.04.2009
2007	113,42	29.09.2008	03.09.2008
2005	86,10	01.08.2007	31.07.2007
2004	60,88	04.07.2005	30.05.2005
2003	26,10	19.03.2004	20.02.2004
2002	25,04	05.05.2003	18.04.2003

SHAREHOLDERS' STRUCTURE

SHAREHOLDERS OF MAKEDONSKI TELEKOM BY 31.12.2014 INCLUSIVE

NAME OF OWNER	NUMBER OF SHARES	AS %
Stonebridge AD Skopje (in liquidation)	48,877,780	51,00
Government of the RM	33,364,875*	34,81
Makedonski Telekom AD - Skopje (Treasury Shares)	9,583,878**	10,00
IFC	1,711,219	1,79
Other minority shareholders	2,301,029	2,40
Total	95,838,781	100,00

* Including the preference cumulative share (golden share) with nominal value of MKD 9,733 owned by the Government of the Republic of Macedonia. The golden share has one voting right and special rights in accordance with the Company Statute. It has restriction on tradable and non-tradable transfer.
** In accordance with the Law on Trade Companies (article 338) the rights attached to the acquired treasury shares are suspended.

CALENDAR OF EVENTS

MEETINGS OF THE SHAREHOLDERS' ASSEMBLY OF MAKEDONSKI TELEKOM IN 2014

DATE	EVENT
29.03.2014	Annual meeting of the Shareholders' Assembly of Makedonski Telekom
30.09.2014	Shareholders' Assembly meeting of Makedonski Telekom
20.12.2014	Shareholders' Assembly meeting of Makedonski Telekom

WELCOME TO OUR WORLD
WE ACHIEVE, BUT WE ASPIRE
TO DO MORE

OUR VISION

Our vision is to enrich peoples' personal and business lives and deliver **best customer experience** through our **converged Telco services**. We want to help people and businesses in Macedonia **dream bigger, reach higher, and work and live better through our converged telco services.**

We aspire to be the leading Macedonian Telco and the most reliable partner to our customers, anywhere, anytime.

We are running a DT Group business, which is held to the highest standards in the world. We are improving citizens' personal lives and productivity. We help people live life to the fullest. We are supporting the growth of Macedonian businesses and the economy. The more we succeed with best services and technology, the more the Macedonian people and economy will succeed.

We are fully aligned with the vision of our parent company DT, which aims to be the Leading European Telco with a best network and a best customer experience

THAT IS WHY WE PLAN,
WE AIM AND WE WORK
THE FUTURE IS CLOSER THAN WE THINK ...

TO OUR SHAREHOLDERS

"WE SUPPORT AN ENVIRONMENT THAT FOSTERS INNOVATION AND INVESTMENT."

The telecommunications sector is rapidly changing. Only the best, the fastest and the most innovative companies manage to keep up with the changes, to win the market and to be industry leaders. If we look back we can say that Makedonski Telekom and T-Mobile Macedonia are proud to be at the forefront of innovation in Macedonia. Simply put, we are paving the path of telecommunication trends, not only in the country but in the region as well. And this is what makes us unique on the market!

In 2014 we took important actions and we closed the year with better results. We established new technological trends on the market which can be also considered as trends of historical importance that opened a new chapter in our work. Although we faced great challenges, we also made large steps which were equally important for us and for the society. Following the global trends, in the recent years we have turned to new businesses. We put a focus on the mobile internet, cloud solutions and the modern applications that are up to date with the needs of the new dynamic times.

In the past year, after the modernisation of our network which is now All IP, we went a step further in our operation. We were the first in the market to introduce business IP products and business solutions, thus directly delivering the benefits of the network of the future to this customer segment.

In fact, our ALL IP and 4G network opens a whole new world of unlimited possibilities offered by the internet to our customers, anytime, anywhere.

The modern way of life demands simplification of the processes and services and simplification of the everyday life in general. Therefore, we introduced converged services for our customers. We've created services that include features for all members of a modern family, thus satisfying the communication needs of the entire family. To our great pleasure, we were the first in the Deutsche Telekom Group to introduce a converged product for the business customers as well, which provides the companies with a complete communication solution for running their business. With the enrichment of our portfolio on daily basis, for both consumer and business customers, we improved our position as providers of premium quality solutions and also as system integrator on the market.

In that regard, it is very important to emphasize that the company, in the role of avant-garde entity in the sphere of telecommunications, works with a great enthusiasm on projects that modernise the social life and contribute to the idea of Skopje as a "smart city". In fact, this is reflected in our cooperation with JSP with which we are working on the introduction of electronic fare collection system and automatic bus location. This is another project which confirms the multipurpose functionality of the mobile handset which became a key "gadget" in the everyday life.

Furthermore, we made our revolutionary service M-Wallet even more accessible for all T-Mobile customers and the network of businesses that accept the mobile payment significantly increased.

In 2014 our success story for creating new partnerships continued. As companies we accept all creative ideas that come from firms with basic scope of operation in ICT and we offer joint innovative cloud solutions through which we leave a lasting mark on the society. We are aware that the information that circles the world in just one day is rapidly increasing. We are entering an era of "connected society" which has an increasing need of Cloud solutions. Therefore, the potential partners can count on us at any time. We will rely on the skills and innovation of the Macedonian companies in the future, as well. Together we will change the world in which we live and work and together we will build the future in which the technology erases all boundaries.

It is more than obvious that the needs and habits of people change every hour. The life becomes more complicated and we are focused on making it simple with an offer of smart and integrated communication solutions. We try to always be a step ahead and to provide services that will meet the needs of the most demanding customers.

At the same time we will consider that we have succeeded if we are distinguished on the market as innovative operators that bring the state-of-the-art technological solutions and when we establish high standards and adequate working conditions for each employee. Our goals are achievable only with the support of the employees.

Therefore, it will be a challenge for the company to continue with its progress in the upcoming period by creating new business and services in order to have a revenue increase trend again and in the meantime we will become more efficient and more effective in the ensuring of customer satisfaction and satisfactory results for the shareholders and stakeholders. Also we should not forget that the market conditions will become even more aggravated. A new market consolidation is ahead of us; the trends in the industry are changing and we will have to adapt. The upcoming year will be a really challenging one. Nevertheless, we must be prepared for the future and our strategy is clear: to provide the best customer experience through technology leadership. We truly enrich people's private and professional life through the best customer experience with our converged telecommunication services. Our vision is fully harmonised with the Deutsche Telekom goals and it is our guiding principle in the actions that we are planning to undertake in 2015.

The road has already been paved and all of us together just need to commit ourselves to the achievement of one goal, to stay where we are, at the top!

Andreas Maierhofer,
Chief Executive Officer
of Makedonski Telekom AD - Skopje

Zarko Lukovski,
Chief Executive Officer
of T-Mobile Macedonia AD Skopje

BEST NETWORK
SUPERIOR SERVICES
STABILE REVENUE
SUSTAINABLE BUSINESS

BOARD OF DIRECTORS

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

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

Within the authorizations defined with the Law on Trade Companies and the Statute of Makedonski Telekom, the Board of Directors manages the Company and consists of fourteen (14) members, of whom thirteen (13) are
non-executive members and one is an executive member and bears the title Chief Executive Officer. Four (4) of the non-executive members are independent members of the Board of Directors.

RULES OF PROCEDURE OF THE BOARD OF DIRECTORS

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

1. The preparation of the meetings, the convening of the meetings, the course of operation during the meetings, the manner of decision-making (postponing, adjourning and concluding the meetings).
2. Minutes of the meetings, rights and duties of the members and other participants in the operation at the meeting, as well as
3. Other issues related to the operation of the Board of Directors, within the authorizations granted by the law and the Statute of Makedonski Telekom AD - Skopje.

Members of the Board of Directors in the course of 2014

Makedonski Telekom AD - Skopje

Oliver Kosturanov – Non-Executive member and President
Nazim Bushi - Non-Executive member and Vice President
Zarko Lukovski - Non-Executive member
Goran Ivanovski - Non-Executive member
Walter Goldenits - Non-Executive member
Attila Keszég - Non-Executive member
Michael Frank - Non-Executive member
Susanne Krogmann - Non-Executive member
Thomas Panhans - Non-Executive member
Andreas Maierhofer - Executive member and CEO
Miklós Vaszily - Independent member
Frank Pölcz - Independent member
Manojil Jakovleski - Independent member
Aleksandar Stojkov - Independent member

T-Mobile Macedonia AD Skopje

Andreas Maierhofer - President and Non-Executive member
Walter Goldenits - Non-Executive member
Michael Frank - Non-Executive member
Attila Keszég - Non-Executive member
Susanne Krogmann - Non-Executive member
Nebojsa Stajkovic - Non-Executive member
Ivanco Vucevski - Non-Executive member
Gzim Ostreni - Non-Executive member
Irena Miseva - Non-Executive member
Vladimir Zdravev - Independent member
Frank Pölcz - Independent member
Thomas Panhans - Independent member
Zarko Lukovski - Executive member/CEO
Slavko Projkoski - Executive member/COO

Members of the BoD of Makedonski Telekom AD – Skopje, who have resigned / have been released during 2014:

1. Oliver Kosturanov, Non-executive BoD member, with a mandate until 23.11.2014 inclusive,
2. Thilo Kusch, Executive BoD member, with a mandate by 31.01.2014 inclusive,
3. Mihály Nemeth, Non-executive BoD member, with a mandate by 31.03.2014 inclusive,
4. Janos Szabó, Non-executive BoD member, with a mandate by 31.03.2014 inclusive,
5. Goran Ivanovski, Non-executive BoD member, with a mandate by 29.11.2014 inclusive,
6. Tamás Vágány, Independent BoD member, with a mandate by 31.03.2014 inclusive, and
7. Miklós Vaszily, Independent BoD member, with a mandate by 26.11.2014 inclusive.

BOARD OF DIRECTORS OF MAKEDONSKI TELEKOM AD – SKOPJE

MEMBERS OF THE BOARD OF DIRECTORS IN THE COURSE OF 2014

Oliver Kosturanov,
Non-Executive member and President

Nazim Bushi,
Non-Executive member and Vice President

Zarko Lukovski,
Non-Executive member

Walter Goldenits,
Non-Executive member

Michael Frank,
Non-Executive member

Susanne Krogmann,
Non-Executive member

Thomas Panhans,
Non-Executive member

Andreas Maierhofer,
Executive member and CEO

Attila Keszég,
Non-Executive member

Frank Pölcz,
Independent member

Manojil Jakovleski,
Independent member

Miklós Vaszily,
Independent member

Aleksandar Stojkov,
Independent member

Goran Ivanovski,
Non-executive member of the BoD

BOARD OF DIRECTORS OF T-MOBILE MACEDONIA AD SKOPJE

MEMBERS OF THE BOARD OF DIRECTORS IN THE COURSE OF 2014

Andreas Maierhofer,
President and Non-Executive member

Walter Goldenits,
Non-Executive member

Michael Frank,
Non-Executive member

Attila Keszég,
Non-Executive member

Nebojsa Stajkovic,
Non-Executive member

Ivanco Vucevski,
Non-Executive member

Irena Miseva,
Non-Executive member

Gzim Ostreni,
Non-Executive member

Susanne Krogmann,
Non-executive member

Vladimir Zdravev,
Independent member

Frank Pölcz,
Independent member

Zarko Lukovski,
Executive member/CEO

Slavko Projkoski,
Executive member/COO

Thomas Panhans,
Independent member

MAKEDONSKI TELEKOM AD – SKOPJE
FROM LEFT TO RIGHT: SLAVKO PROJKOSKI, LAZAR POPOVSKI, BRANKO STANCEV, BOZIDAR POLDRUGAC, ANDREAS MAIERHOFER, GUSZTÁV MAHLER, MOIRA HOMAN, ALEKSANDAR POPOVSKI, MIROSLAV JOVANOVIC

MANAGEMENT COMMITTEE
OF MAKEDONSKI TELEKOM AD – SKOPJE AND T-MOBILE MACEDONIA AD SKOPJE

T-MOBILE MACEDONIA AD – SKOPJE

FROM LEFT TO RIGHT: SLAVKO PROJKOSKI, LAZAR POPOVSKI, BRANKO STANCEV, BOZIDAR POLDRUGAC, ZARKO LUKOVSKI, GUSZTÁV MAHLER, MOIRA HOMAN, ALEKSANDAR POPOVSKI, MIROSLAV JOVANOVIC

ANDREAS MAIERHOFER - CHIEF EXECUTIVE OFFICER OF MAKEDONSKI TELEKOM

Mr. Andreas Maierhofer is the Chief Executive Officer of Makedonski Telekom as of 1 February 2014. At the same time, he has also been appointed as a President of the Board of Directors of T-Mobile Macedonia.

Mr. Maierhofer comes to Macedonia from the position of a Chief Executive Officer of Mobitel, Bulgaria, a company which he led from 2009 to 2013. In that company, he held the position of a Chief Marketing Officer from 2007 to 2009.

In 2011/2012, he was a President of the Supervisory Board of M-Networks. From 2004 to 2007 he worked in Si.mobil Slovenia, at the position of a Chief Operating Officer from 2004 to 2006 and at the position of a Chief Executive Officer from 2006 to 2007.

Mr.Maierhofer has more then 20 years of experience in the telecommunications business. During his successful career, he has also been a customer services director, head of billing collection department, as well as a customer relations project owner and manager. He was born in Vienna, Austria, where he studied Law at the University of Vienna and graduated at the Management school in St. Gallen Switzerland.

ZARKO LUKOVSKI - CHIEF EXECUTIVE OFFICER OF T-MOBILE MACEDONIA

Mr. Zarko Lukovski started his career in Makedonski Telekom and in T-Mobile Macedonia in November 2006 when he became a President of the Board of Directors of Makedonski Telekom AD – Skopje. His engagement as the president of the highest decision making body of Makedonski Telekom, as well as his exceptional knowledge of the telecommunications industry brought him to the position of a Chief Operating Officer of T-Mobile Macedonia, which position was held by him until 1 April 2010 when he climbed one step higher and became Chief Executive Officer of T-Mobile Macedonia.

From the moment of his coming to the highest managerial position in the company until now, many important steps have been made aimed at its promotion, among which the introduction of mobile payment for the first time on the Macedonian market, as well as the implementation of the 3G and 4Gmobile network, as a result of which T-Mobile Macedonia has developed into a technologically superior company in its domain.

Mr. Lukovski is a graduate electrical engineer with a great experience in the IT and Telecommunications industry and he was leading several relevant companies in the field of IT. During his professional development, Mr. Lukovski worked with various global brands, both on the Macedonian and on the international market, thus acquiring a wide international expertise.

Concurrently, he had an active role in a large number of projects that played an important role in the determination of today’s ICT industry in Macedonia.

SLAVKO PROJKOSKI, CHIEF FINANCIAL OFFICER OF MAKEDONSKI TELEKOM AND T-MOBILE MACEDONIA

Mr. Projkoski started his career in Makedonski Telekom in 1995, where he was appointed to several managerial positions mainly in the finance area, among others Executive Director of the Controlling Area and later on Chief Financial Director. Due to the results demonstrated in the course of his career in Makedonski Telekom, on 1 October 2007 he was appointed on the position of Chief Financial Officer of Makedonski Telekom.

He holds a BSc degree in electrical engineering and has an extensive experience in the telecommunications industry. As of 15 March 2010, he has held the position of Chief Financial Officer of Makedonski Telekom and T-Mobile Macedonia, and as of 8 April 2013 he also assumed the position of a Chief Operating Officer of T-Mobile Macedonia.

GUSZTÁV MAHLER - CHIEF OPERATING OFFICER CONSUMER IN MAKEDONSKI TELEKOM AND T-MOBILE MACEDONIA

Mr. Gusztáv Mahler is a Chief Operating Officer Consumer in Makedonski Telekom and T-Mobile Macedonia, starting as of 1 December 2013.

Gusztáv Mahler came to Makedonski Telekom from the position of Director of Customer Services in Magyar Telekom. He received a diploma in trade from the Trade College in Budapest and MBA diploma from the Oxford Brookes University. He began building his career in various Hungarian and international companies on positions in the areas of sales and marketing. In 1999, he joined the Hungarian mobile operator Westel as part of the sales team. In 2001, his career development brought him to Macedonia in the position of Sales Director in Mobimak.

As of 2004, he was responsible for the indirect sales of T-Mobile Hungary as a Deputy Sales Director, and later on he took over the responsibility for integrated fixed and mobile sales activities until 2009.

In the period 2008-2009, in addition to his position, Mr. Mahler also managed Magyar Telekom's Next Generation Fixed Access Project (optics development and ED3). As of 2009 until his appointment in Makedonski Telekom and T-Mobile Macedonia, he held the position of Director for Customer Services of Magyar Telekom.

ALEKSANDAR POPOVSKI - CHIEF OPERATING OFFICER BUSINESS IN Makedonski Telekom AND T-MOBILE MACEDONIA

Mr. Popovski is a Bachelor of Law and a holder of Masters in Business Administration from the University of Sheffield in Greece. He started his career in Pivara Skopje, where he gained his rich professional experience in the sales area, performing various managerial positions among which a Director of Commerce, as well as Director of Regional Sales in Coca Cola Croatia and Director of Trade Marketing in Karlovacka Pivara, Heineken Group Croatia.

He joined the company in 2008 as an Executive Director of the Sales Department of T-Mobile.
From 2010, he was responsible for the sales activities for the business customers of Makedonski Telekom and T-Mobile as Director of the Business and VIP Accounts Department of Makedonski Telekom and T-Mobile, from where he comes to the position Chief Operating Officer Business of Makedonski Telekom and T-Mobile Macedonia.

BRANKO STANCEV - CHIEF CORPORATE AFFAIRS OFFICER OF MAKEDONSKI TELEKOM AND T-MOBILE

Mr. Branko Stancev is Chief Corporate Affairs Officer of Makedonski Telekom and T-Mobile as of 1 October, 2014.
Branko Stancev has more than 14 years of extensive experience in various areas of telecommunications, combining almost all marketing segments, as well as wholesale, regulatory and technology areas.
He graduated Electronics and Telecommunications at the Faculty of Electrical Engineering in Skopje and he also earned a Master of Science Degree in Telecommunications and an MBA degree.
He began his career in engineering in 1997 and worked in different industries. Then, in 2002, he entered the telecommunications sphere as the Head of the Telecommunications Department in the Agency for Electronic Communications.
He joined T-Mobile at the end of 2002, where, as a result of his dedication to work and the successful implementation of important local and international projects, he made progress in his career. Soon after that, he took over the position of the Executive Director of Marketing Services, Pricing, Wholesale and Regulatory in T-Mobile Macedonia, a position he held until the end of 2010.
In the meanwhile, his responsibilities were broadened with the responsibilities in Makedonski Telekom, when he assumed the position of Executive Director Pricing & CRM in both companies, which position he held by 2013. Since then, until his latest appointment as Chief Corporate Affairs Officer as of 1 October 2014, he was in charge of the Marketing and Communications Department in both companies.

LAZAR POPOVSKI - CHIEF HUMAN RESOURCES OFFICER OF MAKEDONSKI TELEKOM AND T-MOBILE MACEDONIA

Mr. Popovski has a degree in Business Economy from the University of Ss. Cyril & Methodius, Macedonia and is a holder of Masters of Business Administration from the University of Louisville, Kentucky, USA.

He joined Makedonski Telekom from the position of a Director of the Agency for Sport and Youth where he contributed to the achievement of the national interests through the development of sport as a generally recognized value which, in addition to the other benefits, presents and promotes the Republic of Macedonia at international level.

He started his career in the private sector, holding senior managerial positions in sales, business planning and analysis, internal audit and human resources in several renowned companies.
Mr. Popovski is a prominent sportsman, a four-time Olympian in kayak-slalom, selected as the best sportsman of the year in Macedonia in 1999 and winner of the award "13 November" of the City of Skopje - an award which is given to individuals for exceptional achievements and promotion of the Republic of Macedonia.

MIROSLAV JOVANOVIC - CHIEF IT OFFICER OF MAKEDONSKI TELEKOM AND T-MOBILE MACEDONIA

Mr. Jovanovic is an expert in the sphere of information technologies with an engineer's degree in computer science and IT.

In the course of his engagement at various managerial positions both in Macedonia and in Serbia, he was dedicated to the IT management and implementation of large ICT systems in the public sector, and while holding the position of Chief Informatics Director at the Ministry of Finance he was meritorious for the successful implementation of many projects, including the e-budget project.

Prior to his appointment as the Chief IT Officer of Makedonski Telekom in 2009, Mr. Jovanovic worked as a Key Long-Term Issues Expert - Financial Management Information Systems in Serbia, an EU project.

He was appointed to the position of Chief IT Officer of T-Mobile Macedonia on 15 March 2010 and as Chief IT Officer of Makedonski Telekom on 15 October 2011.

MOIRA HOMAN – CHIEF HUMAN RESOURCES DIRECTOR

Ms. Homan dedicated her entire career to human resources. She was born in Croatia, gained her education in Croatia and Great Britain and holds a B.A. degree in Psychology. She comes to the position with work experience of almost 20 years in the field of human resources in various industries - from banking and hotel industry to telecommunications.

She came to Makedonski Telekom from Hrvatski Telekom, where she held different managerial positions in the area of human resources, first as a Director of the Labor Relations Management Department and as of 2009 as an Operating Director of the HR Competence Centre.

During her professional engagement in Hrvatski and Makedonski Telekom, Ms. Homan implemented many international projects and initiatives that have been recognized within the DT Group.

BOZIDAR POLDRUGAC – CHIEF TECHNICAL OFFICER OF MAKEDONSKI TELEKOM AND T-MOBILE MACEDONIA

Ms. Bozidar Poldrugac was appointed Chief Technical Officer of Makedonski Telekom and T-Mobile Macedonia as of 1 May 2014. Mr. Poldrugac comes from the position Chief Technical and IT Officer in Hrvatski Telekom with twenty rich years of experience in various areas of telecommunication and information technologies. He began his career in telecommunications with Croatian Post & Telecommunications in 1993. His executive positions encompassed responsibilities for business and technical aspects of networks and information technologies, customer care operations, billing and revenue accounting processes, collection and fraud management.

Internationally, Bozidar has been actively involved in the business activities and technology affairs of Deutsche Telekom AG, including the operative lead responsibility for Deutsche Telekom /European Union IP Transformation program since March 2012. Before taking the position of Chief Technical Officer he was Member of the Management Board and Chief Technical Officer / Chief Information Officer of T-HT Group in Croatia, a position which he successfully performed since March 2007.

MARKET ENVIRONMENT

Makedonski Telekom is the primary fixed line service provider in Macedonia. Makedonski Telekom's objectives for the forthcoming years comprise being a leading provider of technology in Macedonia and providing quality services with attractive prices in order to stay prepared for the competition.

Makedonski Telekom provides traditional fixed line telecommunication services and content services within the scope of the fixed line network, broadband services and integrated solutions, including TV over Internet Protocol (IPTV).

In January 2014, Makedonski Telekom 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.

T-Mobile MK is the leading mobile service provider in Macedonia, dedicated to provide up-to-date technologies and advanced service offerings, commensurate to the highest technological and service standards.

In 2014, mobile voice revenues contributed with 36.8% to the total revenues, while 20.2% of the total revenues of the Group were generated from fixed line voice services. The fixed line internet and data services revenues contributed with 13.5%, while mobile non-voice services revenues contributed with 9.4% to the total revenues. The revenues from IPTV contributed with 5.5% to the total revenues.

At the end of 2014, Makedonski Telekom had 242,789 voice access fixed lines compared to 266,620 at the end of 2013. The fixed line penetration marked a similar movement, stabilizing at 13.4% at the end of 2013. The number of total DSL access increased to 190,451 at the end of 2014, compared to 185,514 at the end of 2013. The number of IPTV customers at the end of 2014 reached 98,216 customers (including 3 Play, IPTV only and 2 MAX) marking more than 12% increase from the end of 2013. The number of Fiber to the Home (FTTH) customers reached 28,031 at the end of 2014.

T-Mobile MK had a customer base of 1,197,242 at the end of 2014, compared to 1,195,250 at the end of 2013. The mobile market penetration in Macedonia is 106.7%, which shows the trend of individuals owning multiple SIM cards. As a result of the market saturation, T-Mobile MK especially focuses on retaining the customers in order to protect the market share.

The Macedonian mobile market was characterized by highly competitive campaigns and offers in 2014. Due to the increased competitiveness and in order to prevent the churn and encourage the usage, T-Mobile MK launched various campaigns, price plans and additional services specially designed to meet the subscribers' needs, with a focus on value instead of price. These offers are targeting different customer segments.

In 2014, T-Mobile MK introduced several products that differentiate T-Mobile MK on the mobile market and provide additional value for the customers.

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

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

REGULATION AND PRICING

New Law was enacted in March 2014 as primary legislation and rulebooks as secondary legislation.

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

According this article, the Agency for Electronic Communications ("the Agency" 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.
Most of the secondary legislation was amended according to the new LEC until 1 December 2014.

REGULATION OF FIXED LINE BUSINESSES

In line with the data for the development of the telecommunications market published in the fourth quarter of 2014 by the Agency, the Agency had registered 31 providers of public fixed telephony services until 31 December 2014. The Agency deleted the inactive providers during 2014.

Makedonski Telekom, as SMP operator, has the obligation to enable its subscribers to access publicly available telephone services of any interconnected operator with an officially signed interconnection contract.

According to the new bylaws, Makedonski Telekom has an obligation to publish reference offers for the wholesale products for interconnection, Unbundling Local Loop (ULL), local Bit-stream Access (BSA), Reference Access Offer for access to ducts and dark fiber (RAO) and wholesale terminating segments of leased lines.

Amendments of the reference offers (BSA-Bitstream access, RIO-Reference interconnection offer, RUO-Reference unbundling offer) according to the new rulebooks are expected to be published in the first quarter of 2015.

REGULATED RETAIL PRICES

Under an obligations arising from Article 91 of the LEC (retail price regulation), followed with the changes in November 2014 of the Recommendation for retail regulation, the Agency specified the manner and procedure for regulation of the retail prices for fixed voice telephony networks and services of the operator with significant market power on the relevant retail markets. Makedonski Telekom is an operator with SMP status on the relevant retail market 1 (access to the public telephone network at a fixed location) and market 2 (publically available telephone services at a fixed location). The prices for retail products offered on these two markets are subject of regulation by the Agency. The regulation of the retail prices is ex-ante, meaning that the Agency has to approve each price introduction, price change on every product or promotion prior to its being launched in retail. The ex-ante regulation is based on price squeeze methodology.

REGULATED WHOLESALE PRICES

In 2014 analysis are performed according to the AEC annual working program for 2014. The ones that affect Makedonski Telekom operations are analysis on Market 8 (Broadband market), Market 1 (Access to public telephone networks at a fixed location for residential and business customers), market 9 and 10 (Transmission and termination segments of Leased Lines (LL).

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.

On 30 December 2014 AEC brought a Decision for designation of Makedonski Telekom 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
- Bitstream access which Makedonski Telekom provides for its own needs based partly or fully on optics

On 30 December 2014 AEC brought a Decision for designation of Makedonski Telekom for SMP on market 9-Terminating segments of leased lines in the geographical area of Republic of Macedonia.
Final document on the second market analysis on relevant retail Market 1 (Access to public telephone networks at a fixed location for residential and business customers including all types of networks- technology neutral) was published on 7 October 2014. AEC regulated fiber based products of Makedonski Telekom with margin squeeze tests which are already implemented for copper based product regulation. Decision for designation of Makedonski Telekom for SMP on market 1 was brought on 30 December 2014.

AUDIOVISUAL AND MEDIA REGULATIONS

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

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

REGULATION OF MOBILE BUSINESS

T-Mobile MK has radiofrequency 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: 9 June 2009 – 9 June 2019 (10 years)
- 2 x 15 MHz 2100 MHz band, validity period: 17 December 2008 – 17 December 2018 (10 years)
- 2 x 10 MHz in the 800 MHz band, validity period: 1 December 2013 – 30 November 2033 (20 years)
- 2 x 15 MHz in the 1800 MHz band, validity period: 1 December 2013 – 30 November 2033 (20 years)

Based on a Company Decision, in 2014 T-Mobile MK 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.
The spectrum for public mobile communications in the 800 MHz, 900 MHz and 1800 MHz bands is fully assigned to the 3 mobile operators. There is a remaining available spectrum in the 2100 MHz band, while the 2600 MHz band is not assigned for public mobile services at all.
The retail services provided by the mobile network operators in Macedonia are currently not subject to price regulation.
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.

MACEDONIA AND THE EUROPEAN UNION

Based on the EU Progress Report issued in October 2014, good progress was made as regards the alignment with the acquis in the area of information society and media. New legislation on electronic communications and audiovisual policy are in place. Steps need to be taken to guarantee the independence of the public broadcaster and the media regulator. Overall, preparations in this area are on track.

COMPETITION

The competition in the telecommunications business is well-developed in almost all segments. Several main players shape the telecommunications market in Macedonia.

First half of the year continued without significant changes on the market while movements for market consolidation started in July 2014 with acquisition of CaTV operator Blizoo by Telekom Austria. Further, Telekom Slovenia and VIP announced merger in October 2014.

Telekom Slovenia is offering various services under the brand name ONE: mobile and fixed voice, mobile and fixed broadband internet and TV.
Mobile operator VIP entered the fix market through acquiring CaTV operator Blizoo in July 2014.

Three mobile operators introduced 4G/LTE (Long Term Evolution) products in their offers. Fourth mobile virtual network operator (MVNO) Albafone is limited to prepaid offers only and has very low market share.

The cable operators also have a significant role in the telecommunications market and, as providers of cable television as their main service they are well-established on the Macedonian market. Most of them offer internet broadband services and fixed voice services. Telekabel and Blizoo (part of VIP as of August 2014) are the biggest cable providers among over 70 active cable operators.
The product portfolio of all operators is driven by bundle products. The cable operators are bundling their TV offer with internet and fixed voice services.

As the overall market is price sensitive, the price perception plays a major role in the customers' choice and thus the cable operators' offers are seen as more competitive than Makedonski Telekom's in terms of prices.

At the end of 2014, the Agency for audio and audiovisual media services imposed removal of several TV channels from the programs of the TV providers, which reduces TV services attractiveness. This could influence the total market growth in the forthcoming period.

Makedonski Telekom and T-Mobile MK are focused on increasing the market share in the ICT segment, thereby stepping into the already highly developed ICT market with innovative services.

The trend of NP continued to increase in 2014, for both mobile and fixed numbers.

With all the main telecommunications services of Makedonski Telekom and T-Mobile MK, such as providing different bundled offers – a combination of different services, Makedonski Telekom and T-Mobile MK still have the biggest market share. As at 31 December 2014 Makedonski Telekom has a retail fixed voice market share of 62%, retail fixed broadband internet market share of 44% and TV market share of 23% (source: internal best estimates). In the second quarter of 2014 the market share of T-Mobile MK was 46.1% (source: Report for electronic communications development Q2 2014, the Agency). The Agency uses the market share calculation method based on the total number of active SIM cards, which were used in the previous three months.

“Being the technology leader on the market, we are fully devoted on bringing innovations closer to our customers in order to make their life and work more easier.“

OUR ACHIEVEMENTS FOR 2014

In 2014 reached over
25,000 FTTH CUSTOMERS

WHAT WE HAVE DONE & ACHIEVE NOW IS A **SOLID PREPARATION FOR OUR SUCCESSFUL FUTURE**

46.8% market share in mobile segment

63.8 % market share in fix segment

100,000 IPTV customers

135,000 fixed BB users

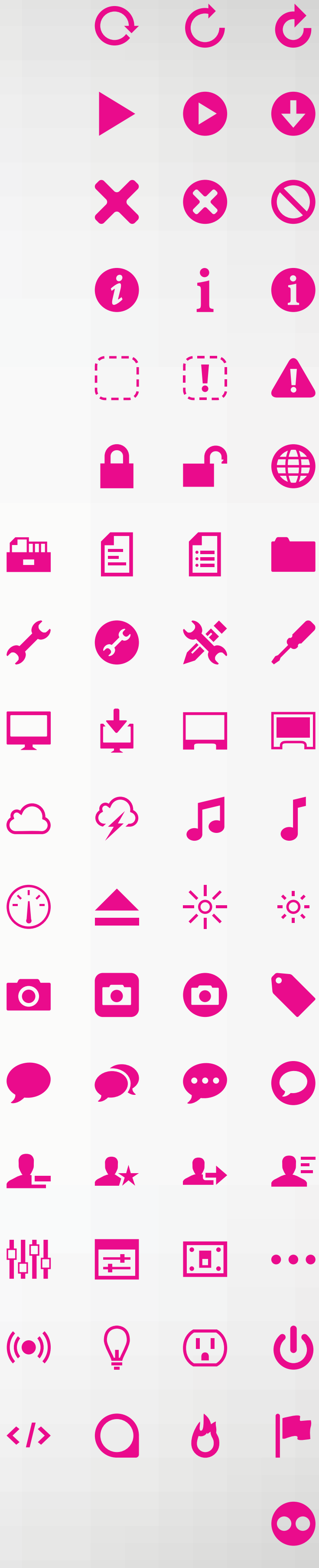
over **107,000** homes passed with **FTTH**

10,000 FAMILY BOX users

introduced
FIRST ALL-IP product

FIRST COMPANY in the DT Group
with **FMC PRODUCT**

Cloud business partnerships
“POWERED BY TELEKOM CLOUD”



INNOVATION AND INFRASTRUCTURE

"THE WORLD AT YOUR FINGERTIPS, ONE PIC, TWEET, POST AND PIN AT A TIME"

IT AND TECHNICAL

INNOVATION AS OUR TOP PRIORITY

The future is full of challenges. Doing what we are doing today, is creating and leaving a trademark in the upcoming day. Actually, tomorrow depends on us. Definitely, the future is what we want it to be.

Looking at the history, we will see that the world is changed by creative and dynamic companies, those who wish to be the leaders of changes, not followers, those who have a clear vision of the future.

Change is everywhere around us, creating big impact on customers and businesses, challenging more dynamically the ways things are done. IT industry is one of the fastest-moving sectors in the world and this is not expected to change. But, increasing competition, more demanding customers and overall market changes, puts us in position that we must change too. In fact providing superior communications solutions for so many years and being one of the most successful companies, sets high customers' expectations and our responsibility that we must lead the change.

We have to create better future for next generations and overall community. Not only Makedonski Telekom and T-Mobile, but business community, as well have responsibility not only to think about our existence, but we have to be bearers of change. Having in mind that the customer expectations grow more quickly, we need to adapt and to constantly come up with new innovative ways that lead to innovations.

That's why we are creating partnerships. We offer the opportunity for everyone in our community to play the main part in the improvement of communications of the future, and in return we offer our experience, support and investment for the implementation of the good idea.
On the basis of our experience working with many companies to strengthen their innovation strategies and processes, last year we have implemented the Cloud partnership program. Of course we are staying committed and we encourage, embrace and reward new ideas and collaboration aiming towards innovation. Advantage will be given to solutions that can be adjusted to the needs of the local community.

Cloud partnering program - open for the existing, but for new partners as well.

NETWORK OF THE FUTURE

The best network in the country belongs to Makedonski Telekom and T-Mobile. Its not something that was done in a day, but it's a life long investment, hundreds of projects,continuous improvement, the best people involved, lots of energy, time, resources, investments.

But because of that this is what we are today! We have the best network, the foundation for the future and we are leading the telecom society and the Macedonian economy overall towards the future.

Today, we are also aware that the customers have constant need of increased data traffic. The speed and the safety of the data transfer, bring trusted partner with the customers and long-term partners.This is all of exceptional importance for providing company growth, for achieving the company revenues and for the sustainability of the business.

During the past year, we have finalized several projects that contributed towards this. After the finalization of All IP project we have become a role model for the DT countries Europe wide. We want to offer our customers excellent network coverage wherever they happen to be. The result of our ambitions, our work and efforts is integrated fixed-network and mobile infrastructure that speaks one single language – IP.

Fiber to the home is a project to which we are dedicated for many years in the past, because we are sure that by doing this we are providing better lives and daily habits for our customers.

T-Mobile was the first in Macedonia to launch the 4G network. We have expanded the 4G network and we have closed the year with 50% coverage of population and 20% coverage of territory. Why we are doing this? Consumer adoption of 3G and 4G standards are projected to exceed 8 billion connections by 2020. The customers expect that mobile will continue to improve and transform their lives, delivering a broader range of services that will connect them with everything, everywhere.

That is why, nowadays, we are actively creating strategies and planning projects and activities of how to improve our network even more. This requests continuous work and investments in innovations and improvements. We aim to keep technology leadership position and ensure growth through service leadership and innovation with continuous development of our infrastructure.

We aim to stay the communication backbone in the lives of our consumers – managing everything from home appliances to entertainment systems and even security.

WE HAVE EXPANDED THE 4G NETWORK AND WE HAVE CLOSED THE YEAR WITH 50% COVERAGE OF POPULATION AND 20% COVERAGE OF TERRITORY.

RESEARCH AND DEVELOPMENT

Development of infrastructure and investment in Technology should ensure high **Broadband Performance, Integrated Service Delivery, Efficiency and Quality Leadership** with avanced Self service enablers, as well as countinues innovation.

During 2014, in order to ensure high quality BB performance, we continued to invest in fixed broadband access, reaching approximately 107.000 home passed installed capacity or approximately 19% household's coverage with FTTH.

The capacities of the IP/ Multi-protocol label switching (MPLS) network were extended in accordance with traffic increase.

In terms of Service Platforms, upgrades of the main platforms for delivery of Voice (IMS Platform) and video services (IPTV Platform) were finalized and the implementation of IMS Geo redundancy entered in the final phase.

Extension of Ethernet over the copper and optic cable capacities for provisioning of data services for business customers continued in 2014. This extension also supports migration of the existing TDM (Time Division Multiplex) lines as well as Mobile Base stations connections towards all-IP network.

The Radio Access Network (RAN) extension continued in 2014.

At end of year 2014, T-Mobile MK's radio access network consisted of:
- 99.9% population coverage with 2G,
- 93% population coverage with 3G,
- 46% population coverage with 4G.

This allows the subscribers to use high speed mobile Internet.

During 2014 we have also made upgrade on:
- Mobile Broadband Packet Network (MBPN) with 40x10G interfaces,
- Upgrade Mobile Charging system with Hardware swap of 14 nodes,
- PCRF (Policy and Charging Rules Function) was introduced for automatic provisioning of "Speed Step-down" and "Speed Booster" functions and
- Micropayment (Mobile Payment over Post Paid bill) was introduced.

In 2014 Makedonski Telekom and T-Mobile MK also introduced Fix Mobile Converge (FMC) product - bundle of mobile voice, fix & mobile Internet &IPTV.

We will continue with:

- the development of the network in order to provide high quality services, increased customer satisfaction, increased network availability, increased operational efficiency and secure long-term evolution and

- activities in the area of new development and innovation in order to stay innovation leader on the market.

We launched our first IP product in the business segment, IP Centrex.

During 2014, the Companies launched the first managed collaboration service - **Cisco Managed Voice** on hosted unified communication.

Under the motto - **INNOVATION SYNERGIES – WIN WITH PARTNERS**, we designed partnership eco-system for both SI and public cloud areas, covering:

- **Technology partnerships** – synergize with DT group membership in Cisco, EMC, HP, Microsoft, Oracle etc.
- **DELIVERY Partnership** with local and international companies for large scale SI and public cloud products.

In such DELIVERY partnership, we launched our **Loop Service** (solution for cloud digital media storage, download, sharing and streaming across different devices (incl. MaxTV) and over different networks).
We need to drive full force exploring of new markets and possibilities for growth and development, in the field of energy, e-health, connected home etc.

"IMPLEMENTATION OF CHANGES, ASKS FACING OF MANY AND TOUGH CHALLENGES"

INFORMATION TECHNOLOGY

Simplification of IT architecture by consolidation and modernization of the IT systems and infrastructure was the main focus in 2014. The improvement of the support and the automation of the corporate processes was the main goal, as well as the improvement of the One Company customer experience.

Integration of the IT infrastructure and architecture is a prerequisite for the implementation of common processes on MKT Group level and increasing the process efficiency.

The main achievements in 2014 were:

- Started project for **RETAIL BILLING SYSTEM** consolidation for fix and mobile customers. The scope is to have all lines of business consolidated in a single billing system. This will reduce the costs, but also allow the business to grow in new directions in the future, gain synergies in the operations of the business and expand the possibilities for new products and services such as full quad-play for all business areas.
- Started project for Consolidation of the Makedonski Telekom AD Skopje and T-Mobile MK AD Skopje **DATA WAREHOUSE AND BUSINESS INTELLIGENCE** (DWH/BI) systems in one system. The new system will strengthen company possibilities for advanced analytics and data driven decisions to respond quickly to market changes, and also will allow reduction of operating costs through achieving synergies in operations of existing two solutions
- Efficient support in the development of converged products for our customers like **FAMILY BOX AND OFFICE 360**, as well as development of new services like **PCRF** that is improving the customer experience of mobile data usage and **LOOP – CLOUD MEDIA STORAGE.**

Following the ICT strategy, IT has been actively participated in the pre-sales and delivery phase for several projects for external customers in the delivery of services for servers upgrades, storage upgrades, help desk and VDI.

In 2014, IT has successfully delivered the project for implementation of **UNIQUE MEDIATION SYSTEM FOR CRNOGORSKI TELEKOM**, which is the first project of IT in the delivery of application solution and services for external customers.

IT has enlarged the resource pools with implementation of virtualization technologies and we are continuing with the implementation of the process automation, self-service layers, converged products/services and ICT services in the upcoming period.

The IT security standards have been improved by implementing several security relevant systems that decrease the operational risks and improve customer and personal data protection.

In the course of 2014, Makedonski Telekom AD Skopje and T-Mobile MK AD Skopje continued with the local activities of the project for implementation of a new consolidated CRM system. This system should enable a comprehensive view of customers and further sharpen the customer focus of Makedonski Telekom AD Skopje and T-Mobile MK AD Skopje.

Short news

from the 2014 press archive

DEUTSCHE TELEKOM:
MACEDONIA IS FIRST EUROPEAN COUNTRY WITH END-TO-END ALL IP NETWORK

13.02.2014

▪ Makedonski Telekom migrated the last customer to the new IP network, PSTN lines: zero

Makedonski Telekom is the first company within the Deutsche Telekom Group with a network fully based on Internet protocol (All IP). The modernization of the network started in October 2011 and within just 25 months, all 290,000 lines were migrated onto the new platform. Now services such as Broadband on Demand are already on offer.

The company invested 13 million euro, an investment which is significant not only for Makedonski Telekom, but also for Macedonia, which became the first country in Europe with an All IP network.

SMARTWINE
THE FIRST OF THE WINNER PROJECTS ON THE INNOVATION COMPETITION OF MAKEDONSKI TELEKOM AND T-MOBILE IS OUT ON THE MARKET

05.03.2014

▪Intelligent monitoring system for the vineyards
▪Eco solution that increases the efficiency, saves energy, water and chemicals
▪Smart Wine will be presented at CeBIT in Hannover, international fair for creative projects

Smartwine – the first of the five winner projects on the Innovation Competition of Makedonski Telekom and T-Mobile is out on the market. Smart Wine is an intelligent monitoring system for vineyards which automates the grape production process and facilitates the wine production.

MAKEDONSKI TELEKOM AND T-MOBILE INTRODUCE A CLOUD PARTNERSHIP PROGRAM

28.10.2014

▪Intended for the partners that have their own software solutions or partners that offer IT products and services

Makedonski Telekom and T-Mobile Macedonia announced a call for Cloud partnerships.
The partnership program is available for the existing, but also for the potential partners that have their own software solutions or companies that already offer products and services.
This type of a program is announced for the first time in Macedonia and its purpose is to offer end-to-end solutions to the customers via partnerships with other companies.

WATCH PHOTOS AND VIDEOS ON MAXTV WITH LOOP

15.12.2014

▪The photos and videos are available on all devices.

T-Mobile created new application called LOOP. It is an application that can make our everyday life more beautiful and more interesting. With this T-Mobile service, you can share photos and videos from your smart phone, directly on MaxTV, computer or tablet. Your photos and videos are available on all devices!

In that manner, while you are travelling, your family will be able to watch your photos or videos materials directly on MaxTV and be up-to-date with everything that happens on your journey. You can also create photo database that you can keep on your device and you can arrange and select your photos as desired.

Loop is available for all customers of mobile or fixed telephony, with included space of at least 5 GB.
All you need to do is to activate the Loop service on www.loop.mk, by clicking the Register button and the site will guide you step by step through the procedure or download the free application from Google Play and App Store and start sharing!

MAKEDONSKI TELEKOM INTRODUCED THE BROADBAND ON-DEMAND PRODUCT

26.13.2014

▪Broadband On-Demand product is the first of its kind in the world

Makedonski Telekom introduced the Broadband On-Demand product, the first of its kind in the world. The plug-and-play solution enables a superior customer experience, because it speeds up the time for activating broadband Internet service over a landline from several days to less than two minutes. Before that, if you wanted to get broadband Internet at home, you typically needed to go to a shop, sign a contract, and then wait for a technician to install the equipment in your home and activate the service. The whole process typically lasted several days.
Now, if you have an active phone line, you can get broadband Internet instantly, with one click, without leaving your home. All you need to do is plug-in your computer to the home gateway already installed in your home, open your browser and enter any Web address. You are automatically redirected to the All-IP landing page, Click & Connect, where you just click on the broadband package you want, and you can continue surfing the Web. You can also connect to the home gateway through Wi-Fi if you prefer.
Since the introduction of the first Broadband On-Demand packages, with three-day and seven-day durations, Makedonski Telekom expanded the offering with a one-month package in 2014.
The All-IP network introduced by Makedonski Telekom was a prerequisite for the development of the Broadband On-Demand product, which enables the company to generates superior cash performance, because charging starts immediately, rather than a few days later, and there’s no cash out on commissions or paper contracts. It also enables better resource allocation, because front-line employees can focus on acquiring new customers, and technicians can focus on installing other services.

CREATIVITY, COMPETITION AND PROMOTION

“EXPLORE, EXPERIENCE, GET INSPIRED FOR YOUR FUTURE”

MARKETING AND SALES

OUR CUSTOMER – OUR BEST PARTNER
IN ACHIEVING BUSINESS GROWTH & SUSTAINABILITY

Ever since we have transformed the company from technology to customer-driven and oriented, we have invested a lot in changing the culture, the processes, the products and services in order to meet the requests of the customers.

And we do not regret for that. We are aware that this is the only right choice especially in the todays dynamic living, where the customer sets up the market trends and standards, the customer defines our product portfolio.

Growth is an imperative and we need a profitable growth. That is why we are in constant fight and research of finding different ways for achieving it. Previously we have focused on efficiency and we on energetically cutting out the costs from sales, marketing, branding, etc ... We have achieved a short term productivity, but today we are aware that we can not cut out the methods for achieving the growth.

Today, our focus is on new services and on retention of the existing, as well as acquisition of new customers; it is on innovation and partnerships. All our marketing and sales activities are performed based on the customer needs and habits.

We are building strong customer relations each and every day.

We have set up all our working standards and our future strategy on creating the best customer approach and achieving the best customer experience; on having greater customer trust every day.

One of the most important ways for achieving this is through offering new, simple and personalized services, which will improve the lives of our customer. We were first on the market offering convergent services, and we will continuous to improve our portfolio even better. We are focus on convergent solution, which satisfies all communication needs, no matter whether is private or business customer. And we will keep this way. We will be getting better and better because our users deserve it!

WE ARE COMMITTED TO BETTER CUSTOMER SERVICE EVERY DAY!

PREMIUM SERVICES AND SOLUTIONS FOR OUR CUSTOMERS

Several major campaigns were launched for achieving the planned company results and for increasing the awareness of the benefits provided with the services of the T brand.

The main focus (both residential and business segment in the fix and mobile market) was put on the retention of the existing customers and the up-sell to bundled services, as well as on the acquiring of new customers.

FAMILY BOX, as a product consisting of mobile and fixed services, was launched in May 2014. It offers all services in one bundle: fixed voice, internet and TV, and mobile voice, mobile internet and mobileTV. This makes T-Mobile MK first player that has full 4 play portfolio.

PROMOTIONAL BUNDLED TARIFFS (PROMO) for the post-paid segment, both consumer and business were offered. Voice data bundles were enriched providing additional value for the customers: all net traffic included in the subscription, increased internet traffic volume and Mobile MaxTV.

LTE MOBILE NETWORK is offered in the postpaid and prepaid portfolio as a benefit in the higher tariffs.

MAXTV AND FAMILY BOX are used as the main retention tool for Voice and Internet users, as well as mobile users.

SELF-CARE APPLICATION for prepaid users was launched. It enables the users themselves to manage their needs simple and fast. Several other applications and solutions were developed and launched which made Makedonski Telekom and T-Mobile MK first true fixed mobile converged cloud services provider.

THE LOYALTY PROGRAM MOJ KLUB was extended with an enlarged partnership network, available for both the mobile and the fixed line segment.

In addition, social media as an adequate channel for customer engagement and delivering relevant, authentic content and experiences in line with the brand promise “Life is for sharing” continued to be developed, in order to enhance brand likeability and acceptance, and strengthen the relation with customers.

The increased **FTTH COVERAGE** and the benefits of the fiber-based product offers, improved the customer base over fiber for 30% at the end of 2014 compared to 2013.

MOBILE DATA SERVICES were improved by introducing possibility to activate additional one time packages that will boost data usage even more and give customer higher satisfaction.

ROAMING DATA offer was enriched with Business Travel and Surf packages including higher data volumes for business customers.

Makedonski Telekom continued to be focused on providing the business customers with the new cutting edge **ALL IP NETWORK** that provide the customers with new innovative services. It’s unique offer, like IP Centrex, enables significant cost saving and increases customer satisfaction.

In 2014 Makedonski Telekom AD Skopje introduced **3MAX OFFICE** hard bundle of fix voice and broadband internet line and MaxTV which is by far the most attractive 3 play offer in Makedonski Telekom AD Skopje portfolio for business customers.

Makedonski Telekom AD Skopje introduced **MANAGED SECURITY FOR INTERNET CUSTOMERS**, which provides advanced security service beyond the standard antivirus protection, also unique product on the market.

T-Mobile MK AD Skopje introduced **BUSINESS 360** the first fix and mobile bundle for business customers in the market, with unique features and most attractive pricing. It includes Mobile telephony, fixed telephony, broadband internet and optional MaxTV connection.

Makedonski Telekom AD Skopje and T-Mobile MK AD Skopje are focused on further development of the **CLOUD MARKET** and offered a wide variety of cloud services to our customers like **VIRTUAL DISC, VIRTUAL PRIVATE SERVER, E–ACCOUNTING** and many more.

Makedonski Telekom AD Skopje and T-Mobile MK AD Skopje have developed different sales channels in order to serve the customers from different segments. Makedonski Telekom AD Skopje and T-Mobile MK AD Skopje use direct sales channel such as: **own retail network, telesales, on-line sales channel, technicians, direct sales agents, account managers (for Institutional, Key Accounts and Large Accounts) and introduced a multichannel logic in the sales and service of the SOHO (Small-Office-Home-Office) segment.** The indirect sales channel is based on indirect master dealers with their own network of shops, partner shops and kiosks. External company was engaged for telesales activities (proactive retention and loyalty activities were also introduced).

OUR SALES CHANNELS – OUR DIRECT LINK WITH OUR CUSTOMERS

Makedonski Telekom and T-Mobile MK have developed different sales channels in order to serve the customers from different segments. The Companies use direct sales channel such as: own retail network, telesales, on-line sales channel, technicians, direct sales agents, account managers (for Institutional, Key Accounts and Large Accounts) and introduced a multichannel logic in the sales and service of the SOHO (Small-Office-Home-Office) segment.

The indirect sales channel is based on indirect master dealers with their own network of shops, partner shops and kiosks.

However, the main sales channels are the Makedonski Telekom and T-Mobile MK shops.

There are 36 joint shops as at 31 December 2014, offering the complete T-Mobile MK and Makedonski Telekom product portfolio. As part of the implementation of the Sales Boost program, own shops operations were improved in spite of the transaction (sales vs. service) ratio and the up-sale execution in 2014.

In 2014 even new shops were opened with accent on digital communication, with opportunity for live demo and testing. The goal of this new shop concept is to provide interactive research and entertainment for our customers and a greater possibilities for introduction of the new services. Three shops with the same concept were opened, in City Mall, Capitol Mall and Veles.

Partners' presentation in own shops continues in 2014 with implementation of new m-Walls and Window Digits in 2014. T-Mobile MK introduced the iPhone 6 on the market on 31 October 2014.

Sales activities that include home delivery via telesales were used in 2014 for retention of fixed and mobile subscribers.

e-Business: Development of new features and increased usage of Buy online (web shop), defined and achieved eTransformation KPIs as well introduction of Telekom MK self care mobile application for prepaid customers.

In 2014, the direct agents put a strong emphasis on the sale of FTTH products for the residential and Small-Office- Home-Office (SOHO) customers and some ICT products.

Another channel of the distribution network of Makedonski Telekom and T-Mobile MK is the dealers' cooperation. As at 31 December 2014, the network consisted of 7 master dealers with 60 shops as T-Mobile MK partners and 7 master dealers with 35 shops as Makedonski Telekom partners. The majority of the T-Mobile MK master dealers' shops are joint shops offering the full Makedonski Telekom and T-Mobile MK portfolio and some of them have already started with bill payment process in December 2014.

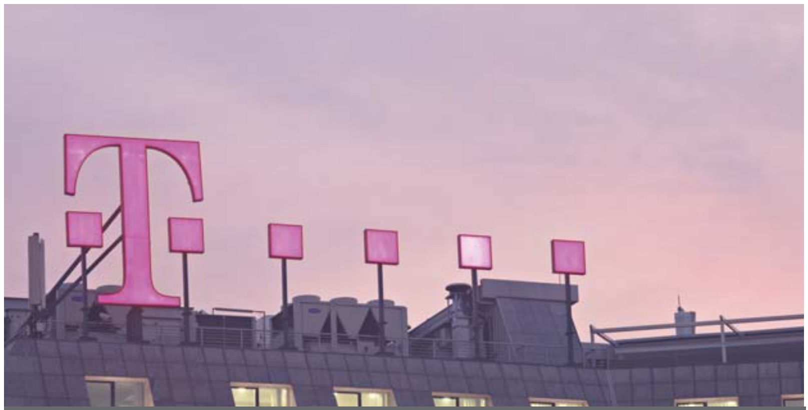
T-Mobile MK's prepaid and post-paid packages (with or without handsets) are available in all dealers' shops. In addition, prepaid vouchers are also available in 4,015 kiosks. A part of the Makedonski Telekom product portfolio (e.g. telephone sets, TV sets, computers, printers, network equipment and home appliances) is available to the customers using payment by instalments through their telephone bill.

In June 2014, T-Mobile MK enriched Mobipay portfolio with two new products MobiPay Standard and Easy (products for micropayment) available in all sales channels.

"WE LISTEN TO OUR CUSTOMERS, WE WANT TO STAY THEIR BEST PARTNER"

Short news

from the 2014 press archive



The largest loyalty programme – My Club – brings even more benefits to the customers

30.01.2014

With the largest loyalty programme My Club, in addition to the regular points from T-Mobile and T-Home, the customers will also get additional points with each purchase made at our partners' shops: Tinex, Cosmo, Travel Solution, Neptune, as well as the shops of Fashion Group (Okaidi, Bata, Mango, Golden Point, Geox, Timberland, Hugo Boss, Fashion ID, Giovanni Galli, Celio, Fashion&Friends, Women's Secret, Parfois, Springfield, Blanco, Bitsiani).
The collected points may be used for payment at any of the partners' shops, for ordering gifts from the catalogue of My Club or for purchasing a device from the T-Mobile Loyalty offer.

Makedonski Telekom reduced the prices of the national calls towards all fixed operators

26.02.2014

- The customers will pay lower prices by up to 70%
- The prices of the calls from fixed to mobile destinations are also reduced by up to 30%

The price reduction is possible as a result of the investment of Makedonski Telekom in the new, modern Internet Protocol based platform to which all customers were migrated.

With MaxTV on FIFA World Cup in Brasil

23.04.2014

Makedonski Telekom initiates the biggest prize winning game for all 3Max customers with the main prize – 3 trips to Brazil on the finals of the FIFA World Cup. The prize winning game starts on 23 April and it will last until 20 May 2014.

Family Box- The Best for the Entire Family

30.05.2014

- The most attractive services in one package – the fastest internet for your home, the best television – MaxTV and two post-paid numbers with unlimited calls to all networks and unlimited internet.

Starting from 23 May, all T-Mobile and T-Home customers will have a unique opportunity to activate the Family Box, a package of services that is an answer to the telecommunications needs of the entire family.

The Golden Drum Advertising Festival and Makedonski Telekom Invite Creative Young Minds to Participate in a Competition

19.09.2014

- The creative young minds of Macedonia will get a unique chance to show their creative powers and be a part of the greatest advertising festival in the region

On the eve of one of the most prestigious advertising festivals in the region - Golden Drum (7th – 10th October 2014, Portorož, Slovenia), with the support and partnership of Makedonski Telekom, for the first time in Macedonia a competition will be organized titled Young Drummers, to which all young creative minds (born after 10th October 1984) are invited to participate by creating a poster-design for the topic: Stop texting while driving.

A New Telekom Shop in the City Shopping Mall in Skopje

09.10.2014

- An irresistible offer for the opening day – Samsung smart phones in Play Comfort with over 50% discount
- Kaliopi and Vlado Janevski socialized with the visitors

Makedonski Telekom and T-Mobile Macedonia opened a new shop in Skopje. The shop is located on the ground floor in the City Shopping Mall with a surface of 210 square meters, seven working units and a possibility to offer a multimedia experience to the customers.

MobiPay – mobile payment, from now on through the post-paid bill as well

10.06.2014

- With MobiPay, the mobile telephone is becoming a virtual wallet
- The service is available with all models of mobile phones, with no extra charges

Starting from today, the T-Mobile customers will be able to use the mobile telephone as a wallet through their post-paid bill as well. With MobyPay, the customers can effectuate cashless payments in a taxi, restaurants, coffee bars, shops and many other points of sale in Macedonia, wherein the network for such payment is continuously expanding.

Online promotion for T-Mobile customers

18.08.2014

- 10% discount and gifts for online shopping

T-Mobile started a promotional activity for its customers who will buy a mobile phone from the "Buy online" internet shop at www.t-mobile.mk.

New Year Offers of Makedonski Telekom and T-Mobile Macedonia with HC "Vardar"

26.11.2014

- 6 GB of the fastest 4G internet, unlimited calls towards all networks and 20 hours of Mobile MaxTV
- 6 months of free of charge MaxTV and a possibility for buying a Toshiba LED TV set for MKD 500 in 24 instalments.

This year, Makedonski Telekom and T-Mobile Macedonia and the Handball Club Vardar reached new European peaks. Makedonski Telekom became the first in Europe with All IP network, T-Mobile was the first in Macedonia with 4G network, while Vardar became the champion of the SEHA regional league and was among the eight best teams in the EHF Champions League.

PERFORMING, GROWING AND SERVING

"THE VISION IS SET UP, THE INFRASTRUCTURE IS EXCELLENT & CERTAINTY AND RELIANCE IN OUR TEAM IS VERY HIGH.

WE EXPECT EVERYONE TO WORK AS ONE TEAM TO ACHIEVE THE COMPANY GOALS, WITH PROGRESSIVE ENERGY, STRONG WILLPOWER & THE BELIEF THAT ANYTHING IS POSSIBLE."

EMPLOYEES ARE OUR BRAND

To be a successful corporation that will make profits, and thereby have a high rate of motivation of the employees, it is the main task of the top management. Employees are our essential element that competition cannot copy. Nowadays the brand is not a product or service of the company. Employees are our brand. Therefore, the management of HR resource is a strategic task, to which we are constantly focused.

In order for the company to be more productive and more profitable, our basic HR policy is hiring quality staff, motivation and acquiring new knowledge in order as much as possible to contribute to the achievement of organizational purposes. With the employment rate, and most of all with their support and knowledge, we are aware that we contribute to the overall development of the Macedonian society. That is why we constantly strive to follow the world class HR trends, to learn new ways of how to engage and motivate our workforce...
Only with motivated employees, we can achieve our goals!

OUR HR COMMITMENT

Makedonski Telekom AD and T-Mobile MK are companies, which are constantly focused on the needs and requests of the customers. The company, in line with its mission and development strategy, is permanently enhancing its product and service portfolio, while introducing novelties in the operation, all for the purposes of responding to the needs of its customers.

In order to achieve this strategic commitment, the Companies constantly follow and apply the latest methods and trends in the process of employment and human resources management, while concurrently working in accordance with the highest worldwide standards.

WE ARE COMMITTED TO EXCELLENCE – IT IS IN OUR PERFORMANCE CULTURE

Business leaders today are faced with an extremely dynamic business environment, characterized by technological innovation, constant changs in customer behavior and shortage of talent. HR functions need to act as strategic partners and to assist the companies in meeting these challenges.

Companies that focus on key HR topics such as: talent, leadership, engagement, behavior, culture management, HR strategy and cost management show that human resources are high level business priority.

Currently we focus on three key areas:

- **Attraction and retention of talent**

We offer opportunities for both experienced and highly qualified employees and fresh graduates from colleges that are looking for their first job. In the same time we offer many opportunities for professional technical and non-technical development.

Our talents got a chance to be part of DTs Talent Space, a 1 year program that aims at ensuring talent visibility within succession management process, creating networking opportunities in DT group for talents and fostering interaction cross functionally and across the units.

- **Supporting the organization to provide excellent service to customers.**

Through high level collaboration and corporate culture we contribute to company success.

- **Improving efficiency and productivity.**

In order to improve our efficiency and productivity we managed to perform proper allocation of employees to frontline, managing the cost and efficiency of internal and external workforce.

BUILDING THE COMPETENCES OF THE WORKFORCE FOR FUTURE BUSINESS DEMANDS

The constant development of our business and our employees is one of our key objectives. That is why we have implemented different kinds of HR related projects and activities during 2014.

We are leading in the usage of new and modern development methods aiming to provide our management with state-of-the art quality development through our COACHING PROGRAM. It is our goal to assist them in better management of their teams through change and improve the achievement of the company targets.

The aim of the COACHING PROGRAM:

▪ Strengthen the collaboration and cross functional cooperation in order to better deal with future business challenges and deliver expected results,

▪ Take responsibility for own development and team management by trying out different, more effective management/leadership tools and techniques and

▪ Encourage discussions and knowledge sharing on business relevant topics in order to ease and improve daily work and business target execution.

Throughout an employee's career there are steps in place to encourage and develop the competencies and skills required to have a successful career.
In 2014 we continued the international, DT cooperation. Our employees had a chance to participate in the X-CHANGE PROGRAMS, in the Master Classes - workshops on business relevant topics such as Collaboration, International project management and Service business simulation.

We have implemented a KNOWLEDGE SHARING PROGRAM during 2014. The idea of the program "learn and share" was through a two way communication, where the employees were the trainers and the treinees, to learn something new and to share it with the others. Its goals were to:

▪ Use the internal resources and knowledge,

▪ Give a chance to the employees to gain new skills and

▪ To encourage the culture of knowledge sharing.

In addition, we had our participants in DTs LDP – Leadership development program where new and more experienced managers get a chan to work on further development of their skills through variety of activities.

Consequently we have started with the LEAD TO WIN PROGRAM, which isimplementation of new performance management system for the executives. By doing this we have set up the basics for consistent and transparent performance management system.

In order to have stronger and more efficient company, focused on the market and its customers and taking into consideration the needs of the employees, the Companies started with implementation of NEW ORGANIZATIONAL STRUCTURE from November, 2014.

The new structure, which is part of the program "OUR AMBITIONS", has a holistic approach It aims towards:

▪ supporting front-line activities and providing the best possible support to the company's operations,

▪ establishing a new balance between market facing and non-market facing units that will contribute to stabilizing the downward trends and become FIT FOR THE FUTURE and

▪ use the capacities of synergies between units - to improve time to market.

In order to enable equal earning possibilities for equal performance of work in 2014 we introduced new salary and incentive system in Consumer Sales. The aim is to:

▪ build stronger performance culture,

▪ enabling equal earning opportunity and attractive bonus based on performance results and

▪ new salary and incentive system in which payment is fair and competitive and offers attractive incentive opportunities to bust the sales performance.

In 2014 we had no accidents at work. Our Health & healthy standard is very high and recognized throughout OHSAS implementation which defines the requirements for the establishment and systematic application of the occupational health and safety criteria. Through this standard we provide structured approach and directions for introducing all relevant controls and processes into one management system which creates safe working conditions.

It is the PULSE CHECK, which measures the employee satisfaction and helps detacting the gaps to be filled in with future activities. It gives us the right directions and motivates us even more to work on making better future.

The Pulse check from the 2014 showed very high response rate from employees (>65%) and convinced us that they feel a strong connection with the Company and the T-Brand and recommend our products. In future we aim to achieve even more.

SUPPORTING, HELPING AND INVESTING

"WE COLOR YOUR WORLD, WE BUILD BETTER DAYS AND WE BRING MANY SMILES. WE ARE HERE THROUGH THE WHOLE YEAR!"

PIONERS IN THE CORPORATE RESPONSIBILITY

Being a global leader in the Connected life and work means a leader in the corporate responsibility as well. That is an integral part of our short and long term strategy, too!

We are aware that the society needs our assistance in more areas. We have spread our activities in environmental protection and sustainability, in economic development, through infrastructure and logistics; in building better lives of the citizens through bringing improvements to the different segments of their living.

We are proud that we have one of the main roles in the progress, together with the big society stakeholders.

We do not expect nothing in return! But, we dare to believe that our help will bring a better life of the different categories of citizens that are in need and for a healthy society overall.

SPONSORSHIP AND DONATION

Sport, music and culture and the three main pillars of the sponsorship strategy of Makedonski Telekom and T-Mobile Macedonia. .

During 2014, we have supported the sport in Macedonia in diferent areas and by doing this we have contributed towards its development to a higher level. We have supported the Ohrid swimming marathon, which is one of the biggest sport events in Macedonia. We have assisted the organization of the national Sar Planina ski event, as well as the Mavrovo ski event, where Company teams participated as well. All the finances collected furing Mavrovo ski event were donated to the centre "Message", for support of people with intelectual disabilities. We have officialized the partnership with the winning macedonian sport club in Vardar.

But not only in sport, we have assissted the organization of many big music, which during the years have become famous thanks to our traditional support. The international Skopje jazz festival, the concerts of the biggest balkan music stars Bijelo Dugme, as well as the Macedonians, but internationally known musicians Vlatko Stefanovski, Esma Redzepova and Tavitjan. The world wide music and cultural event Ohridsko and the Struga poetry evenings were only part of our sponsorships in the area of culture.

Being one of the biggest humanitarians and a donator role model for the business sector in the country, we have continued the cooperation with the childrend's embassy Megjshi, as well as with the woman organization, supportig their activities in the fight againts breast cancer.

System for management of old bateries and mobile devices for 350.000 citizens – partnering project of T-Mobile and Go Green.

Makedonski Telekom and T-Mobile Macedonia became partners with the Youth environmental organization "Go green", having the same goal to select the old batteries and non functional mobile devices. The project involved seven municipalities and 78 schools with more than 15 000 students from all over Macedonia. Besides education for the students, the project resulted with established system fr selecting of waste batteries for more than 350.000 citizens. The final activity was a music event where 2500 citizens collected more than 150 kgr of waste batteries.

FOUNDATIONS

T-MOBILE FOR MACEDONIA

During the last couple of years we have focused on longterm partnering projects influencing wider and bigger target groups.

THE FIRST FIVE YEARS ARE THE MOST IMPORTANT IN THE WORLD
In partnership with UNICEF, the foundation started a campaign for the importance of the early child development. We aim towards raising the awareness for high quality eduaction of the children during their first five years, but our activities are also focused towards collectig finances for opening real centres for early childhood development. Such kind of centres should be alternative for the kindergardens in the rural and marginalized areas throughout the country. The donation of the T-Mobile foundation helped for opening of eight centres in Selce, Jargulica, Desovo, Zleovo, Debreshe, the down part of Lisice, Ratavica and Zupa centre. During 2015 we have planed the opening of at least five more. In addition, T-Mobile has donated all the finances collected from the SMS 's from the New Year's eve for achieving this same goal. Our aim is to open as many centres as possible in Macedonia, so all the children have the possibility for happy and healthy childhood. More information about this can be found at www.prvite5.mk, www.facebook.com/prvite5, https://twitter.com/prvite5

DONATION NUMBERS
Our help of all kinds is of outmost importantce for those who need it. That is why we have continued with the donating telephone numbers which assist to the citizens for collecting the needed help. During 2014 the numbers were transfered 55 times, out of which 51 for individuals and four times for legal entities.

E-MACEDONIA FOUNDATION

Creating opportunities for usage of the new technologies and effective involvement into the digital society of different groups of citizens.

"SAY SOMETHING"- BLOGGING CMPETITION
During 2014, the foundation and the association OXO have organized a competition in blogging for all the high schoold students in Macedonia. The project aimed to motivate the young peoplle in Macedonia to use the new informatics technologies in practical way and to be able to express themselves creatively through music, video, photographing or writing. More than 200 students took part in the competition, and the best three were rewarded by Makedonski Telekom during the final event.

„THE COMPUTER IS THE WINDOW TOWARDS THE WORLD"
at the beginning of 2014 the foundation made partnership with the citizens association "Open the windows". The aim of this partnership and the activities were to provide the people with dissabilities with special asisstive smart computer equipment, which will help their development and the inclusion into the society, as well as organization of trainings for their easier usage.

Short news

from the 2014 press archive

DEUTSCHE TELEKOM LAUNCHES PARTNERSHIP WITH EVERNOTE ACROSS 12 EUROPEAN MARKETS

22.01.2014

▪ Evernote available for the Macedonian customers as well
Deutsche Telekom and Evernote expanded their partnership to 12 markets in Europe, among which Macedonia. With Evernote, the customers can take notes, clip webpages, snap articles, create to-do lists and record audio using their mobile phones.

EQUAL INCLUSION IN THE INFORMATION SOCIETY OF CHILDREN AND PERSONS WITH DISABILITIES

08.04.2014

Foundation “e-Macedonia” donated equipment in the value of EUR 14,000

The Foundation “e-Macedonia”, in partnership with the civic organization “Open the Windows", started the "Computer – A Window to the World" Project for equal inclusion in the information society of children and persons with disabilities. The purpose is to enable as many persons with disabilities as possible to use computer and internet.

THE TELEKOM AND T-MOBILE TEAM WILL RUN AT THE SKOPJE MARATHON FOR HUMANITARIAN PURPOSES

17.04.2014

For every passed kilometre – donation of MKD 1,500
A total donation of EUR 11,000 for the day-care centre for persons with intellectual disability.

Employees in Makedonski Telekom and T-Mobile Macedonia will participate at the Skopje Wizz Air Marathon that will be held at 11 May, 2014. Twenty employees in the companies from the Group from Macedonia, Montenegro and Hungary will run greatly motivated to finish the race, because for every passed kilometre of the marathon runners, the company will donate MKD 1,500 for the day-care centre for persons with intellectual disability.

THE EMPLOYEES OF MAKEDONSKI TELEKOM AND T-MOBILE MACEDONIA – PART OF THE EUROPEAN MOBILITY WEEK!

22.09.2014

On Monday, 22nd September, the employees of Makedonski Telekom and T-Mobile Macedonia joined the European Mobility Week coordinated by the Ministry of Environment and Physical Planning, i.e. they did not use the car, but rather went by bike, walked or used the public transport.

A MULTIMEDIA EXHIBITION "A JOURNEY THROUGH THE HISTORY OF JAZZ"

08.10.2014

From 7th until 19th October, in the innovation centre of Makedonski Telekom located at the Macedonia Square, a multimedia exhibition will be held titled as "A Journey through the History of Jazz".

This exhibition, organized by Makedonski Telekom and T-Mobile Macedonia, is aimed at bringing jazz closer to the wider audience via an interactive and multimedia approach exactly in the same period in which the widely popular Skopje Jazz Festival is being held.

THE T-MOBILE FOR MACEDONIA FOUNDATION WON A PLAQUE FOR CSR

25.09.2014

▪ National award for the “The first 5 are the most important” implemented by the Foundation and UNICEF

The Project “The first 5 are the most important", which is the product of the partnership between the T-Mobile for Macedonia Foundation and UNICEF, won a plaque for corporate social responsibility from the National Coordinative Body for Corporate Social Responsibility of the Companies and the Ministry of Economy.

PARTNERSHIP OF MAKEDONSKI TELEKOM AND T-MOBILE MACEDONIA WITH THE “VARDAR” SPORTS CLUB

15.10.2014

▪ Makedonski Telekom and T-Mobile Macedonia officialised the partnership with the most successful Macedonian sports club - VARDAR Makedonski Telekom, T-Mobile Macedonia and the “Vardar” sports club, officialised the partnership contract at today's joint press conference.

THE SKOPJE FORTRESS GOT A NEW MAGENTA COULOUR!

17.12.2014

Makedonski Telekom and T-Mobile Macedonia decided to prepare an unforgettable experience for their customers and to all citizens, a sight that will make everyone happy, a scenery that will enrich their experiences - by colouring the entire Skopje Fortress in magenta.

TRADITIONAL NEW YEAR'S CARAVAN OF THE FOUNDATION T-MOBILE FOR MACEDONIA

18.12.2014

▪ The employees in T-Mobile and Makedonski Telekom will bring joy to over 2000 children throughout Macedonia.

For the thirteenth year now, the Foundation T-Mobile for Macedonia will traditionally organise a humanitarian New Year's caravan for the most vulnerable groups of children. The caravan will visit children without parental care, children with special needs, children with impaired hearing and vision, children with physical disability and children from the socially vulnerable families and will organise a special New Year's play and distribute gift bags to them.

DONATION OF MAKEDONSKI TELEKOM AND T-MOBILE MACEDONIA - A SOPHISTICATED MEDICAL DEVICE FOR THE CLINIC FOR CHILDREN'S DISEASES IN SKOPJE

18.12.2014

▪ Andreas Maierhofer, Chief Executive Officer of Makedonski Telekom presented the donation
▪ New Year's sweets gift bags for all children at the Children's Clinic

Today, at the Clinic for Children's Diseases in Skopje, Makedonski Telekom and T-Mobile Macedonia donated a sophisticated medical device NEUROWERK EEG 36.The device, which is the fist of its type in Macedonia is a donation for the Neurology Department within the Children's Clinic and it will be used for diagnostics of epileptogenic areas.

**We are improving the future,
We care for our comunity!**

OUR STRATEGY FOR 2015

ALL OUR ACTIVITIES ARE FOCUSED TOWARDS A SUSTAINABLE FUTURE, AT THE SAME TIME USING THE RICH EXPERIENCES!

2015 SHOULD BE A YEAR OF ECONOMIC CHALLENGES, BUT NEW BEGINNING AS WELL

OUR STRATEGY IS IN LINE WITH DT'S "LEADING TELCO" STRATEGY AND IS FOCUSED ON TURNING

TECHNOLOGY LEADERSHIP IN TO BEST CUSTOMER EXPERIENCE

THE BEST CUSTOMER EXPERIENCE MEANS:

- TRUST
- SEAMLESS CONNECTIVITY
- SIMPLE & PERSONALIZED

THE TECHNOLOGY LEADERSHIP MEANS:

- E-TRANSFORMATION and IT/ processes transformation i.e. creating a really
- DIGITAL TELECOM (e-bill, e-sales, e-service) and digitalization and simplifying of the internal processes
- INTEGRATED NETWORK STRATEGY (LTE, optic, hibrid approach)
- PAN-EUROPEAN NETWORK & SERVICE PLATFORM

In order to implement our Strategy in a most successful way, we have set-up local Ambition 2.0 and One DT Europe's strategy implementation programs, proclaming 2015 as a "**YEAR OF SERVICE**" - establishing new standards in "Customer oriented approach".

- Our target: **LEADING POSITION IN ALL SEGMENTS**
- Our strategic focus is **CONVERGENCE** in terms of services, customer experience, as well as corporate culture
- We will continue transforming Telekom into a **FULLY INTEGRATED LEAN TELCO**

STABILIZE REVENUE TRENDS, SET-UP SOLID BASED AMBITION FOR CAPTURING FUTURE GROWTH AND UNLEASH FULL POTENTIAL AS LEADING EUROPIAN TELCO.

MAKEDONSKI TELEKOM AD - SKOPJE
CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED
31 DECEMBER 2014
WITH THE REPORT OF THE AUDITOR THEREON

CONTENTS

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 Revizija DOO

PricewaterhouseCoopers REVIZIJA DOO

Skopje,

02 March 2015

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December

In thousands of denars	Note	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

The accomplanying notes are an integral part of these consolidated financial statements.

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		(9,243,732)	(10,678,997)
Other operating income	20	44,442	121,001
Operating profit		1,927,206	1,985,732
Finance expenses	21	(132,987)	(84,023)
Finance income	22	41,791	88,669
Finance income - net		(91,196)	4,646
Profit before income tax		1,836,010	1,990,378
Income tax expense	23	(955,596)	-
Profit for the year		880,414	1,990,378
Total comprehensive income for the year		880,414	1,990,378
Earnings per share (EPS) information:			
Basic and diluted earnings per share (in denars)		10.21	23.08

The accomplanying notes are an integral part of these consolidated financial statements.

Consolidated statement of cash flows

		Year ended 31 December	
In thousands of denars	Note	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

The accomplanying notes are an integral part of these consolidated financial statements.

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

The accomplanying notes are an integral part of these 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;
- 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:
  - IP network structure and information on the IP IC equipment
  - Number and location of IP PoIs
  - Voice transmission protocols and IP signalization
  - Technical parameters and interface for IP IC
  - Deadline for IP IC testing
  - Continuous update of MATERIO in the prices and cost oriented prices segments
- Other remedies for Market 4 are the same as before (IC and access, access to specific network facilities, CS (carrier selection) and CPS (carrier pre-selection), transparency, non discrimination, accounting separation, price control and cost accounting).

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

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

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

On 30 December 2014 AEC brought a decision for designation of the Company for SMP on market 8 - Access to broadband services based on copper pair and broadband services fully or partly based on optic including the following services:
- Point of access on IP level
- Point of access on Ethernet level, Virtual unbundling local access (VULA)
- Bit-stream access which the Company provides for its own needs based partly or fully on optics.

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

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

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

On 30 December 2014 AEC brought a decision for designation of the Company for SMP on market 1- Access to public telephone networks at a fixed location for residential and business customers including all types of networks technology neutral.
On 5 September 2008 the Agency, ex officio, issued a notification to the subsidiary for those public electronic communication networks and/or services which have been allocated thereto under the Concession Contracts. The license for radiofrequencies used by the subsidiary with a bandwidth of 25 MHz in the GSM 900 band, was also issued in a form regulated in the ECL with a validity period until 5 September 2018, which can be renewed up to an additional 20 years in accordance with the ECL. Due to changes in the bylaws the 900 MHz band was opened for UMTS technology and based on the subsidiary's request the radiofrequency license was changed so that these frequencies are now available for both GSM and UMTS technology.

After the analysis of the wholesale (WS) market "Call termination services in public mobile communication networks" the Agency in 2007 brought a decision by which the subsidiary was designated with SMP status on this market. The subsidiary published a RIO (Referent Interconnection Offer) with regulated termination rate effective from 1 August 2008. The price regulation on this relevant market continues as AEC conducts periodical analysis of the market and updates the price regulation models. The current termination rate is symmetrical for all 3 mobile operators T-Mobile, ONE and VIP Operator.
In 2008 a decision for granting three 3G licenses was published. The validity of the license is 10 years i.e. 17 December 2018, with a possibility for extension for 20 years in accordance with the ECL.
In 2010 the subsidiary was designated with SMP status on the wholesale market "Access and call origination in public mobile communication market". Based upon Agency's decision, in 2010 the subsidiary published a Referent Access Offer consisted of the following regulated services:
- call origination for Mobile Virtual Network Operator (MVNO);
- call origination for national roaming operator;
- SMS origination for MVNO;
- SMS origination for national roaming operator.

There has not been a second round analysis on this market since 2010, and there has not been MVNO or national roaming operator on the subsidiary network. An MVNO, Albafone hosted on ONE network entered the Macedonian market and started commercial operations in November 2013.
In March 2011, the Agency published the final analysis of the wholesale market "SMS termination in public mobile communication networks", and in May 2011 all 3 mobile operators were designated with SMP status on this relevant market. In July 2011 the RIOs were approved by the Agency with the regulated SMS termination price being symmetrical for all 3 operators but remaining the same as before the regulation.

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

An auction procedure concluded in August 2013 awarded the whole 790 – 862 MHz band together with the unassigned spectrum in the 1740–1880 MHz band for LTE technology in a public tender.

Each of the 3 Macedonian mobile operators acquired an LTE radiofrequency license of 2x10 MHz in the 800 MHz band and 2x15 MHz in the 1800 MHz band. Each license was acquired for a one-off fee of EUR 10.3 million. The license is for 20 years, until 1 December 2033, with an extension option for 20 years, in accordance with the ECL.
In 2013 the Agency conducted second analysis on

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

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

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

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

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

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

In October 2014, VIP and ONE announced a merger of their business in Macedonia consisted of mobile, fixed, internet and transmission of audiovisual content services. The Competition Authority has been officially approached by the operators on 30 December 2014 with information of a planned merger between the two. On 8 January 2015 the Competition Authority published the information of the planned merger and thus concentration, and invited all interested parties to submit their comments and opinions. On 23 January 2015, the Company and the subsidiary, 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

TOn 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.

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 IAS28 (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.

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 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.

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.

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	Ownership interest 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.

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

	2014 MKD	2013 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.

(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.

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.

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).

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

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

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

2.9. 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.

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.

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 the local legislation the employer is obliged to provide condition for usage, and the employee to use the annual holiday within one year. This is also exercised as Group policy and according the historical data employees use their annual holiday within the one year legal limit. The Group does not operate any other pension scheme or post retirement benefits plan and consequently, has no obligation in respect of pensions. The Group has 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 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 distribution of dividends, the tax was still payable on the non-deductable expenses incurred in that fiscal year, decreased by the amount of tax credits and other tax reliefs (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-deductable 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-deductable 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-deductable expenses (less tax credits) is now part of the tax base and within the Income tax line in the Profit for the year. The 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.

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 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.
- 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.

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
	2,562,691	1,398,023	444,505	248,432	471,731

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
	1,918,059	812,608	324,114	195,334	586,003

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.

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 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
	1,450,018	1,403,643

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
	1,450,018	1,403,643

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	1,395,258	1,332,230
	1,395,258	1,332,230

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
	40,577	60,002

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	2013	2012
MKD	962,388	664,689
EUR	456,288	900,560
	1,418,676	1,565,249

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	1,418,676	1,565,249
	1,418,676	1,565,249

7. TRADE AND OTHER RECEIVABLES

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

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	1,675,464	1,643,946
	2,103,291	2,030,553

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).

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
	236,337	315,233

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
	3,194,779	2,917,089

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	1,761,439	1,748,145

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
	12,776

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
	104,036	62,124

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
	3,420,937	3,151,591

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
	1,515,736	1,375,069

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
	9,419	39,601

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

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

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

8. TAXES

Commencing from 1 January 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
	11,672	10,640

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
	232,897	141,750

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)
	444,265	412,087

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	24,919	14,204

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.

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	5,437847	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).

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
	(45,296)	(42,255)	29,110	45,413	13,028

12. INTANGIBLE ASSETS

In thousands of denars	Software and software licences	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	4,886,216	1,525,417	-	6,411,633
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	3,593,644	460,441	-	4,054,085
Carrying amount				
At 1 January 2013	1,550,122	519,101	-	2,069,223
At 31 December 2013	1,292,572	1,064,976	-	2,357,548

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.

In thousands of denars	Software and software licences	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	4,918,309	1,525,417	178,544	6,622,270
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	3,653,507	577,635	49,596	4,280,738
Carrying amount				
At 1 January 2014	1,292,572	1,064,976	-	2,357,548
At 31 December 2014	1,264,802	947,782	128,948	2,341,532

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
	(19,992)	(15,087)	17,858	14,251	2,970

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
	4,490,248	4,138,548
Less non-current portion:		
Deferred revenue	(54,332)	(63,993)
Other financial liabilities	(416,435)	(502,874)
Current portion	4,019,481	3,571,681

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
	4,019,481	3,571,681

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	-	201,332	201,332

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	-
	201,332
Deferred income tax liabilities (net)	201,332

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
	-	(201,332)	201,332

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	115,500	59,452	174,952

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	250,361	62,739	313,100

Analysis of total provisions:

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

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.

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
	9,583,888	9,583,888

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

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

As at 31 December 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
	9,583,888	100.00	9,583,888	100.00

16.1. Treasury shares

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

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.

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
	4,930,780	5,303,301
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
	6,195,716	7,240,427
	11,126,496	12,543,728

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)
	1,225,870	1,830,905

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).

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
	4,281,489	4,355,943

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
	44,442	121,001

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 INCOME

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
	132,987	84,023

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).

22. FINANCE INCOME

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

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	754,264
Deferred tax expense	
Origination and reversal of timing differences	201,332
Total income tax in the statement of comprehensive income	955,596

Reconciliation of effective tax rate:

In thousands of denars		2014
Profit before tax		1,836,010
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
	52.05%	955,596

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 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.

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	4,667,519	4,993,698
Depreciation and amortization of the Group	2,740,313	3,007,966
Total operating profit of the Group	1,927,206	1,985,732
Finance (expense)/income – net	(91,196)	4,646
Profit before tax of the Group	1,836,010	1,990,378
Income tax expense	(955,596)	-
Net profit for the year	880,414	1,990,378

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	1,794,990	3,151,892

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
	443,023	458,691

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
	119,657	138,184

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

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	3,194,779	2,494,206

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	2,917,089	1,826,906

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).

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

	2014		2013	
In thousands of denars	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 Dooel	592	564	381	287

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

	2014		2013	
In thousands of denars	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 Dooel	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
	103,228	109,371

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 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.

LIST OF ABBREVIATIONS

AEK	AGENCY FOR ELECTRONIC COMMUNICATION
ADSL	ASYMMETRIC DIGITAL SUBSCRIBER LINE,
ARPU	AVERAGE REVENUE PER UNIT/USER.
BB	BROADBAND
CATV	CABLE TELEVISION
CPI	CONSUMER PRICE INDEX.
CRM	CUSTOMER RELEATIONSHIP MANAGEMENT
DLL	DIGITAL LEASED LINE
DOUBLE PLAY	REFERRERS TO SERVICES PACKAGES COMBINING INTERNET AND VOICE COMMUNICATION
DVBT	DIGITAL VIDEO BROADCAST VIA TERRESTRIAL
LEC	LAW ON ELECTRONIC COMMUNICATION
NG ICCA	NEW GENERATION INTERNATIONAL CUSTOMER CONTACT ANALYSIS
NGN	NEXT GENERATION NETWORK
KPI	KEY PERFORMANCE INDICATORS
NGA	NEXT GENERATION ACCESS
HDTV	HIGH DEFINITION TELEVISION
DSL	DIGITAL SUBSCRIBER LINE
EBITDA	EARNINGS BEFORE INTEREST, TAXATION, DEPRECIATION AND AMORTISATION
F2M	FIXED TO MOBILE
FDI	FOREIGN DIRECT INVESTMENT
FTTB	FIBER TO THE BUSINESS
FTTH	FIBRE-TO-THE-HOME
GAAP	GENERALLY ACCEPTED ACCOUNTING PRINCIPLES
HDTV	HIGH DEFINITION TELEVISION
HSNS	HIGH-SPEED NETWORK SERVICE
ICT	INFORMATION AND COMMUNICATION TECHNOLOGIES
IDC	INTERNATIONAL DATA CORPORATION

IFRS	INTERNATIONAL FINANCIAL REPORTING STANDARDS
IP	INTERNET PROTOCOL
IP-VPN	INTERNET PROTOCOL-VIRTUAL PRIVATE NETWORK
ISDN	INTEGRATED SERVICES DIGITAL NETWORK,.
ISP	INTERNET SERVICE PROVIDER.
IT	INFORMATION TECHNOLOGY
LAN	LOCAL AREA NETWORK
LTE	LONG TERM EVOLUTION, A FOURTH-GENERATION FULLY PACKET BASED MOBILE NETWORK TECHNOLOGY THAT IS CAPABLE OF PROVIDING MORE EFFICIENT AND FASTER DATA TRANSFER THAN 3G.
MKT	MAKEDONSKI TELEKOM AD SKOPJE
T-MOBILE MK	T-MOBILE MAKEDONIJA AD SKOPJE
PSTN	PUBLIC SWITCHED TELEPHONE NETWORK
RIO	REFERENCE INTERCONNECTION OFFER
RUO	REFERENCE UNBUNDLING OFFER
SME	SMALL AND MEDIUM-SIZED ENTERPRISES.
SMS	SHORT MESSAGE SERVICE.
SMP	SIGNIFICANT MARKET POWER
TRIPLE PLAY	SERVICE PACKAGES COMBINING INTERNET, TV AND VOICE COMMUNICATION
UMTS	UNIVERSAL MOBILE TELECOMMUNICATION SYSTEM
ULL	UNBUNDLED LOCAL LOOP
VOD	VIDEO ON DEMAND
VOIP	VOICE OVER INTERNET PROTOCOL, A TERM USED IN IP TELEPHONY FOR MANAGING THE DELIVERY OF VOICE INFORMATION USING THE IP.
VPN	VIRTUAL PRIVATE NETWORK, A CARRIER-PROVIDED SERVICE IN WHICH THE PUBLIC NETWORK PROVIDES THE EQUIVALENT OF A PRIVATELY ESTABLISHED CUSTOMER NETWORK.
3G	THIRD-GENERATION MOBILE NETWORK
WLAN	WIRELESS LOCAL AREA NETWORK
WLR	WHOLESALE LINE RENTAL
WS	WHOLESALE

CONTACTS AND PRODUCTION:

Group Communication Area of
Makedonski Telekom AD – Skopje
and T-Mobile Macedonia AD
e-mail: press@telekom.mk
or tel: + 389 2 3242566 Kej 13 Noemvri, bb, 1000 Skopje

Please refer all the questions related to the financial fiscal year 2014 and the Company shares to: Investor.relations@telekom.mk or tel: + 38923242258

The online version of the 2014 Annual report of the two Companies is available at: www.telekom.mk and www.t-mobile.com.mk

CONCEPT & DESIGN OF THE ANNUAL REPORT 2014:
Karma DS, Studio for graphic design

PHOTOGRAPHS:
Image base of Deutsche Telekom AG and Photographer, Ljupco Smokovski

DISCLAIMER

This Report contains forward-looking statements that reflect the vision, views and plans of Makedonski Telekom AD – Skopje and T-Mobile Macedonia's management with respect to future events. They are generally identified by the words "expect," "believe," "intend," "estimate," "aim," "goal," "plan," "will," or similar expressions and include generally any information that relates to expectations or goals to be achieved in near future.

Such kind of statements are based on our current plans, estimations and projections, taking into consideration the financial conditions, the result of the companies and the Group operation and, therefore, you should not place undue reliance on them.

They speak only as of the date they are made on and we undertake no obligation to update publicly any of them in the light of any new information or future events.
Makedonski Telekom and T-Mobile can offer no assurance on fulfilling its expectations or targets.

These non-GAAP measures should be considered in addition to, but not as a substitute for, the information prepared in accordance with IFRS. Non-GAAP financial performance measures are not subject to IFRS or any other generally accepted accounting principles. Other companies may define these terms in different ways.

For further information relevant to non-GAAP performance measures, please refer to the Investor Relations website at www.telekom.mk/investorrelations.

LIFE IS FOR SHARING.