Makedonski Telekom AD - Skopje

Financial Statements

For the year ended

31 December 2011

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 stand alone financial statements of Makedonski Telekom AD - Skopje, which comprise the statement of financial position as of 31 December 2011 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the stand alone financial statements

Management is responsible for the preparation and fair presentation of these stand alone financial statements in accordance with accounting laws and regulations applicable in the Republic of Macedonia, and for such internal control as management determines is necessary to enable the preparation of stand alone 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 stand alone 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 stand alone financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the stand alone financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the stand alone 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 stand alone 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 stand alone financial statements.

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

PricewaterhouseCoopers Revizija doo, Oktomvriska Revolucija Blvd. bb. Hyperium Business Center, 2nd floor, 1000 Skopje, Republic of Macedonia, VAT No. MK4030008022586, T: +389 (02)31 40 900/901, F:+389 (02) 31 16 525, www.pwc.com/mk

Opinion

In our opinion, the accompanying stand alone financial statements give a true and fair view of the financial position of Makedonski Telekom AD – Skopje as of 31 December 2011, and of its financial performance and its cash flows for the year than ended in accordance with accounting laws and regulations applicable in the Republic of Macedonia.

General manager
Ljube Gjorgjievski

Certified auditor
Ljube Gjorgjievski

PricewaterhouseCoopers REVIZIJA DOO

Skopje,

20 February 2012

Statement of financial position

In thousands of denars	Note	As at 31 December 2011	2010
Assets			
Current assets			
Cash and cash equivalents	5	540,752	1,009,511
Deposits with banks	6	5,706,966	5,777,401
Trade and other receivables	7	1,986,630	1,780,000
Other taxes receivable	8	7,279	57,933
Income tax receivable		22,687	42,411
Inventories	9	168,853	213,662
Assets held for sale	10	558,729	39,179
Total current assets		8,991,896	8,920,097
Non-current assets			
Property, plant and equipment	11	7,310,814	7,794,088
Advances for property, plant and equipment		41,483	39,637
Intangible assets	12	611,434	505,907
Investment in subsidiaries	13	2,797,591	2,797,591
Trade and other receivables	7	311,685	315,279
Financial assets at fair value through profit and loss		54,083	65,125
Total non-current assets		11,127,090	11,517,627
Total assets		20,118,986	20,437,724
Liabilities			
Current liabilities			
Trade and other payables	14	1,988,896	2,370,861
Other taxes payable	8	36,579	11,303
Income tax payable		1,942	3,979
Provision for other liabilities and charges	15	44,317	60,753
Total current liabilities		2,071,734	2,446,896
Non-current liabilities			
Provision for other liabilities and charges	15	360,735	520,389
Total non-current liabilities		360,735	520,389
Total liabilities		2,432,469	2,967,285
Equity			
Share capital		9,583,888	9,583,888
Share premium		540,659	540,659
Treasury shares		(3,738,358)	(3,738,358)
Statutory reserves		1,916,777	1,916,777
Revaluation reserves		2,294,516	2,294,516
Other reserves		22,291	22,291
Retained earnings		7,066,744	6,850,666
Total equity	16	17,686,517	17,470,439
Total equity and liabilities		20,118,986	20,437,724

The financial statements set out on pages 1 to 37 were authorised for issue on 20 February 2012 by the Management of Makedonski Telekom AD - Skopje, and are subject to review and approval by the Board of Directors on 27 February 2012 and by the shareholders on date that will be subsequently agreed.

Daniel Szasz
Chief Executive Officer

Slavko Projkoski
Chief Finance Officer

The notes on pages 5 to 37 are an integral part of these financial statements.

Statement of comprehensive income

In thousands of denars	Note	Year ended 31 December 2011	2010
Revenues	17	8,186,636	8,580,111
Depreciation and amortisation		(1,209,659)	(1,896,952)
Personnel expenses	18	(1,147,006)	(1,235,480)
Payments to other network operators		(1,752,515)	(1,695,435)
Other operating expenses	19	(1,936,593)	(2,104,890)
Operating expenses		(6,045,773)	(6,932,757)
Other operating income	20	163,793	54,140
Operating profit		2,304,656	1,701,494
Finance expenses	21	(62,724)	(68,388)
Finance income	22	3,924,198	4,336,778
Finance income - net		3,861,474	4,268,390
Profit before income tax		6,166,130	5,969,884
Income tax expense	23	(2,573)	(22,405)
Profit for the year		6,163,557	5,947,479
Total comprehensive income for the year		6,163,557	5,947,479
Earnings per share (EPS) information:			
Basic and diluted earnings per share (in denars)		71.46	68.95

The notes on pages 5 to 37 are an integral part of these financial statements.

Statement of cash flows

In thousands of denars	Note	Year ended 31 December 2011	2010
Operating activities			
Profit before tax		6,166,130	5,969,884
Adjustments for:			
Depreciation and amortisation		1,209,659	1,896,952
Write down of inventories to net realisable value	19	5,927	4,872
Fair value losses /(gains) on financial assets	21/22	11,425	(3,158)
(Reversal)/Impairment on trade and other receivables	19/20	(56,744)	18,845
Net release of provisions	15	(57,265)	(44,742)
Net gain on disposal of equipment	20	(25,037)	(25,407)
Dividend income	22	(3,746,236)	(4,021,920)
Interest income	22	(177,962)	(270,891)
Effect of foreign exchange rate changes on cash and cash equivalents		799	2,859
Cash generated from operations before changes in working capital		3,330,696	3,527,294
Decrease/ (Increase) in inventories		38,882	(83,619)
Increase in receivables		(103,370)	(207,079)
Decrease in payables		(272,888)	(190,525)
Cash generated from operations		2,993,320	3,046,071
Income taxes received		15,114	60,916
Cash flows generated from operating activities		3,008,434	3,106,987
Investing activities			
Acquisition of property, plant and equipment		(1,419,205)	(1,800,986)
Acquisition of intangible assets		(170,804)	(94,214)
Loans collected		791	1,713
Deposits with banks		74,102	1,264,418
Dividends received		3,746,236	4,021,920
Proceeds from sale of equipment		59,112	28,542
Interest received		180,853	353,200
Cash flows generated from investing activities		2,471,085	3,774,593
Financing activities			
Dividends paid		(5,947,479)	(6,470,029)
Cash flows used in financing activities		(5,947,479)	(6,470,029)
Net (decrease)/increase in cash and cash equivalents		(467,960)	411,551
Cash and cash equivalents at 1 January		1,009,511	600,819
Effect of foreign exchange rate changes on cash and cash equivalents		(799)	(2,859)
Cash and cash equivalents at 31 December	5	540,752	1,009,511

The notes on pages 5 to 37 are an integral part of these financial statements.

Statement of changes in equity

In thousands of denars	Note	Share capital	Share premium	Treasury shares	Statutory reserve	Revaluation reserves	Other reserves	Retained earnings	Total
Balance at 1 January 2010		9,583,888	540,659	(3,738,358)	1,916,777	2,294,516	-	7,373,216	17,970,698
Total comprehensive income for the year		-	-	-	-	-	-	5,947,479	5,947,479
Dividend payment		-	-	-	-	-	-	(6,470,029)	(6,470,029)
Transfer		-	-	-	-	-	22,291	-	22,291
Balance at 31 December 2010	16	9,583,888	540,659	(3,738,358)	1,916,777	2,294,516	22,291	6,850,666	17,470,439
Balance at 1 January 2011		9,583,888	540,659	(3,738,358)	1,916,777	2,294,516	22,291	6,850,666	17,470,439
Total comprehensive income for the year		-	-	-	-	-	-	6,163,557	6,163,557
Dividend payment		-	-	-	-	-	-	(5,947,479)	(5,947,479)
Balance at 31 December 2011	16	9,583,888	540,659	(3,738,358)	1,916,777	2,294,516	22,291	7,066,744	17,686,517

The notes on pages 5 to 37 are an integral part of these financial statements.

Notes to the financial statements

1. GENERAL INFORMATION

1.1. About the Company

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

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

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

The Macedonian telecommunications sector is regulated by the Electronic Communications Law ("ECL") enacted in March 2005. Under the ECL, the Company has been designated as a Significant Market Power operator ("SMP") in the market for fixed line voice telephone networks and services, including the market for access to the networks for data transmission and leased lines.

In January 2012 changes of ECL were published, with main focus on presentation ("CLIP") and location for emergency call, annual fees for the Agency for Electronic Communications ("the Agency"), measurement of quality parameters, free SMS's for national and culture heritage from all operators and IP exchange development. The Company and other operators and service providers are paying an annual fee in amount of 0.5% from the annual revenue of the operator or service provider realised with the use of public communication network and provision of public communication services during previous year (or the part of the year when the operator or service provider started with its commercial services), but not more than 250,000 EUR. The Agency is developing general strategy for the period of next 5 years (2012-2017). Publishing of the official document for the Agency strategy is expected by the end of the first quarter in 2012.

On 29 June 2011 the Company was designated as Universal Services ("US") provider for fixed telephone services, public payphones and equivalent access for disabled end users. The Company started providing the services as of 1 January 2012 and is obliged to do so for the following 5 years.

The Company has a cost based price obligation for the Regulated wholesale services, using Long Run Incremental Costs methodology ("LRIC"). During December 2010, the Agency published results from its own developed LRIC Bottom - up costing model. The results from the costing model are implemented as of 1 April 2011 which implies with reduction of the monthly fee for Unbundled Local Loop ("ULL") and interconnection rates (for origination, termination and transit), as well the monthly fees for interconnection links and collocation.

Based on the Agency analysis for the relevant markets 1-6 related to fixed voice retail services and the program of the Agency for 2011, the Agency with engaged consultants started the process for development and implementation of the methodology for retail price regulation in October 2011. These activities will result in more intensive regulation on the Company retail fees.

On 14 October 2011 the Agency presented detailed plan for Bottom - up LRIC model developed by consultants which is expected to result in changes of Bit Stream Access ("BSA") pricing models and will modify service description.

In line with the PSTN migration of the Company's network, the Agency approved proposed modifications of the Company's Wholesale Offers (processes, technical conditions and prices) applicable as of 1 January 2012. As of November 2011 the Company introduced its retail ADSL service on standalone basis (so called Naked DSL). Customers are not obliged to have PSTN subscription anymore. The same service will be offered on the wholesale level as well.

Initial light FTTx regulation was introduced in the second quarter in 2011 with the imposed obligation for Referent Access Offer for ducts and dark fibre imposed on the Company by the Agency. New reference offer for access to the Company network (for ducts and dark fibre) was introduced in December 2011. Agency announced development of Bottom -up LRIC model by consultants for ducts, dark fibre and leased lines also.

As of September 2011 new number portability procedures are applied for all operators in Macedonia. The entire exchange of the data on number portability between the operators is implemented through the central database ("CDB") and shorter deadlines are implemented in fixed network (2 days for porting) and mobile network (1 days for porting) accordingly. The Company introduced beep signal informing its customers their call is towards ported number as of 1 September 2011. The signal is unified for all operators.

Starting with August 2006, the Company has more than 100 shareholders, as a result of the sale of Governmental shares through auction organized by the Government during June 2006. According to the Law on securities it qualifies as company

Notes to the financial statements

with special reporting obligations, which mainly, encompasses provision of quarterly, semi-annual and annual financial information to the Securities Exchange Commission of the Republic of Macedonia.

The Company's registered address is "Orce Nikolov" Street bb, 1000, Skopje, Republic of Macedonia. The average number of employees during 2011 was 1,250 (2010: 1,265).

1.2. Investigation into certain consultancy contracts

On 13 February 2006, Magyar Telekom Plc., the controlling owner of the Company, (via Stonebridge Communications AD - Skopje (under liquidation), majority shareholder of the Company), announced that it was investigating certain contracts entered into by another subsidiary of Magyar Telekom Plc. to determine whether the contracts were entered into in violation of 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 totalled 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. For further information about the internal investigation, please refer to the financial statements of the Company for the year ended 31 December 2010.

In 2011, Magyar Telekom 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 has entered into a two-year deferred prosecution agreement (the "DPA") with the DOJ, under which Magyar Telekom was charged with a violation of the anti-bribery provisions of the FCPA and two violations of the books and records provisions of the FCPA. In accordance with the DPA, on 29 December 2011, the DOJ filed a criminal information (the "Information") setting out these charges in the U.S. District Court for the Eastern District of Virginia. Magyar Telekom has agreed to admit to the DOJ's allegations and to acknowledge responsibility for the acts as charged in the Information. Magyar Telekom has agreed to pay a criminal penalty of USD 59.6 million to cooperate with the DOJ in future investigations, to refrain from any violations of U.S. federal criminal law, to continue to operate a compliance program and to report to the DOJ annually regarding the compliance program during the term of the DPA. The DOJ will seek to dismiss the charges upon conclusion of the two-year term, unless Magyar Telekom violates the terms of the DPA.

On 29 December 2011, the SEC filed in the U.S. District Court for the Southern District of New York a Complaint (the "Complaint") and a proposed Final Judgment against Magyar Telekom (the "Final Judgment"). Without admitting or denying the allegations in the Complaint, Magyar Telekom consented to the filing of the Complaint and entry of the Final Judgment to resolve the SEC's investigation. The Complaint alleged civil violations of the FCPA's anti-bribery, books and records and internal control provisions. The Final Judgment, which was approved by the U.S. District Court for the Southern District of New York on 3 January 2012, permanently enjoined Magyar Telekom from violating these provisions and required Magyar Telekom to pay USD 25.2 million for disgorgement of profits and USD 6.0 million of prejudgment interest thereon.

The final settlements recognize the DOJ's and the SEC's consideration of Magyar Telekom's self-reporting, thorough internal investigation, remediation and cooperation with the DOJ's and the SEC's investigations. Magyar Telekom has undertaken several remedial measures to address the issues identified during the course of these investigations. These measures include steps designed to revise and enhance Magyar Telekom's internal controls, as well as the establishment of the Corporate Compliance Program. The Corporate Compliance Program promotes awareness of Magyar Telekom's compliance policies and procedures through training, the operation of a whistleblower hotline, and monitoring of, and communications with, employees and subsidiaries of Magyar Telekom. Magyar Telekom remains fully committed to responsible corporate behaviour.

Notes to the financial statements

On 6 January 2012 Magyar Telekom paid a criminal penalty of USD 59.6 million pursuant to the settlement with the DOJ and on 23 January 2012 Magyar Telekom paid USD 25.2 million for disgorgement of profits and USD 6.0 million of prejudgment interest pursuant to the settlement with the SEC, totalling USD 90.8 million paid with respect to the settlements with the DOJ and the SEC.

The above-referenced settlement by Magyar Telekom and associated liability was not recorded in the financial statements of the Company. These amounts were reflected in the consolidated financial statements of Magyar Telekom and are not reflected in the financial statements of the Company.

According the information provided to the Company by Magyar Telekom Plc., on 2 December 2009, the Audit Committee of Magyar Telekom Plc., provided the Magyar Telekom's Board of Directors with a "Report of Investigation to the Audit Committee of Magyar Telekom Plc." dated 30 November 2009 (the "Final Report").

In relation to the issuance of the Final Report and the information provided to the Company by Magyar Telekom, in January 2010 the Chairman of the Company's Board of Directors requested third party legal and tax expertise for assessment of the potential accounting and tax implications arising from the transactions conducted by the Company and its subsidiary subject to the Final Report.

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

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

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

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

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

After several postponements of the court hearing related to the investigation procedure handled in the Primary Court Skopje 1 Skopje, on the hearing held on 13 April 2009, the representatives of Makedonski Telekom AD Skopje declared the position of the Company that taking into consideration the ongoing independent internal investigation conducted by White & Case, approved by the Company's BoD, it was premature to preannounce any damage which may be caused by means of the implementation of the mentioned contracts or with reference to them. An expertise was performed on 11 May 2010 and the experts from Ministry of Justice of the Republic of Macedonia - Court Expertise Office - Skopje, asked for some additional documents from Company's side in order to prepare the expertise. The experts asked additional information related to certain agreements concluded in 2005 and 2006, and related invoices. The Company has collected and submitted requested information/documentation to the Court Expertise Office on 1 November 2010.

On 14 March 2011, the Company received from the Primary Court Skopje 1 a copy of the "Finding and Opinion", dated November 2010, issued by the Bureau of Judicial Expertise to the Primary Court Skopje 1 as a result of the expertise procedure. The "Finding and Opinion" addresses and contains conclusions regarding five contracts entered into with Chaptex and Cosmotelco in 2005 and 2006 and formerly reviewed by the Audit Committee of Magyar Telekom. The "Finding and Opinion" concludes that, based on these contracts, expenditures in the amount of EUR 3.975 million were made by the Company and Stonebridge to Chaptex "without evidence for performed services"; accordingly, shareholders of the Company and Stonebridge in the proportion of their shareholding, suffered damages in the aforementioned aggregate amount as result of decreased proceeds for payment of dividend in 2005 and 2006.

Based on publically available information, we understand that the Public Prosecutor has filed an indictment in 2011 against Mr. Szendrei, Mr. Kisjuhász and Mr. Plath, but not against Mr. Kefaloyannis. The court hearing has taken place at the end of 2011, but it was postponed since the court could not provide presence of any of the defendants. The Company, as damaged party in this case, has not received official court invitation for the hearing.

Pursuant to the questions posed by the investigative judge, it could be concluded that the public prosecutor has addressed the Company as party damaged by the actions of the defendants. However, based on the content of the order for expertise issued by the investigative judge, and on the basis of the expert opinion, it can be concluded that now damaged parties are shareholders of the Company (Stonebridge AD Skopje, Republic of Macedonia and minority shareholders) and therefore the state budget, as the Republic of Macedonia is a shareholder in the Company. Therefore, the public prosecutor should clear out who is considered as damage party in this particular case, which is of significant importance for the position of the Company in this proceeding and its further actions. At the moment there aren't any indications that the Company could be found liable and made to pay any penalties or fines for the criminal procedure which is initiated against the individuals.

We have not become aware of any information as a result of a request from any regulators or other external parties, other than as described above, from which we have concluded that the financial statements may be misstated, including from the effects of a possible illegal act.

Notes to the financial statements

2. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these 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

These financial statements are prepared, in all material respects, in accordance with the Company Law (published in Official Gazette No. 28/04, 84/05, 25/07, 87/08, 42/10, 48/10 and 24/11) and Rule Book for Accounting (Official Gazette No.159/2009 and No.164/2010), whereby the International Financial Reporting Standards (IFRS) comprising IFRS 1 to IFRS 8, International Accounting Standards (IAS) comprising IAS 1 to IAS 41, International Financial Reporting Interpretations Committee (IFRIC) comprising IFRIC 1 to IFRIC 17 and Standing Interpretations Committee (SIC) Interpretations comprising SIC 1 to SIC 32, were published. IFRS (including IFRS 1), previously known as IAS (International Accounting Standards), were initially published in the Official Gazette in 1997, and since then several updates have followed. The last update was in August 2010, being effective from 1 January 2011.

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

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

2.2. Foreign currency translation

2.2.1. Functional and presentation currency

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

2.2.2. 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 Company are predominantly EURO (EUR) and United States Dollars (USD), based.

The exchange rates used for translation at 31 December 2011 and 31 December 2010 were as follows:

	2011 MKD	2010 MKD
1 USD	47.53	46.31
1 EUR	61.51	61.51

2.3. Financial instruments

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

Financial assets of the Company include, cash and cash equivalents, deposits with banks, equity instruments of another entity (available-for-sale and at fair value through profit or loss) and contractual rights to receive cash (trade and other receivables) or another financial asset from another entity.

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

Notes to the financial statements

2.3.1. Financial assets

The Company classifies its financial assets in the following categories:

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

(b) loans and receivables

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

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

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

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

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

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

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

This category comprises those financial assets designated at fair value through profit or loss at inception. A financial asset is classified in this category if the Company manages such asset and makes purchase and sale decisions based on its fair value in accordance with the Company investment strategy for keeping investments within portfolio until there are favourable market conditions for their sale.

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

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

(b) Loans and receivables

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

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

- cash and cash equivalents
- deposits with bank
- trade receivables
- other receivables
- employee loans
- receivables and loans to third parties

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

Notes to the financial statements

Cash and cash equivalents

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

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

Trade and other receivables

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

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

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

Individual valuation is carried out for the largest customers and international customers and also for customers under litigation and bankruptcy proceedings. In 2011 the Company performed detailed analysis of the customers' portfolios and included in the individual valuation also the customers of interconnection services. Itemized valuation is also performed in special circumstances.

When a trade receivable is established to be uncollectible, it is written off against the 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. 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 Company commits to purchase or sell the asset.

Subsequent to initial recognition all available-for-sale financial assets are measured at fair value, except that any instrument that does not have a quoted market price in an active market and whose fair value cannot be reliably measured is stated at cost, including transaction costs, less impairment losses. The intention of the Company is to dispose these assets when there are favourable market conditions for their sale. Changes in the fair value of financial assets classified as available for sale are recognized in equity. 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 Company assesses at each financial statement date whether there is objective evidence that a financial asset is impaired. There is objective evidence of impairment if as a result of loss events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

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

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

2.3.2. 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.

2.4. Inventories

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

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

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

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

2.5. Non-current assets held for sale

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

2.6. Property, plant and equipment (PPE)

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see note 2.8).

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

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

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

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

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

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

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

The estimated useful lives are as follows:

	2011	2010
	Years	Years
Buildings	20-40	10-40
Aerial and cable lines	20-25	10
Telephone exchanges	10	4
Computers	4	4
Furniture and fittings	4-10	5
Vehicles	4-10	4
Other	2-15	4-10

2.7. Intangible assets

Intangible assets that are acquired by the Company are stated at cost less accumulated amortisation and impairment losses (see note 2.8).

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

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

The estimated useful lives are as follows:

	2011	2010
	Years	Years
Software and software licences	2-5	5

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

Notes to the financial statements

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.

2.8. Impairment of PPE and intangible assets

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

Assets that are subject to amortisation 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 amortisation). Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.9. Provisions and contingent liabilities

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

Provisions are measured and recorded as the best estimate of the expenditure 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.

2.10. Share capital

Ordinary shares are classified as equity.

2.11. Treasury shares

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

2.12. Statutory reserves

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

2.13. Revaluation reserves

The revaluation reserve relates to property, plant and equipment, and intangible assets and comprises the cumulative increased carrying value using official revaluation coefficients based on the general manufactured goods price increase index producers price index on the date of revaluation. The last revaluation of property, plant and equipment and intangible assets was made in year 2000.

Notes to the financial statements

2.14. Revenues

Revenues for all services and equipment sales (see note 17) are shown net of VAT and discounts. Revenue is recognized when the amount of the revenue can be reliably measured, and when it is probable that future economic benefits will flow to the Company and specific criteria of IAS18 on the sale of goods and rendering of services are met for the provision of each of the Company's services and sale of goods.

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

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

2.14.1. Fixed line telecommunications revenues

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

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

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

Revenue and expenses associated with the sale of telecommunications equipment and accessories are recognized when the products are delivered, provided there are no unfulfilled company obligations that affect the customer's final acceptance of the arrangement. Revenues from premium rate services (voice and non-voice) are recognized on a gross basis when the delivery of the service over the network is the responsibility of the Company, the Company establishes the prices of these services and bears substantial risks of these services, otherwise presented on a net basis.

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

2.14.2. System integration and IT revenues

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

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

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

Notes to the financial statements

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

2.15. Employee benefits

2.15.1. Short term employee benefits and pensions

The Company, in the normal course of business, makes payments on behalf of its employees for pensions, health care, employment and personnel tax which are calculated according to the statutory rates in force during the year, based on gross salaries and wages. Holiday allowances are also calculated according to the local legislation. The Company makes these contributions to the Governmental and private funds. The cost of these payments is charged to the Profit for the year in the same period as the related salary cost. No provision is created for holiday allowances for non-used holidays as according the local legislation the employer is obliged to provide condition for usage, and the employee to use the annual holiday within one year. This is also exercised as Company policy and according the historical data employees use their annual holiday within the one year legal limit. The Company does not operate any other pension scheme or post retirement benefits plan and consequently, has no obligation in respect of pensions. The Company has legal obligation to pay to employees two average monthly salaries in Republic of Macedonia at their retirement date, for which appropriate liability is recognized in the financial statements measured at the present value of two average monthly salaries together with adjustments incorporated in the actuarial calculation. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high quality bonds that are denominated in the currency in which the benefits will be paid. In addition, the Company is not obligated to provide further benefits to current and former employees.

2.15.2. Bonus plans

The Company recognizes a liability and an expense for bonuses taking into consideration the financial and operational results. The Company 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 Company recognizes termination benefits when it is demonstrably committed to either terminate the employment of current employees according to a detailed formal plan without the possibility of withdrawal or to provide termination benefits as a result of an offer made to encourage voluntary redundancy.

2.16. Marketing expenses

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

2.17. Income tax

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

Notes to the financial statements

2.18. Leases

2.18.1. Operating lease -Company as lessor

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

2.18.2. Operating lease -Company as lessee

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

2.19. 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 Company's financial statements in the period in which they are approved by the Company's shareholders.

2.21. 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 Company does not apply hedge accounting for its financial instruments, all gains and losses are recognized in the Profit for the year except financial assets classified as available for sale that are recognized in Other comprehensive income. The Company is exposed in particular to credit risks related to its financial assets and risks from movements in exchange rates, interest rates, and market prices that affect its assets and liabilities. Financial risk management aims to limit these market risks through ongoing operational and finance activities.

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

3.1.1. Market risk

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

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

For the presentation of market risks, IFRS 7 requires sensitivity analyses that show the effects of hypothetical changes of relevant risk variables on profit or loss and shareholders' equity. The periodic effects are determined by relating the 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 is the Macedonian denar.

Notes to the financial statements

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

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

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

The Company accumulated more cash in EUR and USD than its trade payables in EUR and USD. At 31 December 2011, if MKD would have been 1% (2010: 1%) weaker or stronger against EUR, profit would have been MKD 41,244 thousand (2010: 41,647 MKD thousand) in net balance higher or lower, respectively. At 31 December 2011, if MKD would have been 1% (2010: 1%) weaker or stronger against USD, profit would have been MKD 872 thousand (2010: MKD 1,015 thousand) in net balance higher or lower, respectively.

b) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Change in the interest rates and interest margins may influence financing costs and returns on financial investments.

The interest rate risk and return on investment is of secondary importance compared to the safety and liquidity objectives described above. The Company is minimizing interest rate risk through defining of fixed interest rates in the period of the validity of certain financial investments. 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 favourable for the Company 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 Company has no interest bearing liabilities, while it incurs interest rate risk on cash deposits with banks and loans to employees. No policy to hedge the interest rate risk is in place. Changes in market interest rates affect the interest income on deposits with banks.

The Company had MKD 6,247,685 thousand deposits (including call deposits) as of 31 December 2011, 1% rise in market interest rate would have caused (ceteris paribus) the interest received to increase with approx. MKD 62,477 thousand annually, while similar decrease would have caused the same decrease in interest received. Amount of deposit is MKD 6,786,872 thousand (including call deposits) as of 31 December 2010, therefore 1% rise in market interest rate would have caused (ceteris paribus) the interest received to increase with approx. MKD 67,869 thousand annually, while similar decrease would have caused the same decrease in interest received.

c) Other price risk

The Company's investments are in equity of other entities that are publically traded on the Macedonian Stock Exchange, both on its Official and Regular market. The management continuously monitors the portfolio equity investments based on fundamental and technical analysis of the shares. All buy and sell decisions are subject to approval by the relevant Company's bodies. In line with the Company strategy, the investments within portfolio are kept until there are favourable market conditions for their sale.

As part of the presentation of market risks, IFRS 7 also requires disclosures on how hypothetical changes in risk variables affect the price of financial instruments. As of 31 December 2011 and 31 December 2010, the Company holds investments, which could be affected by risk variables such as stock exchange prices.

The Company had MKD 54,083 thousand investments in equity of other entities that are publically traded on the Macedonian Stock Exchange as of 31 December 2011, 20% rise in market price would have caused (ceteris paribus) MKD 10,817 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 65,125 thousand as of 31 December 2010, therefore 20% rise in market price would have caused (ceteris paribus) MKD 13,025 thousand gain, while similar decrease would have caused the same loss in the Profit for the year.

3.1.2. Credit risk

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

The Company is exposed to credit risk from its operating activities and certain financing activities.

Counterparty limits are determined based on the provided Letter of guarantees in accordance with the market conditions of those banks willing to issue a bank guarantee. The total amount of bank guarantees that will be provided should cover the amount of the projected free cash of the Company.

With regard to financing activities, transactions are primarily to be concluded with counterparties (banks) that have at least a credit rating of BBB+ (or equivalent) or where the counterparty has provided a guarantee where the guarantor has to be at least BBB+ (or equivalent).

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

The depositing decisions are made based on the following priorities:

- To deposit in banks (Deutsche Telekom core banks, if possible) with provided bank guarantee from the banks with the best rating and the best quality wording of the bank guarantee.
- To deposit in banks with provided bank guarantee from the banks with lower rating and poorer quality wording of the bank guarantee.
- If the total amount of deposits 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. In this case, the determination of counterparty limits per banks shall be performed in accordance with CAEL methodology (evaluation of bank risk components - capital, assets, earning and liquidity).

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

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

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

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

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

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

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

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

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

Notes to the financial statements

The following table represents Company exposure to credit risk in 2011 and 2010:

In thousands of denars	2011	2010
Deposits with banks	5,706,966	5,777,401
Cash and cash equivalents	540,719	1,009,471
Trade debtors - domestic	1,457,823	1,556,647
Trade debtors - foreign	39,203	39,057
Loans to employees	120,119	123,035
Receivables from related parties	567,137	252,175
Other receivables	3,612	10,923
	8,435,579	8,768,709

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

Largest amount of one deposit in 2011 is MKD 1,383,862 thousand, denominated in EUR 22,500 thousand, (2010: MKD 1,383,862 thousand). In addition, the Company has deposits with 4 domestic banks (2010: 5 domestic banks).

3.1.3. Liquidity risk

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

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

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

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

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

3.2. Capital risk management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The total amount of equity managed by the Company, as at 31 December 2011, is MKD 17,686,517 thousand, as per local GAAP (2010: MKD 17,470,439 thousand). Out of this amount MKD 9,583,888 thousand (2010: MKD 9,583,888 thousand) represent share capital and MKD 1,916,777 thousand (2010: MKD 1,916,777 thousand) represent statutory reserves, which are not distributable (see note 2.12). The Company has also acquired treasury shares (see notes 2.11 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 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.

Notes to the financial statements

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

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The Company makes estimates and assumptions concerning the future. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The most critical estimates and assumptions are outlined below.

4.1. Useful lives of assets

The determination of the useful lives of assets is based on historical experience with similar assets as well as any anticipated technological development and changes in broad economic or industry factors. The appropriateness of the estimated useful lives is reviewed annually, or whenever there is an indication of significant changes in the underlying assumptions. We believe that the accounting estimate related to the determination of the useful lives of assets is a critical accounting estimate since it involves assumptions about technological development in an innovative industry and heavily dependent on the investment plans of the Company. Further, due to the significant weight of depreciable assets in our total assets, the impact of any changes in these assumptions could be material to our financial position, and results of operations. As an example, if the Company was to shorten the average useful life of its assets by 10%, this would result in additional annual depreciation and amortisation expense of approximately MKD 133,582 thousand (2010: MKD 207,017 thousand). See note 11 and 12 for the changes made to useful lives in the reported years.

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

4.2. Estimated impairment of property, plant and equipment, and intangibles

We assess the impairment of identifiable property, plant, equipment and intangibles whenever there is a reason to believe that the carrying value may materially exceed the recoverable amount and where impairment of value is anticipated. The calculations of recoverable amounts are primarily determined by value in use calculations, which use a broad range of estimates and factors affecting those. Among others, we typically consider future revenues and expenses, technological obsolescence, discontinuance of services and other changes in circumstances that may indicate impairment. If impairment is identified using the value in use calculations, we also determine the fair value less cost to sell (if determinable), to calculate the exact amount of impairment to be charged. As this exercise is highly judgmental, the amount of a potential impairment may be significantly different from that of the result of these calculations. Management has performed an impairment test based on a 10 years cash flow projection and used a perpetual growth rate of 2% (2010: 2%) to determine the terminal value after 10 years. The Company uses fair values less cost to sell calculation. The discount rate used was 9.39% (2010: 9.38%). The impairment test did not result in impairment.

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 litigation 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 ageing of our account receivables balance and our historical write-off experience, customer credit-worthiness and recent changes in our customer payment terms (see note 2.3.1 (b)). These factors are reviewed periodically, and changes are made to the calculations when necessary. In 2011 the Company performed detailed analysis of the customers' portfolios and included in the individual valuation also the customers of interconnection services. In addition, the Company analysed the nature of the business (residential, business, fixed line etc.) as well as the collection efficiency, which resulted in changes in the calculations and lower impairment of trade and other receivables in 2011. 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).

Notes to the financial statements

4.4. Provisions

Provisions in general are highly judgmental, especially in case of legal disputes. The Company assesses the probability of an adverse event as a result of a past event and if the probability of an outflow of economic benefits is evaluated to be more than 50%, the Company fully provides for the total amount of the estimated liability (see note 2.9). 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 Company 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. The Company's agents also spend a portion of their agent fees for marketing the Company's products, while a certain part of the Company's marketing costs could also be considered as part of the subscriber acquisition costs. The up-front fees collected from customers for activation or connection are marginal compared to the acquisition costs. These revenues and costs are recognized when the customer is connected to the Company's fixed network. No such costs or revenues are capitalized or deferred. These acquisition costs (losses) are recognized immediately as they are not accurately separable from other marketing costs. The total amount of agent fees in 2011 is MKD 10,556 thousand (2010: MKD 7,778 thousand).

5. CASH AND CASH EQUIVALENTS

In thousands of denars	2011	2010
Call deposits	540,719	1,009,471
Cash on hand	33	40
	540,752	1,009,511

The interest rate on call deposits is in range from 0.30% p.a. to 2.25% p.a. (2010: from 0.50% p.a. to 2.00% 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	2011	2010
MKD	160,346	993,990
EUR	380,387	15,404
USD	5	113
Other	14	4
	540,752	1,009,511

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

In thousands of denars	2011	2010
Credit rating of the Guarantor : A+	9,668	816,177
Credit rating of the Guarantor : A	267,510	142,576
Credit rating of the Guarantor : A-	-	44,965
Credit rating of the Guarantor : BBB	251,472	-
Credit rating of the Guarantor : BB+	-	5,753
Credit rating of the Guarantor : B-	12,069	-
	540,719	1,009,471

6. DEPOSITS WITH BANKS

Deposits with banks represent cash deposits in reputable domestic banks, with interest rates in range from 1.30% p.a. to 4.35% p.a. (2010: from 1.00% p.a. to 4.35% 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	2011	2010
MKD	1,840,692	1,317,224
EUR	3,866,274	4,460,177
	5,706,966	5,777,401

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	2011	2010
Credit rating of the Guarantor : A+	4,061,623	1,634,103
Credit rating of the Guarantor : A	1,254,062	1,238,307
Credit rating of the Guarantor : A-	-	2,904,952
Credit rating of the Guarantor : BBB	391,263	-
Credit rating of the Guarantor : BB+	-	39
Credit rating of the Guarantor : B-	18	-
	5,706,966	5,777,401

7. TRADE AND OTHER RECEIVABLES

In thousands of denars	2011	2010
Trade debtors-domestic	2,445,563	2,690,137
Less: allowance for impairment	(987,740)	(1,133,490)
Trade debtors-domestic-net	1,457,823	1,556,647
Trade debtors -foreign	39,203	39,057
Receivables from related parties	567,137	252,175
Loans given to companies	9,000	9,000
Less: allowance for impairment	(9,000)	(9,000)
Loans given to companies - net	-	-
Loans to third parties	3,470	3,088
Less: allowance for impairment	(3,470)	(3,088)
Loans to third parties- net	-	-
Loans to employees	120,119	123,035
Other receivables	4,817	12,128
Less: allowance for impairment	(1,205)	(1,205)
Other receivables - net	3,612	10,923
Financial assets	2,187,894	1,981,837
Advances given to suppliers	122,489	132,872
Less: allowance for impairment	(74,050)	(74,050)
Advances given to suppliers - net	48,439	58,822
Prepayments and accrued income	61,982	54,620
	2,298,315	2,095,279
Less non-current portion: Other receivables	(1,774)	(8,714)
Less non-current portion: Loans to employees	(98,572)	(99,363)
Less non-current portion: Trade debtors - domestic	(211,339)	(207,202)
Current portion	1,986,630	1,780,000

Receivables from related parties represent receivables from T-Mobile Macedonia AD Skopje, Magyar Telekom Group and Deutsche Telekom Group (see note 28).

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

Loans to third parties represent loan with reference interest rate of 6 months EURIBOR with margin of 0.3%. Loans granted to employees carry effective interest rates of 6.25% p.a. and 9.45% p.a. (2010: 6.25% p.a., 7% p.a. and 9.45% p.a.).

Notes to the financial statements

Other receivables contain restricted cash in amount of MKD 1,987 thousand (2010: MKD 9,570 thousand) representing performance guaranties issued for sales projects.

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

As of 31 December 2011, domestic trade debtors of MKD 1,326,979 thousand (2010: MKD 1,503,455 thousand) are impaired. The ageing of these receivables is as follows:

In thousands of denars	2011	2010
Less than 30 days	165,974	172,964
Between 31 and 180 days	154,991	226,489
Between 181 and 360 days	55,931	55,956
More than 360 days	950,083	1,048,046
	1,326,979	1,503,455

As of 31 December 2011, domestic trade receivables in amount of MKD 34,756 thousand were past due but not impaired. These are mainly related to customers for interconnection services assessed on individual basis in accordance with past Company experience and current expectations (see note 2.3.1). The analysis of these past due domestic trade receivables is as follows:

In thousands of denars	2011
Less than 30 days	154
Between 31 and 60 days	12,230
Between 61 and 90 days	5,379
Between 91 and 180 days	16,083
Between 181 and 360 days	901
More than 360 days	9
	34,756

The total amount of the provision for domestic trade debtors is MKD 987,740 thousand (2010: MKD 1,133,490 thousand). Out of this amount MKD 910,661 thousand (2010: MKD 1,125,017 thousand) relate to provision made according the ageing structure of the above receivables, while, the amount of MKD 3,573 thousand (2010: MKD 1,007 thousand) is from customers under liquidation and bankruptcy which are fully impaired. In addition, the Company has a specific provision calculated in respect of a certain group of customers in amounting to MKD 73,506 thousand (2010: MKD 7,466 thousand).

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 880,443 thousand (2010 MKD 923,264 thousand). These receivables are mainly from two way disconnected customers, dismantled customers, litigated customers and customers that are no longer using the Company services.

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

In thousands of denars	2011	2010
Trade debtors-domestic	1,457,823	1,556,647
Trade debtors -foreign	39,203	39,057
Receivables from related parties	567,137	252,175
Loans to employees	120,119	123,035
Other receivables	3,612	10,923
	2,187,894	1,981,837

Movement in allowance for impairment of domestic trade debtors:

In thousands of denars	2011	2010
Impairment losses at 1 January	1,133,490	1,425,985
(Reversal)/ charge for the year	(56,744)	18,845
Write off	(89,006)	(311,340)
Impairment losses at 31 December	987,740	1,133,490

Notes to the financial statements

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

As of 31 December 2011, foreign trade receivables in amount of MKD 34,276 thousand (2010: MKD 27,009 thousand) were past due but not impaired. These relate to a number of international customers assessed on individual basis in accordance with past Company experience and current expectations. The analysis of these past due foreign trade receivables is as follows:

In thousands of denars	2011	2010
Less than 30 days	3,544	3,299
Between 31 and 60 days	2,615	624
Between 61 and 90 days	2,354	426
Between 91 and 180 days	3,032	7,565
Between 181 and 360 days	438	7,448
More than 360 days	22,293	7,647
	34,276	27,009

The Company has renegotiated domestic trade receivables in carrying amount of MKD 29,020 thousand (2010: MKD 33,437 thousand). The carrying amount of loans and receivables, which would otherwise be past due, whose terms have been renegotiated is not impaired if the collectability of the renegotiated cash flows are considered ensured.

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

In thousands of denars	2011	2010
MKD	311,685	315,279
	311,685	315,279

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

In thousands of denars	2011	2010
MKD	1,670,583	1,621,394
EUR	311,471	153,589
USD	1,207	330
Other	3,369	4,687
	1,986,630	1,780,000

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

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

In thousands of denars	2011	2010
Group 1	576,671	632,993
Group 2	209,999	110,937
Group 3	85,819	235,550
	872,489	979,480

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

In thousands of denars	2011	2010
Group 1	2,787	9,419
Group 2	2,140	2,629
	4,927	12,048

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

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

Notes to the financial statements

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

8. OTHER TAXES

8.1. Other taxes receivable

In thousands of denars	2011	2010
VAT receivable	6,714	30,872
Other taxes receivable	565	27,061
	7,279	57,933

8.2. Other taxes payable

In thousands of denars	2011	2010
VAT and other taxes payable	36,579	11,303
	36,579	11,303

9. INVENTORIES

In thousands of denars	2011	2010
Materials	117,143	130,410
Inventory for resale	59,434	87,681
Write down of inventories to net realisable value	(7,724)	(4,429)
	168,853	213,662

Movement in allowance for inventories to net realizable value:

In thousands of denars	2011	2010
Allowance at 1 January	4,429	7,894
Charged to expense	5,927	4,872
Write off	(2,632)	(8,337)
Allowance at 31 December	7,724	4,429

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

10. NON-CURRENT ASSETS HELD FOR SALE

Non-current assets held for sale represent property, plant and equipment, mainly buildings, within the Company 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 2011 the Company signed an agreement to provide 3 of its administrative buildings and cash consideration in exchange for one new building in 2012. Accordingly, the carrying amounts of these 3 buildings in amount of MKD 547,485 thousand were reclassified to assets held for sale in the financial position as of 31 December 2011.

Notes to the financial statements

11. PROPERTY, PLANT AND EQUIPMENT

In thousands of denars	Land	Buildings	Telecommu-nication equipment	Other	Assets under construction	Total
Cost						
At 1 January 2010	23,443	4,666,088	21,843,766	4,100,447	722,992	31,356,736
Additions	-	37,001	1,085,436	226,602	707,692	2,056,731
Transfer from assets under construction (see note 12)	-	2,427	409,034	125,913	(615,374)	(78,000)
Disposals	-	(21,907)	(329,124)	(399,037)	(15,149)	(765,217)
Transfer to assets held for sale	-	(34,419)	-	-	-	(34,419)
Transfers between categories (see note 12)	-	50,466	-	-	-	50,466
At 31 December 2010	23,443	4,699,656	23,009,112	4,053,925	800,161	32,586,297
Depreciation						
At 1 January 2010	-	1,720,562	18,748,277	3,394,334	-	23,863,173
Charge for the year	-	152,975	1,213,956	294,693	-	1,661,624
Disposals	-	(10,400)	(327,230)	(394,097)	-	(731,727)
Transfer to assets held for sale	-	(32,604)	-	-	-	(32,604)
Transfers between categories (see note 12)	-	31,743	-	-	-	31,743
At 31 December 2010	-	1,862,276	19,635,003	3,294,930	-	24,792,209
Carrying amount						
At 1 January 2010	23,443	2,945,526	3,095,489	706,113	722,992	7,493,563
At 31 December 2010	23,443	2,837,380	3,374,109	758,995	800,161	7,794,088

In thousands of denars	Land	Buildings	Telecommu-nication equipment	Other	Assets under construction	Total
Cost						
At 1 January 2011	23,443	4,699,656	23,009,112	4,053,925	800,161	32,586,297
Additions	989	18,757	766,624	229,167	201,407	1,216,944
Transfer from assets under construction (see note 12)	-	6,552	287,800	220,871	(625,851)	(110,628)
Disposals	-	(18)	(245,819)	(147,093)	-	(392,930)
Transfer to assets held for sale	-	(693,669)	-	(90,619)	-	(784,288)
At 31 December 2011	24,432	4,031,278	23,817,717	4,266,251	375,717	32,515,395
Depreciation						
At 1 January 2011	-	1,862,276	19,635,003	3,294,930	-	24,792,209
Charge for the year	-	241,634	557,341	229,557	-	1,028,532
Disposals	-	(10)	(241,321)	(139,786)	-	(381,117)
Transfer to assets held for sale	-	(146,173)	-	(88,870)	-	(235,043)
At 31 December 2011	-	1,957,727	19,951,023	3,295,831	-	25,204,581
Carrying amount						
At 1 January 2011	23,443	2,837,380	3,374,109	758,995	800,161	7,794,088
At 31 December 2011	24,432	2,073,551	3,866,694	970,420	375,717	7,310,814

Notes to the financial statements

Major revision of the useful lives of property, plant and equipment was performed during 2011. The change on the useful life of property plant and equipment was made taking into consideration the technological changes, business plans of the Company and introduced modifications and changes in the local legislation.

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

In thousands of denars

	2011	2012	2013	2014	After 2014
(Decrease)/increase in depreciation	(687,631)	(486,010)	(145,054)	59,156	1,149,128
	(687,631)	(486,010)	(145,054)	59,156	1,149,128

12. INTANGIBLE ASSETS

In thousands of denars	Software and software licences	Concession	Other	Total
Cost				
At 1 January 2010	2,068,945	154,757	76,175	2,299,877
Additions	124,981	-	6,444	131,425
Transfer from assets under construction (see note 11)	78,000	-	-	78,000
Transfers between categories (see note 11)	-	-	(50,466)	(50,466)
At 31 December 2010	2,271,926	154,757	32,153	2,458,836
Amortisation				
At 1 January 2010	1,572,639	154,757	55,751	1,783,147
Charge for the year	194,016	-	7,509	201,525
Transfers between categories (see note 11)	-	-	(31,743)	(31,743)
At 31 December 2010	1,766,655	154,757	31,517	1,952,929
Carrying amount				
At 1 January 2010	496,306	-	20,424	516,730
At 31 December 2010	505,271	-	636	505,907

In thousands of denars	Software and software licences	Concession	Other	Total
Cost				
At 1 January 2011	2,271,926	154,757	32,153	2,458,836
Additions	168,604	-	-	168,604
Transfer from assets under construction (see note 11)	110,628	-	-	110,628
At 31 December 2011	2,551,158	154,757	32,153	2,738,068
Amortisation				
At 1 January 2011	1,766,655	154,757	31,517	1,952,929
Charge for the year	173,387	-	318	173,705
At 31 December 2011	1,940,042	154,757	31,835	2,126,634
Carrying amount				
At 1 January 2011	505,271	-	636	505,907
At 31 December 2011	611,116	-	318	611,434

Notes to the financial statements

Major revision of the useful lives of Intangible assets was performed during 2011. The change on the useful life of the Intangible assets was made taking into consideration the technological changes, business plans of the Company and introduced modifications and changes in the local legislation.

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

In thousands of denars	2011	2012	2013	2014	After 2014
(Decrease)/increase in amortisation	(9,851)	11,937	17,218	3,406	(22,710)
	(9,851)	11,937	17,218	3,406	(22,710)

13. INVESTMENTS IN SUBSIDARIES

In thousands of denars	2011	2010
T-Mobile Macedonia AD Skopje	2,791,453	2,791,453
e-Makedonija	6,138	6,138
	2,797,591	2,797,591

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

	Country of incorporation	Ownership interest 2011	Ownership interest 2010
T-Mobile Macedonia AD Skopje	Macedonia	100	100
e-Makedonija	Macedonia	100	100

During 2004, the Company established the e-Makedonija foundation with the main purpose support of information technology development in the Republic of Macedonia.

14. TRADE AND OTHER PAYABLES

In thousands of denars	2011	2010
Trade payables		
-Domestic	482,971	720,424
-Foreign	137,728	155,756
Liabilities to related parties	494,470	469,359
Social security payable	832	8,458
Other liabilities	34,281	99,222
Financial liabilities	1,150,282	1,453,219
Accrued expenses	704,649	787,992
Deferred revenue	55,144	54,677
Advances received	44,056	40,208
Other	34,765	34,765
	1,988,896	2,370,861

Liabilities to related parties represent liabilities to T-Mobile Macedonia AD Skopje, Magyar Telekom Group and Deutsche Telekom Group (see note 28).

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

In thousands of denars	2011	2010
Less than 90 days	544,594	796,487
Between 90 and 180 days	34,011	42,610
More than 181 days	42,094	37,083
	620,699	876,180

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

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

In thousands of denars	2011	2010
MKD	1,448,631	1,787,011
EUR	433,727	464,429
USD	88,435	101,967
Other	18,103	17,454
	1,988,896	2,370,861

15. PROVISION FOR OTHER LIABILITIES AND CHARGES

In thousands of denars	Legal cases	Other	Total
1 January 2010	626,666	230,894	857,560
Additional provision	75,701	23,431	99,132
Unused amount reversed	(137,850)	(6,024)	(143,874)
Used during period	(3,704)	(227,972)	(231,676)
31 December 2010	560,813	20,329	581,142

In thousands of denars	Legal cases	Other	Total
1 January 2011	560,813	20,329	581,142
Additional provision	29,107	12,743	41,850
Unused amount reversed	(98,592)	(523)	(99,115)
Used during period	(113,118)	(5,707)	(118,825)
31 December 2011	378,210	26,842	405,052

Analysis of total provisions:

In thousands of denars	2011	2010
Non-current (legal cases and other)	360,735	520,389
Current	44,317	60,753
	405,052	581,142

Provisions for legal cases mainly relate to certain legal and regulatory claims brought against the Company. Three legal cases are in process against the Company relating to: a dispute with a competitor, which alleges that the Company has abused its dominant position on the market and is seeking damages of MKD 264,450 thousand; a dispute with a competitor, which alleges that the Company has abused its dominant position on the market and is seeking damages of MKD 100,521 thousand; and a misdemeanour procedure initiated by a regulatory body for alleged abuse of dominant position on the market by the Company with maximum possible fine of 10% of the annual revenue from the previous year, in accordance with the local legislation. The information usually required by IAS 37 is not disclosed. 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 these cases. In addition, there are numerous legal cases for which provisions were recognized, none of which are individually material, therefore not disclosed.

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 2011.

Other includes provision made for the legal obligation of the Company to pay to employees two average monthly salaries in Republic of Macedonia at their retirement date (see note 2.15.1) and provision made for Magyar Telekom's Mid Term Incentive Plan ("MTIP") (see note 29). The provision is recognized against Personnel expenses in the Profit for the year. In addition, as a result of the findings of the Investigation, the identified impact was recognized under Provision for other liabilities and charges (see note 1.2).

Notes to the financial statements

16. CAPITAL AND RESERVES

Share capital consists of the following:

In thousands of denars	2011	2010
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 of 31 December 2011, the ordinary shares of the Company were held as follows:

In thousands of denars	2011	%
Stonebridge AD Skopje, in liquidation	4,887,778	51.00
Government of the Republic of Macedonia	3,336,497	34.81
The Company (treasury shares)	958,388	10.00
International Finance Corporation (IFC)	179,698	1.88
Other minority shareholders	221,527	2.31
	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 derecognized from treasury shares (see note 1.2).

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

17. REVENUES

In thousands of denars	2011	2010
Voice retail	2,937,860	3,401,760
Voice wholesale	2,114,252	1,925,104
Internet	1,259,505	1,284,127
Data	999,325	1,036,971
Equipment	317,512	359,350
TV	311,182	298,534
Other revenues	247,000	274,265
	8,186,636	8,580,111

Notes to the financial statements

18. PERSONNEL EXPENSES

In thousands of denars	2011	2010
Salaries	705,514	747,028
Contributions on salaries	228,002	242,725
Bonus payments	140,341	152,974
Other staff costs	73,149	92,753
	1,147,006	1,235,480

Other staff costs mainly include holiday's allowance, termination benefits for 5 employees leaving the Company in 2011 (2010: 15 employees) and other benefits.

Bonus payments also include the cost for MTIP (see note 29).

19. OTHER OPERATING EXPENSES

In thousands of denars	2011	2010
Services	392,999	407,283
Purchase cost of goods sold	366,597	405,602
Materials and maintenance	282,289	365,130
Subcontractors	213,244	216,232
Marketing and donations	180,033	203,045
Energy	208,358	180,222
Consultancy	44,558	75,070
Fees, levies and local taxes	78,125	71,019
Rental fees	34,436	37,322
Impairment losses on trade and other receivables	-	18,845
Write off of trade and other receivables	301	-
Insurance	14,204	13,780
Write down of inventories to net realisable value	5,927	4,872
Other	115,522	106,468
	1,936,593	2,104,890

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

In order to maintain consistency with the current year presentation the release of provision related to legal cases in 2010 presented as Other operating expenses in the amount of MKD 28,733 thousand were excluded from the Other operating expanses category in these financial statements and reclassified to Other operating income. The reclassification had no impact on equity or net profit.

20. OTHER OPERATING INCOME

In thousands of denars	2011	2010
Release of impairment on trade and other receivables	56,744	-
Release of provisions related to legal cases	82,012	28,733
Gain on sale of PPE	25,037	25,407
	163,793	54,140

In order to maintain consistency with the current year presentation the release of provision related to legal cases in 2010 presented as Other operating expanses in the amount of MKD 28,733 thousand were excluded from the Other operating expanses category in these financial statements and reclassified to Other operating income. The reclassification had no impact on equity or net profit.

21. FINANCE EXPENSES

In thousands of denars	2011	2010
Interest expense	26,630	41,659
Bank charges and other commissions	22,114	26,083
Fair value and available for sale - loss	11,425	646
Net foreign exchange loss	2,555	-
	62,724	68,388

22. FINANCE INCOME

In thousands of denars	2011	2010
Interest income	177,962	270,891
Dividend income	3,746,236	4,021,920
Net foreign exchange gain	-	40,218
Fair value gain	-	3,749
	3,924,198	4,336,778

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

The major part of dividend income in 2011 is dividend received from T-Mobile Macedonia AD Skopje in the amount of MKD 3,742,954 thousand (2010: MKD 4,019,131 thousand).

23. INCOME TAX EXPENSE

Reconciliation of effective tax rate:

In thousands of denars		2011		2010
Profit before tax		6,166,130		5,969,884
Non-deductible expenses	0.3%	18,305	1.0%	52,726
Tax exempted revenues	(0.3%)	(15,732)	(0.5%)	(30,321)
	0.0%	2,573	0.5%	22,405

Commencing from 1 January 2009 and during 2010 The Government of the Republic of Macedonia has introduced several modifications and changes in the Profit Tax Law. According these changes the base for computation of income tax are non-deductible expenses incurred during the fiscal year while the income tax is payable at the moment of profit distribution in a form of dividend to a foreign legal entities, foreign and domestic individuals. Dividend distribution among domestic companies is tax exempted. In addition, the income tax shall apply at the moment of the distribution of the profits in a form of dividends. Subsequently, as long as the undistributed profits are retained within the company the income tax would not be applied (see note 2.17).

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.

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 financial statements.

24. DIVIDENDS

The Shareholders' Assembly of the Company, at its meeting, held on 14 April 2011 adopted a Resolution for the dividend payment for the year 2010. The Resolution on dividend payment for 2010 is in the amount of MKD 5,947,479 thousand from the net profit for the year 2010. The dividend was paid out in April 2011. Up to date of issuing of these financial statements, no dividends have been declared for 2011.

25. LEASES AND OTHER COMMITMENTS

25.1. Operating lease commitments - where the Company is the lessee:

Operating lease commitments - where the Company is the lessee, are mainly from lease of business premises and other telecommunications facilities.

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

In thousands of denars	2011	2010
Not later than 1 year	29,348	28,095
Later than 1 year and not later than 5 years	26,644	37,341
Later than 5 years	158	276
	56,150	65,712

25.2. Operating lease commitments - where the Company is the lessor:

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

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

In thousands of denars	2011	2010
Not later than 1 year	514	554
Later than 1 year and not later than 5 years	76	378
	590	932

25.3. Capital commitments

The amount authorized for capital expenditure as at 31 December 2011 was MKD 301,413 thousand (2010: MKD 244,821 thousand). In addition, in 2011 the Company signed an agreement to exchange 3 of its administrative buildings along with cash consideration for one new building in 2012, which resulted in an amount authorized for capital expenditure as at 31 December 2011 of MKD 2,079,038 thousand (see note 10).

26. ADDITIONAL DISCLOSURES ON FINANCIAL ASSETS

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

(a) quoted prices (unadjusted) in active markets for identical assets (Level 1);

(b) inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly (Level 2); and

(c) inputs for the asset that are not based on observable market data (Level 3).

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

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

Notes to the financial statements

26.1. Financial assets - Carrying amounts and fair values

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

Assets In thousands of denars	Financial assets Loans and receivables	Held-to-maturity	Available-for-sale (Level 2)	At fair value through profit and loss (Level 1)	Carrying amount	Fair value
Cash and cash equivalents	1,009,511	-	-	-	1,009,511	1,009,511
Deposits with banks	5,777,401	-	-	-	5,777,401	5,777,401
Trade and other receivables	1,981,837	-	-	-	1,981,837	1,981,837
Financial assets at fair value through profit and loss	-	-	-	65,125	65,125	65,125

The table below shows the categorization of financial assets as at 31 December 2011.

Assets In thousands of denars	Financial assets Loans and receivables	Held-to-maturity	Available-for-sale (Level 2)	At fair value through profit and loss (Level 1)	Carrying amount	Fair value
Cash and cash equivalents	540,752	-	-	-	540,752	540,752
Deposits with banks	5,706,966	-	-	-	5,706,966	5,706,966
Trade and other receivables	2,187,894	-	-	-	2,187,894	2,187,894
Financial assets at fair value through profit and loss	-	-	-	54,083	54,083	54,083

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 54,083 thousand (2010: MKD 65,125 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 (2010: MKD 31,786 thousand).

26.2. Other disclosures about financial instruments

The Company is also exposed to risks that arise from the possible drawdown of guarantees in a nominal amount of MKD 1,987 thousand as at 31 December 2011 (2010: MKD 9,570 thousand). These guarantees were issued by Macedonian banks on behalf of Company as collaterals to secure the fulfilment of the Company's certain contractual obligations. The Company has been delivering on its contractual obligations and expects to continue doing so in the future, therefore no drawdown of the guarantees has happened so far, and is not expected to happen in the future.

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

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

Notes to the financial statements

27. CONTINGENCIES

The Company has contingent liabilities in respect of legal and regulatory claims arising in the ordinary course of business. It is not anticipated by the management of the Company that any material liabilities will arise from the contingent liabilities other than those provided for (see note 15).

28. RELATED PARTY TRANSACTIONS

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

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

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

In thousands of denars	2011		2010	
	Revenues	Expenses	Revenues	Expenses
T-Mobile Macedonia AD Skopje	708,430	1,183,803	694,405	1,064,570
Magyar Telekom Group				
Magyar Telekom Plc	21,415	47,659	23,579	66,107
Telemakedonija AD	249	-	248	-
IQSYS Magyar Telekom	-	7,481	-	11,282
Novatel	3,438	-	2,697	151
Crnogorski Telekom	-	-	12	-
Origo Zrt	-	-	-	469
Deutsche Telekom Group				
Deutsche Telekom AG	1,463,671	230,569	1,321,963	213,278
Hrvatski Telekom	-	-	21	-
T-Systems	9,856	2,221	6,268	2,030
OTE Globe	19,712	32,173	18,847	16,047
Romtelekom	-	1,814	198	150
Detecon	-	3,119	-	21,111

Notes to the financial statements

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

In thousands of denars	2011 Receivables	Payables	2010 Receivables	Payables
T-Mobile Macedonia AD Skopje	308,410	365,731	149,278	359,298
Magyar Telekom Group				
Magyar Telekom Plc	3,567	38,549	1,784	50,269
Telemakedonija AD	23	-	21	-
IQSYS Magyar Telekom	-	1,845	-	5,635
Novatel	565	489	367	1,553
Deutsche Telekom Group				
Deutsche Telekom AG	244,418	59,160	97,362	37,329
T-Systems	2,546	7,518	2,372	3,733
OTE Globe	7,608	11,181	925	-
Romtelekom	-	1,814	66	7,884
Detecon	-	311	-	3,658
Slovak Telekom	-	7,872	-	-

29. KEY MANAGEMENT COMPENSATION

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

In thousands of denars	2011	2010
Short-term employee benefits (including taxation)	124,237	115,636
State contributions on short-term employee benefits	6,005	6,185
Share-based payments	10,030	1,591
	140,272	123,412

The remuneration of the members of the Company's Board of Directors amounted to MKD 6,200 thousand (2010: MKD 4,650 thousand) included in Short-term employee benefits.

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

The MTIP is operated by Magyar Telekom Plc. while the compensation of key management from the Company related to the MTIP is incurred by the Company (for MTIP programs launched 2008, 2009 and 2010) and is included in Personnel expenses (Bonus Payments) recognized against Other provisions (see notes 18 and 15).

30. EVENTS AFTER THE FINANCIAL STATEMENT DATE

There are no events after the financial statement date that would have impact on the 2011 profit for the year, statement of financial position or cash flows.