

Makedonski Telekom AD Skopje
Orce Nikolov bb 1000 Skopje

Македонски Телеком
АД за електронски комуникации - Скопје
Број: 01-521873/1
Дата: 12-12-2008



To: Securities and Exchange Commission of the RoM
26 Dimitrija Cupovski, 1000 Skopje

Date: 12.12.2008

Subject: Submission of the Annual Report for 2007

Dear Sirs,

At the Shareholders' Assembly meeting of Makedonski Telekom AD Skopje held on 04.12.2008 the audited consolidated financial statements for 2007 prepared in accordance with the International Financial Reporting Standards were adopted.

As a result of the adoption of these reports, in accordance with Articles 154 and 164 from the law on Securities and the respective by-law legislation related to the Makedonski Telekom AD Skopje annual reporting obligation for 2007, please find attached the complete Annual Report for 2007 in which, compared to the previously submitted one (as of 30.04.2008) the following data have been added/replaced:

1. Replacement of the Draft consolidated financial statements for 2007 with Audited consolidated financial statements for 2007 prepared in accordance with the International Financial Reporting Standards along with the auditor's opinion;
2. Addition of data regarding the related party transactions;
3. Addition of data regarding the fees of the Company's BoD members and persons with special rights and responsibilities within the Company;
4. Addition of data regarding the important legal disputes in which the Group AD Makedonski Telekomunikacii Skopje is involved as a prosecutor or as a defendant and other legal issues which are important for the Group's operation;
5. New Statement for accuracy of all submitted data.

The audited consolidated financial statements for 2006 contain a qualified opinion of the authorized auditor.

At the same time, we point out that, since 1st of May 2008, the Company's trade name has been changed from AD Makedonski Telekomunikacii Skopje into Makedonski Telekom AD Skopje. As a result of this, in the Annual Report both trade names and logos are used, depending on the period in which data were prepared, i.e. the period to which they refer.

Yours faithfully,

Zarko Lukovski
President of the Board of Directors

Никола Бекекери
Chief Executive Officer

Македонски Телеком
АД за ел.
комуникации - Скопје

BesTel - certified translation



To: Securities and Exchange Commission of the RoM
Date: 30th of April 2008
Subject: Annual Report for the period 01.01. - 31.12.2007

1. General data

Name	Joint Stock Company for Telecommunications Makedonski Telekomunikacii - Skopje
Headquarters address	Orce Nikolov bb
Telephone and fax	02 3242 013
E-mail	contact@mt.com.mk info@mt.com.mk
Website	www.mt.com.mk

2. Legal Status

Registration number	5168660
Activity code	64.20/0
Activity description	Telecommunications
Date of establishment	- Basic Court Skopje 29.01.2001 – the state owned AD Makedonski Telekomunikacii - Skopje was transformed into a joint stock company for telecommunications Makedonski Telekomunikacii- Skopje - On 11.05.2006, the Company was registered in the Central Register of the RoM in accordance with the legal regulations.
Number of Trade Register Decision	- 08-03/3843/1 dated 11.05.2006
Status changes	- 29.01.2001 (privatisation and change of the company's status from a state owned joint stock company for telecommunications Makedonski Telekomunikacii - Skopje into a Joint Stock Company for Telecommunications Makedonski Telekomunikacii - Skopje) - 05.03.1998 (transformation of the public enterprise for telecommunications Makedonski Telekomunikacii C.O. Skopje into a state owned joint stock company for telecommunications Makedonski Telekomunikacii – Skopje) - 12.08.1997 (establishment – organisation of a public enterprise for telecommunications Makedonski Telekomunikacii C.O. Skopje)
Number of subsidiaries and affiliates	- T-Mobile Macedonia as a separate legal entity 100% owned by AD Makedonski Telekomunikacii - Skopje (MT). - 26 subsidiaries /MT Points of Sale which do not have the status of separate legal entities. They have been registered as subsidiaries in accordance with the Law on Trade Companies pursuant to which every facility performing an MT activity at a location other than the registered office of the MT headquarters is registered as a subsidiary.
Number of employees at the year end	1,670
Corporate Governance System	One-tier

**3. Data on the members of the Board of Directors and their ownership stakes in the Company**

	Name and surname
1.	Zarko Lukovski
2.	Ilgas Iljazi
3.	Goran Ivanovski
4.	Igor Bimbiloski
5.	Nikolai Beckers
6.	Horst Hermann
7.	Dénes Szluha
8.	Wolfgang Hauptmann
9.	Janos Szabo
10.	Gábor Pál
11.	Robert Molnar
12.	Bence Holló
13.	Metodi Stoimenovski
14.	Romeo Dereban

As of 31.12.2007, the members of the MT Board of Directors do not own any MT shares.

4. Data referring to the share capital and the changes thereto

Total value of the share capital in MKD	9,583,887,733
Number of issued shares	
- ordinary*	95,838,780
- preference cumulative (golden share)	1
Nominal value of ordinary share in MKD	100
Nominal value of golden share in MKD	9,733
Number of shareholders on 31.12.2007	4,247

* This number includes 9,583,878 (10%) of treasury shares. At the Government auction/regular trading held from 5th till 9th of June 2006, MT purchased 10% of the Government shareholding in MT in accordance with Resolution No. 021-98576/1 of the MT Shareholders' Assembly.

5. Data on all natural persons and/or legal entities owing 5% of the voting shares in the Company

Name	Address	Number of shares	% in the total number of voting shares
Stonebridge Communications AD (under liquidation)	Orce Nikolov bb, 1000 Skopje	48,877,780	56.67
Government of the Republic of Macedonia	Ilinden Blvd bb, 1000 Skopje	33,364,875	38.68



5.1 Data on the Company's ten largest shareholders

Name	Number of shares	% in the total number of the issued shares
Stonebridge Communications AD - Skopje (under liquidation)	48,877,780	51.00
Government of the Republic of Macedonia	33,364,875	34.81
AD Makedonski Telekomunikacii - Skopje *	9,583,878	10.00
International Finance Corporation (IFC)	1,796,980	1.88
Hrvatska Postenska Banka DD	100,632	0.11
Dance Zografska	25,000	0.03
SEZAM Kapital DOO	24,000	0.03
Natasa Ignatova	18,395	0.02
Nevena Sumanska	16,220	0.02
Zdravka Mancevska	11,607	0.01

* At the Government auction/regular trading held from 5th till 9th of June 2006, MT purchased 10% of the Government shareholding in MT in accordance with Resolution No. 021-98576/1 of the MT Shareholders' Assembly

ISIN	MKMTSK101019
Bank account number	200000090141316, AD Stopanska Banka - Skopje

6. Financial data and financial condition of the company

	In MKD	% of nominal value
Maximum ordinary share price in the year	900	
Minimum ordinary share price in the year	400	
Price of the ordinary share (closing price)	685	n/a
Market Capitalization*	65,650 mill.	n/a
Dividend per share (gross amount)		
- for 2006	0	0
- for 2005	86.10	86.10
- for 2004	60.88	60.88

* Calculated based upon the total number of issued shares in accordance with the requirements stated in the Rulebook.

7. Data on the Stock Exchange where the shares are traded

Name of the Stock Exchange	Macedonian Stock Exchange
Listing	The Company's shares are not listed on the Stock Exchange. The Company's shares are traded on the market segment of the Regular Market (Publicly held companies – ordinary shares)



Makedonski Telekom AD - Skopje
Orce Nikolov bb , 1000 Skopje

8. Related party transactions

Transactions with related parties include: provisioning and supply of telecommunication services and equipment, granting loans, providing management consultancy services and support of re-branding activities. The amounts are presented in the appropriate notes (see note 9, 18 and 23) of the consolidated audited financial statements for 2007.

9. Important legal disputes in which the Group AD Makedonski Telekomunikacii Skopje is involved as a prosecutor or as a defendant and other legal issues which are important for the Group's operation

The data regarding the legal disputes in which the Group AD Makedonski Telekomunikacii Skopje is involved, are presented in the notes 17, 22 and 25 of the consolidated audited financial statements for 2007.

10. Data related to the fees of the Company's BoD members and persons with special rights and responsibilities within the Company

The remuneration amount of the Company's BoD members is presented in the note 3, while the Company's key management remuneration amount is presented in note 23 of the consolidated audited financial statements for 2007.

AD Makedonski Telekomunikacii Skopje
Consolidated Financial Statements

For the year ended
31 December 2007

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Independent Auditor's Report

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

Report on consolidated financial statements

We have audited the accompanying consolidated financial statements of AD Makedonski telekomunikacii Skopje (the "Company") and its subsidiaries T-Mobile Macedonia AD Skopje and E-Makedonija foundation – Skopje (together "the Group") which comprise the consolidated balance sheet as of 31 December 2007 and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with the International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

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

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

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

Basis for Qualified Opinion

As of the date of this report, third party experts are in the process of examining certain of the transactions entered into by the Group. These investigations are ongoing, but as a result of the work performed by the investigators to date, we are currently unable to determine whether certain transactions entered into by the Group with other entities resulted in the receipt of services commensurate with consideration paid. The total amount of such transactions in the consolidated financial statements for the year ended 31 December 2006 identified as of the date of this opinion amounts to MKD 507,470,000 of which MKD 361,556,000 are recorded within expenses in the consolidated income statement for 2006, MKD 40,767,000 are recorded in prepayments in the consolidated balance sheet as at 31 December 2006 (and released to the consolidated income statement in 2007) and MKD 105,147,000 are recorded within treasury shares in the consolidated balance sheet as at both 31 December 2006 and 31 December 2007. Our opinion on the corresponding figures for the year ended 31 December 2006 was modified accordingly.

Qualified Opinion

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the accompanying consolidated financial statements present fairly in all material respects the financial position of the Group as of 31 December 2007 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers REVIZIJA D.O.O.
PricewaterhouseCoopers REVIZIJA D.O.O. Skopje

6 October 2008
Skopje



Consolidated income statement

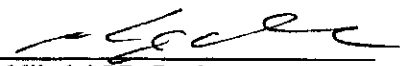
<i>In thousands of denars</i>	Note	Year ended 31 December	
		2007	2006
Revenues	1	18,077,817	17,143,764
Depreciation and amortisation		(3,273,901)	(3,693,107)
Personnel expenses	2	(1,569,338)	(1,726,643)
Payments to other network operators		(1,692,406)	(1,595,323)
Other operating expenses	3	<u>(4,734,011)</u>	<u>(4,167,880)</u>
Profit from operations		6,808,161	5,960,811
Finance expenses	4	(234,277)	(270,437)
Finance income	5	<u>561,410</u>	<u>430,521</u>
Profit before tax		7,135,294	6,120,895
Income tax expense	6	<u>(974,293)</u>	<u>(664,912)</u>
Net profit for the year		<u>6,161,001</u>	<u>5,455,983</u>

The notes on pages 5 to 47 are an integral part of these consolidated financial statements.

Consolidated balance sheet

<i>In thousands of denars</i>	Note	As at 31 December	
		2007	2006
Assets			
Property, plant and equipment	7	14,067,684	14,505,540
Advances for property, plant and equipment		-	24,312
Intangible assets	8	1,951,977	2,162,062
Trade and other receivables	9	103,581	83,204
Available-for-sale financial assets		896	896
Financial assets at fair value through profit and loss	11	226,272	169,923
Total non-current assets		<u>16,350,410</u>	<u>16,945,937</u>
Assets held for sale	12	32,091	292,397
Inventories	13	300,890	310,144
Trade and other receivables	9	2,966,540	2,903,555
Deposits with banks	14	7,384,557	4,180,998
Cash and cash equivalents	15	6,728,837	9,683,272
Total current assets		<u>17,412,915</u>	<u>17,370,366</u>
Total assets		<u>33,763,325</u>	<u>34,316,303</u>
Equity and liabilities			
Share capital		9,583,888	9,583,888
Share premium		540,659	540,659
Treasury shares		(3,843,505)	(3,843,505)
Other reserves		2,475,068	2,475,068
Retained earnings		21,203,945	22,469,738
Total equity	16	<u>29,960,055</u>	<u>31,225,848</u>
Liabilities			
Deferred income tax liabilities	10	139,607	174,007
Provision for other liabilities and charges	17	381,841	68,185
Total non-current liabilities		<u>521,448</u>	<u>242,192</u>
Trade and other payables	18	2,549,630	2,260,830
Current income tax liability		274,638	270,469
Provision for other liabilities and charges	17	457,554	316,964
Total current liabilities		<u>3,281,822</u>	<u>2,848,263</u>
Total liabilities		<u>3,803,270</u>	<u>3,090,455</u>
Total equity and liabilities		<u>33,763,325</u>	<u>34,316,303</u>

The consolidated financial statements set out on pages 1 to 47 were authorised for issue on 6 October 2008 by the Management of Makedonski Telekom AD – Skopje, and are subject to review and approval by the Board of Directors and by the shareholders on date that will be subsequently agreed.


Nikolai J.B. Beckers
Chief Executive Officer


Slavica Džurković Koski
Chief Finance Officer

The notes on pages 5 to 47 are an integral part of these consolidated financial statements.

Consolidated statement of cash flows

<i>In thousands of denars</i>	Note	Year ended 31 December	
		2007	2006
Operating activities			
Net profit before tax		7,135,294	6,120,895
Adjustments for:			
Depreciation and amortisation		3,273,901	3,693,107
Write down/(write back) of inventories to net realisable value	3	51,950	(7,920)
Fair value gains on financial assets at fair value through profit and loss	5	(56,327)	(20,297)
Impairment losses on trade and other receivables	3	241,790	316,673
Provisions		474,527	369,766
Gain on disposal of equipment		(94,189)	(13,092)
Dividend income	5	(2,724)	(2,043)
Interest income	5	(502,359)	(408,181)
Interest expense	4	659	42
Effect of foreign exchange rate changes on cash and cash equivalents		27,293	43,101
Cash generated from operations before changes in working capital		<u>10,549,815</u>	<u>10,092,051</u>
Increase in inventories		(42,696)	(30,402)
Increase in receivables		(299,849)	(431,257)
Increase in payables		215,789	513,070
Cash generated from operations		<u>10,423,059</u>	<u>10,143,462</u>
Interest paid		(659)	(42)
Income taxes paid		<u>(1,004,524)</u>	<u>(718,838)</u>
Cash flows from operating activities		<u>9,417,876</u>	<u>9,424,582</u>
Investing activities			
Acquisition of property, plant and equipment		(1,709,469)	(1,297,620)
Acquisition of intangible assets		(640,719)	(651,020)
Loans collected		-	123,527
Loans granted		(17,877)	(27,781)
Deposits collected from banks		4,354,477	6,409,622
Deposits placed with banks		(7,557,812)	(5,402,593)
Dividends received		2,724	2,043
Proceeds from sale of equipment		153,667	44,779
Interest received		496,785	408,191
Cash flows used in investing activities		<u>(4,918,224)</u>	<u>(390,852)</u>
Financing activities			
Purchase of treasury shares	16	-	(3,843,505)
Dividends paid	19	(7,426,794)	-
Cash flows used in financing activities		<u>(7,426,794)</u>	<u>(3,843,505)</u>
Effect of foreign exchange rate changes on cash and cash equivalents		(27,293)	(43,101)
Net (decrease)/increase in cash and cash equivalents		(2,954,435)	5,147,124
Cash and cash equivalents at 1 January		9,683,272	4,536,148
Cash and cash equivalents at 31 December	15	<u>6,728,837</u>	<u>9,683,272</u>

The notes on pages 5 to 47 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

<i>In thousands of denars</i>	Note	Share capital	Share premium	Treasury shares	Other reserves	Retained earnings	Total
Balance at 1 January 2006		9,583,888	540,659	-	2,475,068	17,013,755	29,613,370
Net profit for the year		-	-	-	-	5,455,983	5,455,983
Purchase of treasury shares	16	-	-	(3,843,505)	-	-	(3,843,505)
Balance at 31 December 2006	16	9,583,888	540,659	(3,843,505)	2,475,068	22,469,738	31,225,848
Balance at 1 January 2007		9,583,888	540,659	(3,843,505)	2,475,068	22,469,738	31,225,848
Net profit for the year		-	-	-	-	6,161,001	6,161,001
Dividends	19	-	-	-	-	(7,426,794)	(7,426,794)
Balance at 31 December 2007	16	9,583,888	540,659	(3,843,505)	2,475,068	21,203,945	29,960,055

The notes on pages 5 to 47 are an integral part of these consolidated financial statements.

Notes to the consolidated financial statements

General information

These consolidated financial statements relate to the group of AD Makedonski telekomunikacii, which includes AD Makedonski telekomunikacii – Skopje, T-Mobile Macedonia AD – Skopje and E-Makedonija foundation – Skope (hereinafter referred as to “the Group”).

AD Makedonski telekomunikacii, Skopje (hereinafter “the Company”) is a joint stock company incorporated and domiciled in the Republic of Macedonia.

The Group’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.

Effective 1 July 2001, the operations and assets of the mobile phone division of Makedonski Telekomunikacii were transferred into a wholly owned subsidiary Mobimak AD. As of 8 September 2006, Mobimak AD was re-branded into T-Mobile and changed the legal name into T-Mobile Macedonia AD Skopje.

The Company is the leading fixed line service provider while T-Mobile Macedonia AD is the leading mobile service provider in Macedonia. E-Macedonia is foundation, established to support application and development of information technology in Macedonia.

The Macedonian telecommunications sector is regulated by the Electronic Communications Law (“ECL”) enacted in March 2005. With the latest changes of the ECL published on 4 August 2008, the existing Concession Contracts of the Company and T-Mobile Macedonia are no longer valid as of 5 August 2008. On 5 September 2008 the Agency for Electronic Communications (“The Agency”), ex officio, has issued a notification to both the Company and T-Mobile Macedonia for those public electronic communication networks and/or services which have been allocated thereto under the Concession Contracts.

The Agency on 27 December 2007 brought a decision to announce public tender for the universal provider of electronic communications services in Republic of Macedonia. The opening of the qualified bids was on 18 February 2008, and on 22 February 2008 based on decision of the Agency, the Company was selected as one of the candidates for universal service provider in the prequalification. Written invitation (without public announcement) by the Agency will be submitted to selected candidates from the first phase, to submit offer for selection of universal service provider.

The regulatory framework for the tariff regulation for the Company until August 2008 was provided in the Concession Contract. With the enactment of the ECL in March 2005 and the published relevant Draft by law for retail regulation in September 2008, the Agency may prescribe one of the following ways of retail regulation of fixed telephony services: price cap, individual price approval, cost based prices or benchmarks. The Company has a cost based price obligation for Regulated wholesale services, using fully distributed costs (“FDC”) methodology until July 2007 and using Long run incremental costs methodology (“LRIC”) there after. A proposal for interconnection fees with LRIC was submitted by the Company in July 2007 and for unbundling fees in December 2007. On 23 May 2008, the Agency issued approval for the new decreased interconnection and unbundling fees, based on the audit report for the costing accounting system issued by independent auditor.

Notes to the consolidated financial statements

General information continued

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. Based on 4 enacted bylaws and several Draft bylaws published in September 2008 the Company will be obliged to prepared several additional regulated wholesale products.

The Agency on 29 June 2007 has published the draft analysis conducted on Market 16 (Call termination services in public mobile communication networks) and based on it on 26 November 2007 has brought a decision by which T-Mobile Macedonia was designated with SMP status and several obligations were imposed (interconnection and access, non-discrimination in interconnection and access, accounting separation and price control and cost accounting).

T-Mobile Macedonia submitted Reference Interconnection Offer (RIO) to the Agency on 29 February 2008. On 28 March 2008, the Agency decided to significantly decrease the mobile termination rates. The new termination rates of T-Mobile Macedonia are applied from 1 August 2008.

The Agency in November 2007 has published a public tender for granting one license for 3G radiofrequencies utilization. Cosmofon won the tender and started the 3G commercial operations from 12 August 2008. On 2 September 2008 a decision for granting three 3G licences for 10 million EURO one off fee each was published. On 15 September 2008 a new tender for additional three 3G licenses was published.

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

The Company's registered address is "Orce Nikolov" Street bb, 1000, Skopje, Republic of Macedonia. The average number of employees during 2007 was 2,151 (2006: 2,230).

Investigation into certain consultancy contracts

On 13 February 2006, Magyar Telekom Plc., the controlling owner 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. 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. The investigation, conducted by an independent law firm and supervised by the Audit Committee of Magyar Telekom Plc., is still ongoing.

Magyar Telekom Plc. has already implemented certain remedial measures designed to enhance the control procedures of the Magyar Telekom Group with respect to the entry into consultancy contracts, including the introduction of a new governance model.

Notes to the consolidated financial statements

General information continued

Investigation into certain consultancy contracts continued

As a result of the delays in finalizing its 2005 and 2006 financial statements due to the investigation, the Company has failed to meet certain deadlines prescribed by Republic of Macedonia and other applicable laws and regulations for preparing and filing audited annual results and holding annual general meetings.

In May 2008, White & Case LLP, counsel to the Audit Committee of Magyar Telekom Plc. in the independent investigation, provided Magyar Telekom Plc. with a "Status Report on the Macedonian Phase of the Independent Investigation." In the Status Report, White & Case stated, among other things, that "there is affirmative evidence of illegitimacy in the formation and/or performance" of six contracts for advisory, marketing, acquisition due-diligence and/or lobbying services in Macedonia, entered into between 2004 and 2006 between Magyar Telekom Plc. and/or various of its affiliates on the one hand, and a Cyprus-based consulting company and/or its affiliates on the other hand, under which Magyar Telekom Plc. and/or its affiliates paid a total of over EUR 6.7 million.

As previously disclosed, Magyar Telekom Plc. has taken remedial steps to address issues previously identified by the independent investigation, including steps designed to revise and enhance Magyar Telekom Plc.'s internal controls. Magyar Telekom Plc. is considering whether and to what extent the recent Status Report warrants additional remedial actions. The independent investigation is continuing. Magyar Telekom Plc. cannot predict when the internal investigation will be concluded, what the final outcome of the investigation may be, or the impact, if any, the investigation may have on the Company's financial statements or results of operations.

No provision is recognised in these financial statements for this investigation.

Notes to the consolidated financial statements

Significant accounting policies

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

(a) Basis of preparation

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS").

The consolidated financial statements are presented in Macedonian denars, rounded to the nearest thousand. The consolidated financial statements are prepared on the historical cost convention except available-for-sale financial assets, and financial assets at fair value through profit or loss. The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in accounting policy (z). Actual results could differ from those estimates.

Amendments to published standards effective and adopted by the Group in 2007:

- IFRS 7 Financial Instruments: Disclosures, and the complementary Amendment to IAS 1, Presentation of Financial Statements – Capital Disclosures. IFRS 7 introduced new disclosures relating to financial instruments. The Group included the additional disclosures required by IFRS 7 in these financial statements.
- IFRIC 8 Scope of IFRS 2. IFRIC 8 requires consideration of transactions involving the issuance of equity instruments – where the identifiable consideration received is less than the fair value of the equity instruments issued to establish whether or not they fall within the scope of IFRS 2. IFRIC 8 had no impact on the Group's financial statements.
- IFRIC 9 Reassessment of Embedded Derivatives. IFRIC 9 requires an entity to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. IFRIC 9 had no impact on the Group's financial statements, as the Group has an insignificant amount of contracts, which may have separable embedded derivatives in them.
- IFRIC 10 Interim Financial Reporting and Impairment. IFRIC 10 prohibits the impairment losses recognized in an interim period on goodwill, investments in equity instruments and investments in financial assets carried at cost to be reversed at a subsequent balance sheet date. IFRIC 10 has no impact on these financial statements.

Standards, amendments and interpretations effective in 2007 but not relevant for the Group

- IFRIC 7 Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies. IFRIC 7 provides guidance on how to apply the requirements of IAS 29 in a reporting period in which an entity identifies the existence of hyperinflation in the economy of its functional currency, when the economy was not hyperinflationary in the prior period.

Notes to the consolidated financial statements

Significant accounting policies continued

(a) Basis of preparation continued

Interpretations to existing standards and new standards that are not yet effective and have not been early adopted by the Group:

- IFRS 8 Operating Segments. Under IFRS 8, segments are components of an entity regularly reviewed by an entity's chief operating decision-maker. Items are reported based on the internal reporting. IFRS 8 also sets out requirements for related disclosures about products and services, geographical areas and major customers. The Group is currently analyzing the potential changes IFRS 8 may cause in the Group's financial statements.
- IAS 23 Borrowing Costs (Revised March 2007). Under the revised IAS 23 an entity shall capitalize borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. We do not expect IAS 23 (revised) to have impact on Group's accounting policies.
- IFRIC 11 Interpretation to IFRS 2 - Group and Treasury shares transactions. Under IFRS 2 it was not defined exactly how it should be calculated where the employees of a subsidiary received the shares of a parent. IFRIC 11 clarifies that certain types of transactions are accounted for as equity-settled or cash-settled transactions under IFRS 2. It also addresses the accounting for share-based payment transactions involving two or more entities within one group. We do not expect IFRIC 11 to have material impact on the Group's accounts.
- IFRIC 12 Service Concession Agreements. This interpretation applies to companies that participate in service concession arrangements and provides guidance on the accounting by operators in public-to-private service concession arrangements. We do not expect IFRIC 12 to have material impact on the Group's accounts.
- IFRIC 13 Customer Loyalty programmes. This Interpretation addresses accounting by entities that grant loyalty award credits to customers who buy other goods or services. Specifically, it explains how such entities should account for their obligations to provide free or discounted goods or services to customers who redeem award credits. The Group is currently analyzing the potential changes IFRIC 13 may cause in the Group's accounting treatments.
- IAS 1 (revised) Presentation of Financial statements. Revised IAS 1 introduces overall requirements for the presentation of financial statements, guideline for their structure and minimum requirements for their contents. The Group is currently analyzing the potential changes revised IAS 1 may cause in the Group's financial statements.

Notes to the consolidated financial statements

Significant accounting policies continued

(a) Basis of preparation continued

- IAS 27, Consolidated and Separate Financial Statements (revised January 2008; effective for annual periods beginning on or after 1 July 2009). The revised IAS 27 will require an entity to attribute total comprehensive income to the owners of the parent and to the non-controlling interests (previously “minority interests”) even if this results in the non-controlling interests having a deficit balance (the current standard requires the excess losses to be allocated to the owners of the parent in most cases). The revised standard specifies that changes in a parent’s ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. It also specifies how an entity should measure any gain or loss arising on the loss of control of a subsidiary. The Group is currently analyzing the potential changes revised IAS 1 may cause in the Group’s financial statements.
- IAS 36, Impairment of Assets. The amendment requires increased disclosure of underlying assumptions where the recoverable amount of a cash generating unit (or group of units) is based on fair value less costs to sell determined using discounted cash flow projections.
- IAS 38, Intangible Assets. The amendment clarifies that a prepayment asset may only be recognised where an entity makes a payment in advance of obtaining a right to access goods or receive services. The revised standard specifies that expenditure on mail order catalogues is to be expensed when incurred. In addition, the provision that there is ‘rarely, if ever’ support for use of an amortisation method that results in a lower amortisation than the amount determined using the straight line method is removed from the standard.
- Puttable financial instruments and obligations arising on liquidation—IAS 32 and IAS 1 Amendment (effective from 1 January 2009). The amendment requires classification as equity of some financial instruments that meet the definition of a financial liability. The Company does not expect the amendment to affect the financial statements.

Interpretations to existing standards that are not yet effective and not relevant for the Group’s operations:

- IFRIC 14 Interpretation on IAS 19 - The Limit on a Defined Benefit Assets, Minimum Funding Requirements and their Interaction. IFRIC 14 provides general guidance on how to assess the limit in IAS 19 Employee Benefits on the amount of the surplus that can be recognised as an asset. It also explains how the pensions asset or liability may be affected when there is a statutory or contractual minimum funding requirement.

Notes to the consolidated financial statements

Significant accounting policies continued

(a) Basis of preparation continued

- IFRS 3, Business Combinations (revised January 2008; effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009). The revised IFRS 3 will allow entities to choose to measure non-controlling interests using the existing IFRS 3 method (proportionate share of the acquiree's identifiable net assets) or at fair value. The revised IFRS 3 is more detailed in providing guidance on the application of the purchase method to business combinations. The requirement to measure at fair value every asset and liability at each step in a step acquisition for the purposes of calculating a portion of goodwill has been removed. Instead, goodwill will be measured as the difference at acquisition date between the fair value of any investment in the business held before the acquisition, the consideration transferred and the net assets acquired. Acquisition-related costs will be accounted for separately from the business combination and therefore recognised as expenses rather than included in goodwill. An acquirer will have to recognise at the acquisition date a liability for any contingent purchase consideration. Changes in the value of that liability after the acquisition date will be recognised in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill. The revised IFRS 3 brings into its scope business combinations involving only mutual entities and business combinations achieved by contract alone. This standard will have no impact on the Group's financial statements.
- IFRIC 15, Agreements for the Construction of Real Estate, standardises accounting practice across jurisdictions for the recognition of revenue by real estate developers for sales of units, such as apartments or houses, 'off plan' – that is, before construction is complete. This standard will have no impact on the Group's financial statements.
- IFRIC 16, Hedges of a Net Investment in a Foreign Operation, clarifies three main issues: (i) Whether risk arises from (a) the foreign currency exposure to the functional currencies of the foreign operation and the parent entity, or from (b) the foreign currency exposure to the functional currency of the foreign operation and the presentation currency of the parent entity's consolidated financial statements. (ii) Which entity within a group can hold a hedging instrument in a hedge of a net investment in a foreign operation and in particular whether the parent entity holding the net investment in a foreign operation must also hold the hedging instrument. (iii) How an entity should determine the amounts to be reclassified from equity to profit or loss for both the hedging instrument and the hedged item when the entity disposes of the investment.
- Vesting Conditions and Cancellations—Amendment to IFRS 2, Share-based Payment (issued in January 2008; effective for annual periods beginning on or after 1 January 2009). The amendment clarifies that only service conditions and performance conditions are vesting conditions. Other features of a share-based payment are not vesting conditions. The amendment specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment.

Notes to the consolidated financial statements

Significant accounting policies continued

(a) Basis of preparation continued

- IFRS 5, Non-current Assets Held for Sale and Discontinued Operations (and consequential amendments to IFRS 1) (effective for annual periods beginning on or after 1 July 2009). The amendment clarifies that an entity committed to a sale plan involving loss of control of a subsidiary would classify the subsidiary's assets and liabilities as held for sale. The revised guidance should be applied prospectively from the date at which the entity first applied IFRS 5.
- IAS 28, Investments in Associates (and consequential amendments to IFRS 7 and IAS 32). The amendment clarifies that an associate is treated as a single asset for the purposes of impairment testing and allows subsequent reversals of goodwill included in the carrying value of the associate. The amendment also reduces the disclosure requirements relating to associates accounted for at fair value through profit or loss.
- IAS 31, Interests in Joint Ventures (and consequential amendments to IFRS 7 and IAS 32). The amendment reduces the disclosure requirements relating to joint ventures accounted for at fair value through profit or loss.
- IAS 39, Financial Instruments: Recognition and Measurement. The revised standard allows movements into and out of the fair value through profit or loss category where a derivative commences or ceases to qualify as a hedging instrument in cash flow or net investment hedge; and where financial assets are reclassified following a change in policy by an insurance company in accordance with IFRS 4. The amendment also clarifies that when remeasuring the carrying amount of a debt instrument on cessation of fair value hedge accounting, a revised effective interest rate (calculated at the date fair value hedge accounting ceases) is used.
- IAS 41, Agriculture. Under the revised standard a market-based discount rate is to be used where fair value calculations are based on discounted cash flows. The prohibition on taking into account biological transformation when calculating fair value is removed. An entity should apply these amendments prospectively for annual periods beginning on or after 1 January 2009.

Notes to the consolidated financial statements

Significant accounting policies continued

(b) Basis of consolidation

(i) Subsidiaries

Subsidiaries are those enterprises controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

(ii) Transactions eliminated on consolidation

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

(c) Foreign currency transactions

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

The foreign currencies deals of the Group are predominantly United States Dollars (USD), EURO (EUR) and Swiss Francs (CHF) based. The exchange rates used for translation at 31 December 2007 and 2006 were as follows:

	2007	2006
	MKD	MKD
1 USD	41.66	46.45
1 EUR	61.20	61.17
1 CHF	36.86	38.07

d) Property, plant and equipment

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (refer accounting policy f). The cost of self-constructed assets includes the cost of materials and direct labour.

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

Notes to the consolidated financial statements

Significant accounting policies continued

(d) Property, plant and equipment continued

Depreciation is charged to the income statement 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 estimated useful lives are as follows:

	2007
	years
Aerial and cable lines	20-25
Telephone exchanges	10
Base stations	7
Buildings	20-40
Computers	3-4
Electronic devices	2-15
Furniture and fittings	4-6
Vehicles	4-6

The assets useful lives and residual values are reviewed, and adjusted if appropriate, at least once a year.

An asset's carrying amount is written down immediately to its recoverable amount if the assets carrying amount is greater than its estimated recoverable amount (refer accounting policy f).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement under the operating expenses section.

(e) Intangible assets

Intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (see below) and impairment losses (refer accounting policy f).

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.

Amortisation is charged to the income statement 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 estimated useful lives are as follows:

	2007
	years
Software and licences	2-5
Concession	5

The assets useful lives are reviewed, and adjusted if appropriate, at least once a year.

Notes to the consolidated financial statements

Significant accounting policies continued

(f) Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to depreciation/amortization 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 an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest level for which there is separately identifiable cash flows (cash-generating units). Impairment losses are recognized in the income statement. Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

(g) Non-current assets held for sale

Non-current assets are classified as assets held for sale and stated at the lower of the carrying amount and the fair value less costs to sell if their carrying amount is recovered principally through a sale transaction rather than through a continuing use.

(h) Financial assets

The Group classifies its financial assets in the following categories: loans and receivables, at fair value through profit and loss and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(i) 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 for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are classified as 'trade and other receivables', 'deposits with bank' and 'cash and cash equivalents' in the consolidated balance sheet.

(ii) Financial assets at fair value through profit and loss

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

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the income statement in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the income statement when the Group's right to receive payments is established and inflow of economic benefits is probable.

Notes to the consolidated financial statements

Significant accounting policies continued

(h) Financial assets continued

(iii) Available-for-sale financial assets

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

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

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

Loss events can be the followings:

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties.

If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the income statement – is removed from equity and recognized in the income statement. Impairment losses recognized in the income statement on equity instruments shall not be reversed through the income statement.

Notes to the consolidated financial statements

Significant accounting policies continued

(i) Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group 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 reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of the estimated future cash flows. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against the recognised loss (provision) in the income statement.

Receivables from related parties are not to be impaired.

Based on IAS 39 employee loans are financial assets, which are to be classified to the 'Loans and receivables' measurement category. 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 fair value of the employee loans at the cut-off date is the amount of prepaid employee benefits, which reduces Employee loans in the books. Interest income on the loan granted calculated by using the effective interest method is booked against Employee loans, while the prepaid employee benefits are reversed to Interest expenses evenly over the term of the loan.

(j) 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.

(k) Cash and cash equivalents

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

(l) Trade and other payables

Trade and other payables are stated at their cost, representing fair value.

Notes to the consolidated financial statements

Significant accounting policies continued

(m) Share capital

Ordinary shares are classified as equity.

When the Group 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 Group'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 Group's equity holders.

(n) Other reserves

Under local statutory legislation, the Group members are 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 Group members. Statutory reserves can be distributed at the approval of the shareholders meeting.

(o) Dividends

Dividends are recognised as a liability in the Group's financial statements in the period in which they are approved by the Company's shareholders.

(p) Revenue recognition

Revenue is primarily derived from services provided to subscribers and other third parties using the telecommunications network, and equipment sales. Revenues for all services and equipment sales are shown net of VAT, discounts and after elimination of sales within the Group, and are recognized when the amount of the revenue can be reliably measured, it is probable that future economic benefits will flow to the Group and specific criteria are met for the provision of each of the Group's services described below.

Customer subscriber arrangements typically include an activation fee, equipment sale, subscription fee and monthly charge for the actual airtime used. The Group considers the various elements of these arrangements to be separate earnings processes for IFRS purposes and recognizes the revenue for each of the deliverables using residual method.

Customers may also purchase prepaid cards which allow those customers to use the telecommunication network for a selected amount of time. Customers must pay for such services at the date when the card is purchased.

Third parties using the telecommunications network include roaming customers of other service providers and other telecommunications providers which terminate calls on the network.

The IFRS revenue recognition policies for the different groups of services are given below.

Notes to the consolidated financial statements

Significant accounting policies continued

(p) **Revenue recognition continued**

(i) **Activation fees**

Revenues earned from connecting subscribers to the fixed or the mobile network are recognized upon service activation.

(ii) **Subscription fees (mobile and fixed line)**

Monthly subscription fees represent a fixed monthly fee charged to customer subscribers for access to the network. Such fees are recognized in the month during which the customer is permitted access to the network.

(iii) **Outgoing traffic revenue**

Outgoing traffic represents customer and third party use of the telecommunications network. Customers and third parties are charged for outgoing traffic based on their actual use of the network multiplied by a contractually agreed rate. The revenue from usage is recognized in the period in which service is provided to subscribers or third parties.

Revenues from the sale of prepaid cards are recognized when used by the subscribers or when the cards expired with unused units.

(iv) **Incoming traffic revenue**

Incoming traffic revenue is recognized in the period of related usage.

A proportion of the revenue received is often paid to other operators (including roaming) for the use of their networks, where appropriate. These revenues and costs of these transit calls are stated gross in these consolidated financial statements and recognized in the period of related usage.

(v) **Leased lines and data transmission revenues**

Leased line services are provided to customers on a monthly rental basis, while data transmission is charged on a unit basis. These revenues are recognized in the period of usage or availability of the service to the customer.

(vi) **Equipment sales**

Revenues and costs from sale of equipment are recognized upon delivery.

(q) **Finance income and expenses**

Finance income and expenses comprise interest receivable on funds invested, dividend income, foreign exchange gains and losses, impairment losses on available-for-sale financial assets, and gains and losses on financial assets at fair value through profit and loss.

Interest income is recognised in the income statement on a time-proportion basis using the effective interest method. Dividend income is recognised in the income statement when the right to receive payment is established and inflow of economic benefits is probable.

(r) **Leases**

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

Notes to the consolidated financial statements

Significant accounting policies continued

(s) **Employees Benefits**

(i) ***Pension and other obligations***

The Group, in the normal course of business, makes payments on behalf of its employees for pensions, health care, employment and personnel tax which are calculated according to the statutory rates in force during the year, based on gross salaries and wages. Food allowances, travel expenses and holiday allowances are also calculated according to the local legislation. The Group makes these contributions to the Governmental and private funds. The cost of these payments is charged to the income statement in the same period as the related salary cost. No provision is created for holiday allowances for non-used holidays as according to the local legislation the employer is obliged to provide condition for usage, and the employee to use the annual holiday within one year. The Group does not operate any other pension scheme or post retirement benefits plan and consequently, has no obligation in respect of pensions. The Group has legal obligation to pay to employees two average monthly salaries in Republic of Macedonia at their retirement date, for which appropriate liability is recognized in the financial statements. In addition, the Group is not obligated to provide further benefits to current and former employees.

(ii) ***Termination benefits***

Termination benefits are payable when employment is terminated before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy.

(iii) ***Bonus plans***

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

(t) **Provisions**

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

Notes to the consolidated financial statements

Significant accounting policies continued

(u) **Taxation**

Income tax on the profit or loss comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly to equity, in which case it is recognised in equity.

Current income tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred income tax is provided in full, using the balance sheet liability method, on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred income tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred income tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred income tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(v) **Comparative information**

The comparative information as presented in the consolidated financial statements are consistent with the current year presentation and no significant items have been reclassified for comparative purposes.

(w) **Financial risk management**

Financial risk factors

The Group does not apply hedge accounting for its financial instruments, all gains and losses are recognized in the income statement except financial assets classified as available for sale that are recognised in equity. The Group is exposed in particular to 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.

(i) **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 Group arise in MKD, the functional currency of the Company is MKD, and as a result, the Group objective is to minimize the level of its financial risk in MKD terms.

For the presentation of market risks, IFRS 7 requires sensitivity analyses that show the effects of hypothetical changes of relevant risk variables on profit or loss and shareholders' equity. The periodic effects are determined by relating the hypothetical changes in the risk variables to the balance of financial instruments at the balance sheet date. The balance at the balance sheet date is representative for the year as a whole.

Notes to the consolidated financial statements

Significant accounting policies continued

(w) Financial risk management continued

Foreign exchange risk

The functional currency of the Company is the Macedonian denar.

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

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

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

The Group accumulated more cash in EUR and USD than its trade payables in EUR and USD. At 31 December 2007, if EUR would have been 5% (2006: 5%) weaker or stronger against MKD profit would have been MKD 281,860 thousand (2006: 197,214 MKD thousand) after tax in net balance higher or lower, respectively. At 31 December 2007, if USD would have been 5% (2006: 5%) weaker or stronger against MKD profit would have been MKD 80,050 thousand (2006: MKD 100,365 thousand) after tax in net balance higher or lower, respectively.

Interest rate risk

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

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

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

The Group had MKD 13,861,778 thousand deposits (including call deposits) as of 31 December 2006, 1 percentage point rise in market interest rate would have caused (ceteris paribus) the interest received to increase with approx. MKD 124,756 thousand annually after tax, while similar decrease would have caused the same decrease in interest received. Amount of deposit is MKD 14,113,359 thousand (including call deposits) as of 31 December 2007, therefore 1 percentage point rise in market interest rate would have caused (ceteris paribus) the interest received to increase with approx. MKD 127,021 thousand annually after tax, while similar decrease would have caused the same decrease in interest received.

Notes to the consolidated financial statements

Significant accounting policies continued

(w) Financial risk management continued

Other price risk

The Group's investments are in equity of other entities that are publically traded on the Macedonian Stock Exchange, both on its Official and Regular market. The management continuously monitors the portfolio equity investments based on fundamental and technical analysis of the shares. All buy and sell decisions are approved by the relevant Company's bodies. In line with the Group 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 2006 and 2007, the Group holds investments, which could be affected by risk variables such as stock exchange prices.

The Group had MKD 104,997 thousand investments on Macedonian Stock Exchange as of 31 December 2006, 10 percentage point rise in market price would have caused (ceteris paribus) MKD 9,450 thousand gains after tax, while similar decrease would have caused the same loss in the income statement. The amount of the investments on Macedonian Stock Exchange is MKD 161,346 thousand as of 31 December 2007, therefore 10 percentage point rise in market price would have caused (ceteris paribus) MKD 14,522 thousand gains after tax, while similar decrease would have caused the same loss in the income statement.

(ii) Credit risk

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

The Group is exposed to credit risk from its operating activities and certain financing activities. With regard to financing activities, transactions are only concluded with counterparties that have at least a credit rating of BBB+/Baal.

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

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

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

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

The Group does not guarantee obligations of other parties.

Notes to the consolidated financial statements

Significant accounting policies continued

(w) Financial risk management continued

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

Management is focused on dealing with most reputable banks in foreign and domestic ownership on the domestic market.

The following table represents Group exposure to credit risk in 2007 and 2006:

<i>In thousands of denars</i>	2007	2006
Deposits with banks	7,384,557	4,180,998
Cash and cash equivalents	6,728,808	9,683,202
Trade debtors – domestic	2,235,561	1,989,523
Trade debtors – foreign	499,093	514,069
Loans to employees	115,752	93,133
Other receivables	219,715	390,034
	<u>17,183,486</u>	<u>16,850,959</u>

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

Largest amount of one deposit in 2007 is MKD 600,000 thousand (2006: MKD 579,000 thousand) and the group have deposits with 8 domestic banks (2006: 8 domestic banks).

(iii) Liquidity risk

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

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

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

(iv) Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. There is no gearing as at 31 December 2006 and 2007 related to current and non-current loans.

(v) 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.

Notes to the consolidated financial statements

Significant accounting policies continued

(w) **Financial risk management continued**

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

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

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

(x) **Critical accounting estimates and assumptions**

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

(i) **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. Further, due to the significant weight of long-lived assets in our total assets, the impact of any changes in these assumptions could be material to our financial position, and results of operations. As an example, if the Company was to shorten the average useful life of its assets by 10%, this would result in additional annual depreciation and amortization expense of approximately MKD 352,774 thousand.

(ii) **Potential 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 in value is anticipated. The recoverable amounts are 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 (if any). As this exercise is highly judgmental, the amount of potential impairment may be significantly different from that of the result of these calculations.

Notes to the consolidated financial statements

Significant accounting policies continued

(x) Critical accounting estimates and assumptions continued

(iii) *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 required payments. For the largest customers and international customers, impairment is calculated on an individual basis, while for other customers it is estimated on a portfolio basis, for which we base our estimate on the aging of our account receivables balance and our historical write-off experience, customer credit-worthiness and changes in our customer payment terms. These factors are reviewed periodically, and changes are made to the calculations when necessary. The estimates also involve assumptions about future customer behaviour and the resulting future cash collections. 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.

(iv) *Provisions*

Provisions in general are highly judgmental, especially in the cases of legal disputes. The Group assesses the probability of an adverse event as a result of a past event to happen and if the probability is evaluated to be more than fifty percent, the Group fully provides for the total amount of the liability. The Group is rather prudent in these assessments, but due to the high level of uncertainty, in some cases the evaluation may not prove to be in line with the eventual outcome of the case.

(v) *Subscriber acquisition costs*

Subscriber acquisition costs primarily include the loss on the equipment sales (revenues and costs disclosed separately) and fees paid to subcontractors that act as agents to acquire new customers. The up-front fees collected from customers for activation or connection are marginal compared to the costs. These revenues, costs and losses are recognized when the customer is connected to the Group's fixed or mobile networks. No such costs or revenues are deferred. Total amount of agent fees amounted to MKD 419,651 thousand.

Notes to the consolidated financial statements

1. Revenues

<i>In thousands of denars</i>	2007	2006
Domestic fixed line telecommunication services		
-subscription, installation and other charges	2,411,733	2,480,739
-traffic revenues	3,913,798	4,260,345
International traffic revenues	1,401,566	1,750,490
Mobile telecommunication services	8,213,818	7,164,384
Leased line	425,534	353,395
Data transmission	639,490	469,035
Other	1,071,878	665,376
	<u>18,077,817</u>	<u>17,143,764</u>

Other revenues include revenues from equipment sales mainly related to sale of handsets, ADSL boxes and personal computers.

2. Personnel expenses

<i>In thousands of denars</i>	2007	2006
Salaries	813,674	874,337
Contributions on salaries	379,107	392,737
Bonus payments	152,575	185,785
Other staff costs	282,985	329,226
Capitalised personnel costs	(59,003)	(55,442)
	<u>1,569,338</u>	<u>1,726,643</u>

Other staff costs include termination benefits of MKD 45,482 thousands for 62 employees leaving the Group in 2007 (2006: MKD 30,063 thousand for 72 employees).

Notes to the consolidated financial statements

3. Other operating expenses

<i>In thousands of denars</i>	2007	2006
Services	1,022,291	867,925
Purchase cost of goods sold	1,293,279	787,403
Marketing and donations	488,329	614,176
Consultancy	264,101	374,623
Materials and maintenance	389,383	373,394
Impairment losses on trade and other receivables	241,790	316,673
Fees, levies and local taxes	242,161	241,232
Energy	191,908	177,118
Premium rate services	183,997	134,681
Provision for liabilities and other charges	183,009	84,056
Rental fees	94,534	82,105
Insurance	28,553	41,404
Write down/(write back) of inventories to net realisable value	51,950	(7,920)
Other	58,726	81,010
	<u>4,734,011</u>	<u>4,167,880</u>

The remuneration of the members of the Company's Board of Directors amounted to MKD 2,312 thousand (2006: MKD 2,591 thousand).

4. Finance expenses

<i>In thousands of denars</i>	2007	2006
Interest expense	659	42
Bank charges and other commissions	19,377	16,475
Net foreign exchange loss	214,241	253,920
	<u>234,277</u>	<u>270,437</u>

5. Finance income

<i>In thousands of denars</i>	2007	2006
Interest income	502,359	408,181
Fair value gains	56,327	20,297
Dividend income	2,724	2,043
	<u>561,410</u>	<u>430,521</u>

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

Notes to the consolidated financial statements

6. Income tax expense

(a) Recognised in the income statement

<i>In thousands of denars</i>	2007	2006
Current tax expense		
Current year	<u>1,008,693</u>	<u>791,236</u>
Deferred tax expense		
Origination and reversal of timing differences	<u>(34,400)</u>	<u>(126,324)</u>
Total income tax in income statement	<u>974,293</u>	<u>664,912</u>

(b) Reconciliation of effective tax rate

<i>In thousands of denars</i>	2007		2006	
Profit before tax	<u>7,135,294</u>		<u>6,120,895</u>	
Income tax	12.0%	856,235	15.0%	918,134
Non-deductible expenses	2.0%	142,765	4.5%	275,756
Tax exempted revenues	(0.3%)	(24,707)	(4.9%)	(299,135)
Tax deductions on investments in property, plant and equipment	-	-	(3.7%)	(229,843)
	<u>13.7%</u>	<u>974,293</u>	<u>10.9%</u>	<u>664,912</u>

Up to now the tax authorities carried out a full-scope tax audit at the Company for 2003, 2004 and 2005. No issues have been identified in the performed tax audits.

The Government enacted new income tax rates on 30 December 2006 for 2007 and 2008. The income tax rate for 2007 is 12%, while the applicable tax rate for 2008 and the years after is 10 %.

The effect of changes in the income tax rate is MKD 113,866 thousand net release of deferred tax liabilities.

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. The Group's management is not aware of any circumstances, which may give rise to a potential material liability in this respect other than those recorded in these financial statements.

Notes to the consolidated financial statements

7. Property, plant and equipment

<i>In thousands of denars</i>	Land	Buildings	Telecomm - unication equipment	Other	Assets under construc- -tion	Total
Cost						
At 1 January 2006	6,338	4,055,248	24,128,194	4,242,626	298,377	32,730,783
Additions	15	41,588	368,128	350,984	267,106	1,027,821
Disposals	-	(984)	(318,273)	(445,187)	-	(764,444)
Transfer to assets held for sale	-	(359,903)	-	(54,577)	-	(414,480)
Transfer from assets under construction (see note 8)	-	(114,363)	284,934	50,678	(347,309)	(126,060)
At 31 December 2006	6,353	3,621,586	24,462,983	4,144,524	218,174	32,453,620
Depreciation						
At 1 January 2006	-	1,096,235	11,807,295	3,326,130	-	16,229,660
Charge for the year	-	126,987	1,982,813	522,016	-	2,631,816
Disposals	-	(798)	(268,239)	(433,148)	-	(702,185)
Transfer to assets held for sale	-	(134,265)	-	(54,551)	-	(188,816)
Transfer between categories	-	(23,074)	-	679	-	(22,395)
At 31 December 2006	-	1,065,085	13,521,869	3,361,126	-	17,948,080
Carrying amount						
At 1 January 2006	6,338	2,959,013	12,320,899	916,496	298,377	16,501,123
At 31 December 2006	6,353	2,556,501	10,941,114	783,398	218,174	14,505,540

Notes to the consolidated financial statements

7. Property, plant and equipment continued

<i>In thousands of denars</i>	Land	Buildings	Telecomm - unication equipment	Other	Assets under construc - tion	Total
Cost						
At 1 January 2007	6,353	3,621,586	24,462,983	4,144,524	218,174	32,453,620
Additions	-	16,848	853,795	441,929	473,938	1,786,510
Transfer from assets under construction (see note 8)	-	5,124	88,921	48,766	(172,254)	(29,443)
Disposals	-	(792)	(1,281,648)	(154,308)	(466)	(1,437,214)
Transfer from assets held for sale	-	330,652	-	-	-	330,652
At 31 December 2007	<u>6,353</u>	<u>3,973,418</u>	<u>24,124,051</u>	<u>4,480,911</u>	<u>519,392</u>	<u>33,104,125</u>
Depreciation						
At 1 January 2007	-	1,065,085	13,521,869	3,361,126	-	17,948,080
Charge for the year	-	105,219	1,824,151	367,177	-	2,296,547
Disposals	-	(406)	(1,186,908)	(144,100)	-	(1,331,414)
Transfer from assets held for sale	-	123,228	-	-	-	123,228
At 31 December 2007	<u>-</u>	<u>1,293,126</u>	<u>14,159,112</u>	<u>3,584,203</u>	<u>-</u>	<u>19,036,441</u>
Carrying amount						
At 1 January 2007	<u>6,353</u>	<u>2,556,501</u>	<u>10,941,114</u>	<u>783,398</u>	<u>218,174</u>	<u>14,505,540</u>
At 31 December 2007	<u>6,353</u>	<u>2,680,292</u>	<u>9,964,939</u>	<u>896,708</u>	<u>519,392</u>	<u>14,067,684</u>

Operating lease rentals amounting to MKD 94,534 thousand (2006: MKD 82,105 thousand) relating to the lease of property and equipment are included in the income statement.

Notes to the consolidated financial statements

8. Intangible assets

<i>In thousands of denars</i>	Software	Concession	Other	Total
<i>Cost</i>				
At 1 January 2006	4,833,515	154,757	42,350	5,030,622
Additions	643,385	-	7,634	651,019
Transfer from assets under construction (see note 7)	36,191	-	89,869	126,060
At 31 December 2006	<u>5,513,091</u>	<u>154,757</u>	<u>139,853</u>	<u>5,807,701</u>
<i>Amortisation</i>				
At 1 January 2006	2,408,370	154,757	29,397	2,592,524
Charge for the year	1,019,075	-	11,645	1,030,720
Transfer between categories	-	-	22,395	22,395
At 31 December 2006	<u>3,427,445</u>	<u>154,757</u>	<u>63,437</u>	<u>3,645,639</u>
<i>Carrying amount</i>				
At 1 January 2006	<u>2,425,145</u>	<u>-</u>	<u>12,953</u>	<u>2,438,098</u>
At 31 December 2006	<u>2,085,646</u>	<u>-</u>	<u>76,416</u>	<u>2,162,062</u>

<i>In thousands of denars</i>	Software	Concession	Other	Total
<i>Cost</i>				
At 1 January 2007	5,513,091	154,757	139,853	5,807,701
Additions	625,213	-	15,506	640,719
Transfer from assets under construction (see note 7)	21,408	-	8,033	29,441
Disposals	(2,126)	-	-	(2,126)
At 31 December 2007	<u>6,157,586</u>	<u>154,757</u>	<u>163,392</u>	<u>6,475,735</u>
<i>Amortisation</i>				
At 1 January 2007	3,427,445	154,757	63,437	3,645,639
Charge for the year	872,483	-	5,664	878,147
Disposals	(28)	-	-	(28)
At 31 December 2007	<u>4,299,900</u>	<u>154,757</u>	<u>69,101</u>	<u>4,523,758</u>
<i>Carrying amount</i>				
At 1 January 2007	<u>2,085,646</u>	<u>-</u>	<u>76,416</u>	<u>2,162,062</u>
At 31 December 2007	<u>1,857,686</u>	<u>-</u>	<u>94,291</u>	<u>1,951,977</u>

Notes to the consolidated financial statements

9. Trade and other receivables

<i>In thousands of denars</i>	2007	2006
Trade debtors-domestic	4,143,508	4,155,409
Less: allowance for impairment	<u>(1,907,947)</u>	<u>(2,165,886)</u>
Trade debtors-domestic-net	2,235,561	1,989,523
Trade debtors -foreign	499,093	514,069
Receivables from related parties	34,576	199,109
Advances given to suppliers	90,777	82,076
Less: allowance for impairment	<u>(74,397)</u>	<u>(36,049)</u>
Advances given to suppliers-net	16,380	46,027
Loans to related parties	2,849	-
Loans to employees	115,752	93,133
Prepayments and accrued income	147,781	139,629
Other	<u>18,129</u>	<u>5,269</u>
	<u>3,070,121</u>	<u>2,986,759</u>
Less non-current portion: Loans to employees	<u>(103,581)</u>	<u>(83,204)</u>
Current portion	<u>2,966,540</u>	<u>2,903,555</u>

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

Loans to related parties represent loan given during 2007 to Montmak of MKD 2,849 thousand, at referent interest rate of 6 months EURIBOR with margin of 0.3%.

Loans granted to employees carry effective interest rates of 4.55% p.a. and 7% p.a. (2006: 4.55% and to 7% p.a.).

All non current receivables are due within 15 years of the balance sheet date.

As of 31 December 2007, domestic trade debtors of MKD 2,455,988 thousand (2006: MKD 2,720,906 thousand) are impaired. The ageing of these receivables is as follows:

<i>In thousands of denars</i>	2007	2006
Less than 30 days	354,644	316,942
Between 31 and 180 days	290,210	275,958
Between 181 and 360 days	157,069	181,608
More than 360 days	<u>1,654,065</u>	<u>1,946,398</u>
	<u>2,455,988</u>	<u>2,720,906</u>

The amount of the provision is MKD 1,870,633 thousand (2006: MKD 2,140,126 thousand). These receivables and the provision include receivables from customers under liquidation which are fully impaired. In addition, the Group has a specific provision calculated in respect of a certain group of customers in amounting to MKD 37,314 thousand (2006: MKD 25,760 thousand).

Notes to the consolidated financial statements

9. Trade and other receivables continued

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

<i>In thousands of denars</i>	2007	2006
Trade debtors-domestic-net	2,235,561	1,989,523
Trade debtors -foreign	499,093	514,069
Receivables from related parties	34,576	199,109
Advances given to suppliers	16,380	46,027
Loans to related parties	2,849	-
Loans to employees	115,752	93,133
Prepayments and accrued income	147,781	139,629
Other	18,129	5,269
	<u>3,070,121</u>	<u>2,986,759</u>

Movement in allowance for impairment of domestic trade debtors

<i>In thousands of denars</i>	2007	2006
Impairment losses at 1 January	2,165,886	2,211,873
Charged to expense	203,442	280,624
Write off	<u>(461,381)</u>	<u>(326,611)</u>
Impairment losses at 31 December	<u>1,907,947</u>	<u>2,165,886</u>

Movement in allowance for impairment of advances given to suppliers

<i>In thousands of denars</i>	2007	2006
Impairment losses at 1 January	36,049	0
Charged to expense	<u>38,348</u>	<u>36,049</u>
Impairment losses at 31 December	<u>74,397</u>	<u>36,049</u>

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

As of 31 December 2007, foreign trade receivables in amount of MKD 176,971 thousand (2006: MKD 80,898 thousand) were past due but not impaired. These relate to a number of international customers assessed on individual basis in accordance with past Group experience and current expectations, in line with the principle of prudence. The ageing analysis of these foreign trade receivables is as follows:

<i>In thousands of denars</i>	2007	2006
Less than 30 days	63,236	30,713
Between 31 and 60 days	38,025	21,206
Between 61 and 90 days	1,783	9,461
Between 91 and 180 days	68,210	7,686
Between 181 and 360 days	1,088	2,111
More than 360 days	4,629	9,721
	<u>176,971</u>	<u>80,898</u>

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

Notes to the consolidated financial statements

9. Trade and other receivables continued

The Parent company has renegotiated domestic trade receivables in carrying amount of MKD 8,949 thousand (2006: MKD 11,740 thousand).

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

<i>In thousands of denars</i>	2007	2006
MKD	98,231	83,204
EUR	5,350	-
	<u>103,581</u>	<u>83,204</u>

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

<i>In thousands of denars</i>	2007	2006
MKD	2,375,669	2,257,347
EUR	510,497	122,800
USD	30,978	40,295
Other	49,396	483,113
	<u>2,966,540</u>	<u>2,903,555</u>

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

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

<i>In thousands of denars</i>	2007	2006
Group 1	1,107,286	906,743
Group 2	326,202	221,081
Group 3	254,032	306,679
	<u>1,687,520</u>	<u>1,434,503</u>

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

<i>In thousands of denars</i>	2007	2006
Group 1	67,095	95,350
Group 2	103,281	158,039
Group 3	151,746	179,782
	<u>322,122</u>	<u>433,171</u>

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

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

Notes to the consolidated financial statements

9. Trade and other receivables continued

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

10. Deferred income tax

Recognised deferred income tax (assets)/liabilities

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

<i>In thousands of denars</i>	Assets		Liabilities		Net	
	2007	2006	2007	2006	2007	2006
Property, plant and equipment	-	-	505,865	525,393	505,865	525,393
Intangible fixed assets	(15,911)	(16,299)	-	-	(15,911)	(16,299)
Inventory	(248)	(2,990)	-	-	(248)	(2,990)
Trade and other receivables	(198,762)	(220,237)	-	-	(198,762)	(220,237)
Deferred revenue	(56,655)	(45,480)	-	-	(56,655)	(45,480)
Financial assets at fair value through profit and loss	-	(496)	3,469	-	3,469	(496)
Trade and other payables	(14,207)	(44,818)	-	-	(14,207)	(44,818)
Provisions	(83,944)	(21,066)	-	-	(83,944)	(21,066)
Tax (assets)/liabilities	<u>(369,727)</u>	<u>(351,386)</u>	<u>509,334</u>	<u>525,393</u>	<u>139,607</u>	<u>174,007</u>
Set off of tax	<u>369,727</u>	<u>351,386</u>	<u>(369,727)</u>	<u>(351,386)</u>	-	-
Net tax liabilities	-	-	<u>139,607</u>	<u>174,007</u>	<u>139,607</u>	<u>174,007</u>

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

	2007	2006
Deferred income tax assets:		
Deferred income tax asset to be recovered after more than 12 months	223,721	243,813
Deferred income tax asset to be recovered within 12 months	<u>146,006</u>	<u>107,573</u>
	<u>369,727</u>	<u>351,386</u>
Deferred tax liabilities:		
Deferred income tax liability to be recovered after more than 12 months	(509,334)	(525,393)
Deferred income tax liability to be recovered within 12 months	-	-
	<u>(509,334)</u>	<u>(525,393)</u>
Deferred income tax liabilities (net)	<u>(139,607)</u>	<u>(174,007)</u>

Notes to the consolidated financial statements

10. Deferred income tax continued

Movement in temporary differences during the year

<i>In thousands of denars</i>	Balance 1 January 2007	Recognised in income	Balance 31 December 2007
Property, plant and equipment	525,393	(19,528)	505,865
Intangible assets	(16,299)	388	(15,911)
Inventory	(2,990)	2,742	(248)
Trade and other receivables	(220,237)	21,475	(198,762)
Deferred revenue	(45,480)	(11,175)	(56,655)
Financial assets at fair value through profit and loss	(496)	3,965	3,469
Trade and other payables	(44,818)	30,611	(14,207)
Provision	(21,066)	(62,878)	(83,944)
Net tax liabilities	174,007	(34,400)	139,607

<i>In thousands of denars</i>	Balance 1 January 2006	Recognised in income	Balance 31 December 2006
Property, plant and equipment	686,941	(161,548)	525,393
Intangible assets	(23,649)	7,350	(16,299)
Inventory	(5,107)	2,117	(2,990)
Trade and other receivables	(334,192)	113,955	(220,237)
Deferred revenue	(5,861)	(39,619)	(45,480)
Financial assets at fair value through profit and loss	-	(496)	(496)
Trade and other payables	(11,132)	(33,686)	(44,818)
Provision	(6,669)	(14,397)	(21,066)
Net tax liabilities	300,331	(126,324)	174,007

The temporary differences mainly relate to eliminated revaluation made in accordance with statutory requirements and differences between tax allowable and accounting depreciation charges. The difference in the treatment of provisions and impairment losses for trade and other receivables for tax and accounting purposes also contributes to the temporary differences.

Notes to the consolidated financial statements

11. Financial assets at fair value through profit and loss

The amount of MKD 226,272 thousand (2006: MKD 169,923 thousand) represents financial assets at fair value through profit or loss of which MKD 64,926 thousand (2006: MKD 64,926 thousand) is calculated based on an independent valuation and MKD 161,346 thousand (2006: MKD 104,997 thousand) is 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 in the income statement (Note 5). The cost of these equity investments is MKD 135,785 thousand (2006: MKD 135,785 thousand).

12. Non current assets held for sale

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

13. Inventories

<i>In thousands of denars</i>	2007	2006
Materials	68,585	100,382
Inventory for resale	253,770	235,085
Write down of inventories to net realisable value	<u>(21,465)</u>	<u>(25,323)</u>
	<u>300,890</u>	<u>310,144</u>

Materials include cables, modems and other equipment.

Movement in allowance for inventories to net realizable value

<i>In thousands of denars</i>	2007	2006
Allowance at 1 January	25,323	51,877
Charged to expense	51,950	(7,920)
Write off	<u>(55,808)</u>	<u>(18,634)</u>
Allowance at 31 December	<u>21,465</u>	<u>25,323</u>

Allowance for inventory including write off mainly relates to obsolete materials.

14. Deposits with banks

Deposits with banks represent cash deposits in the reputable domestic banks, with interest rates from 2.8% p.a. to 4.66% p.a. (2006: from 1.69% p.a. to 4.80% p.a.) and with maturity between 6 and 12 months.

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

<i>In thousands of denars</i>	2007	2006
MKD	1,235,020	309
USD	1,428,558	1,079,932
EUR	<u>4,720,979</u>	<u>3,100,757</u>
	<u>7,384,557</u>	<u>4,180,998</u>

Notes to the consolidated financial statements

14. Deposits with banks continued

The criteria for placement of deposits are based on CAEL methodology ratings as an off – site rating system. Basically, the 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 Group placed its deposits in the Macedonian banks, which final score varies within following 3 ranges:

A - Banks with evaluation from 1.84 to 2.45

B - Banks with evaluation from 2.46 to 3.07

C - Banks with evaluation from 3.08 to 3.69

Following is the breakdown of deposits with banks by categories:

<i>In thousands of denars</i>	2007	2006
A	7,032,803	3,844,317
B	351,754	336,681
	<u>7,384,557</u>	<u>4,180,998</u>

15. Cash and cash equivalents

<i>In thousands of denars</i>	2007	2006
Call deposits	6,728,802	9,680,780
Cash on hand	29	70
Cash equivalents	6	2,422
	<u>6,728,837</u>	<u>9,683,272</u>

The interest rate on call deposits ranged from 1.98% p.a. to 4.68% p.a. (2006: from 1.10% p.a. to 8.40% p.a.). These deposits have maturities of less than 3 months.

The Company has restricted cash in amount of MKD 8,862 thousand (2006: MKD 9,439 thousand) representing performance guaranties issued for sales projects.

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

<i>In thousands of denars</i>	2007	2006
MKD	5,613,577	7,890,700
EUR	932,532	856,850
USD	182,682	935,717
Other	46	5
	<u>6,728,837</u>	<u>9,683,272</u>

Notes to the consolidated financial statements

15. Cash and cash equivalents continued

Following is the breakdown of call deposits by categories (see note 14):

<i>In thousands of denars</i>	2007	2006
A	6,575,580	9,525,811
B	146,908	150,838
C	6,314	4,131
	<u>6,728,802</u>	<u>9,680,780</u>

16. Capital and reserves

Share capital consists of the following:

Share capital

<i>In thousands of denars</i>	2007	2006
Ordinary shares	9,583,878	9,583,878
Golden share	10	10
	<u>9,583,888</u>	<u>9,583,888</u>

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

The golden share with a nominal value of MKD 9,733 is held by the Government of the Republic of Macedonia. In accordance with Article 21 of the Statute, the golden shareholder has additional rights not vested in the holders of ordinary shares.

On 18 October 2006, the Government of the Republic of Macedonia granted 1,916,775 existing shares to the employees, which represent approximately 2% of the Company's shares. The transaction was registered in the Central Registry on 26 December 2006. The shares were granted free of charge to all employees in regular labour relation on 15 January 2001. There were no conditions as to receiving the shares, while the only condition to become owner of the shares was to pay personal income tax in line with local legislation.

Treasury shares

The Company acquired 9,583,878 of its own shares, representing 10% 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 and has been deducted from shareholders' equity. The shares are held as treasury shares. The Company has the right to reissue these shares at a later date. All shares issued by the Company were fully paid.

Notes to the consolidated financial statements

17. Provisions for other liabilities and charges

<i>In thousands of denars</i>	Legal cases	Severance	Other	Total
January 1, 2006	24,891	13,135	6,437	44,463
Additional provision	241,599	117,940	13,512	373,051
Unused amount reversed	(3,285)	-	-	(3,285)
Used during period	(15,945)	(13,135)	-	(29,080)
December 31, 2006	<u>247,260</u>	<u>117,940</u>	<u>19,949</u>	<u>385,149</u>

<i>In thousands of denars</i>	Legal cases	Severance	Other	Total
January 1, 2007	247,260	117,940	19,949	385,149
Additional provision	341,536	17,621	135,329	494,486
Unused amount reversed	(10)	-	(19,949)	(19,959)
Used during period	(3,579)	-	(16,702)	(20,281)
December 31, 2007	<u>585,207</u>	<u>135,561</u>	<u>118,627</u>	<u>839,395</u>

Analysis of total provisions:

	2007	2006
Non current (legal cases and other)	381,841	68,185
Current	<u>457,554</u>	<u>316,964</u>
	<u>839,395</u>	<u>385,149</u>

Provisions mainly relate to certain legal and regulatory claims brought against the Group. The major part of the provision made for legal and regulatory claims relate to charging of voice mail service, charging of administrative fee and for possible fine related to abusing dominant position on the market for access to digital leased lines. Based on legal advice, the management does not expect that the outcome of these legal claims will give rise to any significant loss beyond the amounts provided at 31 December 2007.

Other includes provision for customer loyalty programs which includes the fair value of discount credits earned by customers that have not been utilized. The provision is recognized against revenues.

Notes to the consolidated financial statements

18. Trade and other payables

<i>In thousands of denars</i>	2007	2006
Trade payables		
-Domestic	312,321	432,545
-Foreign	253,902	428,349
Liabilities to related parties	261,698	221,126
VAT and social security payable	93,586	121,195
Accrued expenses	784,765	548,495
Advances received	37,898	38,168
Deferred revenue	671,941	409,316
Other	133,519	61,636
	<u>2,549,630</u>	<u>2,260,830</u>

Liabilities to related parties represent liabilities to Deutsche Telekom Group and Magyar Telekom Group.

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

<i>In thousands of denars</i>	2007	2006
Less than 90 days	516,287	806,820
Between 90 and 180 days	20,782	36,417
Between 181 and 360 days	29,154	17,657
	<u>566,223</u>	<u>860,894</u>

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

<i>In thousands of denars</i>	2007	2006
MKD	2,131,054	1,685,340
EUR	364,074	461,944
USD	22,239	27,957
Other	32,263	85,589
	<u>2,549,630</u>	<u>2,260,830</u>

19. Dividends

The Shareholders' Assembly of the Company on 31 July 2007 adopted a dividend payment for the year 2005 in the amount of MKD 7,426,794 thousand. The dividend payment has commenced on 1 August 2007.

20. Commitments

Capital commitments

The amount authorized for capital expenditure as at 31 December 2007 was MKD 472,803 thousand (2006: MKD 951,722 thousand).

Notes to the consolidated financial statements

20. Commitments continued

Operating lease commitments – where the Group is the lessee

Operating lease commitments were mainly in respect in the lease of buildings, business premises, locations for base telecommunication stations and other telecommunications facilities.

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

	2007	2006
Not later than 1 year	82,236	89,242
Later than 1 year and not later than 5 years	239,135	341,295
Later than 5 years	84,214	77,281
	405,585	507,818

21. Categories of financial assets and liabilities

The table below shows the categorization of financial assets as at December 31, 2006.

Assets <i>In thousands of denars</i>	Financial assets				At fair value through profit and loss	Carrying amount 2006	Fair value 2006
	Loans and receivables	Held- to-maturity	Available-for-sale				
Cash and cash equivalents	9,683,272	-	-	-	-	9,683,272	9,683,272
Deposits with banks	4,180,998	-	-	-	-	4,180,998	4,180,998
Trade and other receivables	2,986,759	-	-	-	-	2,986,759	2,986,759
Available-for-sale financial assets	-	-	896	-	-	896	896
Financial assets at fair value through profit and loss	-	-	-	169,923	-	169,923	169,923

Notes to the consolidated financial statements

21. Categories of financial assets and liabilities continued

The table below shows the categorization of financial assets as at December 31, 2007.

Assets <i>In thousands of denars</i>	Financial assets				At fair value through profit and loss	Carrying amount 2007	Fair value 2007
	Loans and receivables	Held- to- maturity	Available- for-sale				
Cash and cash equivalents	6,728,837	-	-	-	-	6,728,837	6,728,837
Deposits with banks	7,384,557	-	-	-	-	7,384,557	7,384,557
Trade and other receivables	3,070,121	-	-	-	-	3,070,121	3,070,121
Available- for-sale financial assets	-	-	896	-	-	896	896
Financial assets at fair value through profit and loss	-	-	-	-	226,272	226,272	226,272

22. Contingencies

T-Mobile Macedonia is defending an action brought by Newsphone S DOO – Skopje with regards to lost future profits as a result of termination of contract by T-Mobile Macedonia. While liability is not admitted, if defence against the action is unsuccessful, damage compensation would amount to MKD 983,083 thousand. Based on legal advice, the management does not expect the outcome of the action to have a material effect on the Group's financial position.

In May 2007, the Agency issued new invoices for T-Mobile Macedonia for surcharge on radiofrequency fee for 2004 and 2005 in the amount of MKD 150,790 thousand. T-Mobile Macedonia has already paid previously issued invoices in the amount of MKD 125,561 thousand issued by the Agency relating to these same periods and considers these fees as finally settled and has not recognised nor paid the new invoices issued in May 2007. The Agency has initiated a court procedure. The Primary court in its first instance has awarded the claim and T-Mobile Macedonia has filed an appeal. Up to date the Primary court has not decided on the appeal. Based on legal advice, the Management expects that it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation.

The Company has other contingent liabilities in respect of legal and regulatory claims arising in the ordinary course of business. The regulatory claims mainly relate to fix to mobile interconnection retail prices and charging of administrative fee. In addition, there are damage compensation cases initiated by local service providers related to wholesale ADSL (see note 25). It is not anticipated by the management of the

Notes to the consolidated financial statements

22. Contingencies continued

Company that any material liabilities will arise from the contingent liabilities other than those provided for (see note 17).

23. 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, supply of management consultancy services and support of re-branding activities. The amounts receivable and payable are disclosed in the appropriate notes (see note 9 and 18).

The transactions with the Group's related parties are as follows:

<i>In thousands of denars</i>	2007		2006	
	Revenues	Expenses	Revenues	Expenses
Deutsche Telekom Group	207,294	124,609	192,327	119,439
Magyar Telekom Group	121,863	347,877	177,311	440,246

<i>In thousands of denars</i>	2007		2006	
	Receivables	Liabilities	Receivables	Liabilities
Deutsche Telekom Group	24,727	24,733	152,631	33,323
Magyar Telekom Group	9,849	236,965	46,478	187,803

The transactions with Deutsche Telekom Group presented above include transaction with the ultimate parent company and its subsidiaries and associates excluding transactions with Magyar Telekom Plc. and its subsidiaries and associates which are present as transactions with Magyar Telekom Group.

Key management compensation

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

	2007	2006
Short-term employee benefits	45,830	62,378
Share-based payments	-	8,842
	<u>45,830</u>	<u>71,220</u>

The share-based payments represent compensation of key management from the Company as part of a Mid Term Incentive Plan (MTIP) launched in 2004 by Magyar Telekom Plc., whereby the targets to be achieved are based on the performance of the Magyar Telekom Plc. share. 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 and is included in personal expenses recognized against other provisions.

Notes to the consolidated financial statements

24. Group enterprises

Subsidiaries

	Country of incorporation	Ownership interest	Ownership interest
		2007	2006
AD T-Mobile Macedonia	Macedonia	100	100
Montmak	Montenegro	100	100
Foundation "E-Macedonia"	Macedonia	100	100

Montmak operates a hotel resort in Montenegro. The management of the Company has decided to dispose of this subsidiary and appropriate actions have been initiated. Board of directors has approved the resolution for disposal of the subsidiary. Based on the resolution consultancy firm is appointed to perform necessary disposal activities. The transaction was completed during the first quarter of 2008 (see note 25).

25. Subsequent events

At the beginning of 2008 the Company's Board of Directors accepted the resignation of the Chief Human Resources and Legal Officer. Until the appointment of a new Chief Human Resources and Legal Officer, the Chief Executive Officer of the Company will take over his duties.

On 12 February 2008 the Company signed Share Purchase Agreement for selling Montmak – fully owner subsidiary in Montenegro. As of 31 December 2007 the Montmak's carrying value was MKD 64,926 thousand.

In February 2008 a civil procedure was initiated by a local Internet Service Provider for damage compensation related to abuse of dominant position on the market for access to digital leased lines. The amount of the damage requested is MKD 100,521 thousand. Based on legal advice, currently, the Management believes that it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation.

On 25 February 2008 the decision of CPC with regard to voice mail legal case (see note 17) was received, by which T-Mobile Macedonia is being penalized with 3.15% of the annual gross revenue for 2004 or MKD 251,743 thousand. After the receipt of the decision of CPC, T-Mobile Macedonia has recorded an additional provision in amount of MKD 69,625 thousand in 2008 financial statements (2007: MKD 182,118 thousand). T-Mobile Macedonia initiated court procedure in front of the Administrative Court in March 2008 and is expecting further development of the case. The Management believes that the amount of the penalty will not threaten the ability of T-Mobile Macedonia to continue as a going concern.

On 1 May 2008 AD Makedonski telekomunikacii Skopje was renamed in Makedonski Telekom AD - Skopje and its products are marketed under the brand T-home.

In June 2008 the Administrative Court confirmed the legal basis for the damage compensation cases related to wholesale ADSL which is considered as triggering event (see note 22). Based on legal advice the Management estimates the amount of probable obligation as MKD 92,033 thousand, on which amount provision is booked in 2008.

Notes to the consolidated financial statements

25. Subsequent events continued

In July 2008 CPC brought a decision regarding the misdemeanour for abusing dominant position on the market for access to digital leased lines sentencing the Company with fine of MKD 145,748 thousand. The Company recorded additional provision of MKD 44,570 thousand in 2008 (2007: MKD 101,178 thousand).

BTS sites permissions for T-Mobile Macedonia are not completely provided for all existing base stations, and whereby a procedure is being initiated against T-Mobile Macedonia for 187 locations for their removal, and for what appeals are being submitted. So far 10 first-degree and 45 second-degree positive and 101 negative second-degree decisions are received. In addition, 107 negative acts were received from the first degree body – so called Conclusions with permits for execution, which were enacted without waiting for the outcome of the appealing procedure. Management believes it is not probable that T-Mobile Macedonia will have to dismantle the base stations and will receive the necessary permission to retain them. In this administrative procedure, to Management's best knowledge, T-Mobile Macedonia can not be exposed to any fine.

Both the Company and T-Mobile Macedonia have implemented the number portability starting from 1 September 2008.

The Shareholders' Assembly of Makedonski Telekom AD - Skopje, at its Annual Shareholders' meeting, held on 3 September 2008 adopted a Resolution for the dividend payment for the year 2007. The Resolution on dividend payment for 2007 is in the amount of MKD 9,783,072 thousand of which MKD 9,043,913 thousand are from the net profit for the year 2007, whereas the remaining MKD 739,159 thousand are from the accumulated profit. The dividend was paid out on 29 September 2008.



Makedonski Telekom AD - Skopje

Number: 224845/
06-2008 2008

Skopje

Pursuant to the provisions of the Law on Trade Companies and the Statute of Makedonski Telekom AD - Skopje (the Company) and Resolution 09/2008 of the Board of Directors (No. 74835/1 dated 26.02.2008), the Shareholders' Assembly of Makedonski Telekom AD - Skopje, at the continuation of the interrupted meeting of the Annual Shareholders' Assembly held on 18.06.2008 adopted the following:

RESOLUTION

on the adoption of the Annual Report on the operations of the Company for 2007

Article 1

The Shareholders' Assembly of Makedonski Telekom AD - Skopje hereby adopts the Annual Report on the operations of the Company for 2007, which has been enclosed as an integral part of the Resolution hereto.

Article 2

The Accounting and Group Compliance Area is hereby obliged to submit the Annual Report on the operations of the Company for 2007 to the competent state institutions in accordance with the legal regulations.

Article 3

The Resolution hereto shall enter into force on the day of its adoption.

SHAREHOLDERS' ASSEMBLY

Chairperson

Zoran Trajcevski



Македонски Телеком
Д.О.О. Скопје

Legal Certified translation



Strictly confidential business information for AD Makedonski Telekomunikacii (MakTel)

ANNUAL REPORT on the operations of MT in 2007

On February 13, 2006, Magyar Telekom, the controlling owner of the Company, announced that it was investigating certain contracts entered into by a fellow subsidiary of Magyar Telekom to determine whether they were entered into in violation of the Magyar Telekom policy or any applicable law or regulation. Subsequent to this, on February 19, 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 adopted a resolution for an independent internal investigation regarding certain contracts to be conducted. The investigation, conducted by an independent law firm and supervised by the Audit Committee of Magyar Telekom, is still ongoing.

Magyar Telekom has already implemented certain remedial measures designed to enhance the Magyar Telekom Group control procedures with respect to the entry into consultancy contracts, including the introduction of a new governance model.

As a result of the delays in finalizing its 2005 and 2006 financial statements due to the investigation, the Company has failed to meet certain deadlines prescribed by the Republic of Macedonia and other applicable laws and regulations for preparing and filing audited annual results and holding annual general meetings.

This Annual report on the operation relates to the Group of AD Makedonski Telekomunikacii, which includes AD Makedonski Telekomunikacii – Skopje (MakTel), T-Mobile Macedonia AD – Skopje and the E-Macedonia Foundation – Skopje.

MakTel is a joint stock company incorporated and domiciled in the Republic of Macedonia for the provision of telecommunication services.

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

In 2007, approximately 34 percent of the total revenue of MakTel Group was derived from voice revenues from domestic fixed line telecommunications services. Mobile services contributed with about 47 percent, while international telecommunications services contributed with about 8 percent to the total revenues. Internet and data services contributed with about 7 percent of the total. Four percent of the total revenues were derived from other miscellaneous services.

The revenue from domestic fixed line telecommunication services still marks a downward movement mainly due to the similar movement of the Macedonian economy and the resultant decrease of the consumer purchasing power. The decreased revenue of MakTel from international traffic relates to the lower volume of traffic, lower termination taxes, lower average settlement rate and MKD/SDR exchange rate. The proportion of mobile revenue is increasing despite the competitive environment and mainly owing to the enlarged subscriber base. Internet and data revenue has grown, mainly due to the success of ADSL, but it still represents an insignificant portion of the total revenues.

MakTel is the primary fixed line service provider in Macedonia. Its exclusive rights in fixed line telecommunications services expired in December 2004. These exclusive rights included local, national and international long-distance public voice services, voice over IP services, leased line services and building and operating public voice network services. MakTel's objectives for the forthcoming years are to be a leading provider of technology in Macedonia and to provide quality services with attractive prices in order to be prepared for the increasing competition.



Strictly confidential business information for AD Makedonski Telekomunikacii (MakTel)

MakTel's major operational goals were to digitalize the fixed network and to increase the number of subscribers. While the total digitalization was achieved at the end of 2003, MakTel's subscriber base has been steadily decreasing. At the end of 2007, MakTel had 447,894 PSTN lines and 44,482 ISDN channels, compared to 474,949 and 42,200, respectively, at the end of 2006. Fixed line penetration was marked with a similar movement, stabilizing at 22 percent at the end of 2007.

MakTel has a 93 percent market share on the Macedonian narrowband Internet market. The number of Internet subscribers and the time they spend on the World Wide Web still notes an increasing trend. MakTel provides Internet access via the public switched telephone network, leased lines and ADSL. The growth in the Internet revenues was mostly fostered by the sale of ADSL, which almost tripled the number of ADSL connections, to 48,214 at the end of 2007, compared to 16,462 as of December 31, 2006.

MakTel 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 and it has been deducted from the shareholders' equity. The shares are held as treasury shares. The Company has the right to reissue these shares at a later date. All shares issued by the Company were fully paid.

Historically, MakTel, like government-owned operators in other countries, maintained relatively low domestic charges and high tariffs for international calls. Since November 1999, MakTel has been gradually rebalancing its tariffs in accordance with its long-term rebalancing strategy. International tariffs are expected to be decreased further, bringing them in line with the EU standards. Local tariffs and basic access charges should be increased to reflect costs, but MakTel have not sought to exploit the maximum increases allowed by the regulation to keep the rates affordable to its customers.

T-Mobile Macedonia is the leading mobile operator in Macedonia, dedicated to provide up-to-date technologies and advanced service offerings, commensurate to the highest technological and service standard of the T-Mobile Group.

T-Mobile Macedonia continued to experience significant growth in 2007 as well. By the end of 2007, it expanded its customer base from 944,530 at the end of 2006 to 1,212,539, despite the competitive market environment. The principal activities of T-Mobile Macedonia's operations are digital mobile telephone services based on the GSM technology and non-voice services such as SMS, MMS and GPRS. T-Mobile Macedonia also provides GSM phase2+ data and facsimile transmission services, mobile Internet and a number of other content services. The Macedonian market is very price-sensitive. T-Mobile Macedonia offers various promotions and incentives to encourage the use of its services.

The increase in the number of T-Mobile's subscribers in the last three years is attributable to a number of factors, including reductions in handset prices and call charges in real terms, successful marketing campaigns and the introduction of instalment purchase plans.

As of December 31, 2007, T-Mobile Macedonia had a 62.3 percent market share in the Macedonian mobile telephone market in terms of subscribers. In the course of 2007, the mobile penetration rate significantly increased, reaching 93.2%, compared to 68.3% as of December 31, 2006.

T-Mobile's business is affected by seasonal factors, with a general increase in roaming revenues during the third calendar quarter of each year due to the summer holidays and increased sales of products and services during the fourth quarter due to the Christmas purchases.



Strictly confidential business information for AD Makedonski Telekomunikacii (MakTel)

On February 28, 2006 the Shareholders Assembly of former Mobimak approved the re-branding of Mobimak into T-Mobile Macedonia AD Skopje. The re-branding was completed in September 2006. The T-Mobile day was celebrated with a free concert of the Pet Shop Boys on the city square with about 100.000 people. The re-branding provided sufficient competitive advantage over the competitor and enhanced the customer perception.

REGULATION AND PRICING

A new Macedonian Law on Electronic Communications (“ECL”), which was enacted on March 5, 2005, brings the country’s telecommunications regulations closer to the EU regulatory framework, with some transitional provisions. It also provides a number of strict obligations for the existing operators.

In the second half of 2006, the Government of Republic of Macedonia enacted a number of bylaws and rulebooks regulating different electronic communication areas. As a result of the intensified implementation, there is a possibility that certain ECL provisions and bylaws will be amended soon.

Regulation of Fixed Line Business

On December 31, 2004, MakTel’s exclusive rights in the Macedonian telecommunications market expired, thus making it possible for other network and service providers to enter the Macedonian telecommunications markets, upon the submission of a notification to the Agency for Electronic Communications (“The Agency”) and the registration thereof. By end of 2007, the Agency had registered 52 fixed network operators and 54 service providers of public fixed telephone services. MakTel published the Network Access Agreement for the VoIP service providers for international calls. In February 2007, the Government of RoM brought a conclusion that the Concession Contracts of the operators (MakTel, T-Mobile Macedonia and Cosmofon) do not exist anymore according to the ECL, wherein the operators should continue operating under the provisions of ECL. A draft version of the Contract on the harmonization of the provisions of the existing Concession Contracts with the provisions of ECL was prepared and agreed between the operators (MakTel, T-Mobile Macedonia and Cosmofon) and the Ministry of Transport and Communications. The abovementioned Contract is pending for an approval from the representatives of European Commission in order to be signed.

In July 2005, the Agency issued regulations governing the conditions for interconnection. The rules for access to and the use of specific network facilities were issued in August 2005, whereas the regulations governing the opening of the local loop to competitors and carrier selection were adopted in December 2005.

On August 8, 2005, MakTel submitted its first Reference Interconnection Offer (“RIO”) to the Agency. The interconnection prices contained in this offer were approved on January 23, 2006. In November 2006, the first Interconnection Contract was signed according to the conditions determined in the RIO. MakTel’s first Reference Unbundling Offer for the Unbundling of the Local Loop (“RUO”) was submitted to the Agency on September 5, 2005 and approved on July 19, 2006. The Agency approved the submitted MATERIO on December 17, 2007 mainly related to the additional fees, asymmetrical approach and technical corrections. MATERUO was amended twice in 2007 – voluntary decreases of the shared access prices and commercial technical provisions.

In order to be prepared for the competition in the fixed line business, MakTel carried out several changes in its retail pricing structure. For example, MakTel continued to align the prices it charged for network access products and calling services with the underlying costs, and changed its pulse-based



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charging system to a more customer-oriented time-based charging system with shorter time units. In addition, on the basis of the ECL, the Agency imposed an obligation for cost-based prices for the wholesale services of MakTel. Because MakTel's monthly fees for network access and the prices it charges for local calls amount to approximately half of the respective EU averages and are below MakTel's approved cost-based wholesale prices, further cost-based realignment of the retail prices might become necessary. To the extent that any of its subscriber line prices do not yet fully reflect the cost of service, a negative impact on MakTel's competitiveness in the wholesale and retail markets can be expected. In July 2007, the wholesale ADSL ("WS ADSL") Agreement with the competitor On-Net was signed. The WS ADSL sales until the end of 2007 were more than 15% from the total ADSL subscribers.

According to the obligations from the ECL, a new number portability bylaw was published by the Agency on December 27, 2006. MakTel and T-Mobile Macedonia, as operators of publicly available telephone services, must enable their subscribers to retain their non-geographic or geographic numbers when changing telecommunications operators. The number portability was scheduled to be fully implemented by July 1, 2007. The technical description of interfaces and the Central Database (CDB) were issued in March 2007. The Agency announced a public tender on April 30, 2007, for the provider of the CDB. The tender was cancelled until further notice. MakTel's estimation is that number portability will be implemented in the company network in the third quarter of 2008.

At the end of January 2008, MakTel submitted to the Agency an amendment of the Reference Offer - MATERIO with included provisions on the manner and time of provisioning NP services in our network.

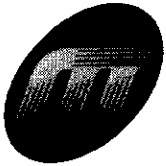
Since the end of 2004, when MakTel's obligation for providing universal services according to the Concession Contract expired, there is still no operator designated as a Universal Service Provider ("USP"). In May 2006, the Government of RoM enacted a Decision on the implementation of a Temporary Strategy for Universal Service which sets forth the basic strategic directions. The relevant by-laws regulating the technical parameters, quality requirements and pricing for providing Universal Services in Macedonia were enacted in the second half of 2006. At the session held on December 27, 2007, the Commission of the Agency brought a decision to announce a public tender for the universal provider of electronic communication services in the Republic of Macedonia. The opening of the qualified bids was on February 18, 2008, wherein the official results of the tender shall be published 10 days thereafter.

The Agency announced its willingness to implement a public tender procedure for granting authorizations for radio frequency utilization in the band 3.4 – 3.6 GHz for the realization of fixed wireless access, WiMAX. After announcing the public tender, the Agency granted 6 regional and 2 national authorizations for radio frequency utilization in the 3.4-3.6 GHz band for the realization of fixed wireless access (WiMAX). Operators with national licenses started with the provision of services on January 23, 2008, whereas those with regional licenses should start on March 23, 2008.

The pricing for most of the retail services provided by MakTel is regulated by MakTel's Concession Contract. The pricing and the possible maximum change in the prices for these services are based on the price cap method.

In addition, according to the ECL, based upon market analyses the Agency may impose retail rate regulations obligations and price control on the Significant Market Player ("SMP") operators in the relevant market. The SMP operator is obliged to keep separate accounting records for its wholesale and retail activities.

The pricing for dial-up and ADSL access to the Internet, however, is currently unregulated.



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Regulated wholesale prices - During 2006, the Agency approved MakTel's interconnection and unbundling fees ("MATERIO and MATERUO") based on the fully distributed cost accounting method. However, the current interconnection fees between MakTel and the two mobile operators, and between the two mobile operators themselves, are still based on the former interconnection agreements which have not been harmonized yet with MATERIO. Interconnection agreement with the third mobile operator is based on MATERIO. According to the relevant bylaw, MakTel submitted a long-run incremental costing methodology for interconnection fees in July 2007 and for unbundling fees in December 2007. The Agency is working on the analysis of the model.

On December 21, 2006, the Agency brought a decision for changing the Interconnection fees. The level of the new fees was determined according to the benchmarks and it was mainly based on MakTel's retail fees, without taking into account the costing model prepared by MakTel as prescribed by the relevant law. On February 14, 2007, the Agency decided to change the unbundling fees based on the benchmarks.

The level of the wholesale regulated prices directly depends on the finalization of the price adjustment process of MakTel's retail regulated prices. Should MakTel fail to increase its retail prices, it could lead to significant decrease of the wholesale regulated prices.

Regulation of Mobile Business

The services provided by the mobile network operators in Macedonia are currently not subject to a price regulation. However, on June 29, 2007, the Agency published the draft analysis conducted on Market 16 (Call termination services in public mobile communication networks), based upon which, on November 26, 2007, it brought a decision by which T-Mobile Macedonia and Cosmofon were designated with Significant Market Power ("SMP") status and several obligations were imposed (interconnection and access, transparency in interconnection and access, non-discrimination in interconnection and access, accounting separation and price control and cost accounting). T-Mobile Macedonia appealed against this decision. The appeal was rejected by the Commission of the Agency with its decision on January 18, 2008. T-Mobile MK is currently implementing the defined obligations. The relevant RIO shall be submitted to the Agency until end of February 2008.

In addition, the relevant Market 15 (Access to public mobile communication networks and services for the purpose of call origination in public mobile communication networks) is under analysis by the Agency and there is a possibility for T-Mobile Macedonia to be designated as SMP on that market.

On January 31, 2007, a third mobile operator, VIP Operator, member of Mobilkom Austria Group, which was granted an authorization for radio frequencies utilization in the GSM 900 and DCS 1800 radio frequency bands on the entire territory of the Republic of Macedonia, had its commercial start with its pre-paid and post paid offers.

The Agency announced a call for the expression of interest for a fourth mobile operator on April 2, 2007.

In April 2007, the Ministry of Transport and Communications published on its web site a draft version of the new law on telecommunications and radio diffusion which was opened for public comments. T-Mobile Macedonia submitted its detailed comments on this version of the law. No further steps have been undertaken by the Ministry at this stage regarding the draft version of the law.

In November 7, 2007, the Agency published a public tender for granting one license for 3G radiofrequencies utilization. The winner of the tender has an obligation, within a period of 1 year as of the date of the issuance of the authorization, to provide 30% population coverage of the Republic of Macedonia, and within a period of 3 years 80% population coverage, as well as to provide retail and



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wholesale services (mobile, fixed-mobile and Internet) according to the terms of the reference packages provided in the bid. The minimum amount of the market value of the radio frequencies as a one-time fee for granting an authorization for radio frequencies utilization amounts to Euro 10,000,000 (ten million). The deadline for the submission of the bids was January 11, 2008. Only T-Mobile MK and Cosmofon applied for the tender for 3G. Cosmofon won the tender and it shall start the 3G commercial operations by August 12, 2008.

Macedonia and the European Union

The Republic of Macedonia signed the Stabilization and Association Agreement with the European Union and its Member States on April 9, 2001. The Macedonian Parliament ratified the Agreement on April 12, 2001, reaffirming the strategic interest and the political commitment for integration with the European Union. The Stabilization and Association Agreement has been ratified and in force since April 1, 2004.

On December 17, 2005, the EU decided to grant to the Republic of Macedonia the EU candidate status. In the conclusions adopted at the end of the two-day EU Summit, the Union leaders saluted "the significant progress" of the country in the fulfilment of the political and economic membership criteria, underlining that a lot has to be done in the future in order to meet the European standards.

Following the candidate status, the Union must set a date for the beginning of the accession talks, encompassing all aspects of EU membership within 32 chapters, including trade, environment, competition, health etc. Macedonia, as a candidate country, should harmonize its legislation with the EU.

COMPETITION

Domestic and International Fixed Line Telecommunications Services

On January 1, 2005, MakTel's exclusive rights to provide fixed line telephone services expired, but as a result of the delay in the implementation of the new regulatory framework, the competition from the other fixed line service providers started only in February 2007. MakTel, however, was faced with indirect competition earlier from the mobile service providers and, to a limited extent, from the VoIP providers.

In 2007, the main competition in the voice service still can be recognized in the mobile providers, as well as the fast and strong impact in the segment of international incoming calls termination. VoIP service providers that started in 2006 offering international outgoing calls continue to operate in 2007. By the end of 2007, MakTel concluded 28 ISDN-based commercial Network Access Agreements with alternative VoIP service providers. The total number of active VoIP providers was 25 at the end of 2007.

In March 2007, On-Net started to commercially offer carrier selection services for long-distance, F2M and international outgoing calls. In November 2007, in addition to On-Net, NexCom also started to offer carrier selection services (long-distance, F2M and international outgoing calls).

OnNet and Akton started to terminate international calls in the fixed network in March 2007, while NexCom and Neotel started to do so in September 2007. OnNet and Akton have also been actively terminating international calls towards mobile networks since May 2007, through the MakTel I2M transit.



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Until February 2008, MakTel implemented IC (Interconnection) contracts with 3 mobile operators, all on the territory of Macedonia, and 6 IC contracts with fixed alternative operators. There are 3 pending requests from alternative operators for concluding IC agreements.

The alternative operator On-Net has already concluded the Local Loop Unbundling Agreement based on the approved unbundling reference offer ("MATERUO"). As of the beginning of 2008, On-Net has been capable of providing services to its end customers based on the WS LLU services from MakTel. The LLU Agreement with Cosmofon is in a negotiation phase.

Leased Lines and Data Transmission Services

MakTel is the leading provider of Leased Line services and Data Transmission services. CATV and other wireless operators have built their own networks and they are also capable of offering data transmission services, transmission capacity and various broadband services.

In the Internet market, three ISPs in addition to MakTel - OnNet, MOL and UNet - still offer dial-up Internet. However, this service marks a continuous decline and migration towards broadband Internet. OnNet signed a WS ADSL Agreement with MakTel and started offering fixed line ADSL in addition to their wireless offer. The WS ADSL sales until the end of 2007 were more than 15% from the total ADSL subscribers. On the broadband market, MakTel has approximately 48% percent market share in terms of users and it faces competition mainly from OnNet's wireless broadband and CATV operators' cable broadband Internet, offered to the CATV customers through their own networks.

Mobile Services

At present, there are three mobile operators operating on the Macedonian mobile market. The competition is generally intense and conducted on the basis of price, subscription options, subsidized handsets, range of services offered, innovation and quality of service. The second largest mobile telecommunication services provider in the country, Cosmofon, part of the Greek OTE Group, began commercial operation in June 2003. Cosmofon operates with 2.5G services (MMS, GPRS) as of 2005. Its marketing and advertising efforts are aggressive with low and competitive handset pricing, price plans offering significantly lower on-net prices, broad array of advertising and indirect channels of sales. As of October 2007, Cosmofon launched a new prepaid brand named Frog. It has been announced as a new virtual prepaid operator. Cosmofon won the 3G license and it is expected to start its 3G commercial operations latest by August 12, 2008.

The third mobile operator started to operate on the Macedonian market as of September 2007, under the name VIP, with 2.5G services. The brand name VIP is used in other Mobilkom subsidiaries – in Croatia and Serbia. VIP started intensively with aggressive campaigns even in the period before the official start. The prepaid tariff was launched at the beginning, whereas the post-paid was introduced a bit later, in November. VIP concluded a national roaming agreement with T-Mobile Macedonia, but it is also building its own GSM network.

According to T-Mobile Macedonia's estimates, Cosmofon had approximately 29.7 and VIP Operator 8 percent subscriber market share at the end of 2007.

In this intensive competitive environment, T-Mobile Macedonia is planning to maintain its market share through improved productivity, efficiency measures and maintenance of the existing customer relations.



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MARKETING

In 2007, fixed line service providers (25 ISDN-based commercial Network Access Agreements) that offer international outgoing VoIP-based calls continue to operate, however, without any significant impact on the market. By adjusting the international prices of international calls, in April 2007, and by offering special price plans ("Partner Country" for business and "Favorite Country" for residential customers), MakTel managed to stabilize its market share. VoIP service providers have about 10% of the market. International outgoing calls provided via carrier selection services started in March 2007, and they have marked a small but continuous growth, reaching nearly 3% of the total international outgoing market by the end of 2007. The market loss in the national traffic is still insignificant and it is below 1% of the total national traffic volume. There are two operators that provide carrier selection services.

Significant losses occurred in the international incoming calls – in both fixed and mobile termination. In December 2007, MakTel lost a significant portion of the traffic that terminates towards the MakTel users, i.e. 54% of the traffic. In the last quarter of 2007, about 35% of the international traffic that terminates towards mobile users was terminated by other fixed service operators, still transiting through MakTel. This portion of mobile termination traffic is expected to be completely lost, after the operators signed direct interconnection agreement with the mobile operators.

Fixed line voice services continue to face strong indirect competition mainly from mobile prepaid services that allow very strict cost control for the subscribers in Macedonia.

In September 2007, MakTel made major structural changes in the ADSL portfolio and started offering a highly competitive broadband Internet service. In a period of four months, ADSL customers increased from 19,898 to 48,214 active customers, out of which 7,993 were WS ADSL users. The total number of ADSL contracts signed by the end of 2007 was 50,421. In addition to the new ADSL products, MakTel continue to offer "PC+ADSL" products that contributed in extending the PC penetration and broadband Internet usage in Macedonia. In line with the extensive sales, MakTel fully recovered a part of the market share lost at end of 2006 and at the beginning of 2007, achieving above 48% volume market share by the end of 2007.

In 2007, MakTel continued to develop business solutions for the corporate market including, video surveillance and bundled equipment and services offers.

Marketing based on customer data is used to build strong customer relations. Loyalty schemes and handset upgrade programs are also increasingly used to improve the customer satisfaction and customer churn rate.

During 2007, T-Mobile introduced price plans combined with additional services, community services and tariff models and strong advertising campaigns in order to capture various parts of the telecommunications market. There is an ongoing CRM project that will enable segmented and targeted contact with the customers, thus increasing the value offered and consequently the customer satisfaction.

RESEARCH AND DEVELOPMENT

MakTel continuously strives for a high technological level in offering and provisioning a wide range of products and services that will satisfy the customers' demands. The foregoing, together with the rationalization of the network switching architecture, resulted in an improvement of the operational



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efficiency and network consolidation. New telephone services were introduced through the IN and Voice-mail Platforms and the provision of broadband services became available with the implementation of ADSL technology.

In the next phase, the main focus will be on the extension of broadband access as the main precondition for supporting broadband Internet and video services.

With the completion of the implementation of the DWDM network, as well as the redesign of IP/MPLS backbone network, a good base will be provided for the provisioning of the necessary transport capacities due to the increased number of subscribers and increased service bandwidth.

MakTel is making preparations for the interconnection and convergence of separate voice and data networks. The NGN migration concept is seen as a long-term project. MakTel is not planning any significant development of the traditional PSTN/ISDN network, except for the purposes of maintenance and compliance with the regulatory requirements. The key focus will be on the provisioning of broadband access, IPTV services, VoIP for broadband users and network migration towards NGN.

Research and development projects at T-Mobile Macedonia are performed in close cooperation with the suppliers and the state educational institutions. The aim of these projects is to prepare T-Mobile Macedonia to meet the needs of the rapidly developing market and to optimize the maintenance of the current activities.

T-Mobile Macedonia has built a high-quality and high-capacity network that meets the requirements and needs of its growing subscriber base. The rating and billing platforms provide enhanced services for the entire prepaid and post-paid customer base, as well as for the interconnection partners. Our comprehensive solutions for promotions, discounts and incentives provide extensive flexibility for tailored offerings and customer satisfaction.

INFORMATION TECHNOLOGY

The IT application and operation efficiency has been increased by the introduction of new IT development standards, systems and technologies, which support the company's processes and activities and provide a secure business environment.

Data Warehouse Project – MakTel has begun implementation of an enterprise Data Warehouse and Business Intelligence System for integrating data that is generated through all relevant existing MakTel data sources, to provide integrated data for efficient business analyses and speeding up the decision making process. Under the umbrella of DWH/BI system, a common Business Intelligence solution is being implemented at MakTel and T-Mobile Macedonia. The project implementation will continue during 2008.

CRM - The project for implementation of a Joint CRM system started in MakTel and T-Mobile Macedonia, for increasing the effectiveness of customer contacts in sales and service, by means of improving the view on the customer activities and, in the daily processes, reduced time to market and establishing capability for customer specific differentiation of offers and services in order to achieve:

- Increased revenue through cross-sale and up-sale
- Lower churn/higher retention
- Higher satisfaction

Local Synergy Activities with T-Mobile Macedonia – during 2007, there were several initiated projects comprising synergy potentials with T-Mobile Macedonia:

- Implementation of a common CRM system at MakTel and T-Mobile MK



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- Implementation of a Fraud Management System at MakTel and an upgrade at T-Mobile MK
- Data Warehouse and Business Intelligence System at MakTel/T-Mobile MK – Establishing a common network infrastructure and upgrading the current MakTel HW
- Network integration in the T-point shops

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