Makedonski Telekom AD Skopje
Orce Nikolov bb 1000 Skopje

Број 01-52864/1
Датум 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 2006

Dear Sirs,

At the Shareholders' Assembly meeting of Makedonski Telekom AD Skopje held on 04.12.2008 the audited consolidated financial statements for 2006 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 2006, please find attached the complete Annual Report for 2006 in which, compared to the previously submitted ones (as of 30.04.2007 and 23.05.2007) the following data have been added/replaced:

1. Replacement of the Draft consolidated financial statements for 2006 with Audited consolidated financial statements for 2006 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

Македонски Телеком
АД за електронски комуникации - Скопје

Nikolai Beckers
Chief Executive Officer

BesTel – certified translation

AD MAKEDONSKI TELEKOMUNIKACI-SKOPJE
Orce Nikolov bb 1000 Skopje, Republic of Macedonia
Tel. +389 2 3 242 257

To: Macedonian Stock Exchange Commission
Date: 30th of April 2007
Subject: Annual Reporting for the period 01.01.-31.12.2006

1. General data

Name	Joint Stock Company for telecommunications Makedonski Telekomunikacii - Skopje
Headquarters' address	Orce Nikolov bb
Telephone and fax	02 3242 013
Electronic mail	contact@mt.com.mk info@mt.com.mk
Internet Address	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 – a 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 RM in accordance with the legal regulations
Number of Trade Register Decision	08-03/3843/1 dated 11.05.2006
Status changes	- 12.08.1997 (establishment – organisation of a public enterprise for telecommunications Makedonski Telekomunikacii C.O. 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) - 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)
Number of subsidiaries and affiliates	- T-Mobile Macedonia as a separate legal entity 100% owned by AD Makedonski Telekomunikacii - Skopje - 2 subsidiaries /MT's 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 the MT's activity at a location other than the registered office of the MT's headquarters is registered as subsidiary.
Number of employees at the year end	1788
Corporate Governance System	One level

3. Data on Board of Directors members and their shareholding in the Company

Name and Surname	Number of shares owned	% in the total issued shares
Zarko Lukovski		
Iljas Iljazi	-	-
Goran Ivanovski	-	-
Igor Bimbiloski	464	0.0005%
Dénes Miklos Szluha	-	-
György Tamás Simó	-	-
Rolf Plath	-	-
Attila Szendrei	-	-
Wolfgang Hauptmann	-	-
Zoltan Tiszai	-	-
Vanco Uzunov	-	-
Aleksandar Risteski	-	-
Lipp Istvan	-	-
Zaprel Zsolt	-	-

4. Data referring to the share capital and 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 31.12.2006	3,877

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

5. Data on all individuals 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	33,364,874	38.68

5.1 Data on the Company's ten largest shareholders

Name (PIN for physical persons)	**Number of shares**	**% in the total number of issued shares**
Stonebridge Communications (under liquidation)	48,877,780	51.00
Government of the Republic of Macedonia	33,364,874	34.81
IFC	1,796,980	1.88
MakTel (treasury shares)*	9,583,878	10.00
Hrvatska Postenska Banka	72,235	0.08
Dance Zografska	25,000	0.03
Financial Consulting Company SEZAM	24,000	0.03
Nevena Sumkovska	16,220	0.02
Dono Zarkov	10,000	0.01
First Financial Brokerage House – OOD	7,775	0.01

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

ISIN	MKMTSK101019
Bank account	200000090141316, Stopanska Banka AD Skopje

6. Financial data and financial condition of the company

	In MKD	% of nominal value
Maximum share price in Q4	599	
Minimum share price in Q4	430	
Price of the ordinary share (closing)	519	n/a
Market Capitalization*	49,740 mill	n/a
Dividend per share		
-for 2006**	-	-
- for 2005**	-	-
- for 2004	60.88	60.88

*calculated on the outstanding shares in accordance with the requirements in the Rulebook.

** The dividend for 2005 and 2006 has still not been declared due to current unavailability of the audited financial statements.

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

Name of the Stock Exchange	Macedonian Stock Exchange
Listing	Company's shares are not listed on the Stock Exchange. The Company's shares are traded on the unofficial market.

BesTel – certified translation

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 22) of the consolidated audited financial statements for 2006.

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, 21 and 24 of the consolidated audited financial statements for 2006.

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 22 of the consolidated audited financial statements for 2006.

AD Makedonski telekomunikacii Skopje

Consolidated Financial Statements

For the year ended

31 December 2006

Contents

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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 2006 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, MKD 40,767,000 are recorded in prepayments in the consolidated balance sheet as at 31 December 2006 and MKD 105,147,000 are recorded within treasury shares in the consolidated balance sheet as at 31 December 2006. The total amount of such transactions in the consolidated financial statements for the year ended 31 December 2005 identified as of the date of this opinion amounts to MKD 379,136,000, which are recorded within 'Other operating expenses' in the consolidated income statement for the year then ended. Our opinion on the corresponding figures for the year ended 31 December 2005 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 2006 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Pricewaterhouse Coopers Revizija DOO
PricewaterhouseCoopers REVIZIJA D.O.O. Skopje

01 August 2008
Skopje

Consolidated income statement

In thousands of denars	Note	Year ended 31 December 2006	2005
Revenues	1	17,143,764	16,635,922
Depreciation and amortisation		(3,693,107)	(3,856,485)
Personnel expenses	2	(1,726,643)	(2,154,750)
Payments to other network operators		(1,595,323)	(1,439,794)
Other operating expenses	3	(4,167,880)	(4,227,163)
Profit from operations		5,960,811	4,957,730
Finance expenses	4	(270,437)	(16,565)
Finance income	5	430,521	621,283
Profit before tax		6,120,895	5,562,448
Income tax expense	6	(664,912)	(610,913)
Net profit for the year		5,455,983	4,951,535

The notes on pages 5 to 41 are an integral part of these consolidated financial statements.

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Consolidated balance sheet

In thousands of denars	Note	As at 31 December 2006	2005
Assets			
Property, plant and equipment	7	14,505,540	16,501,123
Advances for property, plant and equipment		24,312	2,143
Intangible assets	8	2,162,062	2,438,098
Other receivables	9	83,204	55,423
Available-for-sale financial assets		896	16,445
Financial assets at fair value through profit and loss	11	169,923	134,077
Total non-current assets		16,945,937	19,147,309
Assets held for sale	12	292,397	66,734
Inventories	13	310,144	271,822
Trade and other receivables	9	2,903,555	2,912,498
Deposits with banks	14	4,180,998	5,188,037
Cash and cash equivalents	15	9,683,272	4,536,148
Total current assets		17,370,366	12,975,239
Total assets		34,316,303	32,122,548
Equity and liabilities			
Share capital		9,583,888	9,583,888
Share premium		540,659	540,659
Treasury shares		(3,843,505)	-
Other reserves		2,475,068	2,475,068
Retained earnings		22,469,738	17,013,755
Total equity	16	31,225,848	29,613,370
Liabilities			
Deferred income tax liabilities	10	174,007	300,331
Provision for other liabilities and charges	17	68,185	31,328
Total non-current liabilities		242,192	331,659
Trade and other payables	18	2,260,830	1,966,313
Current income tax liability		270,469	198,071
Provision for other liabilities and charges	17	316,964	13,135
Total current liabilities		2,848,263	2,177,519
Total liabilities		3,090,455	2,509,178
Total equity and liabilities		34,316,303	32,122,548

The consolidated financial statements set out on pages 1 to 41 were authorised for issue on 1 August 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

Slavko Projkoski
Chief Finance Officer

The notes on pages 5 to 41 are an integral part of these consolidated financial statements.

Consolidated cash flow statement

In thousands of denars	Note	Year ended 31 December 2006	2005
Operating activities			
Net profit before tax		6,120,895	5,562,448
Adjustments for:			
Depreciation and amortisation		3,693,107	3,856,485
(Write back)/down of inventories to net realisable value	3	(7,920)	76,498
Fair value gains on financial assets at fair value through profit and loss	5	(20,297)	(40,617)
Impairment losses on trade and other receivables	3	316,673	484,415
Provisions		369,766	42,901
Gain on disposal of equipment		(13,092)	(20,469)
Dividend income	5	(2,043)	(1,220)
Interest income	5	(408,181)	(361,901)
Interest expense	4	42	21
Effect of foreign exchange rate changes on cash and cash equivalents		43,101	(91,354)
Cash generated from operations before changes in working capital		10,092,051	9,507,207
(Increase)/decrease in inventories		(30,402)	111,917
Increase in receivables		(431,257)	(347,682)
Increase in payables		513,070	472,547
Cash generated from operations		10,143,462	9,743,989
Interest paid		(42)	(21)
Income taxes paid		(718,838)	(35,685)
Cash flows from operating activities		9,424,582	9,708,283
Investing activities			
Acquisition of property, plant and equipment		(1,297,620)	(1,639,666)
Acquisition of intangible assets		(651,020)	(684,283)
Loans collected		123,527	-
Loans granted		(27,781)	(146,213)
Deposits collected from banks		6,409,622	5,933,414
Deposits placed with banks		(5,402,593)	(10,191,407)
Dividends received		2,043	1,220
Proceeds from sale of equipment		44,779	20,469
Interest received		408,191	342,697
Purchase of shares		-	(12,125)
Cash flows used in investing activities		(390,852)	(6,375,894)
Financing activities			
Purchase of treasury shares	16	(3,843,505)	-
Dividends paid		-	(5,834,992)
Cash flows used in financing activities		(3,843,505)	(5,834,992)
Effect of foreign exchange rate changes on cash and cash equivalents		(43,101)	91,354
Net increase/(decrease) in cash and cash equivalents		5,147,124	(2,411,249)
Cash and cash equivalents at 1 January		4,536,148	6,947,397
Cash and cash equivalents at 31 December	**15**	**9,683,272**	**4,536,148**

The notes on pages 5 to 41 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

In thousands of denars	Note	Share capital	Share premium	Treasury shares	Other reserves	Retained earnings	Total
Balance at 1 January 2005		9,583,888	540,659	-	879,489	19,492,791	30,496,827
Net profit for the year		-	-	-	-	4,951,535	4,951,535
Transfer between reserves	16	-	-	-	1,595,579	(1,595,579)	-
Dividends		-	-	-	-	(5,834,992)	(5,834,992)
Balance at 31 December 2005	16	9,583,888	540,659	-	2,475,068	17,013,755	29,613,370
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

The notes on pages 5 to 41 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 Stonebridge Communications AD – 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.

AD Makedonski telekomunikacii 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 newly implemented Electronic Communications Law ("ECL") enacted in March 2005. Both companies have a Concession Contract (under the old Telecommunications Act) to provide services until 31 December 2018. Further, the Company had been granted the exclusive rights in (a) fixed voice telephony services, leased line services and (b) to construct, lease, own, develop, maintain and operate fixed public telecommunications networks until 31 December 2004. These exclusive rights included local, national and international long distance public fixed voice services independently of the technology used, including voice over Internet Protocol services.

During the exclusivity period, the Company was obliged to provide universal services. The Agency for Electronic Communications ("the Agency") announced a call for expressing interest for the provision of universal service when the Company was the only interested operator responding to this request for providing universal service. On the session held on 27 December 2007 the Commission of the Agency has brought the decision to publish the 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 is provided in the currently valid Concession Contract. With the enactment of the ECL, the Agency may regulate retail prices of fixed telephony services. 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.

The concession contracts will be made compliant with the provisions of the ECL. 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.

Notes to the consolidated financial statements

General information continued

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 will be 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 should start the 3G commercial operations from 12 August 2008.

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 2006 was 2,230 (2005: 2,748).

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 these contracts. 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.

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.

Notes to the consolidated financial statements

General information continued

Investigation into certain consultancy contracts continued

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.

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 or adjustments are 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 x. Actual results could differ from those estimates.

The following amendments to published standards are effective and adopted by the Group in 2006 but have no impact on the Group operations:

- IAS 39 (Amendment), The Fair Value Option;
- IFRIC 4, Determining whether an Arrangement contains a Lease;

The following standards, amendments and interpretations are mandatory for accounting periods beginning on or after 1 January 2006 but are not relevant to the Group's operations:

- IAS 19 (Amendment), Employee Benefits
- IAS 21 (Amendment), Net Investment in a Foreign Operation;
- IAS 39 (Amendment), Cash Flow Hedge Accounting of Forecast Intragroup Transactions;
- IAS 39 and IFRS 4 (Amendment), Financial Guarantee Contracts;
- IFRS 1 (Amendment), First-time Adoption of International Financial Reporting Standards and IFRS 6 (Amendment), Exploration for and Evaluation of Mineral Resources;
- IFRS 6, Exploration for and Evaluation of Mineral Resources;
- IFRIC 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds.
- IFRIC 6, Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment;

The following standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2007 or later periods but that the Group has not early adopted:

- IFRS 7, Financial Instruments: Disclosures, and the complementary Amendment to IAS 1, Presentation of Financial Statements – Capital Disclosures, IFRS 7 introduces new disclosures relating to financial instruments. The Group will apply IFRS 7 from 1 January 2007, but it is not expected to have any impact on the classification and valuation of the Group's financial instruments

Notes to the consolidated financial statements

Significant accounting policies continued

(a) Basis of preparation continued

- IFRIC 8, Scope of IFRS 2 (effective for annual periods beginning on or after 1 May 2006). 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. The Group will apply IFRIC 8 from 1 January 2007, but it is not expected to have any impact on the Group's accounts;
- IFRIC 9, Reassessment of Embedded Derivatives (effective for annual periods beginning on or after 1 June 2006). 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. As none of the group entities have changed the terms of their contracts, IFRIC 9 is not relevant to the Group's operations.
- IFRIC 10, Interim Financial Reporting and Impairment (effective for annual periods beginning on or after 1 November 2006). IFRIC 10 prohibits the impairment losses recognised 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. The Group will apply IFRIC 10 from 1 January 2007, but it is not expected to have any impact on the Group's accounts.
- 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. The Group is currently analyzing the potential changes IFRIC 12 may cause in the Group's accounting treatments.
- 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.
- 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 Group does not expect the amendment to affect the 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.

Notes to the consolidated financial statements

Significant accounting policies continued

(a) Basis of preparation continued

- 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.
- 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. We do not expect this amendment 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.

The following standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2007 or later periods but are not relevant for the Group's operations:

- IFRIC 7, Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies (effective from 1 March 2006). 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. As none of the group entities have a currency of a hyperinflationary economy as its functional currency, IFRIC 7 is not relevant to the Group's operations.
- 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. At the date when control is lost, any investment retained in the former subsidiary will have to be measured at its fair value. This standard will have no impact on the Group's financial statements.

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 14 Interpretations on IAS 19 - The Limit on 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. This standard will have no impact on the Group's financial statements.

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 as finance income or finance expenses. Non-monetary financial assets and liabilities denominated in foreign currency are translated to denars at the foreign exchange rate ruling at the date of transaction.

The foreign currencies deals of the Group are predominantly United States Dollars (USD), EURO (EUR) and Swiss Francs (CHF) based. The exchange rates used for translation at 31 December 2006 and 2005 were as follows:

	2006	**2005**
	MKD	MKD
1 USD	46.45	51.86
1 EUR	61.17	61.18
1 CHF	38.07	39.34

(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:

	2006
	years
Aerial and cable lines	20-25
Telephone exchanges	10
Base stations	7
Buildings	20-40
Computers	4
Electronic devices	5-10
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:

Notes to the consolidated financial statements

Significant accounting policies continued

(e) Intangible assets continued

	2006
	years
Software and licences	2-5
Concession	5

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

(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' and 'deposits with bank' in the consolidated balance sheet.

Notes to the consolidated financial statements

Significant accounting policies continued

(h) Financial assets continued

(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 so designated by management.

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.

(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. 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.

(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.

Notes to the consolidated financial statements

Significant accounting policies continued

(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.

(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.

Notes to the consolidated financial statements

Significant accounting policies continued

(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 below.

(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. The revenues and costs of these transit calls are stated gross in these consolidated financial statements as the Group is the principal supplier of these services using its own network freely defining the pricing of the services, and recognized in the period of related usage.

Notes to the consolidated financial statements

Significant accounting policies continued

(p) Revenue recognition continued

(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.

(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.

(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. The Group does not operate any other pension scheme or post retirement benefits plan and consequently, has no obligation in respect of pensions. 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.

Notes to the consolidated financial statements

Significant accounting policies continued

(s) Employees Benefits continued

(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.

(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.

Notes to the consolidated financial statements

Significant accounting policies continued

(w) Financial risk management

Financial risk factors

The Group is exposed to foreign exchange, credit, interest rate and liquidity risk arises in the normal course of the Group's business.

(i) 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 USD and EUR. 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.

(ii) Interest rate risk

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.

(iii) Credit risk

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.

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 at the balance sheet date.

Additionally, the Group is exposed to risk through cash deposits in the banks.

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

(iv) Liquidity risk

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.

Notes to the consolidated financial statements

Significant accounting policies continued

(w) Financial risk management continued

(v) Fair value estimation

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 406,948 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.

(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. 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 when evaluating the adequacy of the impairment loss for doubtful accounts. These 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.

Notes to the consolidated financial statements

Significant accounting policies continued

(x) Critical accounting estimates and assumptions continued

(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 292,609 thousand.

Notes to the consolidated financial statements

1. Revenues

In thousands of denars	2006	2005
Domestic fixed line telecommunication services		
-subscription, installation and other charges	2,480,739	2,533,338
-traffic revenues	4,260,345	4,872,914
International traffic revenues	1,750,490	1,395,463
Mobile telecommunication services	7,164,384	6,550,943
Leased line and data transmission	822,430	662,106
Other	665,376	621,158
	17,143,764	16,635,922

2. Personnel expenses

In thousands of denars	2006	2005
Salaries	874,337	1,017,190
Contributions on salaries	392,737	460,765
Bonus payments	185,785	170,349
Other staff costs	329,226	582,182
Capitalised personnel costs	(55,442)	(75,736)
	1,726,643	2,154,750

Other staff costs include termination benefits of MKD 30,063 thousands for 72 employees leaving the Group in 2006 (2005: MKD 374,591 thousand for 591 employees).

Notes to the consolidated financial statements

3. Other operating expenses

In thousands of denars	2006	2005
Services	867,925	906,448
Purchase cost of goods sold	787,403	795,716
Marketing and donations	614,176	519,023
Consultancy	374,623	412,481
Materials and maintenance	373,394	362,838
Impairment losses on trade and other receivables	316,673	484,415
Fees, levies and local taxes	241,232	168,784
Energy	177,118	176,200
Premium rate services	134,681	98,114
Provision for liabilities and other charges	84,056	-
Rental fees	82,105	93,961
Insurance	41,404	43,079
(Write back)/write down of inventories to net realisable value	(7,920)	76,498
Other	81,010	89,606
	4,167,880	4,227,163

The remuneration of the members of the Company's Board of Directors amounted to MKD 2,591 thousand (2005: MKD 2,335 thousand).

4. Finance expenses

In thousands of denars	2006	2005
Interest expense	42	21
Bank charges and other commissions	16,475	16,544
Net foreign exchange loss	253,920	-
	270,437	16,565

5. Finance income

In thousands of denars	2006	2005
Interest income	408,181	361,901
Fair value gains	20,297	40,617
Dividend income	2,043	1,220
Net foreign exchange gain	-	217,545
	430,521	621,283

Notes to the consolidated financial statements

6. Income tax expense

(a) *Recognised in the income statement*

In thousands of denars	**2006**	**2005**
Current tax expense		
Current year	791,236	475,790
Deferred tax expense		
Origination and reversal of timing differences	(126,324)	135,123
Total income tax in income statement	664,912	610,913

(b) *Reconciliation of effective tax rate*

In thousands of denars		**2006**		**2005**
Profit before tax		6,120,895		5,562,448
Income tax	15.0%	918,134	15.0%	834,367
Non-deductible expenses	4.5%	275,756	0.4%	21,260
Tax exempted revenues	(4.9%)	(299,135)	(0.4%)	(24,422)
Tax deductions on investments in property, plant and equipment	(3.7%)	(229,843)	(4.0%)	(220,292)
	10.9%	664,912	11.0%	610,913

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

In thousands of denars	**Land**	**Buildings**	**Telecommunication equipment**	**Other**	**Assets under construction**	**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

In thousands of denars	Land	Buildings	Telecommunication equipment	Other	Assets under construction	Total
Cost						
At 1 January 2005	6,338	3,772,987	23,432,289	4,082,545	769,808	32,063,967
Additions	-	95,828	649,863	236,794	565,659	1,548,144
Transfer from assets under construction (See Note 8)	-	280,279	583,726	67,307	(1,037,090)	(105,778)
Disposals	-	-	(537,684)	(135,851)	-	(673,535)
Transfer to assets held for sale	-	(93,846)	-	(8,169)	-	(102,015)
At 31 December 2005	6,338	4,055,248	24,128,194	4,242,626	298,377	32,730,783
Depreciation						
At 1 January 2005	-	1,009,421	10,204,896	2,796,213	-	14,010,530
Charge for the year	-	113,926	2,095,497	665,886	-	2,875,309
Disposals	-	-	(493,098)	(127,800)	-	(620,898)
Transfer to assets held for sale	-	(27,112)	-	(8,169)	-	(35,281)
At 31 December 2005	-	1,096,235	11,807,295	3,326,130	-	16,229,660
Carrying amount						
At 1 January 2005	6,338	2,763,566	13,227,393	1,286,332	769,808	18,053,437
At 31 December 2005	6,338	2,959,013	12,320,899	916,496	298,377	16,501,123

Operating lease rentals amounting to MKD 82,105 thousand (2005: MKD 93,961 thousand) relating to the lease of property and equipment are included in the income statement.

Notes to the consolidated financial statements

8. Intangible assets

In thousands of denars	Software	Concession	Other	Total
Cost				
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	5,513,091	154,757	139,853	5,807,701
Amortisation				
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	3,427,445	154,757	63,437	3,645,639
Carrying amount				
At 1 January 2006	2,425,145	-	12,953	2,438,098
At 31 December 2006	2,085,646	-	76,416	2,162,062

Notes to the consolidated financial statements

8. Intangible assets continued

In thousands of denars	Software	Concession	Other	Total
Cost				
At 1 January 2005	4,078,094	154,757	17,824	4,250,675
Additions	659,757	-	24,526	684,283
Transfer from assets under construction (See Note 7)	105,778	-	-	105,778
Disposals	(10,114)	-	-	(10,114)
At 31 December 2005	4,833,515	154,757	42,350	5,030,622
Amortisation				
At 1 January 2005	1,541,596	123,806	8,697	1,674,099
Charge for the year	870,861	30,951	20,700	922,512
Disposals	(4,087)	-	-	(4,087)
At 31 December 2005	2,408,370	154,757	29,397	2,592,524
Carrying amount				
At 1 January 2005	2,536,498	30,951	9,127	2,576,576
At 31 December 2005	2,425,145	-	12,953	2,438,098

Notes to the consolidated financial statements

9. Trade and other receivables

In thousands of denars	2006	2005
Trade debtors		
-Domestic	4,155,409	4,270,812
-Foreign	514,069	461,257
Less: allowance for impairment	(2,165,886)	(2,188,147)
Trade debtors – net	2,503,592	2,543,922
Receivables from related parties	199,109	96,437
Advances given to suppliers	82,076	30,088
Less: allowance for impairment	(36,049)	-
Advances given to suppliers-net	46,027	30,088
Loans to related parties	-	123,527
Loans to employees	93,133	61,985
Loans given to companies	-	22,000
Less: allowance for impairment	-	(22,000)
Loans given to companies – net	-	-
Prepayments and accrued income	139,629	106,831
Other	5,269	6,857
Less: allowance for impairment	-	(1,726)
Other – net	5,269	5,131
	2,986,759	2,967,921
Less non-current portion: Loans to employees	(83,204)	(55,423)
Current portion	2,903,555	2,912,498

Receivables to related parties represent receivables from Deutsche Telekom Group and Magyar Telekom Group.

Loans to related parties represent loan given to Telemakedonija AD during 2005 at interest rate of 2.479%p.a., fully repaid on the due date in 2006.

Loans granted to employees carry effective interest rates of 4.55% p.a. and 7% p.a. (2005: 4.55% and to 7% p.a.).

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

Notes to the consolidated financial statements

9. Trade and other receivables continued

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

In thousands of denars	2006	2005
Trade debtors	2,503,592	2,543,922
Receivables from related parties	199,109	96,437
Advances given to suppliers	46,027	30,088
Loans to related parties	-	123,527
Loans to employees	93,133	61,985
Prepayments and accrued income	139,629	106,831
Other	5,269	5,131
	2,986,759	2,967,921

Movement in allowance for impairment

In thousands of denars	2006	2005
Impairment losses at 1 January	2,211,873	1,742,465
Charged to expense	316,673	484,415
Write off	(326,611)	(15,007)
Impairment losses at 31 December	2,201,935	2,211,873

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

10. Deferred income tax

Recognised deferred income tax (assets)/liabilities

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

	Assets		Liabilities		Net	
In thousands of denars	2006	2005	2006	2005	2006	2005
Property, plant and equipment			525,393	686,941	525,393	686,941
Intangible fixed assets	(16,299)	(23,649)	-	-	(16,299)	(23,649)
Inventory	(2,990)	(5,107)	-	-	(2,990)	(5,107)
Trade and other receivables	(220,237)	(334,192)	-	-	(220,237)	(334,192)
Deferred revenue	(45,480)	-			(45,480)	-
Financial assets at fair value through profit and loss	(496)	(5,861)	-	-	(496)	(5,861)
Trade and other payables	(44,818)	(11,132)	-	-	(44,818)	(11,132)
Provisions	(21,066)	(6,669)	-	-	(21,066)	(6,669)
Tax (assets)/liabilities	(351,386)	(386,610)	525,393	686,941	174,007	300,331
Set off of tax	351,386	386,610	(351,386)	(386,610)	-	-
Net tax liabilities	-	-	174,007	300,331	174,007	300,331

Notes to the consolidated financial statements

10. Deferred income tax continued

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:

	2006	2005
Deferred income tax assets:		
Deferred income tax asset to be recovered after more than 12 months	243,813	373,508
Deferred income tax asset to be recovered within 12 months	107,573	13,102
	351,386	386,610
Deferred tax liabilities:		
Deferred income tax liability to be recovered after more than 12 months	(525,393)	(686,941)
Deferred income tax liability to be recovered within 12 months	-	-
	(525,393)	(686,941)
Deferred income tax liabilities (net)	(174,007)	(300,331)

Movement in temporary differences during the year

In thousands of denars	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

Notes to the consolidated financial statements

10. Deferred income tax continued

In thousands of denars	Balance 1 January 2005	Recognised in income	Balance 31 December 2005
Property, plant and equipment	425,714	261,227	686,941
Intangible assets	(19,067)	(4,582)	(23,649)
Inventory	(1,260)	(3,847)	(5,107)
Trade and other receivables	(234,318)	(99,874)	(334,192)
Financial assets at fair value through profit and loss	(5,861)	-	(5,861)
Trade and other payables	-	(11,132)	(11,132)
Provision	-	(6,669)	(6,669)
Net tax liabilities	165,208	135,123	300,331

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.

11. Financial assets at fair value through profit and loss

The amount of MKD 169,923 thousand (2005: MKD 134,077 thousand) represents financial assets at fair value through profit or loss of which MKD 64,926 thousand (2005: MKD 64,926 thousand) is calculated based on an independent valuation and MKD 104,997 thousand (2005: MKD 69,151 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 (2005: 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.

Notes to the consolidated financial statements

13. Inventories

In thousands of denars	2006	2005
Materials	100,382	123,747
Inventory for resale	235,085	199,952
Write down of inventories to net realisable value	(25,323)	(51,877)
	310,144	271,822

Materials include cables, modems and other spare parts for telecommunication network and equipment.

Movement in allowance for inventories to net realizable value

In thousands of denars	2006	2005
Allowance at 1 January	51,877	14,185
Charged to expense	(7,920)	76,498
Write off	(18,634)	(38,806)
Allowance at 31 December	25,323	51,877

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 maturity between 6 and 12 months.

In thousands of denars	Average interest rate 2006	2006	2005
MKD	4.00%	309	839,847
EUR	2.82%	3,100,757	2,452,140
USD	4.54%	1,079,932	1,896,050
		4,180,998	5,188,037

15. Cash and cash equivalents

In thousands of denars	2006	2005
Call deposits	9,680,780	4,525,725
Cash on hand	70	160
Cash equivalents	2,422	10,263
	9,683,272	4,536,148

Cash equivalents include cheques with maturity of less then 3 months.

Notes to the consolidated financial statements

15. Cash and cash equivalents continued

In thousands of denars	Average interest rate **2006**	**2006**	**2005**
MKD	3.41%	7,890,700	4,369,803
EUR	3.08%	856,850	101,533
USD	4.29%	935,717	64,802
Other	-	5	10
		9,683,272	4,536,148

The Group has restricted cash in amount of MKD 9,439 thousands representing performance guaranties issued for sales projects.

16. Capital and reserves

Share capital consists of the following:

Share capital

In thousands of denars	**2006**	**2005**
Ordinary shares	9,583,878	9,583,878
Golden share	10	10
	9,583,888	9,583,888

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

The golden share with a nominal value of MKD 9,733 is held by the Government of the Republic of Macedonia. In accordance with Article 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

In thousands of denars	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	247,260	117,940	19,949	385,149

In thousands of denars	Legal cases	Severance	Other	Total
January 1, 2005	-	-	1,562	1,562
Additional provision	24,891	13,135	4,875	42,901
December 31, 2005	24,891	13,135	6,437	44,463

Analysis of total provisions:

	2006	**2005**
Non current (legal cases and other)	68,185	31,328
Current	316,964	13,135
	385,149	44,463

Provisions mainly relate to certain legal and regulatory claims brought against the Group. The major part of the provision made for regulatory claims is related to charging of administrative fee. Based on appropriate 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 2006.

18. Trade and other payables

In thousands of denars	**2006**	**2005**
Trade payables		
-Domestic	432,545	602,055
-Foreign	428,349	484,477
Liabilities to related parties	221,126	156,570
VAT and social security payable	121,195	77,857
Accrued expenses	548,495	394,957
Advances received	38,168	21,408
Deferred revenue	409,316	183,739
Salaries payable	136	2,187
Other	61,500	43,063
	2,260,830	1,966,313

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

Notes to the consolidated financial statements

19. Dividends

At the date on preparation of financial statements no dividend has been declared.

20. Commitments

Capital commitments

The amount authorized for capital expenditure as at 31 December 2006 was MKD 951,722 thousand (2005: MKD 119,768 thousand).

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:

	2006	**2005**
Not later than 1 year	89,242	108,833
Later than 1 year and not later than 5 years	341,295	341,140
Later than 5 years	77,281	197,903
	507,818	647,876

21. 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.

The Group has other contingent liabilities in respect of legal claims arising in the ordinary course of business. It is not anticipated that any material liabilities will arise from the contingent liabilities other than those provided for (See note 17).

In addition, for contingencies that can arise from subsequent events refer to note 24.

22. 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

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).

Notes to the consolidated financial statements

22. Related party transactions continued

Transactions with related parties continued

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

In thousands of denars	2006		2005	
	Revenues	**Expenses**	**Revenues**	**Expenses**
Deutsche Telekom Group	192,327	119,439	226,259	113,174
Magyar Telekom Group	177,311	440,246	77,840	384,721

In thousands of denars	2006		2005	
	Receivables	**Liabilities**	**Receivables**	**Liabilities**
Deutsche Telekom Group	152,631	33,323	63,282	30,458
Magyar Telekom Group	46,478	187,803	33,155	126,112

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. On 12 February 2008 the Company signed Share Purchase Agreement for selling of Montmak (see note 24).

Key management compensation

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

	2006	**2005**
Short-term employee benefits	62,378	62,256
Share-based payments	8,842	3,659
	71,220	65,915

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

23. Group enterprises

Subsidiaries

	Country of incorporation	Ownership interest	Ownership interest
		2006	2005
T-Mobile Macedonia AD	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 24).

24. Subsequent events

According to the obligations from the ECL "the deployment schedule for the number portability implementation, in no event shall be longer than two (2) years from the effectiveness date of the Law". However, the Agency published the number portability bylaw on 26 December 2006 which was rather late for achieving the timeframe given in the ECL for this project implementation.

According to it the number portability was scheduled to be fully implemented by 1 July 2007, which was an unrealistic due date. According to the ECL and the number portability bylaw the Company and its subsidiary T-Mobile Macedonia, as operators which offer public electronic communication services, must enable their subscribers to retain their non-geographic or geographic numbers when changing operators. Both operators are working on this project actively. The Agency announced public tender for provider of Central Database (CDB) on 30 April 2007 as a precondition for the implementation of the number portability project in general. However, the tender was stopped until further notice. Due to the last developments concerning this matter the Agency has implemented the CDB and has adopted changes of the NP bylaw which provide that the testing period the proposed number portability system the operators shall conclude by 31 August 2008. Management estimates that number portability will be implemented in Group's network within the due date given in the number portability bylaw, mentioned above. Management believes that no provision is necessary for the potential fines due to the fact that such outflows are not considered to be probable.

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 has implemented the defined obligations.

Notes to the consolidated financial statements

24. Subsequent events continued

T-Mobile Macedonia as designated Significant Market Player on mobile voice termination market 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. After using all legal means against the decision of the Agency, T-Mobile Macedonia has published the RIO with the changes imposed by the Agency. T-Mobile Macedonia initiated court procedure in front of the Administrative Court of Republic of Macedonia concerning this decision of the Agency but the case does not postpone the execution of the decisions of the Agency.

In September 2007 the Commission for protection of competition ("CPC"), determined an abuse of a dominant position by T-Mobile Macedonia due to the way of charging of the voice mail service. CPC ordered a new way of charging of this service and initiated a tort procedure against T-Mobile Macedonia. The Decision of CPC was received in February 2008, by which T-Mobile Macedonia is being penalized with 3.15% of the annual gross revenue for 2004 or MKD 251,743 thousand. T-Mobile Macedonia has recorded provision for this case in amount of MKD 182,118 thousand in 2007 financial statements as the triggering event for recognition is considered to occur in September 2007. 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. 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.

BTS site permissions for T-Mobile Macedonia are not completely provided for all existing base stations, and a procedure has been initiated against T-Mobile Macedonia for 186 locations for their removal, for appeals are being submitted. So far 54 positive and 31 negative second-degree decisions received. In addition, 105 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 finally manage to 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.

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, in addition to the previously issued invoices relating to these same periods. T-Mobile Macedonia has already paid these previously issued invoices in the amount of MKD 125,561 thousand issued by the Agency 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. Based on this appeal, the Primary court has opened a court hearing which is ongoing. 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.

Notes to the consolidated financial statements

24. Subsequent events continued

In February 2007, procedure was initiated against the Company, by CPC, upon request from a local Internet Service Provider, for abusing dominant position on the market for access to digital leased lines. CPC brought a decision determining that the Company abused its dominant position and in March 2008 initiated misdemeanour procedure. In July 2008 CPC brought a decision regarding the misdemeanour sentencing the Company with fine of MKD 145,748 thousand. Up to date of issuing of these financial statements, the Company has recorded provision for this case in total amount of MKD 145,748 thousand (as at 31 December 2007 MKD 101,178 thousand). Considering that CPC initiated this procedure in February 2007, Management's understanding is that the triggering event occurred in 2007 and accordingly is disclosed as a subsequent event. The Management also believes that the amount of the penalty will not threaten the ability of the Company to continue as a going concern.

Two damage compensation cases were brought against the Company, related to abuse of dominant position on the market of wholesale ADSL services. In June 2008 the Administrative Court confirmed the legal basis for these damage compensation cases which is considered as triggering event. 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.

In addition, 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. No provision was recognized for this case as at the date of the issuing of these financial statements, given that the case is still in early stage, the Company can not ascertain that outflows for this case are probable.

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.

On 18 December 2007 the Shareholder Assembly of the Company adopted decision the profit for the year end 31 December 2006 to be fully distributed to the accumulated reserves.

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.

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.

On 15 July 2008 the Board of Directors of the Company on the extraordinary meeting adopted the proposal that the Shareholders' Assembly on its next meeting distributes the net profit for 2007 in the amount of MKD 9,043,913 thousand for payment of dividend and adopts the Resolution on dividend payment for 2007 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.

AD Makedonski Telekomunikacii-Skopje
No. 43/7351/
18-12-2007 **.2007**
Skopje

Pursuant to the Statute of AD Makedonski Telekomunikacii – Skopje (MT), and in accordance with the provisions of the Law on Trade Companies and the Resolution of the Board of Directors No. 415151/1 dated 07.12.2007, the Shareholders' Assembly of MT, at its meeting held on 18.12.2007, adopted the following

RESOLUTION
on the adoption of the Annual Report
on the operations of MT for 2006

Article 1

The Shareholders' Assembly of MT hereby adopts the Annual Report on the operations of MT for 2006, which is enclosed as an integral part of this Resolution.

Article 2

The Accounting Area is obliged to submit the Annual Report on the operations of MT for 2006 to the competent state institutions, in accordance with the legal regulations.

Article 3

This Resolution enters into force by its adoption.

SHAREHOLDERS' ASSEMBLY
Chairperson
Zoran Trajcevski

Berlal – certified translation

Strictly confidential business information for Makedonski Telekomunikacii AD (Maktel)

ANNUAL REPORT
on the operations of Maktel Group in 2006

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 Magyar Telekom policy or 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 Audit Committee of Magyar Telekom adopted a resolution for 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 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 and may fail 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 2006, approximately 39 percent of the total revenue of MakTel was derived from voice revenues from domestic fixed line telecommunications services. Mobile services contributed about 42 percent, while international telecommunications services contributed about 10 percent to total revenues. Internet and data services contributed about 5 percent of the total. Four percent of 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 like movement of the Macedonian economy and the resultant decreasing of the consumer purchasing power. It was also negatively impacted, to a limited extent, by alternative fixed line providers of outgoing international calls and indirectly by mobile substitution and VoIP. The revenue stream of MakTel from international traffic shows an increasing trend due to significant rise in the volume of traffic, which was partly compensated by decreased termination tariffs and unfavorable SDR exchange rate. The proportion of mobile revenue is increasing despite the intensified activities of the second mobile operator, and mainly owing to the enlarged subscriber base. Internet and data revenue has grown in 2006, mainly due to the success of ADSL, but still represents an insignificant portion of 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 to prepare for future competition.

MakTel's major operational goals were to digitalize the fixed network and to increase the number of subscribers. While total digitalization was achieved at the end of 2003, MakTel's subscriber base has been steadily decreasing. At the end of 2006 MakTel had 474,979 PSTN lines and 42,200 ISDN channels, compared to 517,874 and 41,262, respectively, at the end of 2005. Fixed line penetration moved in a like manner, stabilizing at 24 percent at the end of 2006.

Maktel has a 94 percent market share on the Macedonian 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. By the end of 2006, Maktel had 109,096 Internet dial-up subscribers compared to 84,067 as of December 31, 2005, which represents a 29.77 percent growth. The growth in the Internet revenues, however, was mostly fostered by the sale of ADSL, which more than doubled the number of ADSL connections, to 16,462 at the end of 2006, compared to 7,798 as of December 31, 2005.

Maktel 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.

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 decrease further, bringing them in line with the EU standards. Local tariffs and basic access charges are expected to increase 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 2006 as well. By the end of 2006, it expanded its customer base from 877,142 at the end of 2005 to 944,530, 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 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, 2006, T-Mobile Macedonia had a 66.5 percent market share in the Macedonian mobile telephone market in terms of subscribers. The mobile penetration rate is still growing (68.3%, compared to 61.3% as of December 31, 2005) though at a smaller rate than in 2005.

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 Christmas purchases.

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 free Pet Shop Boys concert on the city square with about 100.000 people. The re-branding provided sufficient competitive advantage over the competitor and enhanced 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.

Since the parliamentary elections in July 2006, the Government of Republic of Macedonia has enacted a number of bylaws and rulebooks regulating different electronic communication areas.

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 notification to the Macedonian telecommunications regulator (and the registration thereof). By December 2006, the Macedonian telecommunications regulator had registered 45 fix network operators and 55 service providers of public fix telephone services. Maktel published Network Access Agreement for the VoIP service providers for international calls. The final decision/agreement about harmonization of Concession Contracts with provisions of ECL is still pending.

In July 2005, the Macedonian telecommunications regulator issued regulations governing the conditions of interconnection. Rules for access to, and the use of, specific network facilities were issued in August 2005, and 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 to the Macedonian telecommunications regulator. 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 reference interconnection offer. Maktel's first reference unbundling offer has been submitted to the Macedonian telecommunications regulator on September 5, 2005 and approved on July 19, 2006. During 2007 the regulator decreased Maktel interconnection and unbundling fees based on EU benchmarks.

To prepare for competition in its fixed line business, Maktel carried out several changes to 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 charging system to a more customer-oriented time-based charging system with shorter time units. In addition, on the basis of the ECL, the Macedonian telecommunications regulator imposed obligation for cost based prices for 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 realignment of retail and wholesale 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.

According to the obligations from the ECL, new number portability bylaw has been published by the Agency for Electronic Communications ("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. Due to the short notice, the implementation of number portability was technically hardly feasible without on time provision of technical specification by the respective state institutions, within the given timeframe, and Maktel will use the appropriate legal steps to respond to this. Implementation of number portability is expected in 2008.

Since the end of 2004 when Maktel's obligation for providing universal services according to the Concession Contract expired, there is still no operator dedicated as Universal service provider ("USP"). In May 2006 the Government of RM enacted a Decision for implementation of Temporary strategy for Universal Service which set basic strategic directions. The relevant by-laws regulating the technical parameters, quality requirements and pricing of providing Universal services in Macedonia were enacted in the second half of 2006. On the public call for providing universal service in Republic of Macedonia announced by the Agency, Maktel was the only provider which showed interest for it. It is expected that the Agency will initiate a public tender proceeding for the purpose of electing one or more universal service providers (USP) in 2007 according to these by-laws.

The Agency announced a public tender procedure for granting authorizations for radio frequency utilization in the band 3,4 – 3,6 GHz for realization of a fixed wireless access, WiMAX in 2007. Several operators received national or regional WiMax licenses.

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

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

Pricing for dial-up and ADSL access to the Internet is commercial.

Regulated wholesale prices. During 2006 the Agency approved Maktel's MATERIO and MATERUO with incorporated interconnection and unbundling fees calculated based on the Fully distributed cost accounting system. The current interconnection fees between Maktel and the two mobile operators, and between the two mobile operators themselves, are still based on old interconnection agreements and are not yet harmonized with MATERIO. According to the relevant by-law MakTel is obliged to submit long run incremental cost ("LRIC") costing methodology for interconnection and unbundling prices by July 2007.

On December 21, 2006 the Agency brought a decision for changing the Interconnection ("IC") fees. The level of the fees in the decision is determined according to benchmarks and driven mainly by the level of Maktel's retail fees, without taking into consideration the costing model which was prepared by Maktel as obligation from the relevant law.

On February 14, 2007, the Agency brought a decision for changing the Unbundling fees. The level of the fees in the decision is also determined according to benchmarks.

The level of wholesale regulated prices directly depends on the finalization of the price adjustment process of Maktel's retail regulated prices. The not finalized price adjustment process of retail prices will lead to additional significant decrease of wholesale regulated prices.

Regulation of Mobile Business

The services provided by the mobile network operators in Macedonia are currently not subject to price regulation. However, the Macedonian telecommunications regulator is collecting market data on the fixed-to-mobile market. After the initial analysis on Market 16 (call termination in mobile communication network) conducted by the Agency, T-Mobile has submitted its comments in July 2007. As it was expected according to the preliminary findings in the draft analysis on Market 16, T-Mobile was designated as an SMP operator on this market with a Decision issued by the AEC on 26 November 2007. With this Decision T-Mobile is obliged to implement cost based price for this service, to implement accounting separation and to publish RIO.

A public tender for third mobile operator license was published on October 30, 2006. The tender envisages granting of an authorization for radio frequencies utilization to a third mobile operator on the entire territory of the Republic of Macedonia in the GSM 900 and DCS 1800 radio frequency bands. The authorization will be granted for an initial period of 10 years, with a possibility of subsequent extension for another 10 years. The public opening of the bids was held on January 31, 2007. The Commission of the Agency granted the license to the only bidder, Austrian Mobilkom.

Pricing for mobile telecommunications services is currently unregulated. Under the ECL, however, the Agency is empowered to regulate the pricing of the retail mobile services, in case concern over competition arises.

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, EU decided to grant to 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 fulfillment 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 beginning of accession talks encompassing all aspects of EU membership within 32 chapters, including trade, environment, competition, health etc. Macedonia, as 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 implementation of the new regulatory framework, Maktel's fixed line business has not faced significant competition from any fixed line service providers. Maktel, however, faced indirect competition from mobile service providers and, to a limited extent, from VoIP providers.

Starting from the second quarter of 2006, Maktel opened its network for alternative VoIP service providers in the field of the international outgoing calls. By the end of 2006 Maktel has concluded 26 ISDN based commercial Network Access Agreements with alternative VoIP service providers.

On November 15, 2006, MakTel signed the first RIO based Interconnection Agreement with Onnet, an alternative fixed network operator. Onnet launched its long-distance, fix to mobile and international services at the end of February 2007. The second fix Interconnection Agreement was concluded with Akton at the end of 2006. At the beginning of March 2007 Akton started with providing international termination services. Maktel will hence practically face noteworthy direct competition in its fix line business from the first quarter of 2007. During 2007 several other RIO based interconnection agreements were signed with alternative operators. The first RUO agreement was signed with On net in 2007, commercial launch of the product is expected at the beginning in 2008.

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 are also capable to offer data transmission services, transmission capacity and various broadband services. Based on decision from Commission for protection on competition, Maktel is obliged to offer Wholesale leased line offer on retail minus approach.

Regarding the internet market, in addition to Maktel, there are three major ISPs: Onnet, MOL and UNet. Maktel is the market leader based on the number of Internet dial-up minutes. Onnet and UNet have concluded wholesale agreements for dial up service with Maktel. On the broadband market, Maktel has approximately 50% market share and it faces competition mainly from Onnet's wireless broadband and WS ADSL and CATV operators' cable broadband internet, offered to the cable TV customers through their own networks.

Mobile Services

There are two Mobile operators operating on Macedonian Market at the moment. The competition in mobile communications 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 mobile telecommunications services provider in the country, Cosmofon, part of the Greek OTE group, began commercial operation in June 2003. Its marketing and advertising efforts are aggressive with low and competitive handset pricing, attractive price plans, broad array of advertising and indirect channels of sales. Cosmofon is also offering 2.5G services (MMS, GPRS). The Government of the Republic of Macedonia issued the license for third mobile operator to Mobilkom, a member of Telekom Austria Group.

According to T-Mobile Macedonia's estimates, Cosmofon had approximately 33,5 percent market share at the end of 2006. Cosmofon's subscriber base is mainly prepaid. Cosmofon has been increasingly targeting T-Mobile Macedonia's residential and business postpaid (contract) customers.

In this intensive competitive environment, T-Mobile Macedonia plans to maintain its market share through improved productivity, efficiency measures and maintenance of existing customer relations to avoid the escalation of price-based competition.

MARKETING

In 2006, main competitors continued to be mobile operators and Internet providers despite the fact that first direct competition in fix line services started in early spring 2006. The new fixed telephone service providers (26 in total) have started their services by offering international outgoing calls via prepaid cards. Maktel responded accordingly with International prices adjustment, special tariff packages ("Partner Country" "Favorite Country") and launch of co-branded prepaid cards, which resulted in loss of only small portion of the international outgoing voice traffic market.

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

Competitive race among mobile providers has become stronger especially during the large re-branding campaign launched by Mobimak, which was re-branded into T-Mobile. Several packages launched during this period by both T-Mobile and Cosmofon have increased the competitiveness of mobile voice services. Special tariffs (closed user groups, special business offers) combined with additional services (SMS, MMS, GPRS) and large advertising campaigns are capturing different specific parts of total telecommunications market, providing higher value compared to fixed line offerings.

Despite this fact, Maktel maintained a more stable postpaid customer base compared to 2004 and 2005.

Competition intensified in retail broadband Internet, where new entrants (CATV providers) managed to position themselves as serious market players. Aggressive marketing and sales approach combined with wide territory coverage, fast provisioning time and high service reliability, supported by a strong image campaign, allowed Maktel to retain its dominant position on the Internet market and strengthen the position of ADSL as premium quality service for broadband access to Internet. In 2006, MakTel succeeded to double number of broadband ADSL users compared to the end of 2005, now holding around 50% of all broadband internet users in Macedonia by the end of 2006.

In 2006, Maktel continued to develop business solutions for the corporate market including services, such as Business Voice, Video surveillance and bundled equipment and services offers.

In September 2006, Mobimak was re-branded into T-Mobile and became part of the T-Mobile family. To sustain the position of number one operator in the country, T-Mobile Macedonia has developed a wide range of services and price plans for prepaid, postpaid and business customers. With the re-branding, T-Mobile Macedonia introduced new tariff models for all segments, introduced a PrePaid loyalty program and carried out many innovative promotions.

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

RESEARCH AND DEVELOPMENT

In the last three years significant efforts have been made to upgrade the network in order to extend the range of the services offered and improve their quality. This, together with the rationalization of network switching architecture resulted in increase of the operational efficiency and network consolidation. New telephone services were introduced through the IN and Voice Mail Platforms and provision of broadband services became available with the implementation of ADSL technology.

In the next phase, the main focus will be on extension of ADSL capacities nationwide and development of new services. To expand broadband offerings, Maktel will focus on video (triple play) services in terms of its technical feasibility and it's impact on access and transport network.

Maktel will continue to dedicate necessary resources for implementation of new technologies to develop the capacity to offer broadband services that will satisfy customers' demands. For connection of Business customers, Metro Ethernet equipment will be used in general.

Maktel is making preparations for interconnection and convergence of separate voice and data networks. The NGN concept has been seen as a long-term project. Maktel does not plan significant development of traditional PSTN/ISDN network except for purposes of maintenance and compliance with the regulatory requirements. The key focus will be on provisioning of broadband access, upgrade of transport network and network migration towards NGN.

T-Mobile Macedonia has built a high quality and high capacity network that meets the requirements and needs of its growing subscriber base. Our 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

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

Interconnect Billing – to respond proactively to the liberalization of the telecommunications market and the consequent requirements and obligations, the new Inter-carrier billing system (InterconnecT) has been implemented for the domestic and international usage and non-usage part.

GIS – A new inventory viewer application, based on GIS database was developed to provide graphical view of all technical inventory data.

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 enable the possibility of creating a cross-business unit view on customers. The project implementation will continue during 2007.

Product Costing Methodology – During 2006, Maktel implemented the ABC product costing model.

Shared Service Program - over the past year, Maktel has implemented several Shared Services Projects with T-Mobile Macedonia (Implementation of a Common Data Storage System; Extension of the Common SAN infrastructure, Trust relation between MakTel and T-Mobile Macedonia domains, PoS integration – Common network in the T-shops).

Makedonski Telekom AD Skopje
Orce Nikolov bb 1000 Skopje

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

Date: 12.12.2008

STATEMENT

In accordance with the Law on Securities of the RoM, I, Nikolai Beckers, Chief Executive Officer of Makedonski Telekom AD – Skopje hereby affirm that the complete delivered material for the annual reporting for the year ending on 31.12.2006 is accurate and reliable.

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

Nikolai Beckers
Chief Executive Officer

Македонски Телеком
АД за електронски комуникации, Скопје