Makedonski Telekom AD Skopje
Orce Nikolov bb 1000 Skopje

Македонски Телеком
АД за електронски комуникации - Скопје
Број 01- 20660/1
Датум 30-04-2009

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

Date: 30.04.2009

Subject: Submission of the Annual report for 2008

Dear Sirs / Madams,

Pursuant to the articles 154 and 164 of the Law on Securities and the respective by-law legislation related to the Makedonski Telekom AD Skopje annual reporting obligations, please find attached the Annual report for 2008.

At the same time we emphasize that the audited consolidated financial statements for 2008 contain qualified auditor's opinion.

Yours faithfully,

Zarko Lukovski
President of the Board of Directors

Nikolai Beckers
Chief Executive Officer

Македонски Телеком
АД за електронски комуникации - Скопје

Makedonski Telekom AD – Skopje
Address Orce Nikolov bb 1000 Skopje R.Macedonia
Contact Phone +389 2 3100 200 ; Fax +389 2 3100 300; Contact center 171
e-mail: kontakt@telekom.mk; www.telekom.mk
ID number 5168660

Makedonski Telekom AD Skoje
Orce Nikolov bb, 1000 Skopje

To: Securities and Exchange Commission of the RoM
Date: 30th of April 2009
Subject: Annual Report for the period 01.01.2008 – 31.12.2008

1. General data

Name	Makedonski Telekom, Joint Stock Company for electronic communications - Skopje
Address of the registered office	Orce Nikolov bb, 1000, Skopje, Republic of Macedonia
Telephone and fax	Tel : +389 2 3100 200 / Fax : +389 2 3100 300
E-mail	kontakt@telekom.mk
Web-site	www.telekom.mk

2. Legal status

Registry number	5168660
Activity code	64.20/0
Activity description	Telecommunications
Decision number from the Central Registry	08-03/3843/1 dated 11.05.2006
Date of establishment	- Basic Court Skopje 29.01.2001 – the state owned AD Makedonski Telekomunikacii – Skopje was transformed into a joint stock company for telecommunications Makedonski Telekomunikacii - Skopje - On 11.05.2006, the Company was registered in the Central Register of the RoM in accordance with the legal regulations.
Status changes	- 29.01.2001 (Privatization and change of the company's status from a state owned joint stock company for telecommunications Makedonski Telekomunikacii – Skopje into a Joint Stock Company for telecommunications Makedonski Telekomunikacii - Skopje), - 05.03.1998 (transformation of the public enterprise for telecommunications Makedonski Telekomunikacii C.O. Skopje into a state owned joint stock company for telecommunications Makedonski Telekomunikacii- Skopje), - 12.08.1997 (Establishment – organization of a public enterprise for telecommunications Makedonski Telekomunikacii C.O. Skopje).
Number of subsidiaries, branch offices	- T-Mobile Macedonia as a separate legal entity 100% owned by Makedonski Telekom (MKT), - 29 subsidiaries/ MKT Points of Sale which do not have the status of separate legal entities. They have been registered as subsidiaries in accordance with the Law on Trade Companies pursuant to which every facility performing an MKT activity at a location other than the registered office of the MKT headquarters is registered as a subsidiary.
Number of employees at the end of the year (31.12.2008)	1,308
Management system	One tier
Name and last name of the procurist (proxy)	Nikolai Beckers

3. Data on the capital and changes of the capital

Total value of the share capital in MKD	9,583,887,733.00
Number of issued shares	
- Ordinary shares	95,838,780
- Preference shares (Golden share)	1
Nominal value of ordinary share	100.00 MKD
Nominal value of preference share	9,733.00 MKD
Shares issue	There has been no issue of Makedonski Telekom's AD Skopje shares in the reporting period.
Shares split	There has been no split of Makedonski Telekom's AD Skopje shares in the reporting period.
Number of shareholders at the end of the year (31.12.2008)	4,235
Number and percentage of treasury shares in the share capital at the last day of the year (percentage rounded up to two decimals)	9,583,878 treasury shares (10.00% of the total number of issued ordinary shares of Makedonski Telekom AD Skopje).
Data on purchase of treasury shares	
- date and manner of purchase	At the Government auction / regular trading held from 5th till 9th of June 2006, the Company purchased 10.00% of the Government shareholding in Makedonski Telekom AD Skopje.
- legal basis for purchase	The treasury shares were purchased in accordance with the Resolution No. 021-98576/1 of the Company's Shareholders' Assembly.
- quantity	9,583,878
- price per share	Out of 9,583,878 purchased treasury shares, 9,488,040 shares were purchased for price of MKD 389 and 95,838 shares were purchased for price of MKD 390.
Data on any significant changes that have been part of the prospectus (especially data on the legal, financial and business operations of the issuer, investment risk and rights arising from the offered securities).	Makedonski Telekom AD Skopje has not issued prospectus.
International identification number of the ordinary shares issued by the Company - ISIN number	MKMTSK101019
International identification number of the preference shares issued by the Company - ISIN number	MKMTSK121017
Account (s) / transaction account (s) of the Company and the title of the institution keeping it.	200000090141316, AD Stopanska banka Skopje

4. Financial data and the financial condition of the Company

Price of the ordinary shares	
- maximum	MKD 705.00
- minimum	MKD 291.00
- closing	MKD 300.00
Price of the preference shares	/
Market capitalization (the value is calculated by multiplying the total number of issued ordinary shares and closing price per share of the ordinary shares on the stock exchange at the last day of the reporting period).	MKD 28,752 million
Changes in the accounting policies	There are no changes
Date of the Shareholders' assembly meeting at which the audited annual report for 2008 has been adopted	29.04.2009 (The consolidated audited financial statements for the year 2008 are provided in attach)
Analysis and explanation of the operating results and development program of the Company	The Annual report on the operations of the group of Makedonski Telekom AD - Skopje in 2008 is provided in attach.
Data on the members of the Board of Directors, as well as their shareholding in the share capital of the Company	The data are presented in the table 4.1
Data on the individuals and/or legal entities that own more than 5% from the shares of the Company	The data are presented in the table 4.2
Data on all contracts for rewarding of the members of the board of directors and persons with special responsibilities and authorizations	The remuneration amount of the Company's BoD members and the Company's key management remuneration amount are presented in note 29 of the consolidated audited financial statements for the year 2008.
Data on the transaction between the Company and the related parties	The transactions with the 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 7, 14 and 28) of the consolidated audited financial statements for the year 2008.
Gross dividend per ordinary share (in an absolute amount and percentage compared to the nominal value, rounded up to two decimals) for the year:	
- 2007	113.42 MKD (113.42% of the nominal value)
- 2006	0
- 2005	86.10 MKD (86.10% of the nominal value)
Gross dividend per preference share (in an absolute amount and percentage compared to the nominal value, rounded up to two decimals) for the year:	
- 2007	113.42 MKD (1.17% of the nominal value)
- 2006	0
- 2005	86.10 MKD (0.88% of the nominal value)
Name of the stock exchange or another organized market where the securities are traded	Macedonian Stock Exchange
Listing of the securities of the Company and the stock exchange where they are listed	The Company's shares are not listed on the Stock Exchange. The Company's shares are traded on the market segment of the Regular Market (Publicly held companies- ordinary shares).

4. Financial data and the financial condition of the Company (Continued)

Legal issues (comments by the management bodies/ management on all court procedures involving the Company as compliant or defendant and the value of which is at least 5 % of the value of the Company's capital calculated according to the last audited financial statements)	The Company is not included in court procedures which value is at least 5 % of the value of the Company's capital calculated according to the audited financial statements for the year 2008. The data regarding the legal disputes, in which the Group Makedonski Telekom AD Skopje is involved, are presented in the notes 15 and 27 of the consolidated audited financial statements for the year 2008.

4.1. Data on the members of the Board of directors and their shareholding in the Company

	First name and last name	Description of the position and the appointment date
1	Zarko Lukovski	President of the Board of Directors 29.11.2006
2	Goran Ivanovski	Non-Executive member of the Board of Directors 29.11.2006
3	Boris Stavrov	Non-Executive member of the Board of Directors 04.12.2008
4	Dénes Szluha	Non-Executive member of the Board of Directors 29.11.2006
5	Agron Budzaku	Non-Executive member of the Board of Directors/Vice-President 03.09.2008
6	Joachim Haas	Non-Executive member of the Board of Directors 03.09.2008
7	Nikolai Beckers	Executive member of the Board of Directors/Chief Executive Officer 31.07.2007 with date of implementation of the Resolution 10.09.2007
8	Gabor Pal	Non-Executive member of the Board of Directors 18.12.2007
9	Wolfgang Hauptmann	Non-Executive member of the Board of Directors 30.05.2005
10	Janos Szabo	Non-Executive member of the Board of Directors 31.07.2007
11	Robert Molnar	Independent member of the Board of Directors 17.05.2007
12	Metodi Stoimenovski	Independent member of the Board of Directors 17.05.2007
13	Andras Fischer	Independent member of the Board of Directors 03.09.2008
14	Romeo Dereban	Independent member of the Board of Directors 17.05.2007

* As of 31.12.2008 the members of the Board of Directors of Makedonski Telekom AD Skopje do not own shares issued by the Company.

4.2. Data on the individuals and/or legal entities that own more than 5% of the shares of the Company

Name	Address	Number of shares	As % from the total number of voting shares	As % from the total number of shares
Stonebridge Communications AD Skopje (under liquidation)	Orce Nikolov bb, 1000 Skopje	48,877,780	56.67	51.00
Government of the Republic of Macedonia	Ilinden Blvd bb, 1000 Skopje	33,364,875	38.68	34.81

Makedonski Telekom AD - Skopje

Consolidated Financial Statements
For the year ended
31 December 2008
With the Report of the Auditor Thereon

Contents

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers REVIZIJA DOO
12 Marshal Tito Str.
"Palata Makedonija" IV floor
1000 Skopje
Republic of Macedonia
Telephone +389 (02) 3116 638
+389 (02) 3111 012
+389 (02) 3110 623
Facsimile +389 (02) 3116 525
www.pwc.com/mk

Independent Auditor's Report

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

Report on consolidated financial statements

We have audited the accompanying consolidated financial statements of Makedonski Telekom AD Skopje (the "Company") and its subsidiaries T-Mobile Macedonia AD Skopje and E-Makedonija foundation – Skopje (together "the Group") which comprise the consolidated balance sheet as of 31 December 2008 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 in 2006 resulted in the receipt of services commensurate with consideration paid. The total amount of such transactions recorded in the consolidated financial statements as of 31 December 2008 and for the year then ended are MKD 105,147,000 which are recorded within treasury shares in the consolidated balance sheet as at both 31 December 2008 and 31 December 2007. Our opinion on the corresponding figures for the year ended 31 December 2007 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 2008 and 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

5 March 2009
Skopje

Consolidated Balance Sheet

In thousands of denars	Note	As at 31 December 2008	2007
Assets			
Current assets			
Cash and cash equivalents	5	1,123,520	6,728,837
Deposits with banks	6	9,932,605	7,384,557
Trade and other receivables	7	2,999,608	2,966,540
Inventories	9	279,943	300,890
Assets held for sale	10	1,204	32,091
Total current assets		14,336,880	17,412,915
Non-current assets			
Property, plant and equipment	11	14,054,385	14,067,684
Advances for property, plant and equipment		486	-
Intangible assets	12	2,829,685	1,951,977
Trade and other receivables	7	98,887	103,581
Available-for-sale financial assets		896	896
Financial assets at fair value through profit and loss	13	61,476	226,272
Total non-current assets		17,045,815	16,350,410
Total assets		31,382,695	33,763,325
Liabilities			
Current liabilities			
Trade and other payables	14	3,476,452	2,549,630
Current income tax liability		134,787	274,638
Provision for other liabilities and charges	15	587,432	457,554
Total current liabilities		4,198,671	3,281,822
Non-current liabilities			
Deferred income tax liabilities		47,835	139,607
Provision for other liabilities and charges	15	705,669	381,841
Total non-current liabilities		753,504	521,448
Total liabilities		4,952,175	3,803,270
Equity			
Share capital		9,583,888	9,583,888
Share premium		540,659	540,659
Treasury shares		(3,843,505)	(3,843,505)
Statutory reserves		2,475,068	2,475,068
Retained earnings		17,674,410	21,203,945
Total equity	16	26,430,520	29,960,055
Total equity and liabilities		31,382,695	33,763,325

The consolidated financial statements set out on pages 1 to 38 were authorised for issue on 16 February 2009 by the Management of Makedonski Telekom AD - Skopje, and are subject to review and approval by the Board of Directors on 10 March 2009 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 38 are an integral part of these consolidated financial statements.

Consolidated Income Statement

In thousands of denars	Note	Year ended 31 December 2008	2007
Revenues	17	18,603,199	18,077,817
Depreciation and amortisation		(2,993,033)	(3,273,901)
Personnel expenses	18	(2,014,999)	(1,569,338)
Payments to other network operators		(1,722,243)	(1,692,406)
Other operating expenses	19	(5,602,901)	(4,828,200)
Operating expenses		(12,333,176)	(11,363,845)
Other operating income	20	257,127	94,189
Profit from operations		6,527,150	6,808,161
Finance expenses	21	(119,915)	(234,277)
Finance income	22	706,506	561,410
Profit before tax		7,113,741	7,135,294
Income tax expense	23	(860,205)	(974,293)
Net profit for the year		6,253,536	6,161,001

The notes on pages 5 to 38 are an integral part of these consolidated financial statements.

Consolidated statement of cash flows

In thousands of denars	Note	Year ended 31 December 2008	2007
Operating activities			
Profit before tax		7,113,741	7,135,294
Adjustments for:			
Depreciation and amortisation		2,993,033	3,273,901
Write down of inventories to net realisable value	19	23,231	51,950
Income from sale of subsidiary	20	(238,421)	-
Fair value losses/(gains) on financial assets at fair value through profit and loss	21/22	99,870	(56,327)
Impairment losses on trade and other receivables	19	189,709	241,790
Provisions		540,097	474,527
Net gain on disposal of equipment		(18,706)	(94,189)
Dividend income	22	(3,144)	(2,724)
Interest expense	21	48	659
Interest income	22	(630,624)	(502,359)
Effect of foreign exchange rate changes on cash and cash equivalents		(11,809)	27,293
Cash generated from operations before changes in working capital		10,057,025	10,549,815
Increase in inventories		(2,284)	(42,696)
Increase in receivables		(222,627)	(299,849)
Increase in payables		811,472	215,789
Cash generated from operations		10,643,586	10,423,059
Interest paid		(48)	(659)
Income taxes paid		(1,091,828)	(1,004,524)
Cash flows from operating activities		9,551,710	9,417,876
Investing activities			-
Acquisition of property, plant and equipment		(2,135,789)	(1,709,469)
Acquisition of intangible assets		(1,676,113)	(640,719)
Proceeds from sale of subsidiary		303,346	-
Loans collected/(granted)		4,972	(17,877)
Deposits collected from banks		17,179,697	4,354,477
Deposits placed with banks		(19,669,550)	(7,557,812)
Dividends received		3,144	2,724
Proceeds from sale of equipment		32,526	153,667
Interest received		572,002	496,785
Cash flows from investing activities		(5,385,765)	(4,918,224)
Financing activities			
Dividends paid		(9,783,071)	(7,426,794)
Cash flows from financing activities		(9,783,071)	(7,426,794)
Effect of foreign exchange rate changes on cash and cash equivalents		11,809	(27,293)
Net decrease in cash and cash equivalents		(5,605,317)	(2,954,435)
Cash and cash equivalents at 1 January		6,728,837	9,683,272
Cash and cash equivalents at 31 December	5	1,123,520	6,728,837

The notes on pages 5 to 38 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 2007		9,583,888	540,659	(3,843,505)	2,475,068	22,469,738	31,225,848
Net profit for the year		-	-	-	-	6,161,001	6,161,001
Dividend payment		-	-	-	-	(7,426,794)	(7,426,794)
Balance at 31 December 2007	16	9,583,888	540,659	(3,843,505)	2,475,068	21,203,945	29,960,055
Balance at 1 January 2008		9,583,888	540,659	(3,843,505)	2,475,068	21,203,945	29,960,055
Net profit for the year		-	-	-	-	6,253,536	6,253,536
Dividend payment		-	-	-	-	(9,783,071)	(9,783,071)
Balance at 31 December 2008	16	9,583,888	540,659	(3,843,505)	2,475,068	17,674,410	26,430,520

The notes on pages 5 to 38 are an integral part of these consolidated financial statements.

Notes to the consolidated financial statements

1. GENERAL INFORMATION

1.1. About the Company

These consolidated financial statements relate to the group of Makedonski Telekom AD - Skopje, which includes Makedonski Telekom AD - Skopje, T-Mobile Macedonia AD Skopje and e-Makedonija foundation - Skopje (hereinafter referred as to "the Group").

Makedonski Telekom AD - Skopje, (hereinafter "the Company") is a joint stock company incorporated and domiciled in the Republic of Macedonia.

In 2008 the Company adopted the T-Home brand and on 1 May 2008 changed its legal name from AD Makedonski telekomunikacii Skopje into Makedonski Telekom AD - Skopje and its products are now marketed under the brand T-Home.

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

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

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

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

The regulatory framework for the tariff regulation for the Company until August 2008 was provided in the Concession Contract. With the enactment of the ECL in March 2005 and the published relevant Draft bylaw for retail regulation in September 2008, the Agency may prescribe one of the following ways of retail regulation of fixed telephony services: price cap, individual price approval, cost based prices or benchmarks. The Company had 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 fees are applicable from 1 June 2008.

Under the ECL, the Company has been designated as a Significant Market Power operator ("SMP") in the market for fixed line voice telephone networks and services, including the market for access to the networks for data transmission and leased lines. Based on 4 enacted bylaws and several Draft bylaws published in September 2008 the Company will be obliged to prepared several additional regulated wholesale products.

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

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

Notes to the consolidated financial statements

The Agency in November 2007 has published a public tender for granting one license for 3G radiofrequencies utilization. Cosmofon won the tender and started the 3G commercial operations from 12 August 2008. On 2 September 2008 a decision for granting three 3G licences for 10 million EUR one off fee each was published. T-Mobile Macedonia won one license which was granted to it on 17 December 2008 and is obliged to launch commercial start of the 3G services by 17 June 2009. The Government of Republic of Macedonia has published an official decision for granting additional two 3G licenses with 5 million EUR one off fee, each. The public tender for granting these licenses is still not published.

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

The Company's registered address is "Orce Nikolov" Street bb, 1000, Skopje, Republic of Macedonia. The average number of employees during 2008 was 1,906 (2007: 2,151).

1.2. Investigation into certain consultancy contracts

On 13 February 2006, Magyar Telekom Plc., the controlling owner of the Company (via Stonebridge Communications AD - Skopje under liquidation, majority shareholder of Makedonski Telekom AD - Skopje), announced that it was investigating certain contracts entered into by another subsidiary of Magyar Telekom Plc. to determine whether the contracts were entered into in violation of Magyar Telekom Plc. policy or applicable law or regulation. Subsequent to this on 19 February 2007, the Board of Directors of the Company, based on the recommendation of the Audit Committee of the Company and the Audit Committee of Magyar Telekom Plc., adopted a resolution to conduct an independent internal investigation regarding certain contracts in Macedonia. The investigation, conducted by an independent law firm and supervised by the Audit Committee of Magyar Telekom Plc., is still ongoing.

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

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

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

We understand, based on information from White & Case provided to Magyar Telekom, that the internal independent investigation has identified several contracts (including the six contracts with the Cyprus-based consulting company and/or its affiliates referred to in the public disclosure of May 21, 2008) related to Magyar Telekom Group's business operations in Macedonia, that White & Case deemed suspicious and worthy of further inquiry. The latest of those suspicious contracts is dated March 1, 2006. White & Case has indicated that it will inform Magyar Telekom's Audit Committee, Magyar Telekom's management and Magyar Telekom's auditors of relevant information and/or conclusion relating to these contracts. (Magyar Telekom's Board of Directors authorized White & Case to make voluntary disclosure of all the issues and concerns raised by the auditors to the SEC and DOJ, and Magyar Telekom has been informed that White & Case has met and discussed its investigation with the SEC and DOJ on several occasions.)

The independent investigation is continuing. The Company 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.

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

Notes to the consolidated financial statements

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

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

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

We have become aware of no information as a result of a request from any regulators or other external parties, from which we have concluded that the financial statements may be misstated, including from the effects of a possible illegal act.

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

Notes to the consolidated financial statements

2. SIGNIFICANT ACCOUNTING POLICIES

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

2.1. Basis of preparation

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

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

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

2.1.1. Standards, amendments and interpretations effective and adopted by the Group in 2008

- IAS 39 (Amended) Financial Instruments: Recognition and Measurement. The IASB published on 14 October 2008 amendments to IAS 39 and IFRS 7 - Financial Instruments: Disclosures. The amendments relate to the possibility to reclassify financial instruments measured at fair value through profit of loss. So far, reclassifications in and out of this category were not allowed. The amendment now enables under certain circumstances a reclassification. If based on the new rules a reclassification is done, the amended IFRS 7 demands additional disclosures. The amendments had no effect on the Group's equity or Net income or implications for reporting as the Group did not make and does not intend to make such reclassifications. The amendment is effective from July 2008.
- 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. The Group applied this Interpretation from 1 January 2008, but no such transactions fell under the scope of IFRIC 11.
- 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. IFRIC 12 had no impact on the Group's accounts.

2.1.2. Standards, amendments and interpretations effective in 2008 but not relevant for the Group

There are no standards, amendments or interpretations effective in 2008 that are not relevant for the Group

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

- 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 will apply this Interpretation from January 1, 2009. The Group does not expect the revised IAS 1 to cause significant changes in the presentation of the Group's financial statements.
- IAS 23 Borrowing Costs (Revised March 2007). Under the revised IAS 23 an entity shall capitalize borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The Group does not expect IAS 23 to have any impact on the financial statements.
- IFRS 2 (amended) - In January 2008 the IASB published the amended Standard IFRS 2 - Share-based Payment. Main changes and clarifications include references to vesting conditions and cancellations. The changes to IFRS 2 must be applied in periods beginning on or after 1 January 2009. The Group has no significant share based compensations; therefore, we do not expect the amended standard to have a significant effect on the Group when applied.

Notes to the consolidated financial statements

- IFRS 3, IAS 27 (amended). In January 2008 the IASB published the amended Standards IFRS 3 - Business Combinations and IAS 27 - Consolidated and Separate Financial Statements. The major changes compared to the current version of the standards are summarized below:
    - With respect to accounting for non-controlling interest (new term for 'minority interest') an option is added to IFRS 3 to permit an entity to recognize 100% of the goodwill of the acquired entity, not just the acquiring entity's portion of the goodwill ('full goodwill' option) or to measure non-controlling interest at its fair value. This option may be elected on a transaction-by-transaction basis.
    - In a step acquisition, the fair values of the acquired entity's assets and liabilities, including goodwill, are measured on the date when control is obtained. Accordingly, goodwill will be measured as the difference at the acquisition date between the fair value of any investment the business held before the acquisition, the consideration transferred and the net asset acquired.
    - A partial disposal of an investment in a subsidiary while control is retained is accounted for as an equity transaction with owners, and gain or loss is not recognized.
    - A partial disposal of an investment in a subsidiary that results in loss of control triggers re-measurement of the residual interest to fair value. Any difference between fair value and carrying amount is a gain or loss on the disposal, recognized in profit or loss.
    - Acquisition related costs will be accounted for separately from the business combination, and therefore, recognized as expenses rather than included in goodwill. An acquirer will have to recognize at the acquisition date a liability for any contingent purchase consideration. If the amount of contingent consideration accounted for as a liability changes as a result of a post-acquisition event (such as meeting an earnings target), it will be recognized in accordance with other applicable IFRSs, as appropriate rather than as an adjustment of goodwill.
    - The revised standards require an entity to attribute their share of losses to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.
    - Effects resulting from an effective settlement of pre-existing relationships (relationships between acquirer and acquiree before the business combination) must not be included in the determination of the consideration.
    - In contrast to current IFRS 3, the amended version of this standard provides rules for rights that have been granted to the acquiree (e.g. to use its intellectual property) before the business combination and are re-acquired with the business combination.
    - The revised IFRS 3 brings into scope business combinations involving only mutual entities and business combinations achieved by contracts alone.

  The amended version of IFRS 3 has to be applied for Business Combinations with effective dates in annual periods beginning on or after 1 July 2009. Early application is allowed but restricted on annual periods beginning on or after 30 June 2007. The changes to IAS 27 must be applied in periods beginning on or after 1 July 2009. Early application is allowed. Early application of any of the two standards requires early application of the other standard, respectively. The amended standards are not expected to have impact on the Group's financial statements.

- IFRS 8 Operating Segments. Under IFRS 8, segments are components of an entity regularly reviewed by an entity's chief operating decision-maker. Items are reported based on the internal reporting. IFRS 8 also sets out requirements for related disclosures about products and services, geographical areas and major customers. The Group is currently analyzing the changes that IFRS 8 may cause in the Group's financial statements.

- IFRIC 13 Customer Loyalty programs. 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 will apply this Interpretation from 1 January 2009. We do not expect that IFRIC 13 may cause significant changes in the Group's accounting treatments as the loyalty programs have been accounted for in the same way as included in the recently issued IFRIC 13.

Notes to the consolidated financial statements

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

- IAS 32 (amended). In February 2008, the IASB amended IAS 32 with respect to the balance sheet classification of puttable financial instruments and obligations arising only on liquidation. As a result of the amendments, some financial instruments that currently meet the definition of a financial liability will be classified as equity. The amendments have detailed criteria for identifying such instruments. The amendments of IAS 32 are applicable for annual periods beginning on or after 1 January 2009. The Group does not expect the amendments to the standard to affect the Group's financial statements.
- IAS 39 (amended). The IASB published an amendment in August 2008 to IAS 39 with respect to hedge accounting. The amendment "Eligible Hedged Items" allows to designate only changes in the cash flows or fair value of a hedged item above or below a specified price or other variable (IAS 39.AG99BA). The amendment of IAS 39 shall be applied retrospectively for annual periods beginning on or after 1 July 2009. The amendment will not affect the Group's accounts as the Group does not apply hedge accounting.
- IFRS 1 First-time Adoption of IFRS (revised). In November 2008 the IASB issued the revised version of IFRS1. As the Group has been reporting according to IFRS for many years, neither the original standard, nor the revisions made are relevant for the Group.
- IFRIC 14 Interpretation 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 recognized as an asset. It also explains how the pension's asset or liability may be affected when there is a statutory or contractual minimum funding requirement. This Interpretation is not applicable to the Group as the Group has no funded defined post-retirement benefit schemes.
- IFRIC 15 Agreements for the Construction of Real Estate. IFRIC 15 refers to the issue of how to account for revenue and associated expenses by entities that undertake the construction of real estate and sell these items before construction is completed. The interpretation defines criteria for the accounting in accordance with either IAS 11 or with IAS 18. IFRIC 15 shall be applied for annual periods beginning on or after 1 January 2009. As the Group is not involved in such constructions, IFRIC 15 is not relevant for the Group.
- IFRIC 16 Hedges of a Net Investment in a Foreign Operation. IFRIC 16 refers to the application of Net Investment Hedges. Mainly, the interpretation states which risk can be defined as the hedged risk and where within the group the hedging instrument can be held. Hedge Accounting may be applied only to the foreign exchange differences arising between the functional currency of the foreign operation and the parent entity's functional currency. A derivative or a non-derivative instrument may be designated as a hedging instrument. The hedging instrument(s) may be held by any entity or entities within the group (except the foreign operation that itself is being hedged), as long as the designation, documentation and effectiveness requirements of IAS 39.88 that relate to a net investment hedge are satisfied. IFRIC 16 shall be applied for annual periods beginning on or after 1 October 2008. As the Group does not apply such hedges and does not apply hedge accounting, IFRIC 16 will have no impact on the Group's accounts.
- IFRIC 17 Distributions of Non-cash Assets to Owners. This interpretation issued in November 2008 refers to the issue when to recognize liabilities accounted for non-cash dividends payable (e.g. property, plant, and equipment) and how to measure them. In addition, the interpretation refers to the issue how to account for any difference between the carrying amount of the assets distributed and the carrying amount of the dividend payable. The interpretation shall be applied for annual periods beginning on or after 1 July 2009. As the Group does not distribute non-cash dividends, IFRIC 17 will have no impact on the Group's financial statements.
- IFRIC 18 Transfers of Assets from Customers (effective for annual periods beginning on or after 1 July 2009). The interpretation clarifies the accounting for transfers of assets from customers, namely, the circumstances in which the definition of an asset is met; the recognition of the asset and the measurement of its cost on initial recognition; the identification of the separately identifiable services (one or more services in exchange for the transferred asset); the recognition of revenue, and the accounting for transfers of cash from customers. IFRIC 18 is not expected to have any impact on the Group's financial statements.

Notes to the consolidated financial statements

2.2. Consolidation

2.2.1. 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.

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

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

	Country of incorporation	**Ownership interest 2008**	**Ownership interest 2007**
T-Mobile Macedonia AD	Macedonia	100	100
Montmak	Montenegro	-	100
e-Makedonija	Macedonia	100	100

2.3. Foreign currency translation

2.3.1. Functional and presentation currency

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

2.3.2. Transactions and balances

Transactions in foreign currencies are translated to denars at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the 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 (Finance income/expenses). Non-monetary financial assets and liabilities denominated in foreign currency are translated to denars at the foreign exchange rate ruling at the date of transaction.

The foreign currencies deals of the Group are predominantly EURO (EUR) and United States Dollars (USD), based. The exchange rates used for translation at 31 December 2008 and 2007 were as follows:

	2008 MKD	2007 MKD
1 USD	43.56	41.66
1 EUR	61.41	61.20
1 CHF	41.04	36.86

2.4. Financial instruments

Financial assets include, in particular, cash and cash equivalents, deposits with banks, trade receivables and other non-derivative financial assets.

Financial liabilities generally substantiate claims for repayment in cash or another financial asset. In particular, financial liabilities include trade and other payables.

2.4.1. Financial assets

The Group classifies its financial assets in the following categories:

(a) at fair value through profit or loss

(b) loans and receivables

Notes to the consolidated financial statements

(c) available-for-sale (AFS)

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

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

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

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

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

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

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

(b) Loans and receivables

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

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

- cash and cash equivalents
- deposits with bank
- receivables and loans to third parties
- trade receivables
- employee loans
- other receivables (e.g. interest receivables)

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

Cash and cash equivalents

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

Trade and other receivables

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

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

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

Individual valuation is carried out for the largest customers and international customers and also for customers under litigation and bankruptcy proceedings.

When a trade receivable is established to be uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against the recognized loss in the income statement.

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

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

Employee loans

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

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

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

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

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

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

Loss events can be the followings:

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

If any such evidence exists for AFS financial assets, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the income statement

Notes to the consolidated financial statements

- is removed from equity and recognized in the income statement (Finance income). Impairment losses recognized in the income statement on equity instruments shall not be reversed through the income statement.

2.4.2. Financial liabilities

Trade and other payables

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

2.5. 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.

2.6. Non current assets held for sale

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

2.7. Property, plant and equipment (PPE)

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

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

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

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

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

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 assets useful lives and residual values are reviewed, and adjusted if appropriate, at least once a year. For further details on the groups of assets impacted by the most recent useful life revisions see note 11.

Notes to the consolidated financial statements

The estimated useful lives are as follows:

	2008	2007
	Years	Years
Buildings	20-40	20-40
Aerial and cable lines	20-25	20-25
Telephone exchanges	10	10
Base stations	10	7
Computers	3-4	3-4
Electronic devices	2-15	2-15
Furniture and fittings	4-6	4-6
Vehicles	4-6	4-6

2.8. Intangible assets

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

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

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

The estimated useful lives are as follows:

	2008	2007
	Years	Years
Software and software licences	2-5	2-5
Concession	18	5
3G licence	10	-

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

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

2.9. Impairment of PPE and intangible assets

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

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

Impairment losses are recognized in the income statement. Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

Notes to the consolidated financial statements

2.10. Provisions and contingent liabilities

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

Provisions are measured and recorded as the best estimate of the expenditure required to settle the present obligation at the balance sheet date.

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

2.11. Share capital

Ordinary shares are classified as equity.

2.12. Treasury shares

When the 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.

2.13. 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.

2.14. Revenues

Revenue is primarily derived from services provided to customer subscribers and other third parties using telecommunications network, and equipment sales. Revenues for all services and equipment sales (see note 17) are shown net of VAT, discounts and after elimination of sales within the Group. Revenue is recognized when the amount of the revenue can be reliably measured, and when it is probable that future economic benefits will flow to the Group and specific criteria of IAS18 on the sale of goods and rendering of services are met for the provision of each of the Group's services and sale of goods 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 the residual method.

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

Revenue and expenses associated with the sale of telecommunications equipment and accessories are recognized when the products are delivered, provided there are no unfulfilled company obligations that affect the customer's final acceptance of the arrangement.

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

Value added services mostly include SMS, MMS, WAP and other similar services. The Group acts as a principal in such transactions and consequently, those revenues are included in this category on a gross basis. Revenues from premium rate services are also included in this category, recognized on a gross basis as the delivery of the service over the network is the responsibility of the Group, the Group establishes the prices of these services and bears substantial risks of these services.

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

Third parties using the telecommunications network include roaming customers of other service providers and other telecommunications providers which terminate or transit calls on network. These wholesale (incoming) traffic revenues are recognized in the period of related usage. A proportion of the revenue received is often paid to other operators (interconnect) for the use of their networks, where appropriate. The revenues and costs of these terminate or transit calls are stated gross in these consolidated financial statements and recognized in the period of related usage.

2.15. Employee benefits

2.15.1. Short term employee benefits and pensions

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

2.15.2. 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.

2.15.3. Termination benefits

Termination benefits are payable whenever an employee's employment is terminated before the nominal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognizes termination benefits when it is demonstrably committed to either terminate the employment of current employees according to a detailed formal plan without the possibility of withdrawal or to provide termination benefits as a result of an offer made to encourage voluntary redundancy.

2.16. Marketing expenses

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

2.17. Income taxes

2.17.1. Corporate income tax

Corporate 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.

Corporate 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.

Notes to the consolidated financial statements

2.17.2. Deferred income tax

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. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

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.

2.18. Leases

Leases of property, plant and equipment where the substantial risks and rewards of ownership retained to the Group are classified as finance leases.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases.

2.18.1. Operating lease - Group as lessor

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

2.18.2. Operating lease - Group as lessee

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

2.19. Earnings per share

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

2.20. Dividends

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

2.21. Comparative information

In order to maintain consistency with the current year presentation, where appropriate certain items have been reclassified for comparative purpose. Such reclassifications, however, have not resulted in significant changes of the content and format of the financial information as presented in the consolidated financial statements and are disclosed in the relevant notes.

3. FINANCIAL RISK MANAGEMENT

3.1. Financial risk factors

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

Notes to the consolidated financial statements

The detailed descriptions of risks, the management thereof as well as sensitivity analyses are provided below. Sensitivity analyses include potential changes in profit before tax. The impacts disclosed below are post tax figures, calculated using a 10% tax rate. The potential impacts disclosed (less tax) are also applicable to the Group's Equity.

3.1.1. Market risk

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

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

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

a) Foreign currency risk

The functional currency of the Company is the Macedonian denar.

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

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

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

The Group accumulated more cash in EUR and USD than its trade payables in EUR and USD. At 31 December 2008, if EUR would have been 5% (2007: 5%) weaker or stronger against MKD, profit would have been MKD 322,324 thousand (2007: 281,860 MKD thousand) after tax in net balance higher or lower, respectively. At 31 December 2008, if USD would have been 5% (2007: 5%) weaker or stronger against MKD, profit would have been MKD 20,829 thousand (2007: MKD 80,050 thousand) after tax in net balance higher or lower, respectively.

b) Interest rate risk

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

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

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

The Group had MKD 14,113,359 thousand deposits (including call deposits) as of 31 December 2007, 1 percentage point rise in market interest rate would have caused (ceteris paribus) the interest received to increase with approx. MKD 127,021 thousand annually after tax, while similar decrease would have caused the same decrease in interest received. Amount of deposit is MKD 11,056,018 thousand (including call deposits) as of 31 December 2008, therefore 1 percentage point rise in market interest rate would have caused (ceteris paribus) the interest received to increase with approx. MKD 99,504 thousand annually after tax, while similar decrease would have caused the same decrease in interest received.

c) Other price risk

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

As part of the presentation of market risks, IFRS 7 also requires disclosures on how hypothetical changes in risk variables affect the price of financial instruments. As of 31 December 2007and 2008, the Group holds investments, which could be affected by risk variables such as stock exchange prices.

The Group had MKD 161,346 thousand investments in equity of other entities that are publically traded on the Macedonian Stock Exchange as of 31 December 2007, 20 percentage point rise in market price would have caused (ceteris paribus) MKD 29,042 thousand gains after tax, while similar decrease would have caused the same loss in the income statement. The amount of the investments in equity of other entities that are publically traded on the Macedonian Stock Exchange is MKD 61,476 thousand as of 31 December 2008, therefore 20 percentage point rise in market price would have caused (ceteris paribus) MKD 11,065 thousand gains after tax, while similar decrease would have caused the same loss in the income statement.

3.1.2. Credit risk

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

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

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

In cases where Group's available funds are exceeding the total amount of the provided bank guarantees mentioned above, the financial investment of the available free cash is to be performed in accordance to the evaluation of the bank risk based on CAEL methodology ratings as an off – site rating system. Basically, the methodology evaluates banks' financial ratios as an integral part of the four CAEL components - Capital, Assets, Earnings and Liquidity. The final score of the banks (on a scale from 1 to 5) is related to the banks' operations and performance for the analysed period. The Group policy is to invest in banks, which final score varies within following 3 ranges:

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

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

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

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

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

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

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

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

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

Notes to the consolidated financial statements

The following table represents Group exposure to credit risk in 2008 and 2007:

In thousands of denars	2008	2007
Deposits with banks	9,932,605	7,384,557
Cash and cash equivalents	1,123,417	6,728,808
Trade debtors - domestic	2,455,617	2,235,561
Trade debtors - foreign	261,212	499,093
Loans to employees	111,625	115,752
Receivables from related parties	71,385	34,576
Other receivables	31,898	20,978
	13,987,759	17,019,325

In order to maintain consistency with the current year presentation the advances given to suppliers, prepayments and accrued income and other receivables presented as Financial assets in 2007 in the amount of MKD 164,161 thousand were excluded from the financial assets category in these financial statements. The reclassification had no impact on equity or net profit.

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

Largest amount of one deposit in 2008 is MKD 1,473,895 thousand - the original denomination of the deposit is EUR in the amount of 24,000 thousand - (2007: MKD 600,000 thousand) and the Group has deposits with 10 domestic banks (2007: 8 domestic banks).

3.1.3. Liquidity risk

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

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

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

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

3.2. Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. There is no gearing as at 31 December 2008 and 2007 related to current and non-current loans. The total amount of equity managed by the Company, as at 31 December 2008, is MKD 17,661,389 thousand, as per local GAAP. Out of this amount MKD 9,583,888 thousand represent share capital and MKD 1,916,777 thousand represent statutory reserves, which are not distributable (see note 2.13). The Company has also acquired treasury shares (see notes 2.12 and 16.1). The transaction is in compliance with the local legal requirements that by acquiring treasury shares the total equity of the Company shell not be less then the amount of the share capital and reserves which are not distributable to shareholders by law or by Company's statute. In addition, according the local legal requirements dividends can be paid out to the shareholders in amount that shell not exceed the net profit for the year as presented in the financial statements of the Company, increased for the undistributed net profit from previous years or increased for the other distributable reserves, i.e. reserves that exceed the statutory reserves and other reserves defined by the Company's statute.

3.3. Fair value estimation

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

Notes to the consolidated financial statements

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

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

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

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

4.1. Useful lives of assets

The determination of the useful lives of assets is based on historical experience with similar assets as well as any anticipated technological development and changes in broad economic or industry factors. The appropriateness of the estimated useful lives is reviewed annually, or whenever there is an indication of significant changes in the underlying assumptions. We believe that the accounting estimate related to the determination of the useful lives of assets is a critical accounting estimate since it involves assumptions about technological development in an innovative industry and heavily dependent on the investment plans of the Group. Further, due to the significant weight of 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 Group was to shorten the average useful life of its assets by 10%, this would result in additional annual depreciation and amortization expense of approximately MKD 352,774 thousand. See note 11 for the changes made to useful lives in the reported years.

The Group constantly introduces a number of new services or platforms including, but not limited to, the Universal Mobile Telecommunications System (UMTS) based broadband services in the mobile communications and the fiber-to-the-home rollout. In case of the introduction of such new services, the Group conducts a revision of useful lives of the already existing platforms, but in the vast majority of the cases these new services are designed to co-exist with the old platforms, resulting in no change-over to the new technology. Consequently, the useful lives of the older platforms usually do not require shortening.

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

We assess the impairment of identifiable property, plant, equipment and intangibles whenever there is a reason to believe that the carrying value may materially exceed the recoverable amount and where impairment of value is anticipated. The calculations of recoverable amounts are primarily determined by value in use calculations, which use a broad range of estimates and factors affecting those. Among others, we typically consider future revenues and expenses, technological obsolescence, discontinuance of services and other changes in circumstances that may indicate impairment. If impairment is identified using the value in use calculations, we also determine the fair value less cost to sell (if determinable), to calculate the exact amount of impairment to be charged (if any). As this exercise is highly judgmental, the amount of a potential impairment may be significantly different from that of the result of these calculations. Management has performed an impairment test based on a 10 years cash flow projection. Value in use was determined using discounted cash flow analysis. The discount rate used was 9.4%. No impairment was identified as of 31 December 2008.

4.3. Estimated impairment of trade and other receivables

We calculate impairment for doubtful accounts based on estimated losses resulting from the inability of our customers to make required payments. For the largest customers and international customers, impairment is calculated on an individual basis, while for other customers it is estimated on a portfolio basis, for which we base our estimate on the ageing of our account receivables balance and our historical write-off experience, customer credit-worthiness and recent changes in our customer payment terms (see note 2.1.4 (b)). These factors are reviewed periodically, and changes are made to the calculations when necessary. If the financial condition of our customers were to deteriorate, actual write-offs of currently existing receivables may be higher than expected and may exceed the level of the impairment losses recognized so far (see note 3.1.2).

Notes to the consolidated financial statements

4.4. Provisions

Provisions in general are highly judgmental, especially in case of legal disputes. The Group assesses the probability of an adverse event as a result of a past event to happen and if the probability is evaluated to be more than fifty percent, the Group fully provides for the total amount of the estimated 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.

4.5. 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 Group's agents also spend a portion of their agent fees for marketing the Group's products, while a certain part of the Group's marketing costs could also be considered as part of the subscriber acquisition costs. The up-front fees collected from customers for activation or connection are marginal compared to the acquisition costs. These revenues and costs are recognized when the customer is connected to the Group's fixed or mobile networks. No such costs or revenues are capitalized or deferred. These acquisition costs (losses) are recognized immediately as they are not accurately separable from other marketing costs. The total amount of agent fees in 2008 is MKD 498,024 thousand (2007: MKD 419,651 thousand).

5. CASH AND CASH EQUIVALENTS

In thousands of denars	2008	2007
Call deposits	1,123,413	6,728,802
Cash on hand	103	29
Cash equivalents	4	6
	1,123,520	6,728,837

The significant decrease in the cash and cash equivalents compared to 2007 is mainly result of the higher amount of dividend paid in 2008 compared to 2007. For further details in cash and cash equivalents movement see the consolidated statement of cash flows.

The interest rate on call deposits is in range from 1.60% p.a. to 6.90% p.a. (2007: from 1.98% p.a. to 4.68% p.a.). These deposits have maturities of less than 3 months.

The Company has restricted cash in amount of MKD 16,891 thousand (2007: MKD 8,862 thousand) representing performance guaranties issued for sales projects.

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

In thousands of denars	2008	2007
MKD	1,013,822	5,613,577
EUR	96,762	932,532
USD	12,932	182,682
Other	4	46
	1,123,520	6,728,837

Following is the breakdown of call deposits by categories (see note 3.1.2):

In thousands of denars	2008	2007
A	825,128	6,575,580
B	51,933	146,908
C	246,352	6,314
	1,123,413	6,728,802

Notes to the consolidated financial statements

6. DEPOSITS WITH BANKS

Deposits with banks represent cash deposits in reputable domestic banks, with interest rates in range from 2.35% p.a. to 6.15% p.a. (2007: from 2.8% p.a. to 4.41% p.a.) and with maturity between 3 and 12 months.

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

In thousands of denars	2008	2007
MKD	2,098,761	1,235,020
USD	462,844	1,428,558
EUR	7,371,000	4,720,979
	9,932,605	7,384,557

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

In thousands of denars	2008	2007
Deposits in banks with obtained guarantee from BBB+ rating guarantor	1,230,150	-
A	8,702,455	7,032,803
B	-	351,754
	9,932,605	7,384,557

7. TRADE AND OTHER RECEIVABLES

In thousands of denars	2008	2007
Trade debtors - domestic	4,472,252	4,143,508
Less: allowance for impairment	(2,016,635)	(1,907,947)
Trade debtors - domestic - net	2,455,617	2,235,561
Trade debtors - foreign	261,212	499,093
Receivables from related parties	71,385	34,576
Loans to related parties	-	2,849
Loans to third parties	2,999	-
Loans to employees	111,625	115,752
Other receivables	28,899	18,129
Financial assets	2,931,737	2,905,960
Advances given to suppliers	144,005	90,777
Less: allowance for impairment	(74,156)	(74,397)
Advances given to suppliers - net	69,849	16,380
Prepayments and accrued income	92,610	147,781
Other	4,299	-
	3,098,495	3,070,121
Less non-current portion: Loans to employees	(98,887)	(103,581)
Current portion	2,999,608	2,966,540

In order to maintain consistency with the current year presentation the advances given to suppliers, prepayments and accrued income and other receivables presented as Financial assets in 2007 in the amount of MKD 164,161 thousand were excluded from the financial assets category in these financial statements. The reclassification had no impact on equity or net profit.

Receivables from related parties represent receivables from Magyar Telekom Group and Deutsche Telekom Group (see note 28).

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

Loans to related parties in 2007 represent loan given to Montmak during 2007. In 2008 Montmak was sold and the related loan was reclassified to loans to third parties, along with the interest due, in the amount of MKD 2,999 thousand (2007: MKD 2,849 thousand). The referent interest rate is 6 months EURIBOR with margin of 0.3%.

Notes to the consolidated financial statements

Loans granted to employees carry effective interest rates of 4.55% p.a. and 7% p.a. (2007: 4.55% and to 7% p.a.).

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

As of 31 December 2008, domestic trade debtors of MKD 2,854,740 thousand (2007: MKD 2,455,988 thousand) are impaired. The ageing of these receivables is as follows:

In thousands of denars	2008	2007
Less than 30 days	402,064	354,644
Between 31 and 180 days	315,649	290,210
Between 181 and 360 days	145,679	157,069
More than 360 days	1,991,348	1,654,065
	2,854,740	2,455,988

The total amount of the provision for domestic trade debtors is MKD 2,016,635 thousand (2007: MKD 1,907,947 thousand). Out of this amount MKD 1,964,050 thousand (2007: MKD 1,870,633 thousand) relate to provision made according the ageing structure of the above receivables (including receivables from customers under liquidation and bankruptcy which are fully impaired). In addition, the Group has a specific provision calculated in respect of a certain group of customers in amounting to MKD 52,585 thousand (2007: MKD 37,314 thousand).

The amount of impairment compared to the gross value of the domestic trade receivables is mainly a result of receivables which are overdue more than 360 days and which are fully impaired. These receivables are mainly from two way disconnected customers, dismantled customers, litigated customers and customers that are no longer using the Group services.

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

In thousands of denars	2008	2007
Trade debtors - domestic - net	2,455,617	2,235,561
Trade debtors - foreign	261,212	499,093
Receivables from related parties	71,385	34,576
Loans to related parties	-	2,849
Loans to third parties	2,999	-
Loans to employees	111,625	115,752
Other receivables	28,899	18,129
Financial assets	2,931,737	2,905,960
Advances given to suppliers	69,849	16,380
Prepayments and accrued income	92,610	147,781
Other	4,299	-
	3,098,495	3,070,121

Movement in allowance for impairment of domestic trade debtors

In thousands of denars	2008	2007
Impairment losses at 1 January	1,907,947	2,165,886
Charged to expense	189,604	203,442
Write off	(80,916)	(461,381)
Impairment losses at 31 December	2,016,635	1,907,947

Movement in allowance for impairment of advances given to suppliers

In thousands of denars	2008	2007
Impairment losses at 1 January	74,397	36,049
Charged to expense	105	38,348
Used	(346)	-
Impairment losses at 31 December	74,156	74,397

Notes to the consolidated financial statements

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

As of 31 December 2008, foreign trade receivables in amount of MKD 118,900 thousand (2007: MKD 176,971 thousand) were past due but not impaired. These relate to a number of international customers assessed on individual basis in accordance with past Group experience and current expectations. The analysis of these past due foreign trade receivables is as follows:

In thousands of denars	2008	2007
Less than 30 days	52,355	63,236
Between 31 and 60 days	34,566	38,025
Between 61 and 90 days	3,807	1,783
Between 91 and 180 days	4,201	68,210
Between 181 and 360 days	2,710	1,088
More than 360 days	21,261	4,629
	118,900	176,971

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

The Group has renegotiated domestic trade receivables in carrying amount of MKD 28,497 thousand (2007: MKD 8,949 thousand).

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

In thousands of denars	2008	2007
MKD	93,260	98,231
EUR	5,627	5,350
	98,887	103,581

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

In thousands of denars	2008	2007
MKD	2,650,762	2,375,669
EUR	317,559	510,497
USD	22,922	30,978
Other	8,365	49,396
	2,999,608	2,966,540

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

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

In thousands of denars	2008	2007
Group 1	1,197,725	1,107,286
Group 2	214,286	326,202
Group 3	205,501	254,032
	1,617,512	1,687,520

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

In thousands of denars	2008	2007
Group 1	97,652	67,095
Group 2	44,558	103,281
Group 3	102	151,746
	142,312	322,122

Notes to the consolidated financial statements

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

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

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

8. DEFERRED INCOME TAX

Recognised deferred income tax (assets)/liabilities

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

In thousands of denars	Assets		Liabilities		Net	
	2008	2007	2008	2007	2008	2007
Property, plant and equipment	-		488,638	505,865	488,638	505,865
Intangible fixed assets	(6,861)	(15,911)	-	-	(6,861)	(15,911)
Inventory	(34)	(248)	-	-	(34)	(248)
Trade and other receivables	(219,084)	(198,762)	-	-	(219,084)	(198,762)
Deferred revenue	(87,183)	(56,655)	-	-	(87,183)	(56,655)
Financial assets at fair value through profit and loss	-	-	1,591	3,469	1,591	3,469
Trade and other payables	(13,200)	(14,207)	-	-	(13,200)	(14,207)
Provisions	(116,032)	(83,944)	-	-	(116,032)	(83,944)
Tax (assets)/liabilities	(442,394)	(369,727)	490,229	509,334	47,835	139,607
Set off of tax	442,394	369,727	(442,394)	(369,727)	-	-
Net tax liabilities	-	-	47,835	139,607	47,835	139,607

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

In thousands of denars	2008	2007
Deferred income tax assets:		
Deferred income tax asset to be recovered after more than 12 months	283,276	223,721
Deferred income tax asset to be recovered within 12 months	159,118	146,006
	442,394	369,727
Deferred tax liabilities:		
Deferred income tax liability to be recovered after more than 12 months	(490,229)	(509,334)
Deferred income tax liability to be recovered within 12 months	-	-
	(490,229)	(509,334)
Deferred income tax liabilities (net)	(47,835)	(139,607)

Notes to the consolidated financial statements

Movement in temporary differences during the year

In thousands of denars	Balance 1 January 2008	Recognised in income	Balance 31 December 2008
Property, plant and equipment	505,865	(17,227)	488,638
Intangible assets	(15,911)	9,050	(6,861)
Inventory	(248)	214	(34)
Trade and other receivables	(198,762)	(20,322)	(219,084)
Deferred revenue	(56,655)	(30,528)	(87,183)
Financial assets at fair value through profit and loss	3,469	(1,878)	1,591
Trade and other payables	(14,207)	1,007	(13,200)
Provision	(83,944)	(32,088)	(116,032)
	139,607	(91,772)	47,835

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

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.

9. INVENTORIES

In thousands of denars	2008	2007
Materials	75,722	68,585
Inventory for resale	235,214	253,770
Write down of inventories to net realisable value	(30,993)	(21,465)
	279,943	300,890

Movement in allowance for inventories to net realizable value:

In thousands of denars	2008	2007
Allowance at 1 January	21,465	25,323
Charged to expense	23,231	51,950
Write off	(13,703)	(55,808)
Allowance at 31 December	30,993	21,465

Allowance for inventory mainly relates to obsolete materials.

10. ASSETS HELD FOR SALE

Assets held for sale represent property, plant and equipment (few premises of a hotel) 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

11. PROPERTY, PLANT AND EQUIPMENT

In thousands of denars	Land	Buildings	Telecommunication equipment	Other	Assets under construction	Total
Cost						
At 1 January 2007	6,353	3,621,586	24,462,983	4,144,524	218,174	32,453,620
Additions	-	16,848	853,795	441,929	473,936	1,786,508
Transfer from assets under construction (see note 12)	-	5,124	88,921	48,766	(172,252)	(29,441)
Disposals	-	(792)	(1,281,648)	(154,308)	(466)	(1,437,214)
Transfer from assets held for sale	-	330,652	-	-	-	330,652
At 31 December 2007	6,353	3,973,418	24,124,051	4,480,911	519,392	33,104,125
Depreciation						
At 1 January 2007	-	1,065,085	13,521,869	3,361,126	-	17,948,080
Charge for the year	-	105,219	1,824,151	367,177	-	2,296,547
Disposals	-	(406)	(1,186,908)	(144,100)	-	(1,331,414)
Transfer from assets held for sale	-	123,228	-	-	-	123,228
At 31 December 2007	-	1,293,126	14,159,112	3,584,203	-	19,036,441
Carrying amount						
At 1 January 2007	6,353	2,556,501	10,941,114	783,398	218,174	14,505,540
At 31 December 2007	6,353	2,680,292	9,964,939	896,708	519,392	14,067,684

In thousands of denars	Land	Buildings	Telecommunication equipment	Other	Assets under construction	Total
Cost						
At 1 January 2008	6,353	3,973,418	24,124,051	4,480,911	519,392	33,104,125
Additions	-	38,593	1,024,866	566,448	613,310	2,243,217
Transfer from assets under construction (see note 12)	-	312	544,984	29,820	(606,679)	(31,563)
Disposals	-	(1,118)	(653,675)	(674,085)	(1,421)	(1,330,299)
Transfer from assets held for sale	-	35,634	-	3,420	-	39,054
At 31 December 2008	6,353	4,046,839	25,040,226	4,406,514	524,602	34,024,534
Depreciation						
At 1 January 2008	-	1,293,126	14,159,112	3,584,203	-	19,036,441
Charge for the year	-	107,087	1,753,843	333,700	-	2,194,630
Disposals	-	(128)	(607,973)	(660,990)	-	(1,269,091)
Transfer from assets held for sale	-	4,748	-	3,421	-	8,169
At 31 December 2008	-	1,404,833	15,304,982	3,260,334	-	19,970,149
Carrying amount						
At 1 January 2008	6,353	2,680,292	9,964,939	896,708	519,392	14,067,684
At 31 December 2008	6,353	2,642,006	9,735,244	1,146,180	524,602	14,054,385

Operating lease rentals amounting to MKD 133,811 thousand (2007: MKD 94,534 thousand) relating to the lease of property and equipment are included in the income statement.

Notes to the consolidated financial statements

A major review of the useful lives of property, plant and equipment took place in 2008 as a result of revised network strategy at T-Mobile Macedonia. As result of the review, the useful life of base stations was changed as of 1 January 2008 (increased). The revision of the useful life of these assets resulted in the following change in the original trend of depreciation.

In thousands of denars	2008	2009	2010	2011	After 2011
Decrease of depreciation (base stations)	(89,967)	(132,061)	(65,706)	(1,172)	288,906
	(89,967)	(132,061)	(65,706)	(1,172)	288,906

12. INTANGIBLE ASSETS

In thousands of denars	Software and software licences	Concession	Other	Total
Cost				
At 1 January 2007	5,513,091	154,757	139,853	5,807,701
Additions	625,213	-	15,506	640,719
Transfer from assets under construction (see note 11)	21,408	-	8,033	29,441
Disposals	(2,126)	-	-	(2,126)
At 31 December 2007	6,157,586	154,757	163,392	6,475,735
Amortisation				
At 1 January 2007	3,427,445	154,757	63,437	3,645,639
Charge for the year	872,483	-	5,664	878,147
Disposals	(28)	-	-	(28)
At 31 December 2007	4,299,900	154,757	69,101	4,523,758
Carrying amount				
At 1 January 2007	2,085,646	-	76,416	2,162,062
At 31 December 2007	1,857,686	-	94,291	1,951,977

In thousands of denars	Software and software licences	Concession and 3G licence	Other	Total
Cost				
At 1 January 2008	6,157,586	154,757	163,392	6,475,735
Additions	972,355	613,837	10,966	1,597,158
Transfer from assets under construction (see note 11)	31,118	-	445	31,563
Disposals	(112,075)	-	-	(112,075)
At 31 December 2008	7,048,984	768,594	174,803	7,992,381
Amortisation				
At 1 January 2008	4,299,900	154,757	69,101	4,523,758
Charge for the year	833,162	(85,976)	3,827	751,013
Disposals	(112,075)	-	-	(112,075)
At 31 December 2008	5,020,987	68,781	72,928	5,162,696
Carrying amount				
At 1 January 2008	1,857,686	-	94,291	1,951,977
At 31 December 2008	2,027,997	699,813	101,875	2,829,685

Notes to the consolidated financial statements

13. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS

The amount of MKD 61,476 thousand (2007: MKD 226,272 thousand) represents financial assets at fair value through profit or loss of which MKD 61,476 thousand (2007: MKD 161,346 thousand) is calculated with reference to the Macedonian Stock Exchange quoted bid prices and in 2007 MKD 64,926 thousand were calculated based on an independent valuation for financial assets that were not quoted on the Macedonian Stock Exchange in 2007 and which were sold in 2008. Changes in fair values of other financial assets at fair value through profit or loss are recorded in finance income/expenses in the income statement (see note 21 and 22). The cost of these equity investments is MKD 31,786 thousand (2007: MKD 135,785 thousand).

14. TRADE AND OTHER PAYABLES

In thousands of denars	2008	2007
Trade payables		
-Domestic	562,378	312,321
-Foreign	759,603	253,902
Liabilities to related parties	174,816	261,698
Other liabilities	34,756	98,754
Financial liabilities	1,531,553	926,675
VAT and social security payable	77,862	93,586
Accrued expenses	785,926	784,765
Advances received	34,551	37,898
Deferred revenue	1,011,795	671,941
Other	34,765	34,765
	3,476,452	2,549,630

In order to maintain consistency with the current year presentation the VAT and social security payable, the accrued expenses, advances received, the deferred revenue and other payables presented as Financial liabilities in 2007 in the amount of MKD 1,622,925 thousand were excluded from the financial liabilities category in these financial statements. The reclassification had no impact on equity or net profit

Liabilities to related parties represent liabilities to Magyar Telekom Group and Deutsche Telekom Group (see note 28).

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

In thousands of denars	2008	2007
Less than 90 days	1,264,677	516,287
Between 90 and 180 days	13,471	20,782
Between 181 and 360 days	43,833	29,154
	1,321,981	566,223

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

In thousands of denars	2008	2007
MKD	2,798,515	2,131,054
EUR	628,204	364,074
USD	35,831	22,239
Other	13,902	32,263
	3,476,452	2,549,630

Notes to the consolidated financial statements

15. PROVISION FOR OTHER LIABILITIES AND CHARGES

In thousands of denars	Legal cases	Severance	Other	Total
January 1, 2008	585,207	135,561	118,627	839,395
Additional provision	518,736	18,159	99,236	636,131
Unused amount reversed	(94,628)	-	(1,406)	(96,034)
Used during period	(13,372)	-	(73,019)	(86,391)
December 31, 2008	995,943	153,720	143,438	1,293,101

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

Analysis of total provisions:

In thousands of denars	2008	2007
Non current (legal cases and other)	705,669	381,841
Current	587,432	457,554
	1,293,101	839,395

Provisions for legal cases mainly relate to certain legal and regulatory claims brought against the Group. There are numerous legal cases for which provisions were recognized, none of which are individually material, therefore not disclosed. Further, the disclosure of any individual legal case could hurt the Group defending its position at various courts.

Based on legal advice, the management does not expect that the outcome of these legal claims will give rise to any significant loss beyond the amounts provided at 31 December 2008.

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

16. CAPITAL AND RESERVES

Share capital consists of the following:

In thousands of denars	2008	2007
Ordinary shares	9,583,878	9,583,878
Golden share	10	10
	9,583,888	9,583,888

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

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

Notes to the consolidated financial statements

of the golden share, votes against the respective resolution or decision. The rights vested in the holder of the golden share are given in details in the Company's Statute.

16.1. Treasury shares

The Company acquired 9,583,878 of its own shares, representing 10% of its shares, through the Macedonian Stock Exchange during June, 2006. The total amount paid to acquire the shares, net of income tax, was MKD 3,843,505 thousand 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.

17. REVENUES

In thousands of denars	2008	2007
Domestic fixed line telecommunication services		
-subscription, installation and other charges	2,325,901	2,411,733
-traffic revenues	3,360,181	3,913,798
International traffic revenues	925,109	1,401,566
Mobile telecommunication services	9,143,225	8,213,818
Leased line	609,271	425,534
Data transmission	965,948	639,490
Other	1,273,564	1,071,878
	18,603,199	18,077,817

Other revenues include revenues from equipment sales mainly related to sale of computer equipment and equipment related to system integration.

18. PERSONNEL EXPENSES

In thousands of denars	2008	2007
Salaries	810,118	813,674
Contributions on salaries	355,381	379,107
Bonus payments	184,210	152,575
Other staff costs	754,537	282,985
Capitalised personnel costs	(89,247)	(59,003)
	2,014,999	1,569,338

Other staff costs mainly include termination benefits of MKD 523,780 thousand for 391 employees leaving the Company in 2008 (2007: MKD 45,482 thousand for 62 employees). In addition, other staff costs also include food and travel allowance.

Notes to the consolidated financial statements

19. OTHER OPERATING EXPANSES

In thousands of denars	2008	2007
Services	1,172,901	1,022,291
Purchase cost of goods sold	1,531,505	1,293,279
Marketing and donations	787,379	488,329
Consultancy	85,213	264,101
Materials and maintenance	413,721	389,383
Impairment losses on trade and other receivables	189,709	241,790
Fees, levies and local taxes	535,993	425,170
Energy	206,968	191,908
Premium rate services	258,559	183,997
Rental fees	133,811	94,534
Insurance	22,154	28,553
Write down of inventories to net realisable value	23,231	51,950
Other	241,757	152,915
	5,602,901	4,828,200

Services mainly include expenses for agent commissions, postal expenses and other service fees (such as cleaning, security and legal services). In order to maintain consistency with the current year presentation the expenses presented as Provisions for liabilities and other charges in 2007 in the amount of MKD 183,009 thousand were reclassified and now are shown as Fees, levies and local taxes. The reclassification had no impact on equity or net profit.

20. OTHER OPERATING INCOME

In thousands of denars	2008	2007
Gain on sale of PPE, Intangible assets and assets held for sale	18,706	94,189
Gain on sale of subsidiaries	238,421	-
	257,127	94,189

Gain on sale of subsidiaries represents income from sold fully owned subsidiary in Montenegro - Montmak (see note 2.2.1). On 12 February 2008 the Company signed Share Purchase Agreement for selling Montmak. The proceeds from the sale of the subsidiary were MKD 303,346 thousand. As of 31 December 2007 the Montmak's carrying value was MKD 64,926 thousand.

In the 2008 consolidated financial statements, the other operating income category was reclassified and shown as a separate line on the face of the income statement as opposed to disclosure in prior year, when these were presented as netting the other operating expenses. Prior year disclosures have been restated accordingly. The reclassification had no impact on equity or net profit for the year.

21. FINANCE EXPENSES

In thousands of denars	2008	2007
Interest expense	48	659
Bank charges and other commissions	19,997	19,377
Fair value loss	99,870	-
Net foreign exchange loss	-	214,241
	119,915	234,277

Notes to the consolidated financial statements

22. FINANCE INCOME

In thousands of denars	2008	2007
Interest income	630,624	502,359
Fair value gains	-	56,327
Dividend income	3,144	2,724
Net foreign exchange gain	72,738	-
	706,506	561,410

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

23. INCOME TAX EXPENSE

Recognized in the income statement:

In thousands of denars	2008	2007
Current tax expense		
Current year	951,977	1,008,693
Deferred tax expense		
Origination and reversal of timing differences	(91,772)	(34,400)
Total income tax in income statement	860,205	974,293

Reconciliation of effective tax rate:

In thousands of denars		2008		2007
Profit before tax		7,113,741		7,135,294
Income tax	10.0%	711,374	12.0%	856,235
Non-deductible expenses	2.4%	167,960	2.0%	142,765
Tax exempted revenues	(0.3)%	(19,129)	(0.3)%	(24,707)
	12.1%	860,205	13.7%	974,293

Up to now the tax authorities had carried out a full-scope tax audits at the Company for 2005 and the years preceding. 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 from 12% to 10% is presented below:

In thousands of denars	2008	2007
Effect of change of tax rate on deferred tax (net release of deferred tax liability)	-	(27,921)
	-	(27,921)

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

Notes to the consolidated financial statements

24. DIVIDENDS

The Shareholders' Assembly of the Company, at its meeting, held on 3 September 2008 adopted a Resolution for the dividend payment for the year 2007. The Resolution on dividend payment for 2007 is in the amount of MKD 9,783,071 thousand of which MKD 9,043,913 thousand are from the net profit for the year 2007, whereas the remaining MKD 739,158 thousand are from the accumulated profit. The dividend was paid out on 29 September 2008. Up to date of issuing of these financial statements, no dividends have been declared for 2008.

25. COMMITMENTS

25.1. Capital commitments

The amount authorized for capital expenditure as at 31 December 2008 was MKD 268,490 thousand (2007: MKD 472,803 thousand).

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

Operating lease commitments were mainly in respect in the lease of buildings, business premises and other telecommunications facilities.

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

In thousands of denars	**2008**	**2007**
Not later than 1 year	76,609	82,236
Later than 1 year and not later than 5 years	303,905	323,349
Later than 5 years	82,953	-
	463,467	405,585

26. CATEGORIES OF FINANCIAL ASSETS

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

	Financial assets					
Assets In thousands of denars	Loans and receivables	Held-to-maturity	Available-for-sale	At fair value through profit and loss	Carrying amount 2007	Fair value 2007
Cash and cash equivalents	6,728,837	-	-	-	6,728,837	6,728,837
Deposits with banks	7,384,557	-	-	-	7,384,557	7,384,557
Trade and other receivables	2,905,960	-	-	-	2,905,960	2,905,960
Available-for-sale financial assets	-	-	896	-	896	896
Financial assets at fair value through profit and loss	-	-	-	226,272	226,272	226,272

Notes to the consolidated financial statements

The table below shows the categorization of financial assets as at December 31, 2008.

Assets In thousands of denars	Financial assets Loans and receivables	Held-to-maturity	Available-for-sale	At fair value through profit and loss	Carrying amount 2008	Fair value 2008
Cash and cash equivalents	1,123,520	-	-	-	1,123,520	1,123,520
Deposits with banks	9,932,605	-	-	-	9,932,605	9,932,605
Trade and other receivables	2,931,737	-	-	-	2,931,737	2,931,737
Available-for-sale financial assets	-	-	896	-	896	896
Financial assets at fair value through profit and loss	-	-	-	61,476	61,476	61,476

In order to maintain consistency with the current year presentation the advances given to suppliers, prepayments and accrued income and other receivables presented as Financial assets in 2007 in the amount of MKD 164,161 thousand were excluded from the financial assets category in these financial statements. The reclassification had no impact on equity or net profit.

27. CONTINGENCIES

The Company has contingent liabilities in respect of legal and regulatory claims arising in the ordinary course of business. The regulatory claims mainly relate to internet dial-up access, access to data transfer networks and fix to mobile interconnection retail prices. It is not anticipated by the management of the Company that any material liabilities will arise from the contingent liabilities other than those provided for (see note 15).

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 defense against the action is unsuccessful, damage compensation would amount to MKD 983,083 thousand. Based on legal advice, the management does not expect the outcome of the action to have a material effect on the Group's financial position.

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

28. RELATED PARTY TRANSACTIONS

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

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

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

In thousands of denars	**2008**		**2007**	
	Revenues	**Expenses**	**Revenues**	**Expenses**
Deutsche Telekom Group	270,694	139,519	207,294	124,609
Magyar Telekom Group	35,393	144,304	121,863	347,877

Notes to the consolidated financial statements

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

In thousands of denars	2008		2007	
	Receivables	**Payables**	**Receivables**	**Payables**
Deutsche Telekom Group	67,363	37,194	24,727	24,733
Magyar Telekom Group	4,022	137,622	9,849	236,965

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

29. KEY MANAGEMENT COMPENSATION

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

	2008	2007
Short-term employee benefits	93,135	48,142
Share-based payments	946	-
	94,081	48,142

The remuneration of the members of the Company's Board of Directors amounted to MKD 6,067 thousand (2007: MKD 2,312 thousand) included in Short-term employee benefits.

In order to maintain consistency with the current year presentation the remuneration of the members of the Company's Board of Directors was included in the short-term employee benefits in the comparative figures in 2007 as opposite to prior year disclosures when these expenses were not shown as part of this category. The amendment had no impact on equity or net profit.

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. shares. Participants include top and senior managers of the Magyar Telekom Group.

The MTIP is operated by Magyar Telekom Plc. while the compensation of key management from the Company related to the MTIP is incurred by the Company and is included in personnel expenses recognized against other provisions.

30. EVENTS AFTER THE BALANCE SHEET DATE

There are no events after the balance sheet date that would have impact on the 2008 income statement, balance sheet or cash flow.

Makedonski Telekom AD – Skopje
Orce Nikolov bb, 1000 Skopje

ANNUAL REPORT
on the operations of the group of Makedonski Telekom AD - Skopje in 2008

On 13 February 2006, Magyar Telekom Plc., the controlling owner of the Company (via Stonebridge Communications AD - Skopje under liquidation, majority shareholder of Makedonski Telekom AD – Skopje), announced that it was investigating certain contracts entered into by another subsidiary of Magyar Telekom Plc. to determine whether the contracts were entered into in violation of Magyar Telekom Plc. policy or applicable law or regulation. Subsequent to this on 19 February 2007, the Board of Directors of the Company, based on the recommendation of the Audit Committee of the Company and the Audit Committee of Magyar Telekom Plc., adopted a resolution to conduct an independent internal investigation regarding certain contracts in Macedonia. The investigation, conducted by an independent law firm and supervised by the Audit Committee of Magyar Telekom Plc., is still ongoing.

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

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

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

We understand, based on information from White & Case provided to Magyar Telekom, that the internal independent investigation has identified several contracts (including the six contracts with the Cyprus-based consulting company and/or its affiliates referred to in the public disclosure of May 21, 2008) related to Magyar Telekom Group's business operations in Macedonia, that White & Case deemed suspicious and worthy of further inquiry. The latest of those suspicious contracts is dated March 1, 2006. White & Case has indicated that it will inform Magyar Telekom's Audit Committee, Magyar Telekom's management and Magyar Telekom's auditors of relevant information and/or conclusion relating to these contracts. (Magyar Telekom's Board of Directors authorized White & Case to make voluntary disclosure of all the issues and concerns raised by the auditors to the SEC and DOJ, and Magyar Telekom has been informed that White & Case has met and discussed its investigation with the SEC and DOJ on several occasions.)

The independent investigation is continuing. The Company 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.

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

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

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

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

We have become aware of no information as a result of a request from any regulators or other external parties, from which we have concluded that the financial statements may be misstated, including from the effects of a possible illegal act.

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

This Annual report on the operation relates to the Group of Makedonski Telekom AD - Skopje, which includes Makedonski Telekom AD – Skopje (hereinafter "MKT"), T-Mobile Macedonia AD Skopje (hereinafter "TMMK") and e-Macedonia Foundation – Skopje (hereinafter referred as to "the Group").

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

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

In 2008, approximately 30 percent of the total revenues of the Group were derived from voice revenues from domestic fixed line telecommunications services. Mobile services contributed with 49 percent, while international telecommunications services contributed with 5 percent to the total revenues. Internet and data services contributed with 8 percent of the total revenues. Eight percent of the total revenues were derived from other services.

The revenue from domestic fixed line telecommunication services still marks a downward movement mainly due to the increasing mobile substitution and increased competition in the fixed telecommunication market. The decreased revenue of MKT from international traffic is a result of the lower volume of traffic and lower termination rates. The proportion of the mobile revenue is increasing despite the competitive environment and mainly owing to the enlarged subscriber base. Internet and data revenue has grown, mainly due to the success of ADSL, but it still represents an insignificant portion of the total revenues.

MKT 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. MKT's objectives for the forthcoming years are to be a leading provider of technology in Macedonia and to provide quality services with attractive prices in order to be prepared for the increasing competition.

MKT's major operational goals were to digitalize the fixed network and to increase the number of subscribers. While the total digitalization was achieved at the end of 2003, MKT's subscriber base has been steadily decreasing. At the end of 2008, MKT had 413,321 PSTN lines and 44,694 ISDN channels, compared to 447,894 and 44,482, respectively, at the end of 2007. Fixed line penetration was marked with a similar movement, stabilizing at 21 percent at the end of 2008.

MKT provides Internet access via the public switched telephone network, leased lines and ADSL. The growth in the Internet revenues was mostly fostered by the sale of ADSL. The number of ADSL connections increased more than double, to 98,862 at the end of 2008, compared to 48,214 as of 31 December 2007.

MKT acquired 9,583,878 of its own shares, representing 10% of its shares, through the Macedonian Stock Exchange in June, 2006. The total amount paid to acquire the shares, net of income tax, was MKD 3,843,505 thousand and it has been deducted from the shareholders' equity. The shares are held as treasury shares. MKT has the right to reissue these shares at a later date. All shares issued by MKT were fully paid.

Historically, MKT, like the government-owned operators in other countries, maintained relatively low domestic charges and high tariffs for international calls. Since November 1999, MKT has been gradually rebalancing its tariffs in accordance with its long-term rebalancing strategy. International tariffs are expected to be decreased further, bringing them in line with the EU standards. MKT have kept local tariffs and basic access charges affordable to its customers.

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

TMMK continued to experience growth in 2008 as well. By the end of 2008, it expanded its customer base from 1,212,539 at the end of 2007 to 1,379,191 despite the competitive market environment. The principal activities of TMMK's operations are digital mobile telephone services based on the GSM technology and non-voice services such as SMS, MMS and GPRS. TMMK 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. TMMK offers various promotions and incentives to encourage the use of its services.

The increase in the number of TMMK subscribers in the last three years is attributable to a number of factors, including the reductions of call charges in real terms, success of community offers and campaigns with attractive handset prices. The churn rates of customers are quite high in Macedonia.

As of 31 December 2008, TMMK had a 59.4 percent market share in the Macedonian mobile telephone market in terms of subscribers based on the number of active SIM cards.

TMMK's business is affected by seasonal factors, with a general increase in roaming revenues during the third calendar quarter of each year due to the summer holidays and increased sales of products and services during the fourth quarter due to the Christmas purchases.

In 2008, MKT adopted the T-Home brand and on 1 May 2008 it changed its legal name from AD Makedonski Telekomunikacii Skopje into Makedonski Telekom AD - Skopje and its products are now marketed under the brand T-Home.

Regulation and pricing

A new Macedonian law concerning electronic communications (Law on Electronic Communications, "LEC") was enacted on 5 March 2005. With this, the country's telecommunications regulations are harmonized with the EU regulatory framework, with some transitional provisions. It also provides a number of strict obligations for the existing operators.

In the second half of 2006, the Government of Republic of Macedonia enacted a number of bylaws and rulebooks regulating different electronic communication areas. On 4 May 2007, the LEC was amended and criminal responsibility was introduced for the responsible person within the legal entity for not publishing the reference interconnection offer and the offer for unbundled access to the local loop. Additional amendments of the LEC were adopted on 4 August 2008, by which the Concession Contracts of MKT, TMMK and Cosmofon concluded in accordance with the old telecommunications act with the Ministry of Transport and Communications were ceased as of 4 September 2008. All the relevant provisions in favour of MKT from the Concession Contracts were included in the LEC amendments. On 5 September 2008 the Agency for Electronic Communications ("The Agency"), ex officio, has issued a notification to MKT for those public electronic communications networks and/or services which have been allocated thereto under the Concession Contracts. Radiofrequency licenses were issued to the operators for the bands granted with the Concession Contracts in a form prescribed by the LEC.

Regulation of Fixed Line Business

On 31 December 2004, MKT's monopoly 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 Agency and the registration thereof. By December 2008, the Agency had registered 173 network operators and 40 providers of public fixed telephone services. MKT published Network Access Agreement for the VoIP service providers for international calls.

Under the LEC, MKT has been designated as a Significant Market Power ("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. MKT as an SMP operator has the obligation to enable its subscribers to access publicly available telephone services of any interconnected operator with officially signed interconnection contract.

In July 2005, the Agency 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. The amended bylaws for local loop unbundling, accounting separation and rules for access to and the use of specific network facilities were enacted in September 2008. In December 2008 four more bylaws were enacted concerning Local Bit stream access, Wholesale line rental, Retail price regulation and amended bylaw for interconnection.

On 8 August 2005, MKT submitted its first Reference Interconnection Offer ("MATERIO") to the Agency. The interconnection prices contained in this offer were approved on 23 January 2006. In November 2006, the first Interconnection Contract was signed according to the conditions determined in the Referent Interconnection Offer ("RIO"). The Agency approved the submitted MATERIO on 17 December 2007. Until December 2008, Interconnection Agreements were signed with ten Fixed Operators and three Mobile Operators. One Alternative Operator (OnNet) has Local Interconnections. Two of the operators use Carrier Selection (OnNet and Nexcom). On 23 May 2008, the Agency issued approval for the new decreased interconnection and unbundling fees based on the audit report on MKT's cost-accounting system issued by independent auditor. MKT's first Reference Unbundling Offer for the Unbundling of the Local Loop ("MATERUO") was submitted to the Agency on 5 September 2005 and approved on 19 July 2006. MATERUO was also amended twice in 2007 by voluntary decreases of the shared access prices and commercial technical provisions. The latest submission for MATERUO was sent at the beginning of October 2008, which is based on the new amended bylaw for MATERUO Reference Offer. It was approved by the Agency with decreased price for local loop unbundling. On 16 April 2007 MKT signed the first RUO based Unbundling Agreement with an alternative fixed network operator.

In order to prepare itself for the competition in the fixed line business, MKT carried out several changes to its retail pricing structure. For example, MKT continued to align the prices it charged for network access products and calling services with the underlying costs. In addition, on the basis of the LEC, the Agency imposed obligation for cost-based prices for the wholesale services of MKT. To the extent that any of its subscriber line prices do not yet fully reflect the cost of service, a negative impact on MKT's competitiveness in the wholesale and retail markets can be expected. In July 2007, the wholesale ADSL ("WS ADSL") Agreement with the competitor On-Net was signed.

According to the obligations imposed by the LEC, a new number portability bylaw was published by the Agency on 27 December 2006. Operators of publicly available telephone services must enable their subscribers to retain their non-geographic and geographic numbers when changing telecommunications operators. The number portability has been implemented on MKT's and TMMK's networks and the commercial start of the service in Macedonia was on 1 September 2008. Based on latest MATERIO changes number porting setting fee could be charged by inter-operator charging principle or by end customers.

On 4 September 2008, new bylaws for wholesale leased lines and minimal set of leased lines were adopted by the Agency. MKT prepared the offers and submitted them for approval in line with the deadlines. Based on the new bylaws for wholesale line rental, local bit stream access and retail price regulation enacted in December 2008, MKT submitted for approval to the Agency several additional regulated wholesale products.

Since the end of 2004, when MKT's obligation for providing universal services according to its concession contract expired, there has been no operator dedicated as a universal service provider. In May 2006, the Government of the Republic of Macedonia enacted a decision on the implementation of temporary strategy for universal services which set the basic strategic decisions. 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 27 December 2007, the Commission of the Agency decided to publish the public tender to provide universal electronic communications services in Macedonia. On 22 February 2008, MKT and Cosmofon were selected as candidates to be universal service providers in the prequalification process. Written invitations (without public announcement) by the Agency will be sent to selected candidates soliciting their offers to provide universal electronic communications services.

In 2007, the Agency granted six regional and two national authorizations for radio frequency utilization in the 3.4-3.6 GHz band for realization of a fixed wireless access, WiMAX. According to the tender rules, operators with national licenses were obliged to provide services from January 2008 and operators with regional licenses were obliged to provide services from March 2008. WiMAX operators started their operations with delay and until now they do not have significant impact on the electronic communications market. On 14 August 2008, the Agency published a tender for assignment of two regional licenses which were previously seized because the operators which obtained the licenses did not fulfil the tender conditions. Licenses for both regions are granted to Cosmofon.

According to the LEC, and based on market analyses, the Agency may impose retail price regulations and price controls on operators with SMP in a relevant market if it determines that the wholesale regulated market does not achieve the expected results.

The SMP operators are obliged to keep separate accounting records for their wholesale and retail activities.

Regulated retail prices

The fixed voice market in Macedonia became highly competitive in 2008. New fixed line operators Cosmofon and OnNet launched services with decreased prices. Other alternative operators also plan to offer fixed voice products with attractive prices.

The regulatory framework for the retail tariff regulation for MKT until August 2008 was provided in the Concession Contract. With the latest changes of the LEC published on 4 August 2008, the existing Concession Contracts of MKT, including retail price cap regulation is no longer valid as of 4 September 2008.

According to the LEC and the newly enacted bylaw for retail price regulation of fixed voice telephony services, the Agency may prescribe one of the following ways of retail regulation of fixed telephony services:

- Price cap;
- Individual price approval;
- Cost based prices; or
- Benchmark prices

Based on the by-law, MKT should inform the Agency 30 day's before any price change of standard fixed voice telephony services from relevant market 1 to 6.

Regulated Wholesale Prices

MKT had a cost based price obligation for the regulated wholesale services (interconnection and unbundling of local loop), using Fully Distributed Costs ("FDC") methodology until July 2007 and using Long Run Incremental Costs methodology ("LRIC") subsequently. A proposal for interconnection fees with LRIC was submitted by MKT 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 for about 18 percent, based on the audit report for the MKT costing accounting system issued by independent auditor. The fees are applicable from 1 June 2008.

Additionally, on 31 December 2008 the Agency issued approval for modification on MATERUO based on new bylaw for level of detailed on information that will be published in MATERUO. With it, fees for Unbundled Local Loop ("ULL") are decreased for around 10 percent. The fees are applicable from 1 January 2009.

The level of the wholesale regulated prices directly depends on the finalization of the of the price adjustment of MKT's retail regulated prices.

Based on the decision of the Commission for protection of competition ("CPC"), MKT introduced a wholesale digital leased line product in November 2007. The wholesale products are offered at prices which are 30 percent lower than retail prices. In October 2008, MKT submitted offers for wholesale leased lines and minimal set of leased lines based on the latest new bylaws enacted in September 2008 by the Agency. The Agency approved the offer for minimal set of leased lines on 25 December 2008. On 30 December 2008 MKT introduced a wholesale offer for provisioning terminating segments and/or trunk segments of leased lines, upon approval from the Agency. With the wholesale leased line offer approval from the Agency, MKT will have double regulation of the wholesale leased line service because of the overlapping of the responsibilities of the relevant regulatory bodies. The prices of the wholesale leased line offer regulated by the Agency are determined on basis of benchmarks.

Based on the new bylaws enacted by the Agency in December 2008 for wholesale line rental and local bit stream access, MKT submitted several additional offers for regulated wholesale products, such as standalone bit stream access and regulated wholesale line rental offers. The Agency has not yet approved these offers. Prices according the bylaws are determined on retail minus principle.

Regulation of Mobile Business

The retail services provided by the mobile network operators in Macedonia are currently not subject to price regulation. On 29 June 2007, the Agency published the draft analysis conducted on call termination services in public mobile communication networks (market 16). Based on the analysis, on 26 November 2007, TMMK and Cosmofon were designated with SMP status and several obligations were imposed on them such as interconnection and access, transparency and non-discrimination in interconnection and access, accounting separation and price control and cost accounting. TMMK appealed this decision. The appeal was rejected by the Commission of the Agency with its decision of 18 January 2008.

As designated SMP on the mobile voice termination market, TMMK submitted RIO to the Agency on 29 February 2008. On 28 March 2008, the Agency decided to significantly decrease the mobile termination rates ("MTR"). TMMK submitted an appeal against the decision of the Agency. On 12 June 2008 the Commission of the Agency, as review board of second instance of the Agency, confirmed the decision of the Agency. As a result, the new termination rates of TMMK are applied as of 1 August 2008. TMMK initiated a procedure before the Administrative Court to dispute the decision of the Commission of Agency, although it does not prolong the application of the new RIO. The administrative procedure has still not been started.

TMMK has started the procedure for concluding interconnection contracts with its interconnection partners according to the RIO with a validity period as from 1 August 2008. At this moment, TMMK has signed interconnection contract based on its RIO with most of the interconnection partners.

In addition, TMMK might be designated with SMP status on the relevant market for access to public mobile communication networks and services for the purpose of call origination in public mobile communication networks (market 15 from the old European Commission recommendation). A further regulation of the international call termination prices as a part of the market 16 analysis is also possible on the same level as the national MTR.

The SMP designation imposes obligations for transparency and non-discrimination in terms of interconnection and access, accounting separation, price control and cost accounting obligations for TMMK and Cosmofon. TMMK is obliged to submit financial reports based on accounting separation by 31 May 2009.

According to the above mentioned regulation, the MTR was decreased by approximately 40 percent with a decision issued by the Agency on 28 March 2008. The same termination rate was imposed on Cosmofon, while VIP Operator was left out of the regulation process and was not designated with SMP status on Market 16, while currently it has preferred status with a higher mobile termination rate in the same proportion. TMMK appealed the decision on imposing the new MTR by the Agency, but the appeal does not postpone the execution of the decisions of the Agency. The new MTRs of TMMK have been applied as of 1 August 2008.

Currently, only national mobile termination is regulated, but there is also a possibility that the international termination rates may be reduced in the future to the same level as the national MTR.

On 31 January 2007, the third mobile operator, VIP, was granted an authorization for radio frequencies utilization in the GSM 900 and DCS 1800 radio frequency bands on the entire territory of the Republic of Macedonia, whereupon it had its commercial start with its prepaid and post-paid offers.

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

On 7 November 2007, the Agency published a public tender for granting one license for 3G radio frequencies utilization. Cosmofon won the tender and started 3G commercial operations in August 2008.

On 2 September 2008, the Government of Republic of Macedonia published a decision for granting additional three 3G licenses for 10 million EUR fee for each license. The new tender for these additional three 3G licenses was published on 15 September 2008. TMMK was the only operator that applied for this tender. Based on the decision dated 21 November 2008, the Commission of the Agency granted the 3G license to TMMK on 17 December 2008. TMMK is obliged to ensure the commercial start of the 3G services on 17 June 2009.

Due to the decreased retail tariffs and the increased traffic, TMMK filed several requests for GSM 1800 frequencies. The Agency published a tender for granting two licenses for the 1800 MHz band for a fee of 2 million EUR for each licence. TMMK will submit a bid for this tender.

While greater competition was brought to the mobile market with the entry of a third market player, the recent investment of Deutsche Telekom in OTE/Cosmote is dramatically increasing Deutsche Telekom's position in Macedonia, whereby restructuring of the mobile market should be expected. The CPC decided that Deutsche Telekom should sell Cosmofon as a corrective measure on the market.

The mobile market in Macedonia is becoming more challenging for retail pricing. Competition has increased since the third operator started to operate in September 2007. The entrance of VIP Operator caused significant price changes on the Macedonian market in all segments, leading to intense price-based competition. In the course of the year 2008, all three mobile operators - TMMK, Cosmofon and VIP - launched several price plans and strong community offers with attractive prices.

With a clear focus on the retention and growth of the valuable customer base and in order to meet the Macedonian mobile subscribers' needs for lower prices, TMMK adjusted the prices for some of the existing tariff plans and introduced several services with attractive prices as extensions of the existing tariff plans, mainly based on the community offers.

Macedonia and the European Union

The Republic of Macedonia signed the Stabilization and Association Agreement with the European Union and its

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

On 17 December 2005, the EU decided to grant the Republic of Macedonia an EU candidate status.

Following the candidate status, the EU must set a date to begin the negotiations regarding full access encompassing all aspects of EU membership, including trade, environment, competition and health. Macedonia, as a candidate country, should harmonize its legislation with the EU.

On 5 November 2008, the European Commission issued the 2008 Progress Report for Macedonia. In Chapter 10 (Information society and media) of the Report, the European Commission concluded that significant progress can be reported in the area of electronic communications, including enforcement measures. The LEC has been aligned with the EU rules. Progress was made by the Agency in terms of imposing competitive safeguards against SMP operators. Interconnection rates were drastically reduced, number portability was introduced and a universal service provider was pre-selected. These measures, as stated in the Report, have resulted in growing competition on the fixed and broadband markets, as well as a significant decrease in prices.

Competition

Domestic and International Fixed Line Telecommunications Services

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

In 2008, the main competition in the fixed line voice services was posed by mobile service providers. New fixed line service providers also started their operations by offering outgoing calls to MKT subscribers, either over VoIP or through carrier selection services. In addition, there is intense competition in the area of terminating international incoming calls in the fixed and mobile networks in Macedonia. By the end January 2009, there were eight operators that terminate international traffic.

The nature of fixed line competition has shifted from offering cheap outgoing calls (through carrier selection and VoIP) towards offering complete fixed line services.

In April 2007, OnNet signed an ULL Agreement with MKT based on MATERUO. Based on this Agreement, as of May 2008 OnNet has been offering its commercial services to the customers. A commercial wholesale line rental agreement with OnNet, based on OnNet's request, has been signed.

Cosmofon launched fixed line voice services in June 2008 over their GSM network and in August 2008 they started to offer services based on 3G technology.

Both major cable TV ("CATV") operators, CableTel and Telekabel, started offering fixed line services in the last quarter of 2008.

Number portability has become available as of 1September 2008. Since fixed line customers are mostly MKT customers, we expect negative effects of number portability from MKT to other fixed line operators.

To respond to these challenges, MKT launched attractive bundled offers including flat components, VoIP and ADSL.

Leased Lines and Data Transmission Services

MKT is the leading provider of leased line and data transmission services. CATV and other wireless operators have built their own networks and are also capable of offering data transmission services, transmission capacity and various broadband services. Based on MKT's new wholesale leased line offer with decreased prices, we expect signing several wholesale agreements with alternative operators.

We expect more opportunities for alternative operators as MKT had to introduce new wholesale products based on the regulatory obligations from the first quarter 2009.

On the Internet broadband market, there are three major service providers in addition to MKT: OnNet, Cabletel and Telekabel. At the end of January 2009, MKT had approximately 49 percent market share based on the number of retail subscribers. It has faced competition mainly from CATV operators' cable broadband Internet, offered to the CATV customers through their own networks and from OnNet's wireless broadband offered through MKT WS ADSL. The mobile operator Cosmofon also started to offer mobile broadband internet access, through its 3G network.

In November 2008, MKT entered the TV market by offering Triple Play services: TV, Internet and voice bundles. Competitors also announced similar services, and Cabletel already launched their first offer in October 2008.

Mobile Services

At present, there are three mobile operators operating on the Macedonian mobile market. The mobile market penetration measured in terms of subscribers is over 100 percent, which is mainly due to strong and intense competition conducted on the basis of prices, subscription options, subsidized handsets, range of services offered, innovation and quality of service. The second largest mobile telecommunications service provider in the country based on the number of subscribers, Cosmofon, began commercial operation in June 2003. Its marketing and advertising efforts are aggressive with low and competitive handset pricing, attractive price plans, a broad array of advertising and indirect sales channels. Cosmofon broadened its operations in the field of fixed line telecommunications services in June 2008 and started its 3G commercial operations in the prepaid, post-paid and internet segment in August 2008.

In February 2007, the Macedonian telecommunications regulator awarded a third mobile license to Mobilkom Austria. The operator entered the Macedonian market in September 2007, under the name VIP, with 2.5G services. VIP started intensive campaigns even before its official start of operations. VIP entered into a national roaming agreement and site sharing agreement with TMMK, but it is also building its own GSM network. The partnership with Vodafone helped VIP to introduce Blackberry together with the introduction of VPN capabilities.

On 9 January 2009, the Government of Republic of Macedonia decided to offer for bidding two additional 3G licenses with an initial fee of 5 million EUR per license, which is 50% less than the fee paid by TMMK and Cosmofon as current holders of these radiofrequencies licenses.

According to the decision of the CPC, the acquisition of Cosmote by Deutsche Telekom Group creates a concentration of around 90% market share on the Macedonian mobile communications market for our Group. Therefore, Deutsche Telekom is to sell Cosmofon.

TMMK was awarded 3G license on 17 December 2008. The tender obligations include a commercial launch of the service within 6 months as of the date of granting the license (17 June 2009) and 50% population coverage within one year as of the date of granting the license (17 December 2009), as well as additional 30% (or 80% total) population coverage within three years as of the date of granting the license (17 December 2011).

According to the TMMK estimates, as of 31 December 2008, TMMK had 59.4 percent, Cosmofon had 29.1 percent and VIP had 11.5 percent market share based on the number of subscribers.

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

Marketing

Besides the continuous mobile substitution of fixed voice services since the start of mobile operators in 2003, and the strong competition in broadband Internet mainly seen in CATV providers, in 2008, the market got new strong direct competition in fixed voice services. In June 2008, Cosmofon started to offer significantly a cheaper fixed voice service over fix GSM platform. By the end of 2008, Cosmofon was acquiring the market through intensive marketing communication and low prices. Meanwhile, OnNet, as a wholesale provider also intensified their activities, increasing their number of customers via unbundled lines and rented wholesale fixed voice lines. While Cosmofon offers only fixed voice packages, OnNet is focused on bundled voice plus internet packages. The major CATV operators, Telekabel and CableTel ,started to offer voice services in Q4 2008. CableTel is promoting voice services as a part of the 3 play bundles (voice, Internet and TV).

Operating in such highly competitive environment, which is expected to be even stronger in the near future, MKT is focused on introducing and promoting its own services and retaining the existing customers. Since September 2007, ADSL expansion can be considered as a successful story of MKT, which continued in 2008, reaching a number of 98,862 active customers (including 17,008 wholesale ADSL users). Seeing an opportunity in broadband services, and also perceiving the necessity to react on the competitive market, MKT promoted their bundled voice and Internet services in September 2008. The Call & Surf packages were well accepted on the market, contributing to customer retention and broadband customers' acquisition. In November 2008, MKT made the most radical move on the market by launching IPTV services and especially the 3play service 3Max. This step opens new directions in the MKT strategy, focused on offering a broad portfolio of voice, Internet and IPTV services. Offering those services with a high quality by a single provider remains to be the main strategy in the forthcoming period.

MKT has developed different sales channels in order to serve customers from different segments. MKT uses direct sales channel, such as own retail network, direct agents and key account managers; indirect sales channel based on indirect master dealers with their own network of shops, partner shops and free lancers; on-line sales channel and call centre which performs telesales.

The main sales channel is the MKT shop network. There are 7 T-Home standalone shops and 21 joint shops with TMMK, which offer the complete TMMK and T-Home product portfolio. TMMK distributes its services in its own retail shops and through indirect partners (dealers). At the end of 2008, the retail shop network of TMMK consists of 34 shops, of which 13 are solely operated. In 2009, additional four joint shops are planned to be opened. A new joint shop introducing a new concept - cafe & shop - was opened on 23 January 2009. A part of the MKT product portfolio (telephone sets, photo equipment, computers, printers, network equipment, etc.) is available to the customers using payment by instalments through their telephone bill.

The Fiber to the Home ("FTTH") pilot projects, implemented by sales and provisioning cross-functional teams in 2008, shows the direction on which MKT has to dedicate great attention in 2009. Four pilot projects have already been realized and over 40 customers have been connected. Using optical fibre, the customers can get data services with improved quality.

Direct agents serving the small and medium enterprises ("SME") segment have put strong emphasis on the sale of private branch exchange ("PBX") based solutions and IT network solutions in 2008.

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

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

Another channel of the distribution network is the dealers' cooperation. Currently, the network consists of 13 Master Dealers (including 2 direct contractors) holding 140 shops. All the shops perform the full portfolio of sales activities and they have almost the complete portfolio of services except for collection. By to the end of 2008, all shops belonging to the dealers were redesigned according to the TMMK image, with outdoor illuminated signs (all shops have "T Partner" sign instead of "T Mobile sign"). Prepaid packages (with or without handsets) are available in all 140 dealers shops and in additional 7,000 kiosks, which sell prepaid vouchers.

Research and development

MKT continuously strives for a high technological level in offering and providing a wide range of products and services that will satisfy the customers' demands. This, together with the rationalization of the network switching architecture, resulted in improvement in the operational efficiency and network consolidation. New telephone services were introduced through the IN and Voice-mail Platforms and new broadband services became available with the implementation of ADSL technology.

In the next phase, the main focus will be on the extension of broadband access as the main precondition for supporting broadband Internet and video services. In this direction, MKT will start to introduce FTTH in the urban areas, where demand for broadband services is higher and where the existing copper network could limit the provision of services.

The Dense Wavelength Division Multiplexing ("DWDM") network will continue to be the main transport for IP/MPLS and Ethernet traffic. However, the increased demand for video and data services will result in a further upgrade of DWDM and IP/MPLS network.

MKT is making preparations for interconnection and convergence of separate voice and data networks. The New Generation Network ("NGN") migration concept is seen as a long-term project. MKT is not planning any significant development of the 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, IPTV and VoIP services for broadband users and network migration towards NGN.

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

In cooperation with the local partners, TMMK has built an E-mail Push solution to target the SME market. In addition, TMMK has also built a Business Process Management System (a "paperless office") that enables efficient, timely and traceable execution of linked internal processes.

In cooperation with other T-Mobile International companies, TMMK has built and deployed a system for Automated Device Management that enables remote device configuration for easier VAS service adoption on the local market.

TMMK developed software called Cell Info that shows the performances and all the relevant cell parameters of the base stations in the network. This software is used on a daily basis by the Radio Network Optimization teams to better optimize the radio network.

TMMK delivered a solution for Mobile Number Portability and Prepaid to Post-paid Portability that comply with the regulatory requirements and allow flexible offerings on the market. Simultaneously, we deployed a new generation of a mediation service solution that enables more flexibility and faster service delivery.

TMMK started migration of the core equipment to NGMN (New Generation Mobile Network), or MSS (Mobile Soft Switch), which provides TMMK with a significant increase of the capacity and flexibility to new services with reduction of both operating and investment costs.

In 2008, TMMK upgraded its Fraud Management Platform, Revenue Assurance Platform and Voice-Mail Platform with additional capacities and new functionalities. These upgrades enable more security and control in assuring the revenue streams and diminish risks of revenue leakages. In addition, they enable the provision of new services.

In cooperation with MKT, TMMK launched a CRM project that will largely influence the development and layout of the IT infrastructure in future. Through the execution of the program, TMMK will change the IT landscape in a Service Oriented Architecture (SOA) -based layout that will serve as a foundation for further growth, while retaining simplicity and short time-to-market. Simultaneously, TMMK will deliver standardized customer and product database models that will be utilized for common service offerings and customer-focused management.

Information technology

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

The IT Directorate has an active role in implementation of new products of the company - VoIP and IPTV - and bundled services like 2Play and 3Play.

IT application and operation efficiency has been increased by the introduction of new IT systems and new IT technologies:

- Implementation of Data Warehouse and Business Intelligence system

- Detailed Requirement Analysis and Planning Phase for joint CRM system with TMMK

- Number Portability implementation

- Upgrade of Billing system

- Upgrade of Computer Network

In addition, the re-branding process in 2008 and the implementation of the T-Home brand was also supported by the IT Directorate by changing the design of all Intranet/Internet web applications and sites, bill redesign and introduction of the itemized bill as an integral part of the regular bill, changing the form of all documents according to the requirements of the new brand, and renaming the Domain of the MKT.

During the past period, the IT Directorate has implemented several common solutions with TMMK that will provide companies with the possibility of offering common services to the customers. These implementations are mostly focused on a common infrastructure in the shops and the IT network as a prerequisite for implementation of common IT solutions and architecture.

TMMK has built a high quality and high capacity network that meets the requirements and needs of its growing subscriber base.

The Radio Access Network consists of 643 base stations installed on 472 sites, 4,621 transceiver units, 186 microwave transmission hops and 111 repeaters. The Core Network and Supporting systems consist of two Home Location Registers, two Next Generation Mobile Switching Center Servers, five Media gateways (two of them are active and other three are in the process of implementation), two classical Mobile Switching Centers (will be switched off after all Media gateways are installed) and seven Base Station Controllers installed on four different sites. Additionally, Prepaid nodes, GPRS Support nodes, SMS/VMS/MMS are operating via the TMMK network. In order to support next generation services with higher capacity in the transmission network, new Packet backbone network was implemented on four sites. All network elements are centrally controlled and monitored via the Operation and Support System located in Skopje.

Rating and billing platforms provide enhanced and seamless 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. Back-end systems enable content aggregation from various content-delivery partners, simultaneously enabling sophisticated m-payment, m-charging, messaging and remote configuration methods for the plethora of services.

TMMK has also built functionalities to host the third mobile entrant on the local market, while simultaneously enforcing our capabilities for an even greater business processes automation, as well as data security and availability.

Nikolai Beckers
Chief Executive Officer
Makedonski Telekom AD - Skopje

Македонски Телеком
АД за електронски комуникации - Скопје

Proofreading by Bestel

Makedonski Telekom AD Skopje
Orce Nikolov bb 1000 Skopje

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

Date: 30.04.2009

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 ended as of 31.12.2008 is accurate and reliable.

The audited consolidated financial statements for 2008 contain qualified auditor's opinion.

Nikolai Beckers
Chief Executive Officer

Makedonski Telekom AD – Skopje
Address Orce Nikolov bb 1000 Skopje R.Macedonia
Contact Phone +389 2 3100 200 ; Fax +389 2 3100 300; Contact center 171
e-mail: kontakt@telekom.mk; www.telekom.mk
ID number 5168660