Makedonski Telekom AD Skopje
Orce Nikolov bb 1000 Skopje

Македонски Телеком
АД за електронски комуникации - Скопје
Број 01-18654/1
Датум 30-04-2010

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

Date: 30.04.2010

Subject: Submission of the Annual Report for 2009

Dear Sirs / Madams,

Pursuant to Articles 154, 160 and 164 of the Law on Securities, related to the annual reporting obligation of Makedonski Telekom AD – Skopje, please find attached the Annual Report for 2009 and the Statement for info accuracy.

At the same time, in accordance with the respective by-laws, the Annual Report for 2009 shall be posted in an electronic format on the website of the Securities and Exchange Commission through the respective module.

Please be informed of the necessary correction to be made by you of the fixed items in the electronic module in the part of the Legal Status on the Company, which Makedonski Telekom AD – Skopje is unable to reconcile with the original hard copy enclosed herewith.

Yours faithfully,

Македонски Телеком

Zarko Lukovski
President of the Board of Directors

Nikolai Beckers
Chief Executive Officer

Proofread and verified by Lingva Ekspert

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 2010
Subject: Annual Report for the period 01.01.2009 - 31.12.2009

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	61.10
Activity description	Wire line 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 AD - Skopje (MKT), - 30 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 (31.12.2009)	1,294
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 (31.12.2009)	4,237
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 473.00
- minimum	MKD 300.00
- closing	MKD 420.00
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 40,252 million
Changes in the accounting policies	There are no changes
Date of the Shareholders' assembly meeting at which the audited annual report for 2009 has been adopted	30.04.2010 (The consolidated audited financial statements for the year 2009 are provided in attach)
Analysis and explanation of the operating results and development program of the Company	The Annual report on the operations of Makedonski Telekom AD – Skopje Group in 2009 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 30 of the consolidated audited financial statements for the year 2009.
Data on the transaction between the Company and the related parties	The transactions with the related parties are presented in the notes 7, 14 and 29 of the consolidated audited financial statements for the year 2009.
Gross dividend per ordinary share (in an absolute amount and percentage compared to the nominal value, rounded up to two decimals) for the year:	
- 2008	71.42 MKD (71.42% of the nominal value)
- 2007	113.42 MKD (113.42% of the nominal value)
- 2006	0
Gross dividend per preference share (in an absolute amount and percentage compared to the nominal value, rounded up to two decimals) for the year:	
- 2008	71.42 MKD (0.73% of the nominal value)
- 2007	113.42 MKD (1.17% of the nominal value)
- 2006	0
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 (Joint stock companies with special reporting obligations - 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 2009. The data regarding the legal disputes, in which the Group Makedonski Telekom AD - Skopje is involved, are presented in the notes 15 and 28 of the consolidated audited financial statements for the year 2009.

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	Christopher Mark Mattheisen	Non-Executive member of the Board of Directors 04.11.2009
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	Guenter Mossal	Non-Executive member of the Board of Directors 04.11.2009
9	Janos Szabo	Non-Executive member of the Board of Directors 31.07.2007
10	Klaus - Thomas Nitschke	Non-Executive member of the Board of Directors 04.11.2009
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	Antti-Jussi Lumijarvi	Independent member of the Board of Directors 04.11.2009
14	Romeo Dereban	Independent member of the Board of Directors 17.05.2007

* As of 31.12.2009 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
Orce Nikolov bb, 1000 Skopje

ANNUAL REPORT
on the operations of the Group of Makedonski Telekom AD - Skopje in 2009

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

For further information about the internal investigation, please refer to the financial statements of the Company for the year ended 31December 2008.

According the information provided to the Company by Magyar Telekom Plc., on 2 December 2009, the Audit Committee of Magyar Telekom Plc, provided the Magyar Telekom's Board of Directors with a "Report of Investigation to the Audit Committee of Magyar Telekom Plc." dated 30 November 2009 (the "Final Report"). The Audit Committee indicated that it considers that, with the preparation of the Final Report based on currently available facts, White & Case has completed its independent internal investigation.

According the information provided to the Company by Magyar Telekom Plc., the Final Report includes the following findings and conclusions related to Magyar Telekom's Macedonian affiliates, based upon the evidence available to the Audit Committee of Magyar Telekom Plc. and its counsel:

- As previously disclosed, there is evidence that certain former employees intentionally destroyed documents relating to activities undertaken in Macedonia by Magyar Telekom Plc. and its affiliates.
- Between 2000 and 2006 a small group of former senior executives at Magyar Telekom and Magyar Telekom's Macedonian affiliates, authorized the expenditure of approximately EUR 24 million through over twenty suspect consultancy, lobbying, and other contracts (including certain contracts between Magyar Telekom and its subsidiaries on one hand, and affiliates of a Cyprus-based consulting company on the other hand). The Final Report concludes that "the available evidence does not establish that the contracts under which these expenditures were made were legitimate."
- "The evidence shows that, contrary to their terms, a number of these contracts were undertaken to obtain specific regulatory and other benefits from the government of Macedonia. The Companies generally received the benefits sought and then made expenditures under one or more of the suspect contracts. There is evidence that the remaining contracts were also illegitimate and created a pool of funds available for purposes other than those stated on the face of the agreements." However, the Magyar Telekom Audit Committee's counsel did not have access to evidence that would allow it to identify the ultimate beneficiaries of these expenditures.
- In entering into these contracts and approving expenditures under them, the former senior executives knowingly caused, structured, or approved transactions that shared most or all of the following characteristics:
  - intentional circumvention of internal controls;
  - false and misleading corporate documents and records;
  - lack of due diligence concerning, and failure to monitor performance of, contractors and agents in circumstances carrying a high risk of corruption; lack of evidence of performance; and
  - expenditures that were not for the purposes stated in the contracts under which they were made, but rather were intended to obtain benefits for the Magyar Telekom subsidiaries that could only be conferred by government action.
- The Final Report states that "the Investigation did not uncover evidence showing receipt of payments by any Macedonian government officials or political party officials."

As previously disclosed, Magyar Telekom has taken remedial steps to address issues previously identified by the independent investigation, including steps designed to revise and enhance the Magyar Telekom Group's internal controls. According the information provided to the Company by Magyar Telekom, the Audit Committee of Magyar Telekom has not made recommendations relating to Magyar Telekom's compliance program or internal controls in connection with the issuance of the Final Report and Magyar Telekom is considering, in consultation with its Audit Committee, whether and to what extent the Final Report warrants additional remedial actions, including any personnel actions and/or changes in internal control policies and procedures at Magyar Telekom or its subsidiaries that have been or will be implemented to address the findings of the Final Report.

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

The external experts prepared reports (the "Reports") on their assessment and submitted the Reports to the Chairman of the Company's BoD and the Management of the Company and its subsidiary accordingly. As a result, based on the analysis of the Tax and Legal experts and information available to the Management related to the transactions subject of the Final Report, amount of MKD 248,379 thousand has been identified as potential tax impact (toghether with related penalty interest) arising from the transactions conducted by the Company and its subsidiary subject to the Final Report. This impact has been recognized in the Income statement as Other operating expense against Trade and other payables. In addition, the value of one contract of MKD 105,147 thousand capitalised within treasury shares was reclassified and derecognized against the Retained Earnings. The other contracts that were identified by the Final Report and the reports of the tax and legal experts related to transactions undertaken by the Company and its subsidiary were expensed in the related periods (2001-2007).

In May 2008, the Ministry of Interior ("MOI") of the Republic of Macedonia ("RoM") submitted to the Company an official written request for information and documentation regarding certain payments for consultancy services and advance dividend, as well as certain procurements and contracts. In June 2008 the Company submitted copies from the requested documents. In the same period, T-Mobile Macedonia has also received similar requests for provision of certain documentation to the Ministry of Interior of RM and they were submitted accordingly.

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

We understand, based on public information available as of 10 December 2008, that the MOI Organized Crime Department submitted the files to the Basic Public Prosecution Office of Organized Crime and Corruption, with a proposal to bring criminal charges against Attila Szendrei (former CEO of Makedonski Telekom AD - Skopje), Rolf Plath (former CFO of Makedonski Telekom AD - Skopje), Mihail Kefaloyannis (former member of the Board of Directors in StoneBridge and former member of the Board of Directors in Telemakedonia) 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.

After several postponements of the court hearing related to the investigation procedure handled in the Primary Court Skopje 1 Skopje, on the hearing held on 13 April 2009, the representatives of Makedonski Telekom AD Skopje declared the position of the Company that taking into consideration the ongoing independent internal investigation conducted by White & Case, approved by the Company's BoD, it was premature to preannounce any damage which may be caused by means of the implementation of the mentioned contracts or with reference to them. Upon completion of the independent internal investigation, the Company will inform the court on its final position in respect of the possible damage and the criminal prosecution of the accused persons. After 13 April 2009 until the date of preparation of the financial statements for 2009, there was no communication made by the Primary Court Skopje 1 Skopje addressed to MKT. MOI of the RoM - Organized Crime Department, approached to the Company during August 2009, with request some additional documentation to be submitted to the MOI. The Company collected and submitted requested documentation on 27 August 2009.

The Chairman of the Company's BoD and the Company's Management have received an information that the contents of the Final Report has also been made available to the Macedonian Public Prosecution Office. The Company's Management cannot foresee whether the Macedonian Public Prosecution Office will initiate any legal procedure or the type and scope of legal actions on the basis of the information contained in the Final Report.

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

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

MKT is the primary fixed line service provider in Macedonia. Its exclusive rights in fixed line telecommunication 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 comprise being a leading provider of technology in Macedonia and providing quality services with attractive prices in order to be prepared for the increasing competition.

MKT provides traditional fixed line telecommunication services and content services within the scope of the fixed line network, broadband services and integrated solutions, including TV over Internet Protocol ("IPTV"). At the end of 2009, MKT had 366,418 PSTN lines and 41,076 ISDN channels, compared to 413,321 and 44,694 respectively, at the end of 2008. Fixed line penetration was marked with a similar movement, stabilizing at 19% at the end of 2009.The number of ADSL connections increased to 132,788 at the end of 2009, compared to 98,862 as of 31 December 2008. The number of IPTV customers at the end of 2009 reached 14,334 customers (including 3 Play, IPTV only and 2 MAX).

In 2009, approximately 26% of the total revenues of the Group were comprised of the voice revenues from domestic fixed line telecommunication services. Mobile services contributed with 52%, while international telecommunication services contributed with 5% to the total revenues. Internet and data services contributed with 10% of the total revenues, while 7% 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 the intensified competition on the telecommunications market. The decreased revenue of MKT from international traffic is a result of the lower volume of traffic and the lower termination rates. The proportion of the mobile revenue is increasing despite the competitive environment and mainly owing to the enlarged subscriber base. The Internet and data revenue has grown, mainly due to the increased number of ADSL subscribers and the growing number of IPTV subscribers, but it still represents a small portion of the total revenues.

In June 2006, through the Macedonian Stock Exchange, MKT acquired 9,583,878 of its own shares, representing 10% of its shares. The amount of MKD 3,738,358 thousand related to the purchase of these shares is deducted from the shareholders' equity as treasury shares. MKT has the right to reissue these shares at a later date.

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, wherein its products are now marketed under the brand T-Home.

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 grow in 2009 as well. By the end of 2009, it expanded its customer base from 1,379,191 at the end of 2008 to 1,381,094 by the end of 2009, which represents a market share of 56.4% on the Macedonian mobile telecommunications market as opposed to 59.4% on 31 December 2008, based on the total number of SIM cards (according TMMK estimates). The mobile market penetration in Macedonia is over 116%, which shows the trend of individuals owning a second SIM-card. As a result of the market saturation, we especially focus on customer retention so as to protect our market share.

The increase in the number of TMMK subscribers in 2009 is attributable to a number of factors, including the success of the community offers and campaigns comprising attractive handset prices. The customer churn rates are quite high in Macedonia, but they were not significantly affected by the introduction of mobile number portability as of 1 September 2008.

The Macedonian mobile market was characterized by a highly competitive and aggressive pricing in 2009. This was especially the case in the business segment, while different types of promotions were available for the consumer segment as well. Due to the increased competitiveness and in order to prevent churn and encourage usage, TMMK launched various campaigns and price plans specially designed to meet the subscribers' needs. A new top-up concept was introduced to boost revenue in the prepaid segment, whereby customers would receive free traffic or price discounts upon recharge. Customer segment based pricing was introduced via community offers addressing social groups (e.g. retirees, students).

Regulation and pricing

A new Macedonian law concerning electronic communications (Law on Electronic Communications - "LEC") was enacted on 5 March 2005. Thus, by means of certain transitional provisions, the country's telecommunication regulations were harmonized with the EU regulatory framework. Furthermore, a number of strict obligations for the existing operators were stipulated.

In the second half of 2006, the Government of the Republic of Macedonia enacted a number of bylaws and rulebooks regulating various electronic communications areas. On 4 May 2007, the LEC was amended and criminal responsibility was introduced for the responsible person within the legal entity on account of not publishing the reference interconnection offer and the local loop unbundling access offer. Additional amendments of the LEC were adopted on 4 August 2008, by which the Concession Contracts of MKT, TMMK and Cosmofon (which was rebranded into ONE in November 2009), concluded pursuant to the old telecommunications act with the Ministry of Transport and Communications, ceased to be valid as of 4 September 2008. All the relevant provisions in favour of MKT arising from the Concession Contracts were included in the LEC amendments. On 5 September 2008, the Agency for Electronic Communications ("the Agency"), ex officio, issued a notification to MKT regarding 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 under the Concession Contracts in a form prescribed by the LEC.

Regulation of Fixed Line Business

On 31 December 2004, MKT's monopoly rights on the Macedonian telecommunications market expired, thus making it possible for other network and service providers to enter the Macedonian telecommunications markets, upon the submission of a notification to the Agency and the registration thereof. By 31 December 2009, the Agency had registered 227 network operators and 67 providers of public fixed telephone services.

Under the LEC, MKT has been designated as a Significant Market Power ("SMP") operator on the market of fixed line voice telephone networks and services, including the market of 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 an officially signed interconnection contract.

In July 2005, the Agency issued regulations governing the interconnection conditions. Rules for access to and the use of specific network facilities were issued in August 2005, while 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, wholesale leased lines, minimal set of leased lines 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 an amended bylaw pertaining to interconnection. According to the obligation arising from the enacted bylaws, MKT published its referent offers and introduced new wholesale products for local bit-stream access, wholesale line rental, wholesale leased lines and an amended referent interconnection offer.

On 8 August 2005, MKT submitted its first Reference Interconnection Offer ("MATERIO") to the Agency. MKT's first Reference Unbundling Offer for MATERUO was submitted to the Agency on 5 September 2005 and approved on 19 July 2006.

On 23 May 2008, the Agency issued an approval for the new decreased interconnection and unbundling fees based on the audit report on MKT's cost-accounting system issued by an independent auditor.

Upon the amendment dated 26 May 2009, the referent interconnection offer was extended with two new interconnection services – extended circuit IC link and transit service.

The MATERUO was re-submitted in October 2008, which was based on the new amended bylaw regarding the MATERUO Reference Offer. The latest changes in RUO were applied from January 2009 after the Agency's approval. On 16 April 2007, MKT signed the first RUO based unbundling agreement with an alternative fixed network operator.

Based on Article 41 of LEC, the Agency initiated the procedure for analyses of the relevant markets and started with the collection of relevant data from the operators. The market analyses pertaining to fixed voice telephone services,(relevant markets 1 to 6 from the former European Commission recommendation) and the market analyses regarding leased lines (relevant markets 13 and 14 from the former European Commission recommendation) and broadband (relevant market 12 from the former European Commission recommendation) are expected to be finished in 2010.

Based on a public tender announced in June 2009, the Agency already selected an international consultant for the calculation of Weighted Average Cost of Capital ("WACC") for the operators with significant market power on the fixed and mobile voice market, as well as an international consultant for developing the LRIC bottom up costing model. The new WACC and the new cost methodology is expected to become effective in 2010.

Number portability was implemented on MKT's and TMMK's networks and the commercial start of the service in Macedonia took place on 1 September 2008. Based on the latest MATERIO, a number porting setting fee could be charged according to the inter-operator charging principle or from the end customers.

On 30 June 2009, the Agency enacted a Decision for setting the maximal amount of the one-time fee for the number portability service, for fixed and mobile operators in the amount of 200 Macedonian denars (approximately 3,25 EUR), which was previously established individually by the operators.

A new Numbering Plan was enacted in November 2009. The major changes are that an abbreviated, premium rate and free phone numbers will be assigned only to operators and service providers, but not to end users. MKT will continue hosting numbers upon the prior consent of the end users to which the numbers were assigned.

Since the end of 2004, when MKT's obligation for providing universal services according to its concession contract expired, there has been no operator designated as a universal service provider. In May 2006, the Government of the Republic of Macedonia enacted a decision on the implementation of a temporary strategy for universal services, which stipulates the basic strategic decisions. The relevant by-laws regulating the technical parameters, the quality requirements and the pricing for 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 a public tender for the provision of universal electronic communications services in Macedonia. On 22 February 2008, MKT and Cosmofon (now ONE) were selected as candidates to be universal service providers in the prequalification process. The written invitation which was supposed to have been submitted by the Agency to the selected candidates from the first phase, in order to submit their offer for the selection of a universal service provider, has not been received yet.

In 2007, the Agency granted six regional and two national authorizations for radio frequency utilization in the 3.4-3.6 GHz band for the implementation of fixed wireless access, WiMAX. According to the tender rules, operators with national licenses were obliged to provide services as of January 2008 and operators with regional licenses were obliged to provide services as of March 2008. WiMAX operators started their operations with a delay and until now they have not any significant impact on the electronic communications market. On 14 August 2008, the Agency published a tender for the assignment of two regional licenses which were previously seized because the operators that obtained the licenses did not fulfil the tender conditions. Licenses for both regions have been granted to Cosmofon (now ONE). On 6 October 2009, the Agency announced a public call for expressing interest regarding the usage of WiMAX frequencies in the band 3410-3441,5 MHz and 3510-3541,5 MHz. The deadline for submission was 20 November 2009 after which, depending on the interest shown, a public tender could be announced.

According to the LEC and based on market analyses, the Agency may impose retail price regulations and price controls on operators with SMP on 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

As of 2008, the fixed voice market in Macedonia has become highly competitive. The new fixed line operators Cosmofon and OnNet (now ONE) launched fixed line and bundled services at decreased prices. Other alternative operators also started to offer fixed voice and bundled products at attractive prices.

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

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

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

Regulated Wholesale Prices

MKT had a cost based price obligation for the regulated wholesale services (interconnection and unbundling of local loop), using the Fully Distributed Costs ("FDC") methodology until July 2007 and using the 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 an approval for the new interconnection and unbundling fees decreased by approximately 18%, based on the audit report for the MKT cost accounting system issued by an independent auditor. The fees apply as of 1 June 2008.

Additionally, on 31 December 2008 the Agency issued an approval for the modification of MATERUO based on a new bylaw pertaining to the level of details of the information that will be published in MATERUO. Thereby, the fees for Unbundled Local Loop ("ULL") decreased by approximately 10%. The fees apply as of 1January 2009. Based on the Agency's initiative for developing a LRIC bottom up costing model and a new WACC calculation, further changes of the regulated wholesale fee could be expected.

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

Based on several enacted bylaws, published in the second half of 2008, MKT has prepared several additional regulated wholesale products, Wholesale Line Rental, Wholesale Leased Line and Local Bit Stream Access. MKT as an SMP operator has the obligation to enable its subscribers to access publicly available telephone services of any interconnected operator with an officially signed interconnection contract. On 15 November 2006, MKT signed the first Reference Interconnection Offer ("RIO") based an Interconnection Agreement with an alternative fixed network operator. On 16 April 2007, MKT signed the first Reference Unbundling Offer ("RUO") based an Unbundling Agreement with an alternative fixed network operator.

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 from the former European Commission recommendation). Based on the analysis, on 26 November 2007, TMMK and Cosmofon (now ONE) were designated with an SMP status, whereby several obligations were imposed on them, such as interconnection and access, non-discrimination in interconnection and access, accounting separation and price control and cost accounting.

TMMK published a RIO with a regulated termination rate effective from 1 August 2008. TMMK was obliged to submit the financial statements for 2008 based on accounting separation by 31 May 2009 and it submitted them on 1 June 2009. The second round analysis of market 16 was concluded by the Agency and the draft analyses were published for a public debate on 21 January 2010, by when VIP Operator (subsidiary of Mobilkom Austria) is to be designated as an SMP operator. The Agency is also conducting market analyses on the relevant markets defined in the Decision on relevant market determination dated 17 August 2005. The Agency has engaged expert consultancy services for the calculation of WACC for SMP designated operators (fixed and mobile). In September 2009, the Agency requested data for the calculation of WACC to SMP operators (TMMK, Cosmofon (now ONE) and MKT). The Agency published a draft Price Squeeze Guideline for a public debate for which TMMK submitted comments and remarks regarding the said Guideline.

On 30 June 2009, the Agency brought a Decision for setting the maximum amount of the one-time fee for the number portability service. Prior to the adoption of the decision, the price was established individually by the operators. TMMK initiated a procedure before the Administrative Court to dispute the decision of the Agency. The administrative procedure has not started yet.

In November 2007, the Agency published a public tender for granting one license for 3G radiofrequencies utilization. Cosmofon (now ONE) 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 a one-off fee in the amount of 10 million EUR each was published. On 15 September 2008, a new tender for additional three 3G licenses was published. TMMK won one license which was granted to it on 17 December 2008, for which TMMK paid EUR 10 million as one-off fee. TMMK started commercial operations of the 3G services on 11 June 2009. The validity of the license is 10 years i.e. until 17 December 2018, with a possibility for an extension for 20 years in accordance with the LEC.

Since the beginning of 2009, three attempts have been made to award additional two licences for 3G radiofrequencies. On 27 January 2009, a public tender for granting two licences for 3G radiofrequencies was published with a minimum one-off fee set at EUR 5 million each. No bids were received and no license was awarded. On 16 July 2009, the tender was repeated under the same conditions and experienced the same outcome in August 2009. On 21 December 2009, the tender was published again under the same conditions and an outcome is expected to be yielded in 2010.

On 10 January 2009, a public tender for awarding two licences for 2G radiofrequencies in the 1800 MHz band was published. TMMK was awarded one license on 6 June 2009. TMMK paid EUR 2 million as a one-off fee for the 2G license in the 1800 MHz band. The validity period is 10 years, with a possibility for extension for 20 years in accordance with the LEC. Furthermore, on 10 January 2009, a tender for one license in the 1800-1805 MHz for broadband wireless access on the whole territory of Republic of Macedonia was published. The one-off fee was set at EUR 30,000. On 5 May 2009 the Agency brought a Decision under which it pronounced Mobik Telekomunikacii a best bidder on the tender.

In July 2009, the Agency put several secondary electronic communication legislation acts to a public debate. Upon the completed public debates, the new acts were adopted and the enactment of these regulations is expected to improve the regulatory framework.

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 to the 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 in terms of the start of the negotiations regarding the full accession, encompassing all aspects of the EU membership, including trade, environment, competition and health. Macedonia, as a candidate country, should harmonize its legislation with the EU.

On 14 October 2009, the European Commission issued the 2009 Progress Report. Macedonia received a recommendation from the European Commission for the opening of the accession negotiations. The country made a convincing progress and substantially addressed the key reform priorities, known as eight plus one benchmarks.

Based on the Progress Report, the competition on the electronic communications markets increased as a result of the liberalisation process, to the benefit of consumers. The director of the Agency was appointed following an open competition. The Agency adopted implementing legislation on retail tariffs, bit-stream access and wholesale line rental. The laws regulating the issues related to the authorisation of the construction works and the right of way are unclear, particularly in terms of the division of responsibilities between the Ministry of Transport and Communications and the municipalities. This hinders the investments in the telecommunications networks. In the area of electronic communications, the country is now well advanced.

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 in February 2007. However, MKT had faced indirect competition even earlier, from the mobile service providers and, to a limited extent, from the VoIP providers.

In 2008, the nature of the fixed line competition shifted from the offering of cheap outgoing calls (through carrier selection and VoIP) towards the offering of complete fixed line services.

By December 2009, MKT signed Interconnection Agreements with eight fixed line operators and three mobile operators. One alternative operator (OnNet) has a local interconnection and carrier selection agreement with MKT. OnNet entered into an ULL Agreement with MKT based on the MKT's Unbundling Reference Offer ("MATERUO"). Based on this agreement, OnNet has been offering its commercial services to the customers from May 2008. A commercial wholesale line rental agreement with OnNet, based on OnNet's request, was signed in October 2008.

Cosmofon (now ONE) launched fixed line voice services in June 2008 over their GSM network wherein in August 2008 they started to offer services based on 3G technology. In March 2009, Telekom Slovenije purchased 100% of the shares of Cosmofon and became an owner of the two major competitors, Cosmofon and OnNet. They launched their first joint offer in July 2009, consisting of fixed line voice and Internet broadband service. In November 2009 the company rebranded in ONE.

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 1 September 2008. The total number of ported numbers from all operators (fix and mobile) amounted to 24,380 numbers as of 31 December 2009.

In response 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. The CATV and the 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 wholesale leased line offer with decreased wholesale prices, four wholesale leased line agreements were signed by December 2009.

On the Internet broadband market, there are three major service providers in addition to MKT: OnNet, Cabletel and Telekabel. At the end of 2009, MKT had approximately 48% market share based on the number of retail subscribers as of December 2009. It has faced competition mainly from OnNet's wireless broadband and the CATV operators' cable broadband Internet, offered to the CATV customers through their own networks and from broadband services through MKT's wholesale ADSL offer. Until December 2009, four wholesale ADSL agreements were signed. From September 2008, the mobile operator Cosmofon (now ONE) 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. The cable providers also offer similar services. On 25 April 2009, the Agency granted radiofrequencies for digital TV services through digital video broadcasting- terrestrial ("DVB-T") to Telekom Slovenije, and its commercial operation started in November 2009, under the new brand ONE.

Mobile Services

The Macedonian mobile communications market currently has two GSM operators which also have UMTS licenses (TMMK and Cosmofon (now ONE) and one only GSM operator (VIP).

TMMK introduced the first bundled product Family+, a product which joins mobile and fix telephony and fast ADSL internet on one monthly subscription.

Marketing

The continuous mobile substitution of fixed voice services and the strong competition in broadband Internet mainly seen in the CATV providers and the direct competition in fixed voice services increased the competitive environment on the Macedonian market. In 2009, Cosmofon (now ONE) continued to acquire the market through intensive marketing communication and low prices and significantly increased their fixed voice service customer base. OnNet, as MKT's wholesale partner also intensified their activities, increasing their number of customers via unbundled lines and rented wholesale fixed voice lines. After the rebranding in ONE, they offered a comprehensive portfolio of fix voice, mobile voice broadband Internet and TV services, combined in various bundles. The major CATV operators, Telekabel and CableTel also broadened their offers with double and triple play bundles.

Operating in such highly competitive environment, which is expected to be even stronger in the near future, MKT is focused on introducing and promoting new services and retaining the existing customers. Since September 2007, the ADSL expansion can be considered as a successful story of MKT, which continued in 2009, reaching a number of 132,788 active customers (including 19,557 wholesale ADSL users). Seeing an opportunity in the broadband services, and also perceiving the necessity to react to 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 the IPTV services and especially the 3play service 3Max. The main focus in 2009 was put on the sales and/or migrations to the bundled double and triple play services, through several major campaigns for achieving the planned sales results, as well as for increasing the awareness of the benefits of the services. The IPTV services are continuously extended with new content and features. Several activities for the single voice users were introduced during 2009 by offering attractive loyalty contracts in order to reduce the churn and increase the loyalty customer base. In December 2009, MKT commercially introduced services based on FTTH technology, bundled in packages, shaped as extension of existing ADSL, C&S and 3Max offers, but with higher performances and more benefits.

MKT has developed different sales channels in order to serve the customers from different segments. MKT uses a direct sales channel, such as own retail network, direct sales 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 22 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 2009, the retail shop network of TMMK consisted of 35 shops, out of which 13 were solely operated. A new flagship joint shop introducing a new cafe & shop concept was opened on 23 January 2009. In accordance with the new DT 2010 shop evolution, at the end of November 2009, one of the joint shops was renovated under this new 2010 shop concept.

Another channel of the distribution network of TMMK and MKT is the dealers' cooperation. Currently the network consists of 14 master dealers (including 1 direct contractor) with 122 shops as TMMK partners and 13 master dealers with 126 shops as MKT Partners. The majority of the master dealers' shops are joint shops offering the full MKT and TMMK portfolio, except for cash collection. TMMK's prepaid packages (with or without handsets) are available in all dealers shops and in additional 7,000 kiosks which sell prepaid vouchers.

In 2009, MKT dedicated great attention to Fiber to the Home ("FTTH"), based on the pilot projects which were implemented by sales and provisioning cross-functional teams in 2008. Four pilot projects have already been realized and over 40 customers were connected until the end of 2009. In the last quarter of 2009, MKT started with the investment in FTTH in order to be prepared for the promotion of commercial FTTH packages at the beginning of 2010. Using optical fibre, the customers can get data services with improved quality.

The direct sales agents serving the small and medium enterprises ("SME") segment put strong emphasis on the sale of customized Information and Communication Technologies ("ICT") solutions and data services in 2009.

Marketing based on customer needs and habits is used to build strong customer relations. Loyalty schemes and handset upgrade programs are also increasingly used in order to increase the customer satisfaction and to decrease the customer churn rate.

Research and development

MKT continues to maintain its network at a high technological level in order to provide solid base for a wide range of products and services that will satisfy customers' demands. The main focus in the next development period will be placed on the upgrade of the network in all segments: Access, Transport and Service Platforms.

Fiber to the Home ("FTTH") is foreseen as the main direction for development of the fixed access network. Beside in Skopje, FTTH is planned to be implemented in other regions in the country with priority of the urban areas where thedemand for broadband services is higher and where the existing copper network could be a limit for service provision.

The future increased demands for video and data services will necessitate an increase of the capacity of the transport network. The IP/MPLS Network as a base for the transport of IP services will continue to be developed and extended in accordance with the expected traffic growth.

The DWDM network will continue to be the main transport for IP/MPLS and Ethernet traffic. Further extension (upgrade) of the DWDM network is expected considering the highly increased bandwidth demands arising from the MKT services, domestic and foreign ISPs, TMMK requirements, as well as the growing customer demands for International Leased Lines.

In terms of service platforms, the main focus will be placed on the development of IPTV and IMS Platform. The new IMS Platform that should be implemented during 2010 will be used:

- for provisioning of VoIP product as part of the Double and Triple play services;
- for provisioning of new services and applications in the future;
- as a base for PSTN network migration, due to the obsolescence of the existing switching systems.

Based on the new IMS platform, the migration path towards a Next Generation Network ("NGN") all IP-based network will continue in the next development period with increase of the Broadband penetration and implementation of the most appropriate Customer Premises Equipment ("CPE"). The network migration concept will be followed by the implementation of Next Generation Operation Support Systems ("NGOSS").

The research and development projects at TMMK are performed in close cooperation with the suppliers and the state educational institutions. In cooperation with the local partners, TMMK has developed solutions for mobile payment ('m-payment') of parking in Skopje, electronic recharging of vouchers on ATMs, it implemented a Fleet Management service ("FMS") and is in a process of implementing a new web shop for purchase of products and services and for payment of invoices.

In cooperation with other T-Mobile operators, TMMK has implemented the Blackberry E-mail Push solution in order to target the business market segment and has also built and deployed a system for Automated Device Management that enables remote device configuration for easier value added service adoption on the local market.

TMMK is working on the implementation of 3G based services for their subscribers. One of the first services that are planned to be installed is the mobile TV which is planned for second quarter of 2010.

The upgraded Billing platform will be used to host the first penta-play mobile and fixed convergent product in the Deutsche Telekom Group. The penta-play product comprises mobile voice and data (3G Internet), fixed line voice and data (ADSL Internet) and IPTV services on a single invoice.

Information technology

By establishing appropriate information systems and by implementing, operating and developing IT solutions, IT directly supports the business processes of the company and fundamentally determines their efficient and flexible operation.

The IT application and operation has been efficiency 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, as follows:

- Fraud Management System - central integrated fraud management system suitable for detection and prevention of fraudulent activities,

- Revenue Assurance - integrated revenue assurance system for assuring detection and prevention of particular sources of revenue losses in the Revenue Management Chain.

IT has an active role in the implementation of the new company's products VoIP and IPTV and the bundled services like 2Play and 3Play by maintenance of the platforms and development of workflows for increasing the efficiency of the provisioning processes.

IT has also developed a solution that supports the provisioning of convergent Fixed and Mobile products by implementation of the Joint Retail Network solution for the Telekom shops.

In the last quarter of 2009, IT, in cooperation with Marketing has started the project for implementation of data mining models and an IT tool for churn prevention, customer segmentation and tariff simulator that will help the company in customer retention and preparation of specific offers for the targeted customers.

In the course of 2009, the IT Directorate together with the IT from TMMK worked on the specification of IT architecture roadmap for consolidation of the current systems in the both companies and defining the prerequisites for their integrations in line with the Deutsche Telekom Information Technology strategy that encompasses the next five-year period and depicts the evaluative path of development of the systems' and enablers' layout that will support the business and the customers' needs. As part of it, activities have already been initiated for infrastructure integration (common E-mail infrastructure, common Windows Domain, E-mail and file archiving, common storage infrastructure), as well as implementation of common SW solutions such as implementation of common platform for Bill Formatting, consolidation of the Call Centre or the planned consolidation of Interconnect billing and implementation of CRM.

During the past period, the IT Directorate has implemented several common solutions with TMMK that will provide the 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 the implementation of common IT solutions and architecture.

TMMK has built a high quality and high capacity network that meets the requirements and the needs of its growing subscriber base. In 2009, 3G access technology was introduced in the network. At the end of 2009, the 2G radio access network consisted of 710 base stations installed on 517 sites providing 99.9 % population coverage.
At the end of 2009, the 3G radio access network consisted of 73 NodeBs installed on 73 sites providing 53% population coverage and allowing subscribers to use high speed internet. The core network and the supporting systems consist of 2 home location registers, 2 next generation mobile switching centre servers, 5 media gateways, 8 base station controllers installed on 5 different sites and 2 radio network controllers installed on 2 sites.

Packet core consist of one Serving GPRS Support Node ("SGSN") and one Gateway GPRS Support Node ("GGSN") introduced in 2009. Additionally, Prepaid nodes, SMS/VMS/MMS are operating via TMMK network.
In order to support the next generation services with higher capacity in the transmission network, packet backbone network is implemented on 4 sites. The entire internal traffic (voice, signalization and data) between the core network elements is IP based. Time Division Multiplex ("TDM") traffic exists for interconnection of other operators and 2G base station controllers. All network elements are centrally controlled and monitored via an operation and support system located in Skopje.

In 2009, a technological and functional upgrade of the Rating and Billing platform for Retail Customers was performed, providing a future proof and solid basis for implementation of innovative and tailor-made offerings on the Macedonian mobile and converged markets. We have developed a technical solution for the first converged FMC product on the Macedonian market, a solid ground for further product developments on the converged markets. Customer Servicing systems in the Call Centres of TMMK were migrated to new technologies that are future proof and provide an extended feature list compared to the old systems thus constituting a sound basis for integrated fixed/mobile servicing of the customers. Capabilities were also introduced for proactive customer treatment and closed loop marketing.

All messaging systems (SMS, VMS, MMS) were upgraded to the latest releases, thus ensuring sustainable capacity growth as well as stable and risk-free operations.

The back-end systems enable content aggregation from various content-delivery partners, simultaneously availing sophisticated m-payment, m-charging, messaging and remote configuration methods for the plethora of services. TMMK has functionalities for hosting the third mobile entrant on the local market with the national roaming arrangement, and is offering convergent fixed and mobile services through the whole process from provisioning to invoicing, while simultaneously enforcing our capabilities for even better business processes automation, as well as for data security and availability. In addition, TMMK has developed infrastructure to enable number portability on the local market in accordance with the local regulations.

Македонски Телеком Скопје

Nikolai Beckers
Chief Executive Officer
Makedonski Telekom AD – Skopje

Proofread by Lingva Ekspert

Makedonski Telekom AD - Skopje

Consolidated Financial Statements

For the year ended

31 December 2009

Contents

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers
REVIZIJA DOO - Skopje
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 statement of financial position as of 31 December 2009 and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flow 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. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

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

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

Opinion
In our opinion, the accompanying consolidated financial statements present fairly in all material respects the financial position of the Group as of 31 December 2009 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers Revizija DOO Skopje

PRICEWATERHOUSECOOPERS REVIZIJA DOO Skopje

18 February 2010
Skopje

Consolidated statement of financial position

In thousands of denars	Note	As at 31 December 2009	As at 31 December 2008 (as restated see note 1.2.2 and 2.1.5)	As at 1 January 2008 (as restated see note 1.2.2 and 2.1.5)
Assets				
Current assets				
Cash and cash equivalents	5	1,992,074	1,123,520	6,728,837
Deposits with banks	6	8,672,244	9,932,605	7,384,557
Trade and other receivables	7	2,924,433	2,999,608	2,966,540
Income tax receivable		138,817	-	-
Inventories	9	529,339	279,943	300,890
Assets held for sale	10	39,113	1,204	32,091
Total current assets		14,296,020	14,336,880	17,412,915
Non-current assets				
Property, plant and equipment	11	14,407,282	14,054,385	14,067,684
Advances for property, plant and equipment		48,467	486	-
Intangible assets	12	2,865,745	2,829,685	1,951,977
Trade and other receivables	7	107,917	98,887	103,581
Available-for-sale financial assets		896	896	896
Financial assets at fair value through profit and loss	13	61,376	61,476	226,272
Deferred income tax assets	8	60,775	-	-
Total non-current assets		17,552,458	17,045,815	16,350,410
Total assets		31,848,478	31,382,695	33,763,325
Liabilities				
Current liabilities				
Trade and other payables	14	3,559,800	3,606,499	2,658,412
Current income tax liability		-	134,787	274,638
Provision for other liabilities and charges	15	927,001	816,804	688,571
Total current liabilities		4,486,801	4,558,090	3,621,621
Non-current liabilities				
Trade and other payables	14	96,596	-	-
Deferred income tax liabilities	8	-	47,835	139,607
Provision for other liabilities and charges	15	317,115	577,267	273,059
Total non-current liabilities		413,711	625,102	412,666
Total liabilities		4,900,512	5,183,192	4,034,287
Equity				
Share capital		9,583,888	9,583,888	9,583,888
Share premium		540,659	540,659	540,659
Treasury shares		(3,738,358)	(3,738,358)	(3,738,358)
Other reserves		2,475,068	2,475,068	2,475,068
Retained earnings		18,086,709	17,338,246	20,867,781
Total equity	16	26,947,966	26,199,503	29,729,038
Total equity and liabilities		31,848,478	31,382,695	33,763,325

The consolidated financial statements set out on pages 1 to 48 were authorised for issue on 18 February 2010 by the Management of Makedonski Telekom AD - Skopje, and are subject to review and approval by the Board of Directors on 25 February 2010 and by the shareholders on date that will be subsequently agreed.

Nikolai Beckers
Chief Executive Officer

Slavko Projkoski
Chief Finance Officer

The notes on pages 5 to 48 are an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income

In thousands of denars	Note	Year ended 31 December 2009	2008
Revenues	17	18,012,694	18,603,199
Depreciation and amortisation		(2,847,707)	(2,993,033)
Personnel expenses	18	(1,576,491)	(2,014,999)
Payments to other network operators		(1,441,064)	(1,722,243)
Other operating expenses	19	(5,650,312)	(5,602,901)
Operating expenses		(11,515,574)	(12,333,176)
Other operating income	20	18,402	257,127
Operating profit		6,515,522	6,527,150
Finance expenses	21	(36,212)	(119,915)
Finance income	22	436,940	706,506
Profit before income tax		6,916,250	7,113,741
Income tax expense	23	(7,067)	(860,205)
Profit for the year		6,909,183	6,253,536
Total comprehensive income for the year		6,909,183	6,253,536
Earnings per share (EPS) information:			
Basic and diluted earnings per share (in denars)		80.10	72.50

The notes on pages 5 to 48 are an integral part of these consolidated financial statements.

Consolidated statement of cash flows

In thousands of denars	Note	Year ended 31 December 2009	2008
Operating activities			
Profit before tax		6,916,250	7,113,741
Adjustments for:			
Depreciation and amortisation		2,847,707	2,993,033
Write down of inventories to net realisable value	19	39,018	23,231
Income from sale of subsidiary	20	-	(238,421)
Fair value losses on financial assets	21	3,133	99,870
Impairment losses on trade and other receivables	19	199,091	189,709
Provisions		180,901	445,813
Net gain on disposal of equipment		(18,402)	(18,706)
Dividend income	22	(3,118)	(3,144)
Interest expense	21	126	48
Interest income	22	(429,083)	(630,624)
Effect of foreign exchange rate changes on cash and cash equivalents		21,732	(11,809)
Cash generated from operations before changes in working capital		9,757,355	9,962,741
Increase in inventories		(288,196)	(2,284)
Increase in receivables		(126,915)	(222,627)
(Decrease)/increase in payables		(602,689)	905,756
Cash generated from operations		8,739,555	10,643,586
Interest paid		(126)	(48)
Income taxes paid		(389,282)	(1,091,828)
Cash flows from operating activities		8,350,147	9,551,710
Investing activities			
Acquisition of property, plant and equipment		(2,339,280)	(2,135,789)
Acquisition of intangible assets		(691,131)	(1,676,113)
Proceeds from sale of subsidiary		-	303,346
Loans (granted)/collected		(7,816)	4,972
Deposits collected from banks		16,961,528	17,179,697
Deposits placed with banks		(15,672,243)	(19,669,550)
Dividends received		3,118	3,144
Proceeds from sale of equipment		47,773	32,526
Interest received		398,910	572,002
Cash flows from investing activities		(1,299,141)	(5,385,765)
Financing activities			
Dividends paid		(6,160,720)	(9,783,071)
Cash flows from financing activities		(6,160,720)	(9,783,071)
Net increase/(decrease) in cash and cash equivalents		890,286	(5,617,126)
Cash and cash equivalents at 1 January		1,123,520	6,728,837
Effect of foreign exchange rate changes on cash and cash equivalents		(21,732)	11,809
Cash and cash equivalents at 31 December	5	1,992,074	1,123,520

The notes on pages 5 to 48 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 2008 – as restated		9,583,888	540,659	(3,738,358)	2,475,068	20,867,781	29,729,038
Total comprehensive income for the year		-	-	-	-	6,253,536	6,253,536
Dividend payment		-	-	-	-	(9,783,071)	(9,783,071)
Balance at 31 December 2008– as restated	16	9,583,888	540,659	(3,738,358)	2,475,068	17,338,246	26,199,503
Balance at 1 January 2009– as restated		9,583,888	540,659	(3,738,358)	2,475,068	17,338,246	26,199,503
Total comprehensive income for the year		-	-	-	-	6,909,183	6,909,183
Dividend payment		-	-	-	-	(6,160,720)	(6,160,720)
Balance at 31 December 2009	16	9,583,888	540,659	(3,738,358)	2,475,068	18,086,709	26,947,966

The notes on pages 5 to 48 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: "the Group").

Makedonski Telekom AD – Skopje, (hereinafter referred as: "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 (hereinafter referred as: "the subsidiary") is the leading mobile service provider in Macedonia. e-Makedonija is a foundation, established to support application and development of information technology in Macedonia.

The Macedonian telecommunications sector is regulated by the Electronic Communications Law (ECL) enacted in March 2005. With the changes of the ECL published on 4 August 2008, the Concession Contracts of the Company and T-Mobile Macedonia ceased to be 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 license for radiofrequencies used by T-Mobile Macedonia with a bandwidth of 25 MHz in the GSM 900 band, was also issued in a form regulated in the ECL with a validity period until 5 September 2018, which can be renewed up to additional 20 years in accordance with 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 which should be submitted by the Agency to selected candidates from the first phase in order to submit offer for selection of universal service provider is still not received.

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 Bylaw for retail regulation in December 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. Due to the enactment of the new Rulebook for unbundling of the local loop, on 31 December 2008 the Agency approved introduction of amended Reference offer for unbundling of the local loop which entered in force from January 2009. The Agency engaged expert consultancy services for LRIC bottom-up model development which result could be expected in 2010.

Based on article 41 from ECL, the Agency initiated the procedure for analyzes of relevant markets and started with collection of relevant data from the operators. The Agency announced a public debate about draft documents for the market analysis for retail fixed voice telephone services for the relevant markets 1-6 (in the former EU recommendation), until 17 February 2010. The market analyzes for the broadband services (relevant market 12, in the former EU recommendation) are expected to be finished in the first quarter in 2010.

On 28 October 2009 the Agency has published guideline for price squeeze for which the Company sent comments, and currently public debate is ongoing, after which the final guidelines will be enacted. Additionally, the Agency announced public debate upon regulatory challenges in relation with the next generation access networks, which will be finished in 2010.

Notes to the consolidated financial statements

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 several enacted bylaws published in second half of 2008 the Company has introduced several new regulated wholesale products, as Wholesale Line Rental, Wholesale Leased Line and Local Bit stream access. The Company 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 November 2009 the Agency enacted new numbering plan, new act on notification and registration and new Rulebook for assignment of numbers and series of numbers, which will improve the regulatory framework.

The Agency on 29 June 2007 has published the first draft analysis conducted on Market 16 (in the former EU recommendation), 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). Second round analysis of Market 16 was concluded by the Agency and draft analyzes published for public debate on 21 January 2010, by which VIP Operator (subsidiary of Mobilkom Austria) is to be designated as a SMP operator. The Agency is also conducting market analysis on relevant markets defined in the Decision on relevant market determination of 17 August 2005. The Agency has engaged expert consultancy services for calculation of WACC for SMP designated operators (fixed and mobile). In September 2009, the Agency requested data for calculation of WACC to SMP operators (T-Mobile Macedonia, Cosmofon (rebranded to One in November 2009) and Makedonski Telekom). It has also engaged expert consultancy services for LRIC bottom-up model development as means for price control of SMP operators.

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.

On a second tender for additional three 3G licenses published on 15 September 2008, T-Mobile Macedonia won one license which was granted to it on 17 December 2008 and paid MKD 613,837 thousand, equivalent to EUR 10 million as one-off fee. T-Mobile Macedonia started commercial operations of the 3G services on 11 June 2009. The validity of the license is 10 years i.e.17 December 2018, with a possibility for extension for 20 years in accordance to the ECL.

On 10 January 2009 a public tender for awarding two licences for 2G radiofrequencies in the 1800 MHz band was published. T-Mobile Macedonia was awarded one license on 6 June 2009. T-Mobile Macedonia paid EUR 2 million (MKD 122,812 thousand) as one-off fee for the 2G license in the 1800 MHz band. The validity period is 10 years, with a possibility for extension for 20 years in accordance to the ECL.

Starting with August 2006 the Company has more than 100 shareholders, as a result of the sale of Governmental shares through auction organized by the Government during June 2006. According to the Law on securities it qualifies as company 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 2009 was 1,741 (2008: 1,906).

1.2. Investigation into certain consultancy contracts

1.2.1. Summary of the Investigations

On 13 February 2006, Magyar Telekom Plc., the controlling owner of the Company, (via Stonebridge Communications AD - Skopje (under liquidation), majority shareholder of the Company), announced that it was investigating certain contracts entered into by another subsidiary of Magyar Telekom Plc. to determine whether the contracts were entered into in violation of Magyar Telekom Plc. policy or applicable law or regulation. Magyar Telekom's Audit Committee retained White & Case, as its independent legal counsel to conduct the internal investigation. Subsequent to this on 19 February 2007, the Board of Directors of the Company, based on the recommendation of the Audit Committee of the Company and the Audit Committee of Magyar Telekom Plc., adopted a resolution to conduct an independent internal investigation regarding certain contracts in Macedonia.

For further information about the internal investigation, please refer to the financial statements of the Company for the year ended 31 December 2008.

Notes to the consolidated financial statements

According the information provided to the Company by Magyar Telekom Plc., on 2 December 2009, the Audit Committee of Magyar Telekom Plc., provided the Magyar Telekom's Board of Directors with a "Report of Investigation to the Audit Committee of Magyar Telekom Plc." dated 30 November 2009 (the "Final Report"). The Audit Committee indicated that it considers that, with the preparation of the Final Report based on currently available facts, White & Case has completed its independent internal investigation.

According the information provided to the Company by Magyar Telekom Plc., the Final Report includes the following findings and conclusions related to Magyar Telekom's Macedonian affiliates, based upon the evidence available to the Audit Committee of Magyar Telekom Plc. and its counsel:

- As previously disclosed, there is evidence that certain former employees intentionally destroyed documents relating to activities undertaken in Macedonia by Magyar Telekom Plc. and its affiliates.
- Between 2000 and 2006 a small group of former senior executives at Magyar Telekom and Magyar Telekom's Macedonian affiliates, authorized the expenditure of approximately EUR 24 million through over twenty suspect consultancy, lobbying, and other contracts (including certain contracts between Magyar Telekom and its subsidiaries on one hand, and affiliates of a Cyprus-based consulting company on the other hand). The Final Report concludes that "the available evidence does not establish that the contracts under which these expenditures were made were legitimate."
- "The evidence shows that, contrary to their terms, a number of these contracts were undertaken to obtain specific regulatory and other benefits from the government of Macedonia. The Companies generally received the benefits sought and then made expenditures under one or more of the suspect contracts. There is evidence that the remaining contracts were also illegitimate and created a pool of funds available for purposes other than those stated on the face of the agreements." However, the Magyar Telekom Audit Committee's counsel did not have access to evidence that would allow it to identify the ultimate beneficiaries of these expenditures.
- In entering into these contracts and approving expenditures under them, the former senior executives knowingly caused, structured, or approved transactions that shared most or all of the following characteristics:
  - intentional circumvention of internal controls;
  - false and misleading corporate documents and records;
  - lack of due diligence concerning, and failure to monitor performance of, contractors and agents in circumstances carrying a high risk of corruption; lack of evidence of performance; and
  - expenditures that were not for the purposes stated in the contracts under which they were made, but rather were intended to obtain benefits for the Magyar Telekom subsidiaries that could only be conferred by government action.
- The Final Report states that "the Investigation did not uncover evidence showing receipt of payments by any Macedonian government officials or political party officials."

As previously disclosed, Magyar Telekom has taken remedial steps to address issues previously identified by the independent investigation, including steps designed to revise and enhance the Magyar Telekom Group's internal controls. According the information provided to the Company by Magyar Telekom, the Audit Committee of Magyar Telekom has not made recommendations relating to Magyar Telekom's compliance program or internal controls in connection with the issuance of the Final Report and Magyar Telekom is considering, in consultation with its Audit Committee, whether and to what extent the Final Report warrants additional remedial actions, including any personnel actions and/or changes in internal control policies and procedures at Magyar Telekom or its subsidiaries that have been or will be implemented to address the findings of the Final Report.

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

The external experts prepared reports (the "Reports") on their assessment and submitted the Reports to the Chairman of the Company's BoD and the Management of the Company and its subsidiary accordingly. As a result, based on the analysis of the Tax and Legal experts and information available to the Management related to the transactions subject of the Final Report, amount of MKD 248,379 thousand has been identified as potential tax impact (together with related penalty interest) arising from the transactions conducted by the Company and its subsidiary subject to the Final Report (see note 1.2.2). In addition,

Notes to the consolidated financial statements

the value of one contract MKD 105,147 thousand capitalised within treasury shares is now corrected and accounted for as though these payments had been expensed in 2006 rather than capitalized as part of treasury shares as originally reported. The other contracts that were identified by the Final Report and the reports of the tax and legal experts related to transactions undertaken by the Company and its subsidiary were expensed in the related periods (2001-2007), which require no restatements (see note 1.2.2).

In May 2008, the Ministry of Interior ("MOI") of the Republic of Macedonia ("RoM") submitted to the Company an official written request for information and documentation regarding certain payments for consultancy services and advance dividend, as well as certain procurements and contracts. In June 2008 the Company submitted copies from the requested documents. In the same period, T-Mobile Macedonia has also received similar requests for provision of certain documentation to the Ministry of Interior of RM and they were submitted accordingly.

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

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

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

After several postponements of the court hearing related to the investigation procedure handled in the Primary Court Skopje 1 Skopje, on the hearing held on 13 April 2009, the representatives of Makedonski Telekom AD Skopje declared the position of the Company that taking into consideration the ongoing independent internal investigation conducted by White & Case, approved by the Company's BoD, it was premature to preannounce any damage which may be caused by means of the implementation of the mentioned contracts or with reference to them. Upon completion of the independent internal investigation, the Company will inform the court on its final position in respect of the possible damage and the criminal prosecution of the accused persons. After 13 April 2009 until the date of preparation of the financial statements for 2009, there was no communication made by the Primary Court Skopje 1 Skopje addressed to MKT. MOI of the RoM - Organized Crime Department, approached to the Company during August 2009, with request some additional documentation to be submitted to the MOI. The Company collected and submitted requested documentation on 27 August 2009.

The Chairman of the Company's BoD and the Company's Management have received an information that the contents of the Final Report has also been made available to the Macedonian Public Prosecution Office. The Company's Management cannot foresee whether the Macedonian Public Prosecution Office will initiate any legal procedure or the type and scope of legal actions on the basis of the information contained in the Final Report.

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

1.2.2. Accounting implications of the findings of the Investigation

As a result of the findings of the Investigation (see note 1.2.1), one consultancy contract has been identified, the payments of which was erroneously capitalized as part of treasury shares (see note 16.1). This amount is now corrected and accounted for as though these payments had been expensed in 2006 rather than capitalized as part of treasury shares as originally reported. In addition, out of the amount of MKD 248,379 thousand identified as impact arising from the transactions conducted by the Company and its subsidiary subject to the Final Report, MKD 17,362 thousand were identified as penalty interest for 2009 and are recognized in Profit for the year (Other operating expenses) against Provision for other liabilities and charges, while, for the

Notes to the consolidated financial statements

rest of the amount of MKD 231,017 thousand restatement is made through Retained earnings account against Provision for other liabilities and charges.

The table below shows the impact of the restatement on the Consolidated statements of financial position.

In thousands of denars	2008	2007
Provisions - current		
As reported	587,432	457,554
Change	231,017	231,017
As restated	818,449	688,571
Treasury shares		
As reported	(3,843,505)	(3,843,505)
Change	105,147	105,147
As restated	(3,738,358)	(3,738,358)
Retained earnings		
As reported	17,674,410	21,203,945
Change	(336,164)	(336,164)
As restated	17,338,246	20,867,781

See Provisions in note 2.1.5 for reference to the Consolidated statement of financial position.

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 2009

- IAS 1 (revised) Presentation of Financial statements. Revised IAS 1 introduced overall requirements for the presentation of financial statements, guideline for their structure and minimum requirements for their contents. The Group applied the requirements of the revised Standard from 1 January 2009. The revised standard prohibits the presentation of items of income and expenses ("non-owner changes in equity") in the statement of changes in equity, requiring, "non-owner changes in equity" to be presented separately from owner changes in equity in a statement of comprehensive income. As the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share.
- IFRS 7 (amended) Financial Instruments: Disclosures (Improving Disclosures about Financial Instruments). The amendments are in response to calls from constituents for enhanced disclosures about fair value measurements and liquidity risk in the wake of the recent financial crisis. The revised disclosure requirements are applicable for annual periods beginning on or after 1 January 2009. The Group applied the amended standard from 1 January 2009, which did not cause significant changes in the presentation of 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 adopted IFRS 8 as of 1 January 2009. The Group's primary focus is on segmentation by technology serving the customers (fixed line / mobile). See also note 2.21 and note 25.
- 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 applied this Interpretation as of 1 January 2009. As for measurement, IFRIC 13 did not cause any change in the Group's accounts as the loyalty programs had been accounted for in substantially the same way as included in the recently issued IFRIC 13. As for presentation, however, there was a change as the previously recognized liability for the undelivered elements was included in Provisions, which was changed to Deferred revenue as a result of the application of IFRIC 13. The comparative Statements of financial position of the Group were restated accordingly. See also note 2.1.5.

2.1.2. Standards, amendments and interpretations effective in 2009 but not relevant for the Group

- IAS 23 (revised) Borrowing Costs. Under the revised IAS 23 an entity must 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 amendments of IAS 23 are applicable for annual periods beginning on or after 1 January 2009. As the Group does not have borrowing costs that would be affected by the amendments, the amendments to the standard did not have any impact on the Group's financial statements.
- IAS 32 (amended) Financial Instruments: Presentation. The IASB amended IAS 32 with respect to the Statement of financial position 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. As the Group does not have such instruments that would be affected by the amendments, the amendments to the standard did not have any impact on the Group's financial statements.

- IAS 39 (amended). Financial Instruments: Recognition and Measurement. Amendment to clarify that entities should no longer use hedge accounting for transactions between segments in their separate financial statements. The effective date for this amendment is the period beginning on or after 1 January 2009. The amendment has no impact on the Group's accounts.
- IFRS 1 (revised) First-time Adoption of IFRS. As the Group has been reporting according to IFRS for many years, neither the original standard, nor any revisions to that are relevant for the Group
- IFRS 2 (amended) 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. As the Group has no share-based compensations, the amendments to the standard had no impact on the Group's accounts.
- 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.
- 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 of a net investment 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 has no impact on the Group's accounts.
- IFRIC 9 and IAS 39 (amended). In March 2009 the IASB published amendments to IFRIC 9 (Reassessment Embedded Derivatives) and IAS 39 (Financial Instruments: Recognition and Measurement). As a result, entities are required to:
  - assess whether an embedded derivative is required to be separated from a host contract when the entity reclassifies a hybrid (combined) financial asset out of the fair value through profit or loss category
  - make such an assessment on the basis of the circumstances that existed when the entity first became a party to the contract, or, if later, when there was a change in the contract that significantly modified the cash flows determine whether the fair value of the separated embedded derivative can be measured reliably; if not, the entire hybrid (combined) financial asset must remain in the fair value through profit or loss category.

  When an entity performs the assessment as required by the amendments it does not apply paragraph (c) of IAS 39, which states that separation of an embedded derivative from the host contract is required only if the hybrid (combined) instrument is not measured at fair value through profit or loss. The amendments are applicable for annual periods ending on or after 30 June 2009. The amended standard and interpretation have no effect on the Group's financial statements.

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

- IAS 24 (revised) Related Party Disclosures. In November 2009, the IASB issued a revised version of IAS 24. Until now, if a government controlled, or significantly influenced, an entity, the entity was required to disclose information about all transactions with other entities controlled, or significantly influenced by the same government. The revised standard still requires disclosures that are important to users of financial statements but eliminates requirements to disclose information that is costly to gather and of less value to users. It achieves this balance by requiring disclosure about these transactions only if they are individually or collectively significant. Furthermore the IASB has simplified the definition of related party and removed inconsistencies. The revised standard shall be applied retrospectively for annual periods beginning on or after 1 January 2011. Earlier application is permitted.

- IAS 7 (amended) Statements of cash flows. Amendment requires that only expenditures that result in a recognised asset in the statement of financial position can be classified as investing activities. Effective for periods beginning on or after 1 January 2010.

- 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 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 will not have an impact on the Group's Statement of comprehensive income or Statement of financial position.

- IFRS 9 Financial Instruments. The standard forms the first part of a three-phase project to replace IAS 39 (Financial Instruments: Recognition and Measurement) with a new standard, to be known as IFRS 9 Financial Instruments. IFRS 9 prescribes the classification and measurement of financial assets. The remaining phases of this project, dealing with the classification and measurement of financial liabilities, impairment of financial instruments and hedge accounting, as well as a further project regarding derecognition, are in progress. The IASB expects to have completed the replacement of IAS 39 by end of 2010.

  At initial recognition, IFRS 9 requires financial assets to be measured at fair value. After initial recognition, financial assets continue to be measured in accordance with their classification under IFRS 9. Where a financial asset is classified and measured at amortized cost, it is required to be tested for impairment in accordance with the impairment requirements in IAS 39. IFRS 9 defines the below rules for classification.

- IFRS 9 requires that financial assets are classified as subsequently measured at either amortized cost or fair value. There are two conditions needed to be satisfied to classify financial assets at amortized cost: (1) The objective of an entity´s business model for managing financial assets has to be to hold assets in order to collect contractual cash flows; and (2) The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Where either of these conditions is not satisfied, financial assets are classified at fair value.

- Faire Value Option: IFRS 9 permits an entity to designate an instrument, that would otherwise have been classified in the amortized cost category, to be at fair value through profit or loss if that designation eliminates or significantly reduces a measurement or recognition inconsistency ('accounting mismatch').

- Equity instruments: The default category for equity instruments is at fair value through profit or loss. However, the standard states that an entity can make an irrevocable election at initial recognition to present all fair value changes for equity investments not held for trading in other comprehensive income. These fair value gains or losses are not reported as part of a reporting entity's profit or loss, even when a gain or loss is realized. Only dividends received from these investments are reported in profit or loss.

- Embedded derivatives: The requirements in IAS 39 for embedded derivatives have been changed by no longer requiring that embedded derivatives be separated from financial asset host contracts.

- Reclassification: IFRS 9 requires reclassification between fair value and amortized cost when, and only when there is a change in the entity's business model. The 'tainting rules' in IAS 39 have been eliminated.

An entity shall apply IFRS 9 for annual periods beginning on or after 1 January 2013. Earlier adoption is permitted. A reporting entity must apply IFRS 9 retrospectively. For entities that adopt IFRS 9 for periods before 1 January 2012 the IFRS provides transition relief from restating comparative information. The adoption of the new standard will probably result in changes in the financial statements of the Group, the exact extent of which we are currently analyzing.

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

- IAS 17 (amended) Leases. Deletion of specific guidance regarding classification of leases of land, so as to eliminate inconsistency with the general guidance on lease classification. As a result, leases of land should be classified as either finance or operating, using the general principles of IAS 17. Effective for periods beginning on or after 1 January 2010. The amendment will have no impact on the Group's financial statements.

- IAS 36 (amended) Impairment of assets. Amendment to clarify that the largest cash generating unit (or group of units) to which goodwill should be allocated for the purposes of impairment testing is an operating segment as defined by paragraph 5 of IFRS 8, 'Operating segments' (that is, before the aggregation of segments with similar economic characteristics permitted by paragraph 12 of IFRS 8). Effective for periods beginning on or after 1 January 2010.

- IAS 32 (amended) Financial Instruments: Presentation on classification of rights issue. The amendment clarifies the classification of rights issues as equity or liabilities for rights issues that are denominated in a currency other than the functional currency of the issuer. These rights issues are recorded as derivative liabilities before the amendment. The amendment requires that such right issues offered pro rate to all of an entity's existing shareholders are classified as equity. The classification is independent of the currency in which the exercise price is denominated. The application of the amendment is required for annual periods beginning on or after 1 February 2010. An earlier application is permitted. The amendment will have no impact on the Group's financial statements.

- IAS 38 (amended) Intangible assets. Amendments to paragraphs 36 and 37 of IAS 38, to clarify the requirements under IFRS 3 (revised) regarding accounting for intangible assets acquired in a business combination. In addition, paragraphs 40 and 41 are amended to clarify the description of valuation techniques commonly used by entities when measuring the fair value of intangible assets acquired in a business combination that are not traded in active markets. The effective date for this amendment is the period beginning on or after 1 January 2010.

- IAS 39 (amended) Financial Instruments: Recognition and Measurement. The major amendments of the standard are summarized below:

Notes to the consolidated financial statements

- 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.

- In addition, the IASB published an amendment in the treatment of loan pre-payment penalties as closely related derivatives. Namely, the amendment clarifies that, prepayment options, the exercise price of which compensates the lender for loss of interest by reducing the economic loss from investment risk, should be considered closely related to the host debt contract. The effective date for this amendment is the period beginning on or after 1 January 2010.

- Amendments to the scope exemption in paragraph 2(g) of IAS 39 to clarify that: (a) it only applies to binding (forward) contracts between an acquirer and a vendor in a business combination to buy an acquiree at a future date; (b) the term of the forward contract should not exceed a reasonable period normally necessary to obtain any required approvals and to complete the transaction; and (c) the exemption should not be applied to option contracts (whether or not currently exercisable) that on exercise will result in control of an entity, nor by analogy to investments in associates and similar transactions. The effective date for this amendment is the period beginning on or after 1 January 2010.

- Amendments regarding cash flow hedge accounting. Amendment to clarify when to recognise gains or losses on hedging instruments as a reclassification adjustment in a cash flow hedge of a forecast transaction that results subsequently in the recognition of a financial instrument. The amendment clarifies that gains or losses should be reclassified from equity to profit or loss in the period in which the hedged forecast cash flow affects profit or loss. The effective date for this amendment is the period beginning on or after 1 January 2010.

- IFRS 1 (amended) Additional Exemptions for First-time Adopters. The IASB issued the amendments to IFRS 1 in July 2009. As the Group has been reporting according to IFRS for many years, neither the original standard, nor any revision to that is relevant for the Group.

- IFRS 2 (amended) Share-based Payment. The amendments related to Group Cash-settled Share-based Payment Transactions were published in June 2009. Currently effective IFRSs require attribution of group share-based payment transactions only if they are equity-settled. The amendments resolve diversity in practice regarding attribution of cash-settled share-based payment transactions and require an entity receiving goods or services in either an equity-settled or a cash-settled payment transaction to account for the transaction in its separate or individual financial statements. The Group has no share based compensations; therefore, we do not expect the amended standard to have an effect on the Group when applied. Amendments to IFRS 2 shall be applied retrospectively for annual periods beginning on or after 1 January 2010. The amendments also incorporate the guidance contained in IFRIC 8 (Scope of IFRS 2) and in IFRIC 11 (IFRS 2 - Group and Treasury Share Transactions). As a result, the Board withdrew IFRIC 8 and IFRIC 11.

- IFRS 5 (amended) Non-current assets held for sale and discontinued operations. Amendment to clarify that IFRS 5, specifies the disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations. Also clarifies that the general requirements of IAS 1 still apply, particularly paragraph 15 (to achieve a fair presentation) and paragraph 125 (sources of estimation uncertainty) of IAS 1. The effective date for this amendment is the period beginning on or after 1 January 2010.

- IFRIC 14 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 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. IFRS 5 has also been amended to require that assets are classified as held for distribution only when they are available for distribution in their present condition and the distribution is highly probable. 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.

Notes to the consolidated financial statements

- IFRIC 18 Transfers of Assets from Customers. The Interpretation clarifies the requirements of IFRSs for agreements in which an entity receives from a customer an item of property, plant and equipment (or cash to be used explicitly for the acquisition of property, plant and equipment) that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services. The Interpretation is effective for annual periods beginning on or after 1 July 2009 and applies prospectively. However, limited retrospective application is permitted. IFRIC 18 is not expected to have any impact on the Group's financial statements.
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments. This interpretation issued in November 2009 clarifies the requirements of IFRSs when an entity renegotiates the terms of a financial liability with its creditor and the creditor agrees to accept the entity's shares or other equity instruments to settle the financial liability fully or partially. The interpretation is effective for annual periods beginning on or after 1 July 2010 with earlier application permitted. The interpretation shall be applied retrospectively. The interpretation is not applicable to the Group as the Group does not extinguish any of its financial liabilities with equity instruments.
- IFRS for Small and Medium-sized Entities. In July 2009 the IASB issued its IFRS for Small and Medium-sized Entities, which is not relevant for the Group.

2.1.5. Changes in presentation

Reclassifications between liabilities and provisions

IFRIC 13 Customer Loyalty programs 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 applied IFRIC 13 from 1 January 2009, which resulted in no change in the measurement of such customer credits, but before the application of IFRIC 13, the Group had recognized these liabilities as provisions. As a result of the application, we have reclassified these items from provisions to liabilities (deferred revenue), and restated the Group's comparative Statements of financial position accordingly. The table below shows the impact of the above change in our presentation.

In thousands of denars	2008	2007
Provisions – current		
As restated (see note 1.2.2)	818,449	688,571
Change	(1,645)	-
As restated	816,804	688,571
Provisions – non current		
As reported	705,669	381,841
Change	(128,402)	(108,782)
As restated	577,267	273,059
Trade and other payables		
As reported	3,476,452	2,549,630
Change	130,047	108,782
As restated	3,606,499	2,658,412

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, generally accompanying a shareholding of more than half of the voting rights, 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.

Notes to the consolidated financial statements

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

	Country of incorporation	Ownership interest As at 31 December 2009	Ownership interest As at 31 December 2008
T-Mobile Macedonia AD	Macedonia	100	100
e-Makedonija	Macedonia	100	100

2.3. Foreign currency translation

2.3.1. Functional and presentation currency

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

2.3.2. Transactions and balances

Transactions in foreign currencies are translated to denars at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the financial statement date are translated to denars at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the Profit for the year (Finance income/expenses). Non-monetary financial assets and liabilities denominated in foreign currency are translated to denars at the foreign exchange rate ruling at the date of transaction.

The foreign currencies deals of the Group are predominantly EURO (EUR) and United States Dollars (USD), based. The exchange rates used for translation at 31 December 2009 and 31 December 2008 were as follows:

	2009 MKD	2008 MKD
1 USD	42.67	43.56
1 EUR	61.17	61.41
1 CHF	41.12	41.04

2.4. Financial instruments

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

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

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

2.4.1. Financial assets

The Group classifies its financial assets in the following categories:

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

(b) loans and receivables

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

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

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

Notes to the consolidated financial statements

carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognized at fair value, and transaction costs are expensed in the Profit for the year.

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

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

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

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

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

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

Dividend income from financial assets at fair value through profit or loss is recognized in the Profit for the year when the 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 financial statement date. These are classified as non-current assets.

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

- cash and cash equivalents
- deposits with bank
- 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.

Notes to the consolidated financial statements

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

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

Individual valuation is carried out for the largest customers and international customers and also for customers under litigation and bankruptcy proceedings. Itemized valuation is also performed in special circumstances.

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

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

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 financial statement 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 Profit for the year as gains and losses from investment securities.

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

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; or
- it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;

Notes to the consolidated financial statements

- 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 unrealized gain (if any) is reclassified from Other comprehensive income to Profit for the year, and any remaining difference is also recognized in the Profit for the year (Finance income). Impairment losses recognized on equity instruments shall not be reversed through the Profit for the year.

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

2.4.2. Financial liabilities

Trade and other payables

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

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 Profit for the year (Depreciation and amortization) as an impairment loss.

2.7. Property, plant and equipment (PPE)

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

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

The cost of self-constructed assets includes the cost of materials and direct 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 Profit for the year during the financial period in which they are incurred.

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

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

Notes to the consolidated financial statements

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

The estimated useful lives are as follows:

	2009	2008
	Years	Years
Buildings	20-40	20-40
Aerial and cable lines	20-25	20-25
Telephone exchanges	10	10
Base stations	10	10
Computers	4	3-4
Electronic devices	2-15	2-15
Furniture and fittings	4-10	4-6
Vehicles	4-10	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:

	2009	2008
	Years	Years
Software and software licences	2-5	2-5
Concession	18	18
3G licence and 2G 1800 MHz licence	10	10

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

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 Profit for the year. 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 financial statement date. The provision charge is recognized in the Profit for the year within the expense corresponding to the nature of the provision.

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

2.11. Share capital

Ordinary shares are classified as equity.

2.12. Treasury shares

When the 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, mobile and TV distribution networks. Service revenues are recognized when the services are provided in accordance with contractual terms and conditions. Airtime revenue is recognized based upon minutes of use and contracted fees less credits and adjustments for discounts, while subscription and flat rate revenues are recognized in the period 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.

Notes to the consolidated financial statements

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

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

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

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. Value added services, where the Group does not act as a principal in the transaction, if any, are stated on a net basis.

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

2.15.2. Bonus plans

The Group 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. Income tax

In 2008 income tax is recognised in the Profit for the year except to the extent that it relates to items recognised directly to equity, in which case it is recognised in equity. Income tax was the expected tax payable on the taxable income for the year, using tax rates enacted at the financial statement date, and any adjustment to tax payable in respect of previous years.

From 2009 companies do not have to pay income tax on their profit before tax (earned since 1 January 2009) until that profit is distributed in a form of dividend or other forms of profit distributions. If dividend is paid, 10% income tax is payable on the paid dividend. Tax is still payable on the non-deductable expenses in the year the expenses are incurred, regardless of distribution of dividends (decreased by the amount of tax credits).

2.17.2. Deferred income tax

In 2008 deferred income tax is provided in full, using the Statement of financial position 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 financial statement date. However, the deferred income tax was 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 was 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 were reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Due to the changes in the Macedonian tax legislation effective from 1 January 2009, the tax rate for undistributed profits was effectively reduced to zero, as tax is only payable when profits are distributed. According IAS 12.52A, deferred tax assets and liabilities should be measured using the undistributed rate. However, tax is still payable on the non-deductable expenses in the year the expenses are incurred, regardless of distribution of dividends. If these expenses are reversed in the future, they will create a credit that can be used against the non-deductible expenses in the year of the reversal, i.e., the tax paid in the year related to such temporary difference creates a deferred tax asset that can be used in future years. Therefore, a deferred tax asset is recognized to the extent that, and only to the extent that, it is probable that the temporary difference will reverse in the future and items will be available against which the temporary difference can be utilized. Deferred tax liability is not provided for the undistributed profits of the subsidiary, as the Group can control the timing of the reversal of the temporary difference. Accordingly, this change resulted in reversal of part of the deferred tax asset and all deferred tax liability balances. In line with the requirements of SIC 25, the Group accounted the impact of this change in the profit and loss in 2009 (see note 8).

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.

Notes to the consolidated financial statements

2.18.1. Operating lease – Group as lessor

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

2.18.2. Operating lease – Group as lessee

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

2.19. Earnings per share

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

2.20. 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. Segments

The operating segments of the Group are based on the business lines, fixed line and mobile, which is consistent with the internal reporting provided to the chief operating decision maker, the Chief Executive Officer (CEO), who is advised by the Management Committee (MC) of the Company. The CEO is responsible for allocating resources to, and assessing the performance of, the operating segments. The accounting policies and measurement principles of the operating segments are the same as those applied for the Group described in the Significant accounting policies (see note 2). In the financial statements, the Group's segments are reported in a manner consistent with the internal reporting. The two operating segments, fixed line and mobile, are represented by the two separate legal entities, Makedonski Telekom AD - Skopje and T-Mobile AD Skopje, respectively.

The operating segments' revenues include revenues from external customers as well as the internal revenues generated from other segments. The operating segments, being two separate legal entities, charge revenues for the services delivered to the other operating segments identically as for external customers.

The operating segments' results are monitored by the CEO and the MC to EBITDA (Earnings before interest, tax, depreciation and amortization), which is defined by the Group as Operating profit without depreciation and amortization expense.

The CEO and the MC does not monitor the assets and liabilities at segment level, but segment assets are also disclosed as required by IFRS 8 (see note 25).

Another important KPI monitored at segment level is capital expenditure (capex), which is determined as the additions to PPE and Intangible assets.

2.22. Comparative information

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

3. FINANCIAL RISK MANAGEMENT

3.1. Financial risk factors

The Group does not apply hedge accounting for its financial instruments, all gains and losses are recognized in the Profit for the year except financial assets classified as available for sale that are recognised in Other comprehensive income. 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 financial statement date. The balance at the financial statement 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. The Group uses cash deposits in foreign currency, predominantly in EUR, and cash deposits in denars linked to foreign currency, to economically hedge its foreign currency risk 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 a 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 2009, if EUR would have been 1% (2008: 5%) weaker or stronger against MKD, profit would have been MKD 43,357 thousand (2008: 322,324 MKD thousand) after tax in net balance higher or lower, respectively. At 31 December 2009, if USD would have been 1% (2008: 5%) weaker or stronger against MKD, profit would have been MKD 375 thousand (2008: MKD 20,829 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 interest rate risk and return on investment is of secondary importance compared to the safety and liquidity objectives described above. The Group is minimizing interest rate risk through defining of fixed interest rates in the period of the validity of certain financial investment. The investments are limited to relatively low risk financial investment forms in anticipation of earning a fair return relative to the risk being assumed.

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

The Group had MKD 11,056,018 thousand deposits (including call deposits) as of 31 December 2008, 1% 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. Amount of deposit is MKD 10,652,481 thousand (including call deposits) as of 31 December 2009, therefore 1% rise in market interest rate would have caused (ceteris paribus) the interest received to increase with approx. MKD 95,872 thousand annually after tax, while similar decrease would have caused the same decrease in interest received.

Notes to the consolidated financial statements

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 2008 and 31 December 2009, the Group holds investments, which could be affected by risk variables such as stock exchange prices.

The Group had MKD 61,476 thousand investments in equity of other entities that are publically traded on the Macedonian Stock Exchange as of 31 December 2008, 20% 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 Profit for the year. The amount of the investments in equity of other entities that are publically traded on the Macedonian Stock Exchange is MKD 61,376 thousand as of 31 December 2009, therefore 20% rise in market price would have caused (ceteris paribus) MKD 11,048 thousand gains after tax, while similar decrease would have caused the same loss in the Profit for the year.

3.1.2. Credit risk

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

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

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

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

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

The depositing decisions are made based on the following priorities:

- To deposit in banks (Deutsche Telekom core banks, if possible) with provided bank guarantee from the banks with the best rating and the best quality wording of the bank guarantee.
- To deposit in banks with provided bank guarantee from the banks with lower rating and poorer quality wording of the bank guarantee.
- If the total amount of deposits can not be placed in banks covered with bank guarantees with at least BBB+ rating (or equivalent credit rating), than depositing will be performed in local banks without bank guarantee. In this case, the determination of counterparty limits per banks shall be performed in accordance with CAEL methodology (evaluation of bank risk components – capital, assets, earning and liquidity).

CAEL methodology evaluates banks' financial ratios as an integral part of the four CAEL components - Capital, Assets, Earnings and Liquidity. The final score of the banks (on a scale from 1 to 5) is related to the banks' operations and performance for the analysed period. The 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,

Notes to the consolidated financial statements

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 Statement of financial position. Consequently, the Group considers that its maximum exposure is reflected by the amount of debtors net of provisions for impairment recognized and the amount of cash deposits in banks at the financial statement date.

The following table represents Group exposure to credit risk in 2009 and 2008:

In thousands of denars	2009	2008
Deposits with banks	8,672,244	9,932,605
Cash and cash equivalents	1,980,237	1,123,417
Trade debtors - domestic	2,592,841	2,455,617
Trade debtors - foreign	70,793	261,212
Loans to employees	121,924	111,625
Receivables from related parties	58,821	71,385
Other receivables	11,241	31,898
	13,508,101	13,987,759

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 2009 is MKD 1,260,000 thousand (2008: MKD 1,473,895 thousand) and the Group has deposits with 5 domestic banks (2008: 10 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 investment portfolio shall remain sufficiently liquid to meet all operating requirements that can be reasonably anticipated. This is accomplished by structuring the portfolio so that financial instruments mature concurrently with cash needs to meet anticipated demands.

The 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. The total amount of equity managed by the Company, as at 31 December 2009, is MKD 17,970,698 thousand, as per local GAAP (2008: MKD 17,661,389 thousand). Out of this amount MKD 9,583,888 thousand (2008: MKD 9,583,888 thousand) represent share capital and MKD 1,916,777 thousand (2008: 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

Notes to the consolidated financial statements

the Company shall 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 shall not exceed the net profit for the year as presented in the financial statements of the Company, increased for the undistributed net profit from previous years or increased for the other distributable reserves, i.e. reserves that exceed the statutory reserves and other reserves defined by the Company's statute. The Company is in compliance with all statutory capital requirements.

3.3. Fair value estimation

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

The fair value of 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 financial statement 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 depreciable assets in our total assets, the impact of any changes in these assumptions could be material to our financial position, and results of operations. As an example, if the Group was to shorten the average useful life of its assets by 10%, this would result in additional annual depreciation and amortization expense of approximately MKD 309,321 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. As this exercise is highly judgmental, the amount of a potential impairment may be significantly different from that of the result of these calculations. Management has performed an impairment test based on a 10 years cash flow projection and used a perpetual growth rate of 1% to determine the terminal value after 10 years. Value in use was determined using discounted cash flow analysis. The discount rate used was 8.55%.

Notes to the consolidated financial statements

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 2.4.1 (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).

4.4. Provisions

Provisions in general are highly judgmental, especially in case of legal disputes. The Group assesses the probability of an adverse event as a result of a past event and if the probability of an outflow of economic benefits is evaluated to be more than 50%, the Group fully provides for the total amount of the estimated liability. As the assessment of the probability is highly judgmental, in some cases the evaluation may not prove to be in line with the eventual outcome of the case.

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 2009 is MKD 373,557 thousand (2008: MKD 498,024 thousand).

5. CASH AND CASH EQUIVALENTS

In thousands of denars	2009	2008
Call deposits	1,980,237	1,123,413
Cash on hand	11,837	103
Cash equivalents	-	4
	1,992,074	1,123,520

The interest rate on call deposits is in range from 2.21% p.a. to 4.10% p.a. (2008: from 1.60% p.a. to 6.90% p.a.). These deposits have maturities of less than 3 months.

The Company has restricted cash in amount of MKD 14,217 thousand (2008: MKD 16,891 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	2009	2008
MKD	1,817,334	1,013,822
EUR	168,803	96,762
USD	5,925	12,932
Other	12	4
	1,992,074	1,123,520

Notes to the consolidated financial statements

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

In thousands of denars	2009	2008
A	-	825,128
B	-	51,933
C	-	246,352
Credit rating of the Guarantor : A	602,777	-
Credit rating of the Guarantor : A-	252,875	-
Credit rating of the Guarantor : BBB+	1,124,585	-
	1,980,237	1,123,413

6. DEPOSITS WITH BANKS

Deposits with banks represent cash deposits in reputable domestic banks, with interest rates in range from 2.00% p.a. to 4.85% p.a. (2008: from 2.35% p.a. to 6.15% 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	2009	2008
MKD	3,225,202	2,098,761
EUR	5,446,400	7,371,000
USD	642	462,844
	8,672,244	9,932,605

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

In thousands of denars	2009	2008
A	-	8,702,455
Credit rating of the Guarantor : A+	1,235,598	-
Credit rating of the Guarantor : A	590,050	-
Credit rating of the Guarantor : A-	3,720,308	-
Credit rating of the Guarantor : BBB+	3,126,288	1,230,150
	8,672,244	9,932,605

Notes to the consolidated financial statements

7. TRADE AND OTHER RECEIVABLES

In thousands of denars	2009	2008
Trade debtors - domestic	4,657,312	4,472,252
Less: allowance for impairment	(2,064,471)	(2,016,635)
Trade debtors - domestic - net	2,592,841	2,455,617
Trade debtors - foreign	70,793	261,212
Receivables from related parties	58,821	71,385
Loans to third parties	3,033	2,999
Less: allowance for impairment	(3,033)	-
Loans to third parties- net	-	2,999
Loans to employees	121,924	111,625
Other receivables	11,241	28,899
Financial assets	2,855,620	2,931,737
Advances given to suppliers	178,753	144,005
Less: allowance for impairment	(74,156)	(74,156)
Advances given to suppliers - net	104,597	69,849
Prepayments and accrued income	69,938	92,610
Other	2,195	4,299
	3,032,350	3,098,495
Less non-current portion: Loans to employees	(107,917)	(98,887)
Current portion	2,924,433	2,999,608

Receivables from related parties represent receivables from Magyar Telekom Group and Deutsche Telekom Group (see note 29).

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

Loans to third parties represent loan with referent interest rate of 6 months EURIBOR with margin of 0.3%. Loans granted to employees carry effective interest rates of 4.55% p.a. and 7% p.a. (2008: 4.55% and to 7% p.a.).

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

As of 31 December 2009, domestic trade debtors of MKD 2,643,922 thousand (2008: MKD 2,854,740 thousand) are impaired. The ageing of these receivables is as follows:

In thousands of denars	2009	2008
Less than 30 days	353,533	402,064
Between 31 and 180 days	337,366	315,649
Between 181 and 360 days	185,326	145,679
More than 360 days	1,767,697	1,991,348
	2,643,922	2,854,740

The total amount of the provision for domestic trade debtors is MKD 2,064,471 thousand (2008: MKD 2,016,635 thousand). Out of this amount MKD 1,919,553 thousand (2008: MKD 1,923,691 thousand) relate to provision made according the ageing structure of the above receivables. While, the amount of MKD 83,835 thousand (2008: MKD 40,359 thousand) are 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 61,083 thousand (2008: MKD 52,585 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. The total amount of fully impaired receivables is MKD 1,656,505 thousand (2008 MKD 1,626,035 thousand). These receivables are mainly from two way disconnected customers, dismantled customers, litigated customers and customers that are no longer using the Group services.

Notes to the consolidated financial statements

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

In thousands of denars	2009	2008
Trade debtors - domestic - net	2,592,841	2,455,617
Trade debtors - foreign	70,793	261,212
Receivables from related parties	58,821	71,385
Loans to third parties	-	2,999
Loans to employees	121,924	111,625
Other receivables	11,241	28,899
Financial assets	2,855,620	2,931,737
Advances given to suppliers	104,597	69,849
Prepayments and accrued income	69,938	92,610
Other	2,195	4,299
	3,032,350	3,098,495

Movement in allowance for impairment of domestic trade debtors

In thousands of denars	2009	2008
Impairment losses at 1 January	2,016,635	1,907,947
Charged to expense	199,091	189,604
Write off	(151,255)	(80,916)
Impairment losses at 31 December	2,064,471	2,016,635

Movement in allowance for impairment of advances given to suppliers

In thousands of denars	2009	2008
Impairment losses at 1 January	74,156	74,397
Charged to expense	-	105
Used	-	(346)
Impairment losses at 31 December	74,156	74,156

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

As of 31 December 2009, foreign trade receivables in amount of MKD 53,579 thousand (2008: MKD 118,900 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	2009	2008
Less than 30 days	19,159	52,355
Between 31 and 60 days	11,200	34,566
Between 61 and 90 days	11,899	3,807
Between 91 and 180 days	460	4,201
Between 181 and 360 days	3,349	2,710
More than 360 days	7,512	21,261
	53,579	118,900

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 34,656 thousand (2008: MKD 28,497 thousand). The carrying amount of loans and receivables, which would otherwise be past due, whose terms have been renegotiated is not impaired if the collectability of the renegotiated cash flows are considered ensured.

Notes to the consolidated financial statements

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

In thousands of denars	2009	2008
MKD	102,263	93,260
EUR	5,654	5,627
	107,917	98,887

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

In thousands of denars	2009	2008
MKD	2,778,433	2,650,762
EUR	138,122	317,559
USD	2,566	22,922
Other	5,312	8,365
	2,924,433	2,999,608

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	2009	2008
Group 1	1,542,870	1,197,725
Group 2	324,133	214,286
Group 3	146,387	205,501
	2,013,390	1,617,512

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

In thousands of denars	2009	2008
Group 1	14,966	97,652
Group 2	2,248	44,558
Group 3	-	102
	17,214	142,312

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.

Notes to the consolidated financial statements

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	
	2009	2008	2009	2008	2009	2008
Property, plant and equipment	(1,951)	-	-	488,638	(1,951)	488,638
Intangible fixed assets	-	(6,861)	-	-	-	(6,861)
Inventory	-	(34)	-	-	-	(34)
Trade and other receivables	(1,426)	(219,084)	-	-	(1,426)	(219,084)
Deferred revenue	(16,448)	(87,183)	-	-	(16,448)	(87,183)
Financial assets at fair value through profit and loss	(1,555)	-	-	1,591	(1,555)	1,591
Trade and other payables	(5,818)	(13,200)	-	-	(5,818)	(13,200)
Provisions	(33,577)	(116,032)	-	-	(33,577)	(116,032)
Tax (assets)/liabilities	(60,775)	(442,394)	-	490,229	(60,775)	47,835
Set off of tax	-	442,394	-	(442,394)	-	-
Net tax assets/(liabilities)	(60,775)	-	-	47,835	(60,775)	47,835

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	2009	2008
Deferred income tax assets:		
Deferred income tax asset to be recovered after more than 12 months	22,069	283,276
Deferred income tax asset to be recovered within 12 months	38,706	159,118
	60,775	442,394
Deferred tax liabilities:		
Deferred income tax liability to be recovered after more than 12 months	-	(490,229)
Deferred income tax liability to be recovered within 12 months	-	-
	-	(490,229)
Deferred income tax assets/(liabilities) net	60,775	(47,835)

Due to the changes in the Macedonian tax legislation effective from 1 January 2009, part of the deferred tax asset and all the liability balances were reversed (see note 2.17.2).

Movement in temporary differences during the year

In thousands of denars	Balance 1 January 2009	Recognised in income	Balance 31 December 2009
Property, plant and equipment	488,638	(490,589)	(1,951)
Intangible assets	(6,861)	6,861	-
Inventory	(34)	34	-
Trade and other receivables	(219,084)	217,658	(1,426)
Deferred revenue	(87,183)	70,735	(16,448)
Financial assets at fair value through profit and loss	1,591	(3,146)	(1,555)
Trade and other payables	(13,200)	7,382	(5,818)
Provision	(116,032)	82,455	(33,577)
	47,835	(108,610)	(60,775)

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

Until 2008 the temporary differences mainly related 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 contributed to the temporary differences. Due to the changes in the Macedonian tax legislation effective from 1 January 2009, the temporary differences in 2009 relate to non-deductible expenses giving rise to future tax credits, mainly for provisions charged to the Profit for the year (see note 2.17 and note 23).

9. INVENTORIES

In thousands of denars	2009	2008
Materials	129,636	75,722
Inventory for resale	444,615	235,214
Write down of inventories to net realisable value	(44,912)	(30,993)
	529,339	279,943

Movement in allowance for inventories to net realizable value:

In thousands of denars	2009	2008
Allowance at 1 January	30,993	21,465
Charged to expense	39,018	23,231
Write off	(25,099)	(13,703)
Allowance at 31 December	44,912	30,993

Allowance for inventory relates to trade goods. Write down of inventories to net realizable value is based on the analysis of lower cost and net realizable value at the financial statement date.

10. ASSETS HELD FOR SALE

Assets held for sale represent property, plant and equipment 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. The assets held for sale presented in the Consolidated statement of financial position are part of the fix segment. The mobile segment has no assets in this category.

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 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

In thousands of denars	Land	Buildings	Telecommunication equipment	Other	Assets under construction	Total
Cost						
At 1 January 2009	6,353	4,046,839	25,040,226	4,406,514	524,602	34,024,534
Additions	-	33,207	904,887	445,992	1,241,791	2,625,877
Transfer from assets under construction (see note 12)	-	298	467,387	135,579	(779,323)	(176,059)
Disposals	-	(2,300)	(287,548)	(346,287)	(1,599)	(637,734)
Transfer to assets held for sale	-	(68,047)	-	(32,723)	-	(100,770)
At 31 December 2009	6,353	4,009,997	26,124,952	4,609,075	985,471	35,735,848
Depreciation						
At 1 January 2009	-	1,404,833	15,304,982	3,260,334	-	19,970,149
Charge for the year	-	118,805	1,487,191	359,605	-	1,965,601
Disposals	-	(610)	(229,760)	(314,172)	-	(544,542)
Transfer to assets held for sale	-	(30,137)	-	(32,505)	-	(62,642)
At 31 December 2009	-	1,492,891	16,562,413	3,273,262	-	21,328,566
Carrying amount						
At 1 January 2009	6,353	2,642,006	9,735,244	1,146,180	524,602	14,054,385
At 31 December 2009	6,353	2,517,106	9,562,539	1,335,813	985,471	14,407,282

Operating lease rentals amounting to MKD 125,342 thousand (2008: MKD 133,811 thousand) relating to the lease of property and equipment are included in the Profit for the year.

The reviews of the useful lives of property, plant and equipment during 2009 affected the lives of a large number of assets including mainly telecommunication equipment. The reviews primarily resulted in the extension of the useful lives as a result of later expected replacement of the affected assets than originally estimated.

Notes to the consolidated financial statements

The reviews results in the following change in the original trend of depreciation in the current and future years.

In thousands of denars	2009	2010	2011	2012	After 2012
(Decrease) / increase in depreciation	(141,951)	(10,815)	26,556	26,620	99,590
	(141,951)	(10,815)	26,556	26,620	99,590

12. INTANGIBLE ASSETS

In thousands of denars	Software and software licences	Concession	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

In thousands of denars	Software and software licences	Concession, 2G and 3G licence	Other	Total
Cost				
At 1 January 2009	7,048,984	768,594	174,803	7,992,381
Additions	536,449	122,812	19,024	678,285
Transfer from assets under construction (see note 11)	165,729	-	10,330	176,059
Disposals	(1,563,428)	-	-	(1,563,428)
At 31 December 2009	6,187,734	891,406	204,157	7,283,297
Amortisation				
At 1 January 2009	5,020,987	68,781	72,928	5,162,696
Charge for the year	765,908	47,046	5,330	818,284
Disposals	(1,563,428)	-	-	(1,563,428)
At 31 December 2009	4,223,467	115,827	78,258	4,417,552
Carrying amount				
At 1 January 2009	2,027,997	699,813	101,875	2,829,685
At 31 December 2009	1,964,267	775,579	125,899	2,865,745

The reviews of the useful lives of intangible assets during 2009 affected the lives of a large number of assets mainly including software. The reviews primarily resulted in the extension of the useful lives as a result of later expected replacement of the affected assets than originally estimated.

Notes to the consolidated financial statements

The reviews results in the following change in the original trend of amortization in the current and future years.

In thousands of denars	2009	2010	2011	2012
(Decrease) / increase of amortisation	(31,330)	(5,803)	29,860	7,273
	(31,330)	(5,803)	29,860	7,273

13. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS

The amount of MKD 61,376 thousand (2008: MKD 61,476 thousand) represents financial assets at fair value through profit or loss calculated with reference to the Macedonian Stock Exchange quoted bid prices. Changes in fair values of other financial assets at fair value through profit or loss are recorded in finance income/expenses in the Profit for the year (see note 21 and 22). The cost of these equity investments is MKD 31,786 thousand (2008: MKD 31,786 thousand).

14. TRADE AND OTHER PAYABLES

In thousands of denars	2009	As at 31 December 2008 (as restated)	As at 1 January 2008 (as restated)
Trade payables			
-Domestic	662,766	562,378	312,321
-Foreign	661,959	759,603	253,902
Liabilities to related parties	137,293	174,816	261,698
Other liabilities	60,771	34,756	98,754
Financial liabilities	1,522,789	1,531,553	926,675
Accrued expenses	974,856	785,926	784,765
Deferred revenue	1,002,535	1,141,842	780,723
VAT payable	75,081	77,862	93,586
Advances received	46,370	34,551	37,898
Other	34,765	34,765	34,765
	3,656,396	3,606,499	2,658,412
Less non-current portion: Deferred revenue	(96,596)	-	-
Current portion	3,559,800	3,606,499	2,658,412

Non-current deferred revenues have maturity up to 10 years from the date of the Consolidated statement of financial position.

Provisions recognized for customer loyalty programs in previous years have been retrospectively reclassified as deferred revenue and included in Trade and other payables (see note 2.1.5).

Liabilities to related parties represent liabilities to Magyar Telekom Group and Deutsche Telekom Group (see note 29).

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

In thousands of denars	2009	2008
Less than 90 days	1,264,121	1,264,677
Between 90 and 180 days	14,359	13,471
More than 181 days	46,245	43,833
	1,324,725	1,321,981

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

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

Notes to the consolidated financial statements

In thousands of denars	2009	As at 31 December 2008 (as restated)	As at 1 January 2008 (as restated)
MKD	2,554,191	2,928,562	2,239,836
EUR	941,561	628,204	364,074
USD	50,799	35,831	22,239
Other	13,249	13,902	32,263
	3,559,800	3,606,499	2,658,412

15. PROVISION FOR OTHER LIABILITIES AND CHARGES

In thousands of denars	Legal cases	Severance	Other	Total
1 January 2009	994,298	153,720	246,053	1,394,071
Additional provision	236,642	2,673	26,178	265,493
Unused amount reversed	(26,795)	(54,729)	(3,068)	(84,592)
Used during period	(228,936)	(101,664)	(256)	(330,856)
31 December 2009	975,209	-	268,907	1,244,116

In thousands of denars	Legal cases	Severance	Other	Total
1 January 2008	585,207	135,561	240,862	961,630
Additional provision	517,091	18,159	6,597	541,847
Unused amount reversed	(94,628)	-	(1,406)	(96,034)
Used during period	(13,372)	-	-	(13,372)
31 December 2008	994,298	153,720	246,053	1,394,071

Analysis of total provisions:

In thousands of denars	2009	2008
Non current (legal cases and other)	317,115	577,267
Current	927,001	816,804
	1,244,116	1,394,071

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 2009.

Other includes provision made for the legal obligation of the Group to pay to employees two average monthly salaries in Republic of Macedonia at their retirement date (see note 2.15.1). The provision is recognized against Personnel expenses in the Profit for the year. In addition, as a result of the findings of the Investigation, the identified impact in amount of MKD 231,017 thousand has been retrospectively recognized in Other (see note 1.2.2).

Provisions recognized for customer loyalty programs in previous years have been retrospectively reclassified as Trade and other payables, current and non current, (see note 2.1.5).

16. CAPITAL AND RESERVES

Share capital consists of the following:

In thousands of denars	2009	2008
Ordinary shares	9,583,878	9,583,878
Golden share	10	10
	9,583,888	9,583,888

Notes to the consolidated financial statements

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

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

16.1. Treasury shares

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

As a result of the findings of the Investigation, for one consultancy contract, the payments of which was erroneously capitalized as part of treasury shares in 2006 has been retrospectively derecognized from treasury shares (see note 1.2.2).

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

17. REVENUES

In thousands of denars	2009	2008
Domestic fixed line telecommunication services		
-subscription, installation and other charges	1,938,946	2,325,901
-traffic revenues	2,638,227	3,360,181
Mobile telecommunication services	9,416,936	9,143,225
Data transmission	1,236,566	965,948
International traffic revenues	873,067	925,109
Leased line	630,692	609,271
Other	1,278,260	1,273,564
	18,012,694	18,603,199

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

18. PERSONNEL EXPENSES

In thousands of denars	2009	2008
Salaries	972,933	810,118
Contributions on salaries	329,775	355,381
Bonus payments	214,737	184,210
Other staff costs	160,588	754,537
Capitalised personnel costs	(101,542)	(89,247)
	1,576,491	2,014,999

Other staff costs mainly include termination benefits of MKD 14,513 thousand for 12 employees leaving the Company in 2009 (2008: MKD 523,780 thousand for 391 employees). Other staff costs include holiday's allowance and other benefits.

Notes to the consolidated financial statements

19. OTHER OPERATING EXPENSES

In thousands of denars	2009	2008
Purchase cost of goods sold	1,921,616	1,531,505
Services	1,116,201	1,172,901
Marketing and donations	651,034	787,379
Fees, levies and local taxes	472,308	535,993
Materials and maintenance	472,281	413,721
Premium rate services	327,787	258,559
Energy	213,289	206,968
Impairment losses on trade and other receivables	199,091	189,709
Rental fees	125,342	133,811
Consultancy	97,117	85,213
Write down of inventories to net realisable value	39,018	23,231
Insurance	21,558	22,154
Other	(6,330)	241,757
	5,650,312	5,602,901

Services mainly include expenses for agent commissions, postal expenses and other service fees (such as cleaning, security and legal services).

20. OTHER OPERATING INCOME

In thousands of denars	2009	2008
Gain on sale of PPE, Intangible assets and assets held for sale	18,402	18,706
Gain on sale of subsidiaries	-	238,421
	18,402	257,127

Gain on sale of subsidiaries in 2008 represents income from sold fully owned subsidiary in Montenegro - Montmak. 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.

21. FINANCE EXPENSES

In thousands of denars	2009	2008
Interest expense	126	48
Bank charges and other commissions	32,953	19,997
Fair value loss	3,133	99,870
	36,212	119,915

Fair value loss in 2008 represents losses from Company's investments in companies quoted on the Macedonian Stock Exchange classified as Financial asset at fair value trough profit and loss, as a result of the movement of general level of prices on the Macedonian Stock Exchanges.

22. FINANCE INCOME

In thousands of denars	2009	2008
Interest income	429,083	630,624
Dividend income	3,118	3,144
Net foreign exchange gain	4,739	72,738
	436,940	706,506

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

Notes to the consolidated financial statements

23. INCOME TAX EXPENSE

Recognized in the Profit for the year:

In thousands of denars	2009	2008
Current tax expense		
Current year	115,677	951,977
Deferred tax expense		
Origination and reversal of temporary differences	(108,610)	(91,772)
Total income tax in profit for the year	7,067	860,205

Reconciliation of effective tax rate in 2008:

In thousands of denars		2009		2008
Profit before tax		6,916,250		7,113,741
Income tax	-	-	10.0%	711,374
Non-deductible expenses	6.7%	461,565	2.4%	167,960
Tax exempted revenues	(6.6%)	(454,489)	(0.3)%	(19,129)
	0.1%	7,076	12.1%	860,205

Commencing from 1 Januar 2009 The Government of the Republic of Macedonia has introduced several modifications and changes in the Profit Tax Law. According these changes the base for computation of profit tax are non-deductible expenses incurred during the fiscal year. In addition, the profit tax shall apply at the moment of the distribution of the profits in a form of dividends. Subsequently, as long as the undistributed profits are retained within the company the profit tax would not be applied (see note 2.17).

Up to now the tax authorities had carried out a full-scope tax audits at the Company for 2005 and the years preceding. Additionally, audit of personal income tax was carried out by the tax authorities for the period 1 January 2005 to 31 March 2006.

The tax authorities may at any time inspect the books and records within 5 years subsequent to the reported tax year, and may impose additional tax assessments and penalties. In a case of tax evasion or tax fraud the statute of limitations may be extended up to 10 years. The Company's management is not aware of any circumstances, which may give rise to a potential material liability in this respect other than those provided for in these financial statements.

24. DIVIDENDS

The Shareholders' Assembly of the Company, at its meeting, held on 29 April 2009 adopted a Resolution for the dividend payment for the year 2008. The Resolution on dividend payment for 2008 is in the amount of MKD 6,160,720 thousand from the net profit for the year 2008. The dividend was paid out on 22 May 2009. Up to date of issuing of these financial statements, no dividends have been declared for 2009.

25. REPORTABLE SEGMENTS AND INFORMATION

25.1. Reportable segments

The Group's reportable segments are: fixed line and mobile segment.

The fixed line segment provides local, national and international long distance telephone services, VoIP services, leased line services, Internet services and TV distribution services under the T-Home brand.

The mobile segment provides mobile telecommunication services under the T-Mobile brand.

Notes to the consolidated financial statements

25.2. Information regularly provided to the chief operating decision maker

The following tables present the segment information by reportable segment regularly provided to the CEO and the MC, reconciled to the corresponding Group numbers.

Revenues

In thousands of denars	2009	2008
Total Fixed Line revenues	8,719,050	9,689,209
Less: Fixed Line revenues from other segment	(664,929)	(741,487)
Fixed Line revenues from external customers	8,054,121	8,947,722
Total Mobile revenues	10,932,990	10,803,643
Less: Mobile revenues from other segment	(974,417)	(1,148,166)
Mobile revenues from external customers	9,958,573	9,655,477
Total revenues of the Group	18,012,694	18,603,199

None of the Group's external customers represent a significant source of revenue.

Segment results (EBITDA)

In thousands of denars	2009	2008
Fixed Line	4,194,675	4,263,041
Mobile	5,168,554	5,257,142
Total EBITDA of the Group	9,363,229	9,520,183
Depreciation and amortization of the Group	2,847,707	2,993,033
Total operating profit of the Group	6,515,522	6,527,150

Capital expenditure (CAPEX) on PPE and Intangible assets

In thousands of denars	2009	2008
Fixed Line	1,839,607	1,717,900
Mobile	1,464,555	2,122,475
Total capital expenditure on PPE and Intangible assets of the Group	3,304,162	3,840,375

The amounts disclosed as "Capital expenditure on PPE and Intangible assets" correspond to the "Investment" line disclosed in notes 11 and 12.

25.3. Segments assets

The table below shows the total assets of the Group broken down by reportable segment and reconciled to the Group's total assets. This financial information is not regularly provided to, or evaluated by, the CEO and MC, but disclosed as required by IFRS 8.

Assets

In thousands of denars	2009	2008
Fixed Line	22,051,599	21,104,349
Mobile	10,147,913	10,582,883
Less: Inter-segment elimination	(351,034)	(304,537)
Total assets of the Group	31,848,478	31,382,695

Notes to the consolidated financial statements

26. COMMITMENTS

26.1. Capital commitments

The amount authorized for capital expenditure as at 31 December 2009 was MKD 445,004 thousand (2008: MKD 268,490 thousand).

26.2. 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	2009	2008
Not later than 1 year	101,712	76,609
Later than 1 year and not later than 5 years	279,822	303,905
Later than 5 years	117,166	82,953
	498,700	463,467

27. CATEGORIES OF FINANCIAL ASSETS

The table below shows the categorization of financial assets as at 31 December 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	Fair value
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

The table below shows the categorization of financial assets as at 31 December 2009.

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	Fair value
Cash and cash equivalents	1,992,074	-	-	-	1,992,074	1,992,074
Deposits with banks	8,672,244	-	-	-	8,672,244	8,672,244
Trade and other receivables	2,855,620	-	-	-	2,855,620	2,855,620
Available-for-sale financial assets	-	-	896	-	896	896
Financial assets at fair value through profit and loss	-	-	-	61,376	61,376	61,376

Notes to the consolidated financial statements

28. CONTINGENCIES

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

T-Mobile Macedonia has contingent liabilities in respect to routine legal proceedings arising in the ordinary course of business. Out of the total contingent liabilities, MKD 978,661 thousand relate to legal case with Newsphone S DOO Skopje for possible damage compensation with regards to lost future profits as a result of termination of contract by the T-Mobile Macedonia. In addition, the other major contingent liability related to T-Mobile Macedonia relates to invoices issued from Agency for Electronic Communication for surcharge on radiofrequency fee for 2004 and 2005 in the amount of MKD 150,790 thousand or MKD 177,932 thousand including VAT. 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 these obligations.

29. RELATED PARTY TRANSACTIONS

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

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).

Notes to the consolidated financial statements

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

In thousands of denars	2009		2008	
	Revenues	Expenses	Revenues	Expenses
Magyar Telekom Group				
Magyar Telekom Plc	30,876	119,382	133	92,279
IQSYS Magyar Telekom	-	11,868	-	8,229
Telemakedonija AD	251	-	272	11,015
T-Crnogorski Telekom	-	-	9,931	13,684
Novatel	10,209	5,853	17,455	1,438
Origo Zrt	-	-	-	608
T-Mobile Crna Gora	890	6,794	1,938	11,953
T-Mobile Hungary	4,757	4,470	5,665	5,098
Deutsche Telekom Group				
Deutsche Telekom AG	812,539	195,518	122,826	33,545
T-Systems Enterprise services	32,593	5,384	33,185	5,208
HT-Hrvatski telekom	250	2,224	49,134	14,918
Slovak Telekom	-	18	-	110
T-Mobile Croatia	18,538	16,471	12,152	20,178
T-Mobile Slovakia	1,177	921	1,158	1,015
PTC Poland	1,698	1,201	1,455	1,726
T-Mobile Czech Republic	2,129	2,689	2,005	3,890
T-Mobile Germany	37,318	47,499	32,733	31,514
T-Mobile Austria	16,745	13,515	20,467	16,038
T-Mobile UK	2,187	2,349	2,979	4,504
TULIP	-	-	1,090	1,479
T-Mobile USA	8,396	5,429	12,838	8,754
T-Mobile International	(21,675)	5,865	(25,452)	(8,576)
T-Systems	-	2,678	-	2,362
T-Mobile Netherlands	5,550	3,744	4,123	2,854
International UK	-	1,004	-	-
Detekon	-	5,506	-	-
Cosmofon OTE	81,306	115,142	-	-
OTE Globe	16,662	6,508	-	-
Romtelekom	327	-	-	-
Cosmo Bulgaria OTE	1,908	1,667	-	-
AMC Albanian OTE	2,975	4,218	-	-
Cosmote Romania OTE	58	616	-	-
Cosmote S.A OTE	6,395	6,356	-	-

Notes to the consolidated financial statements

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

In thousands of denars	2009		2008	
	Receivables	Payables	Receivables	Payables
Magyar Telekom Group				
Magyar Telekom Plc	2,967	62,944	115	110,932
IQSYS Magyar Telekom	-	5,016	-	28,401
Telemakedonija AD	24	-	32	-
T-Crnogorski Telekom	-	-	-	812
Novatel	311	672	1,699	-
Origo Zrt	-	-	-	608
T-Mobile Crna Gora	2,533	-	1,600	-
T-Mobile Hungary	-	10,905	576	-
Deutsche Telekom Group				
Deutsche Telekom AG	39,934	9,842	57,513	18,946
HT-Hrvatski telekom	-	-	378	-
Slovak Telekom	-	-	-	18
T-Systems Enterprise services	2,359	718	2,840	438
T-Systems Internacional Gmbh	-	7,782	-	742
OTE Globe	-	1,056	-	-
Romtelekom	329	-	-	-
T-Mobile Croatia	9,124	-	4,403	-
T-Mobile Slovakia	-	39	116	-
PTC Poland	-	50	-	237
T-Mobile Czech Republic	-	285	-	464
T-Mobile Germany	-	3,323	-	2,570
T-Mobile Austria	-	3,283	342	-
T-Mobile UK	-	737	-	391
T-Mobile USA	-	3,055	874	-
T-Mobile International	-	24,179	-	10,073
T-Systems	-	1,646	897	-
T-Mobile Netherlands	-	201	-	184
International UK	-	140	-	-
Detekon	-	1,224	-	-
Cosmo Bulgaria OTE	59	-	-	-
AMC Albanian OTE	385	-	-	-
Cosmote Romania OTE	-	196	-	-
Cosmote S.A OTE	796	-	-	-

30. KEY MANAGEMENT COMPENSATION

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

In thousands of denars	2009	2008
Short-term employee benefits (including taxation)	99,672	81,216
State contributions on short-term employee benefits	5,599	11,919
Share-based payments	2,689	946
	107,960	94,081

The remuneration of the members of the Company's Board of Directors amounted to MKD 6,120 thousand (2008: MKD 6,067 thousand) included in Short-term employee benefits.

Notes to the consolidated financial statements

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

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

31. EVENTS AFTER THE FINANCIAL STATEMENT DATE

There are no events after the financial statement date that would have impact on the 2009 profit for the year, statement of financial position or cash flows.

Makedonski Telekom AD Skopje
Orce Nikolov bb 1000 Skopje

Македонски Телеком
АД за електронски комуникации - Скопје
Број 01 - 18766/1
Датум 30-04-2010

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

Date: 30.04.2010

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 31.12.2009 is accurate and reliable.

Македонски Телеком Скопје

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