Information...Communication...Entertainment

We enrich customer's life with memorable experiences

Annual report 2009
Makedonski Telekom AD – Skopje
T-Mobile Makedonija

Life is for sharing.

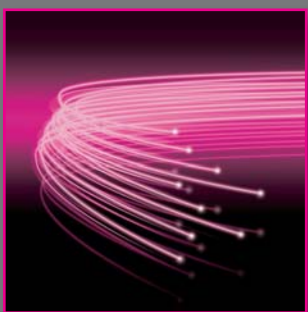
Connected Life and Work

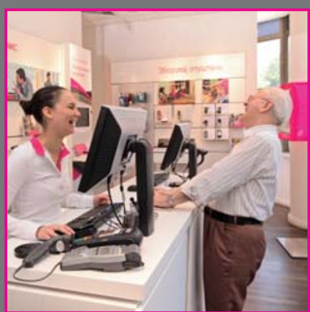
Information and communication technology increasingly shaping both our private and professional life

With their headquarters in Skopje, Makedonski Telekom and T-Mobile Macedonia constitute the leading provider of telecommunications products and services, delivering on retail and business needs, as well as ensuring specialized services for corporations, government entities and smaller enterprises. Employing nearly 2000 people, the Company is one of the greatest employers in the country, with a widespread network for a direct offer of services to the customers in 35 towns throughout Macedonia. The Companies' major shareholder is the telecommunication provider of a worldwide reputation, Deutsche Telekom AG, Germany.

As leading national operators in the segments of fixed telephony, broadband services and mobile telephony, as well as recently in the TV business, Makedonski Telekom and T-Mobile offer a wide spectrum of modern telecommunications and IT services.

By providing high quality and innovative services in all areas of their operation, the companies have a key role in the modernization and advancement of the telecommunications market in the country.
By offering customized products and services, the Companies promote personal and social networking among people. At the same time, both Companies contribute in the strengthening of information society and creating a better future for the generations to come.





Breaking news in 2009!!!

One of the most successful years of Makedonski Telekom and T-Mobile MK
Holders of the largest market share

The most powerful companies on
the Macedonian market
according Top 200 Macedonia (an annual economic edition)

Handled more than 11.000.000 customer requests and inquires through the different CS channels: IVR, telephone, e-mail, direct contact, etc.

new employments

The BEST telecommunication network in the country

more than 100 000 ADSL customers

53 % of the population covered with 3G signal

Fiber optic project launched – 3000 km of fiber optic installed in Skopje only

We are the Macedonian leader in Connected Life and Work

The continuous market research and the constant analysis of the actual offers of the competition play an enormous role in the positioning of the complete service portfolio and contribute for keeping the existing customers and attracting new ones.

So far, most of the services and products have been created through market researches, with the help of the information provided by the customers. Thus, we have established strong partnerships with our customers. The same ways were also used for the creation of our latest packages, tailor-made for the needs and demands of our customers.

The Companies' customer-centric focus contributed for increasing the customer satisfaction and the TRI*M index, achieving five points more than the average value of the TRI*M index of most European telecommunications providers. This is especially reflected in the fact that it is our customers' opinion that we use more advanced information technology solutions (TV, broadband and the mobile services).

Brand Vision:

A worldwide leader in “Connected Live and Work”

Brand Benefit:

Create more and more memorable moments
to share (“Life is for sharing”)

Brand Attributes:

Innovation, Competence, Simplicity

The Customer will remain our focus and all our innovations to come will be the reflection of our customer's needs.

T is our positive challenger and motivation for further success!

Our **vision** for the future is to be a leader on the market and a customer-oriented company by providing high-quality integrated communications services and entertainment contents.

We will continue following our **Vision.** And we will stick to our **mission:**

To adjust to the market in order to strengthen our success and meet the customers' expectations, by providing: a superior offer of communications and content products with exceptional customer care; top quality and technical possibilities with great services.

Shareholders' structure
Shareholders of Makedonski Telekom

Name of owner	Number of shares	As %
Stonebridge AD Skopje (in liquidation)	48,877,780	51.00
Government of RoM	33,364,875*	34.81
Makedonski Telekom AD (Treasury Shares)	9,583,878**	10.00
IFC	1,796,980	1.88
Other minority shareholders	2,215,268	2.31
Total	95,838,781	100.00

* Including the preference cumulative share (golden share) with par value of MKD 9,733 owned by the Government of the Republic of Macedonia. The golden share has one voting right and special rights in accordance with the Company Statute. It has restriction on tradable and non-tradable transfer.
** In accordance with the Law on Trading Companies (reference article 338) all rights attached to treasury shares are suspended.


Entertain

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Nikolai J.B. Beckers, Chief Executive Officer of Makedonski Telekom AD - Skopje

We have a clear strategy and defined steps and actions!

Dear shareholders,

First of all, let us thank you for your appreciation, confidence and cooperation. The fiscal year 2009 is known worldwide as a year of an economic crisis.

Despite the fears of an economic downturn in the world the telecommunications, the industry was not that much exposed to the crisis, mainly due to the increased demand for broadband services. It is a fact that during the past two years it has been very difficult to find the right ways for doing business and getting to success. These times call for new ways of doing the business in our daily lives, as we strive to achieve our goals with new, more adaptive solutions. Everybody is trying to cut the costs. In times like this, the Company must be flexible and adapt itself by introducing innovations, products and services which are created primarily according to the customers' needs and pockets. We need to rely on diversities, different needs and priorities, and to produce capacities that are somehow different from the competition.

We have carefully followed the market movements and the customers' expectations and at the end of the day we can clearly state that we managed to keep the balance.

Mobile communication is growing every day. Video and entertainment applications are pushing customers to buy more broadband services and telecom providers to create greater capacities. The market is driven by the customers' demands and vice versa.

It was a challenging, yet a productive year for the T brand in Macedonia.

Our objectives are as follows:

- Progress as an actively operating company;
- Ensure customer centricity in all businesses and supporting processes;
- Preserve/win competitiveness and quality in the core businesses;
- Integrate the IT and network processes.

What are the necessary preconditions to achieve the goals?

- Clearly defined objectives;
- Clearly defined responsibilities;
- Solid execution and project control during the implementation process;
- Short decision-making timeframes to support the process.

We are the innovators! We set standards and drive social networking!

In an increasingly flat, globalized third millennium world, where innovation occurs so quickly, just having the best product at any moment in time is not a sustainable plan.

It is a constant fight and the decisive factors of success are innovativeness, speed and originality. On the totally liberalized Macedonian telecommunication market there is real competition and in such an environment the customers have the right to make their choice.
We are the market leader and we are constantly working on our improvement, innovativeness and quality. However, the market is moving continually and so should we. At the end of the day, the customers know how to appreciate quality and the best offer of products and services.

We make complex things simple, so that our customers can concentrate on what is really essential.

To avoid the common perplexing practice of being confronted with many tariffs, services and devices, the T-Home and T-Mobile brands offer to the customers today's most modern way of simplicity in charging, on-line information about the company services and non-stop available services in terms of an easy installation of devices. Our best-trained staff is always at the customers' service so as to meet their needs and interests.

We inspire and we bring excitement!

Speaking only for the period since the company's re-branding, as we promised, we have introduced many new products and services on the market. We widened the overall telecom portfolio on the market. We have developed the 3G network, we started with the implementation of Fibre-to-the-Home, we introduced the IPTV and the 3Max packages, the bundled products and services together with mobile telephony. The customers are also moving towards bundled services, including voice, broadband and television. Currently, we are not only a classic telecommunications service provider, but we have also developed a new direction in this industry by becoming an entertainment provider.

In addition, our around-the-clock care policy allows to one-stop shopping customers to get comprehensive and secure services at our joint shops.

Superior customer experience

Currently, the market and the customers are focused on broadband services and products based on IPTV platforms.
One of the key innovative services that differentiate T-Home is MaxTV – the first digital and the only fully interactive TV service in Macedonia. The MaxTV Internet is the most secure and reliable Internet service on the market. As a more advanced and globally popular telecommunications solution, in 2009, we launched the Fibre-to-the-Home project and we are continuing with its expansion this year as well. The Skopje area is the first to be covered, whereupon we are continuing also in the other cities in Macedonia. It is a huge project that requires not only investments, but also time, cooperation from municipalities and many other resources. However, on a long-term basis, the Company is aware that this is the right step towards the modernization of the infrastructure and the product portfolio. It will enable the growth of the online business and help to widen the field of operation, to make foreign partnerships, to cut the costs, etc. This directly contributes to the development of the economy of the country.

Investing in our customers is an investment in our future

Our investments are reflected in the biggest and most developed infrastructure and network, in the fact that we are a company with the highest number of customers served based on the world's best methods by highly qualified engineers and other personnel, a great portfolio of products and services with an exceptionally high quality and satisfied customers.
By investing in the development of various areas, in the course of the last three years we managed to increase the Internet penetration in Macedonia far beyond the level of the other countries in the region. This has provided a tremendous benefit for the economy of the country and this is one of the fields in which Macedonia is the leader in the region, comprising over 40%. We, as a Company, contributed greatly for achieving this and we feel proud of being a part of this success.

Zarko Lukovski, Chief Executive Officer of T-Mobile Macedonia AD - Skopje

The T brand in Macedonia is also a very active member of the Macedonian society. We are proving this on a daily basis with all our activities that support the culture, sports and information society initiatives. We strongly believe that education is the key to a productive future and we strive to be partners with educators, civil-society organizations and the Government. We stand behind the biggest cultural events in the country, such as the Ohrid Summer Festival, the Skopje Jazz Festival, many other music fests, several youth clubs, etc.

In addition, it is more than worth mentioning the investment of the Companies in the people as well. Besides the regular trainings for the employees and the exchange programmes, we opened the doors for progress and professional development throughout the world within the DT offices.

We have the necessary capital – the employees!

We try to create a relationship-based environment where solutions are offered based on trust and mutual understanding. Our pathway is not a straight line and it comprises many unpredictable elements. We raise discussions which are not always comfortable, but eventually help us to clarify the next stage in the Company's life and what its new orienting principles might be. Our skilled employees and management team are a strong asset on the way to achieving our success. The Company is healthy and growing, populated with talented individuals in a marketplace that is competitive and dynamic. It is not always fun, but at the end of the day it is extremely rewarding.

We have the highest ranking within the entire DT Group as regards the satisfaction from the product portfolio. According to the surveys conducted in 2009 of all employees within the DT Group, 92% of the Macedonian employees fully recommend the products to the customers. We will continue in this direction by offering non-standard packages to our customers and providing them uniqueness.

We are number one in mobile telephony.

We are an industry that rapidly changes, grows and develops. In order to stay market leaders, we have focused on innovation and we will develop and change together with the modern and advanced technologies.

At the moment, on a market comprising a population of around 2.5 million with three mobile providers, the T-Mobile family has 1.3 million customers.

Nevertheless, this is not only a number; these are people who have gained confidence in our company and services that we offer. This means that we are meeting the needs of the modern customers not only with the innovativeness of our services, but also with diversity – our offer is tailor-made for the needs of all the segments – pre-paid, post-paid and business.

In the fourth quarter of 2009, the penetration was 95 % or lower by only 1% as compared to the third quarter. This is a fact that shows that we managed to keep our pace on the road to success. Our retail team has been able to deliver results that have not been seen previously. Even though there is strong competition, we have remained the trendsetters and leaders on the Macedonian market. In order to stay the best, we will continue investing in the best

network because it is the basis for the quality of the services. We will certainly continue to follow the strategy for connected Internet and mobile telephony, we will offer services which incorporate solutions like web 'n' walk, Push Mail, 3G technology and, together with the fixed telephony, we will offer integrated services that will enable the customers to save their time and to simplify their lives. Next is the offer of integrated services, which will provide the customers with complete communication packages comprising mobile, fixed telephony and Internet.

We connect our customers anytime, anywhere. We are with them with every move that they make by means of our 100% coverage on the Macedonian territory.

New forthcoming challenges

People always have a need to communicate – in the past, now and in the future. It is up to the telecom companies to find and offer the best possible communication ways to their customers. That is truly challenging.
Our goal is to provide practical steps that we can take so as to further develop our deepest values, maximize the chances for success and minimize the chances for being taken out of action.

Broadband revenue is expected to grow. There is still more demand rather than supply on this market. The mobile segment is still growing on this market, even though the competition is becoming more and more fierce every day. The T-Home and T-Mobile brands are strong leaders on the Macedonian telecommunications market, with the biggest number of loyal customers.

We will continue in the same way also in future!

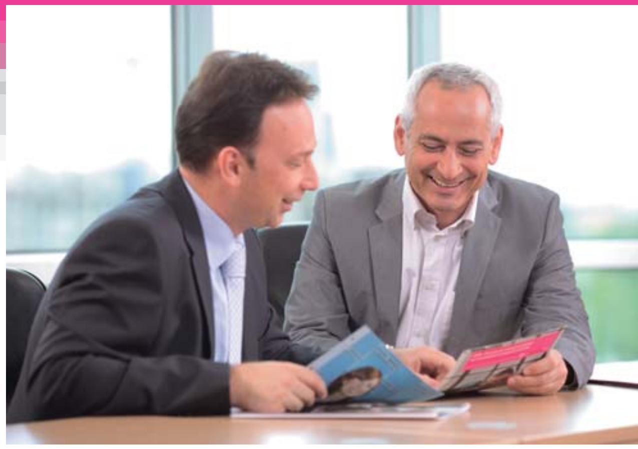
We remain one of the cornerstones of the Macedonian economy and we expect and truly appreciate your ongoing support!

Networks, services, content management and the relationship with our customers are at the heart of everything we do! We will do our best to provide the best possible ways for communication to our customers, at home, at the office and on the go! Always and everywhere!

We will keep turning moments into memories for our customers!

Nikolai J.B. Beckers, Chief Executive Officer
of Makedonski Telekom AD - Skopje

Zarko Lukovski, Chief Executive Officer
of T-Mobile Macedonia AD - Skopje



The Management of Makedonski Telekom &

Nikolai J.B. Beckers, Chief Executive Officer of Makedonski Telekom

The Shareholders' Assembly of Makedonski Telekom AD - Skopje appointed Mr. Nikolai Beckers as a member of the Board of Directors of Makedonski Telekom on 31 July 2007. The Board of Directors appointed Mr. Beckers as an Executive Member with the title Chief Executive Officer of Makedonski Telekom AD – Skopje on 10 September 2007.
He joined Deutsche Telekom in 1995, thereafter holding high managerial positions responsible for international joint ventures of the Group, such as Satelindo, Indonesia; Globe/Islacom, the Philippines, and France. He is a member of the Board of Imperial Tobacco Macedonia, President of the German-Macedonian Business Association, Vice-President of the European Business Association and Vice President of ICI International Council of Investors.

Slavko Projkoski, Chief Financial Officer of Makedonski Telekom

He was appointed Chief Financial Officer of Makedonski Telekom on 1 October 2007.
Mr. Projkoski started his career in Makedonski Telekom in 1995, where he was appointed to several managerial positions mainly in the finance area, Executive Director of the Controlling Area and later on as the Chief Financial Director.
Due to the performance demonstrated in the course of his career in Makedonski Telekom, back in 2007, he was appointed as the ideal candidate for the position of the Chief Financial Officer.
He holds a BSc degree in electrical engineering and has an extensive experience in the telecommunications industry.

Mathias Hanel, Chief Marketing Officer of Makedonski Telekom

He joined Makedonski Telekom as the Chief Marketing and Sales Officer on 1 August 2008, wherein as of 1 October the same year he assumed the position of the Chief Marketing Officer.
Mr. Hanel holds a degree in Business Administration obtained in England and Germany. He gained his professional experience in marketing while holding various positions in Germany, Indonesia and England. Since 1997, he has been a part of the Deutsche Telekom Group and T-Mobile International in Bonn and London.
Prior to his arrival in Macedonia, Mr. Hanel was in charge of the International Marketing Planning of T-Mobile International in Bonn.

Thorsten Albers, Chief Technical Officer of Makedonski Telekom

He joined Makedonski Telekom on 1 October 2008 as the Chief Technical Officer.
Mr. Albers holds a degree in electrical engineering and he is specialized in communications and information technology, as well as various Cisco and Nortel/Bay certificates in the relevant areas.
He gained his professional experience and expertise while holding various positions in the technical area in Germany and Hungary. Since 2003, he has been a part of Magyar Telekom, responsible for the coordination of projects under the competence of the Chief Technical Officer at the level of Deutsche Telekom.

Klaus Muller, Chief Director of Key Issues of Makedonski Telekom

He is the Chief Director of Key Issues of Makedonski Telekom, appointed to this position on 1 March 2008.
Mr. Mueller has had a long and successful career in various domains in the telecommunications industry. He commenced his career in 1992 in the Deutsche Post, whereupon he continued his professional progress mainly at high positions within the Deutsche Telekom Group, including the engagements at Magyar Telekom, as well as the present engagement at Makedonski Telekom. He holds a Ph.D. degree in political economy. He graduated as a valedictorian for an Executive Master in Business Administration (program). He is a proven professional in the sphere of corporate strategy, government and corporate affairs, as well as in the wholesale telecommunications business.

Ognen Firfov, Chief Sales Director of Makedonski Telekom

He is the Chief Sales Director of Makedonski Telekom and was appointed to this position on 1 October 2008, when he became a member of the Management Team.
Mr. Firfov holds a BSc degree in Electrical Engineering, MSc in Computer Sciences from the Ss. Cyril and Methodius University and an MBA in Marketing






T-Mobile MK

from the Sheffield University. Prior to assuming the position of Chief Sales Director, he held the position of Sales Executive Director in Makedonski Telekom. He has extensive professional experience within Makedonski Telekom, acquired at many different managerial positions. During many years of work in the telecommunications area, he has demonstrated exceptional results in many important and large projects.

Branka Pavosevik, Chief Human Resources Officer of Makedonski Telekom

Ms. Pavosevic holds a Master's degree in Organizational Science and she is an MBA and a Master of Economic Science candidate. She has obtained her rich professional experience in various leading positions in blue chip companies in the area of human resources in Croatia and the CEE region. She has been dedicated to the HR strategy development and management, the overall organization of human resources, as well as the HR aspect of transformation, mergers & acquisitions.
Ms. Pavosevic stepped in the position of CHRO of MKT as of 1 June 2009.

Zarko Lukovski, CEO of T-Mobile Macedonia

He was appointed as a member of the Board of Directors on 29 November 2006 and as a President of the Board of Directors of Makedonski Telekom AD – Skopje on 12 December 2006. Mr. Lukovski has extensive experience in the field of computer science and telecommunications integration.
His experience includes working on both the Swedish and the Macedonian market. He took an active role in the project for electronic signature of the Ministry of Finance. For many years, Mr. Lukovski has worked and cooperated with various world brands such as Fujitsu, Siemens, Microsoft, Philips, Compaq, Xerox, Hewlett Packard, Motorolla, Ericsson, thus acquiring an extensive international experience.

Gabor Altman, Chief Sales Officer of Makedonski Telekom and T-Mobile Macedonia

Mr. Altman holds a PhD degree in computer science and has an MBA degree in International Management from the eminent Case Western Reserve University in Cleveland, USA. His professional growth started with the Research Institute for Telecommunications in Budapest, through Schrack Telecom in Austria, C.E.R.M.P. (Centre European de la Resource de Mode Protégé) in France, Ericsson in Budapest, all the way to Makedonski Telekom, Magyar Telekom as a Deputy Director for Business, Strategy and Marketing in T-Systems. He possesses an extensive experience in the area of marketing and sales, his challenge being increasing the market share, but most of all increasing the customer satisfaction of the retained customers. Gabor Altmann came to the position of Chief Marketing and Sales Director of T-Mobile in August 2008.

Eftim Betinski, Chief Director of Technical Operations of T-Mobile Macedonia

Eftim Betimski is the Chief Director of Technical Operations in T-Mobile. He began his career as an operations and maintenance engineer in 1991, after which he made headway to a position of Chief Director of Technical Operations in 2001. His main achievements are: 2G/GPRS/EDGE 596 BTS (4115 transceivers) at 441 locations, 3 MSC and 6 BSC at 3 locations with the entire operations and maintenance sector, developing an investment and planning sector, sector for core network, sector for development and strategy, as well as development of the prepaid system up to 1 million users (900 thousand in 2007). Mr. Betinski is an electrical and telecommunications engineer and he acquired his degree at the Moscow Telecommunications University in 1990.

Miroslav Jovanovic, Chief IT Officer of T-Mobile Macedonia

Mr. Jovanovic is an IT expert with a degree in Computer Science and IT. During his professional engagement in many leading positions in Macedonia and Serbia, he was dedicated to IT management and implementation of complex ICT systems in the public sector, while as the Chief IT Director in the Ministry of Finance he was in charge of the successful implementation of many projects, among which the "e-budget" project.
Since 1 April 2009, he has been appointed as the Chief Technical Director of MKT, and prior to this appointment, he was a Key Long-Term Expert – Financial Management Information Systems in Serbia, an EU project.

Shaping our future:

The Four Pillars of Our 2008-2010 Concept stand for 2009 as well.

1. Improvement of the competitiveness
2. Constant growth - mobile and broadband communications, VoIP (Voice over Internet Protocol) and IPTV (Internet Television)
3. Establishing the basis for the future development - Mobilization of Internet and the Web 2.0 trend
4. Systematic Business Customer Approach

Strategy and Corporate Development

Strategy and Corporate Development
Market environment

The overall Telco market in Macedonia was on the rise in 2009 and it is expected to sustain this trend also in 2010.
There was a decrease in the usage of fixed telecommunication services due to their substitution with the mobile segment. Besides the advanced services, mobile operators also provide good cost control, which is a highly appreciated feature among the Macedonian customers. The presence of three mobile operators is causing a continuous price decrease and boosting the creation of more and more competitive offers. There was an even more significant permanent growth in terms of the Internet, System Integration and TV market in Macedonia.
Influenced by the global trends, the Macedonian Telco market is turning into a much broader and more interactive communications market, encompassing voice, data, broadband Internet and TV services. However, the T-Home and the T-Mobile brands stand out as the main leaders in this industry on the Macedonian market.

Main challenges:

- Retention of voice ARPU
- Mobilization of broadband (3G mobile BB)
- Bundled products and fixed and mobile integration and convergence
- Content and media development

Makedonski Telekom is facing a tough competition in almost all segments.

As regards fixed telephony, the F2M substitution continues as usual, while there is also the aggressive Fixed GSM service of ONE bundled with an Internet or Boom TV offer. CaTVs already entered the voice market mainly using voice as a retention tool.

CaTVs pose real competition in the TV segment as well. The DVB-S and DVB-T technologies are already available on the Macedonian market. Makedonski Telekom launched the Fibre-to-the-Home Project in 2009, as the most original and innovative way of providing telecommunication services to the customers. No other competitive product based on the fibre technology has become available on the residential market yet, but the competitors' target was the business segment, developing their own fibre optic network. NeoTel, the biggest T-Home data competitor, is building its own network targeting business customers. There are regional and international SI companies entering the market and their targets are mainly large infrastructural projects.

Internet providers are intensively investing in their own optical networks. One of the main focuses of the Company in 2009 was increasing the number of broadband internet users and retaining the stable market share. Through the T-Home brand, Makedonski Telekom launched the Double Play bundled packages Call&Surf in September 2008, and the Triple Play 3 Max in November 2008. By the end of 2009, the number of broadband Internet active users of the Company exceeded the expected target.

As regards dial-up Internet, T-Home is holding almost the entire market share in terms of traffic volume, due to the reorientation of the competitors to other access technologies.

Broadband ADSL and FTTH services shall remain in the focus in the forthcoming years as one of the major challenges due to the highly competitive environment.

There is a real price war and smart phone battle in the mobile segment as well.

While VIP is attracting new customers with their extended portfolio of voice offers, ONE is constantly launching new and technologically innovative services as Mobile TV. There is competitiveness with the Mobile BB push via versatile and attractive smart phones. Still, it was the T-Mobile brand that exclusively introduced the I-Phone in Macedonia.
The year 2009 was a year of a fierce competition in the mobile segment in terms of new offers and innovativeness on the market.

2009 – Year of preparation for the T-Home/T-Mobile transformation

The year 2008 was a year of fixed line business transition.
The new 2008-2010 Strategy & Marketing Concept of Makedonski Telekom was prepared and approved by the Board of Directors. This strategy concept fits into the overall strategy of Deutsche Telekom and Magyar Telekom, as well as the national Macedonian telecommunications strategy.
The most important focus of the operational imperative of this strategy is to leverage and maximize the synergy between all segments within the Group, driving it towards being a full service provider (fixed and mobile).

The year 2009 was a year of preparation for a transformation.
In the course of 2009, the Group (Makedonski Telekom & T-Mobile MK)still operated with a traditional technology / product-based lines of business structure. The primary question was whether this operation model was sufficient to satisfy the market demands and expectations, to be one step ahead of the competition and to exploit the potential synergy and growth opportunities.

In addition, it is the commitment of both Companies and brands to sustainably produce value for its shareholders and stakeholders.
Having understood the interests and the changing expectations of the key stake-holders, there was a strong need to reconsider the Companies' overall operation model. There was a consensus in terms of the need to start the Companies' transformation towards a cost-efficiently operating full service provider (fixed and mobile) on an extended market of telecom and converged services.

Data protection

In the year 2009, a high priority was given to Customer Data Protection. The focus was to indentify which persons have access to customer data, what type of access they have, whether they have a possibility for mass data downloads of customer data, whether the allowed access to customer data corresponds to their job positions, etc. All processes and customer data applications were audited. The compliance with the Law on Personal Data Protection was checked. The measures defined during the audits were implemented by the responsible units, thereby increasing the level of customer data protection and the awareness among the employees and the managers. Projects aimed at the implementation of network access control and a unified end point security are underway and expected to be completed in the year 2010.

Compliance with the existing regulations and regulatory developments

The Macedonian market of electronic communications is regulated with a specific regulation, i.e. the Law on Electronic Communications ("LEC") and the relevant bylaws.

Pursuant to the LEC, Makedonski Telekom AD - Skopje has been designated as an SMP operator on the market of fixed-line voice networks and services, including the market of access to data transmission networks and leased lines. SMP operators are obliged to keep separate accounting records for their wholesale and retail activities.

On 31st December 2008, the Agency approved the new unbundling fees that entered into force as of January 2009. In line with the development of the secondary legislation, Makedonski Telekom prepared several additional regulated wholesale products: Wholesale Line Rental, Wholesale Leased Line and Local Bitstream Access.

In July 2009, the Agency put several secondary electronic communications legislative acts on public debate. Thereupon, in September 2009 the modified Rulebook of Number Portability was enacted. In November 2009, a new numbering plan, a new act on notification and registration and a new Rulebook on the Assignment of Numbers and Number Series were enacted. The enactment of these regulations will improve the regulatory framework and further stimulate the usage of number portability, numbers and number series, by reducing the administration process. On 10th December 2009, the Agency announced a public debate on the future regulation of NGN (Next Generation Network) in order to obtain the operators' stands and opinions regarding the forthcoming challenges in terms of NGN regulation. In the same month, the Agency published for public debate a draft analysis of the relevant markets 1 to 6 related to fixed voice retail services. Based on the draft analysis, the Agency is planning to impose a retail price regulation on Makedonski Telekom.

In 2009, T-Mobile MK paid EUR 10 million as a one-off fee for a 3G license and EUR 2 million as a one-off fee for a 2G license in the 1800 MHz band. The commercial 3G operations started in June 2009. The validity of both licenses is 10 years, until the end of 2018, with a possibility for an extension of 20 years in accordance with the LEC.

Main Achievements in 2009:

- Increased market orientation
- Improved partnerships with customers, wholesalers and others
- Controlled costs
- Leveraged synergies Fixed + Mobile
- Clear pricing strategy
- Well-defined & executed communication
- Gained 3G licence

Business operations and strategic partnerships

Inter-Carrier Business and Wholesale

A very important part of the business operations of Makedonski Telekom goes through the Inter-Carrier Business and Wholesale (IBW). It integrates all regulated and commercial wholesale products for domestic and international carriers and service providers, i.e. the business operations of Makedonski Telekom.

Domestic Business

The main wholesale products offered to domestic carriers and service providers are network interconnection, wholesale digital leased lines, wholesale ADSL, wholesale line Rental, unbundling local loop services, number portability, commercial traffic transit services, Internet peering and commercial data services.

During 2009, IBW established one new interconnection with an alternative fixed operator, while by the end of 2009 there were 3 mobile and 8 fixed operators as Interconnection Partners.

In 2009, IBW increased the number of wholesale partners for the mass market; wholesale ADSL with 3 new partners and wholesale line rental with 1 new partner. The wholesale line rental service, which was introduced by the end of 2008, reached around 10,000 connections, while wholesale ADSL reached around 19,000 connections or more than 14% of the total ADSL connections installed by Makedonski Telekom.

The cross-border operation deals with providing international voice traffic, international leased lines, as well as Internet peering via terrestrial and satellite media.

Starting from 2009, DT ICSS anbecame exclusive partner for providing international voice (fixed & mobile) services. International telephone traffic is now carried via 2xSTM1 diversified links, one via Bulgaria and the second via Greece.

The Company used optical interconnections with the Telecom operators from the neighbouring countries and the satellite for providing VSAT services and occasional TV uplinks.

During 2009, Makedonski Telekom provided 34 IPLCs to international carriers.

The total purchased capacity for international IP peering during 2009 rapidly increased, starting with 10.8 Gbps and ending with 15.2 Gbps by the end of the year. This capacity was mainly used for domestic retail broadband services, as well as for sales to domestic and international operators.

Our path continues towards:

- Successful implementation of regulated wholesale services in order to fulfil the legal requirements;
- Strengthening and efficiently using our infrastructure and teaming up with the competitors within the legal limits for the purposes of market growth;
- Increasing the sales of commercial wholesale services.

Strategic Focuses for 2010 - Year of the 'One Company' Approach

New revenue streams while nurturing the Internet/data and nascent businesses; at the same time, strengthening the partnerships and developing small-scale domestic acquisitions

Introducing the latest solutions on the market and creating a technology leadership perception; some of the steps for achieving this incorporate our technology being based on high quality and first mover network and equipment; push fibre and 3G rollout, CRM and billing system development; transformation into tangible and perceivable product and service features

Involving and inspiring everybody to facilitate 'One Company' approach which will contribute for the improvement of the customer satisfaction

- Communicating in order to involve everyone and establishing one balanced score-card for two brands, T-Mobile and T-Home

Our employees are what makes us different!

An old proverb says:

"People don't care how much you know, they want to know how much you care"

Creating the right value

Excellence is a core value in everything we do. Leaded from this here at our companies we create values which enrich people's daily live.

Being aware that we contribute in writing the employee's future, we always strive to do our best in order to take them to the next level of their success.
We are aware that by setting up an environment with opportunities, our people will have more creative approach, teamwork, quality and successful final results.

Even thought there are company changes, we always ask ourselves what was good in the previous system, which can be left in the future one. We recognize what were their previous achievements and we keep what worked well in it.

Company culture development

We understand that to have truly inclusive culture which makes us stronger and allows us to achieve higher levels of success we all need to work together. We can achieve the Company targets and fulfill the expectations of our shareholders only by having motivated employees and successful teams. For doing this and for following our strategic path, we have launched our corporate culture based on five guiding principles:

- Customer delight drives our action.
- Respect and integrity guide our behavior
- Team together – Team apart.
- Best place to perform and grow.
- I am T – count on me.

These guiding principles have been gradually rolled out in all Deutsche Telekom subsidiaries. The goal of the guiding principles is to bring together the various parts of Company under the One Company initiative. The principles are in full alignment with our vision, aspiration, and strategy.

Professional self-awareness and professional standards

The biggest capital of one company is its employees. The competitive and dynamic market place requests constant fight over the best employees. Therefore we have set up high professional standards and we created teams with professional self-awareness.

Attracting new ideas and prospective staff Cooperation with Universities

Fresh ideas, new views, and prospective young staff – it is of extraordinary importance for our operation and the success of our Company. Therefore, we continuously strive to find new manners of attracting and training the best people.

For that purpose, in 2009 we started an extremely significant initiative which implies selecting and attracting valuable, young and ambitious staff to our company. Within the frames of the Programme for the performance of voluntary internship, the Recruitment and Selection Departments signed a Memorandum for Understanding with one of the best faculties (Economics, Mechanical Engineering, American College, the New York University, FON, BAS Economics and the Faculty of Law).

The experience so far, has fully justified the expected results and effects from this Programme. The Company received a source of new standpoints and ideas from various perspectives, whereas the young volunteers acquire the experience and knowledge which is of extraordinary importance for their professional development..

Trainings – the right way to educate and motivate our employees

Well-trained and highly motivated employees are the Companies most valuable resource and instrument in its market success.

The Companies need educated staff that is continuously delivering high performance and is in line with the strategic goal – to increase the overall performance of both Companies. The HR Area is continuously striving towards constant development and education of the employees.

The trainings that have enriched the employees with new experiences and know-how in 2009 were mostly focused on improvement of professionally required skills, as well as trainings for the development of other, "soft" skills.

Trainings which have marked this year are:
Joint Retail Network (JRN), trainings and conferences for FTTH, Six Sigma Black Belt, CISCO, VoIP, GPON and OptiX trainings, Performance Appraisal and Coaching skills training for the line managers, many professional trainings – crucial for development of our IT staff, languages and internal IT courses, as well as support in implementation of the obligatory Company trainings like: Security Principles, Compliance Awareness and Code of Conduct Certification, Data Privacy, Global Records and Information Management.

We consider that the training itself represents a motivation tool, even though its main purpose is education for achieving higher performance. Accordingly, we offered development opportunities for our employees, since their constant development is a substantial part of their personal growth.

Winners' Circle 2009

Touch Tomorrow is our brand new concept for the Winners' Circle 2009

The bests from our retail, the ones who drive the company success, are rewarded with two weeks stay in one of the world's most beautiful places, always different always more attractive. 30 representatives of our companies, in 2009 had a chance to join the bests on DT worldwide level and to enjoy their award for the achieved results.

Touch Tomorrow is the DT biggest and best employee program yet in which Makedonski Telekom and T-Mobile actively participate with its employees. It started five years ago and today this project presents the biggest motivation for the colleagues from the frontline and from the customer care. It's about connecting our customers with a whole roadmap of products and services. It's also about tomorrow's way of doing things, like smarter selling, better service, quicker responses and pro-active thinking.

Dialogue – one of the most important tools for going the right way

Makedonski Telekom and T-Mobile Macedonia must be dynamic in order to satisfy the customer needs and to keep the leadership position of the T brand. That is why it is necessary to have constant communication between the employees and the Management.

The employee representatives operates very successfully having in mind all the processes and transformations of the company since 2001.

The Social dialogue within the Company has to have one goal – and that is to find solutions for all the open questions and problems. As a result of this, the Company has one of the best Collective agreements in the country, which defines the rights, obligations and the responsibilities of the employees, the management and the company.

Employee Survey and Pulse check

In order to hear what the employees want to say, in anonymous manner, the Companies implement surveys. More than 90% of the employees take part in these surveys, by expressing their opinion and attitude towards the Company strategy, their working environment and the work itself. Having in mind this the Management is permanently working for including the employee opinion into the Company future strategy and operation.

Communication channels: Corporate site, Intranet, Team news, internal newsletter Alo...

These are all the communication tools used by the Internal Communication Department of the Companies. The Top down communication is very important for successful dialogue. In this way, the employees are getting aware about the latest happenings, about the Company roadmap etc.

Total Workforce Management Concept – Effective cost management

As a customer-oriented, profit company, the Companies need an efficient and effective cost management with a view of contributing to even better results in the competitive environment. For the purpose of strengthening the overall cost management, following the example of Deutsche Telekom, in 2009, the Companies have introduced the new controlling concept called Total Workforce Management. The aim of this concept divided into 5 groups is to provide an overview of the costs related with the workforce, which depend on the form of engagement (employment in the Company, use of the working force as temporary employment, services from external vendors, etc). In order to operate successfully, the Company adjusted the necessary processes and set the foundation for the proper operation in accordance with this concept.

It has been accepted and recognized by all parties involved and showed to be a positive experience which achieved its goals.

Companies need diverse ideas and talents to foster growth.

Cross Functional Development Club – the right way through which we invest and professionally develop our promising employees

Being aware of that......We create a place for our people to be able to develop personally and professionally, building skills, experience and relationships, while balancing life at work and at home. We motivate pro-activity, education and personal development. The employees individual success, contribute to the Company achievements

By means of this initiative which provides for different learning opportunities for a group of highly motivated and talented employees, who have not only demonstrated excellent results during their performance and exemplary conduct, but own the knowledge which can lead the organization to further success, we create a pool of internal resources comprising professionals to which we can always turn for a specific project or when another business need arises.

In this active process, the participants prepare tasks, proposals, projects and presentations, obtain training at different levels necessary for the performance of all working tasks and acquire the experience from exceptional importance to their professional development.

The year 2009 marked the inauguration of the second generation of this promising Club. The first generation has fully justified its existence and left a generation of highly ambitious, trained and motivated employees who will undoubtedly mark numerous successes in their work.

The candidates from the second generation have gone through a process of application and selection, and we have prepared a detailed development plan for their activities in the Club, which is already being actively implemented. The Plan implies numerous development initiatives, project work and trainings which will elevate these employees to an even higher professional level. By completing the first stage of the development plan, and the team building training, they have demonstrated willingness and readiness to work jointly and invest in their professional development.

Taking into account the experience from the first generation of the Club, being an extraordinary mixture of professional development and unforgettable friendship, we continue this initiative which is a challenge through which we invest in the growth of our promising employees.

Healthy employees and safe environment

Preventive medical check up is implemented on an annual level for all employees within the two companies. The Companies planned and realized a pandemic contingency plan, which aimed to maintain a healthy workforce. Employees were given hygiene tips and instructions on what to do if they fall ill. Hand disinfecting devices have been installed, first aiders trained as pandemic helpers, and medicines and protective goods stockpiled. The Companies goal is to keep a safe working environment with healthy employees.

Partnerships with Our Customers for Better Society

We endeavour to establish higher ethical standards in our business operations, to actively contribute to a healthier living environment and positively influence the key social and economic challenges.
We build the relationships with our employees, customers, business partners and other entities with the aim to contribute to the improvement of the social and natural environment.

Caring About Our Community – We Create Alliances for Better Future

The corporate social responsibility of the companies is based on several different values incorporated into the policy and the guiding principles for the purposes of achieving sustainable development. Such an approach is intended to ensure long-term sustainability and competitiveness of the company, at the same time contributing to the social and economic prosperity of the society as a whole.

Our sponsorship and donation strategy supports all fields of society that contribute to the networking of people from different ethnic and religious backgrounds -from culture and arts all the way to sports events, and it also boosts the social and economic well-being and the economic growth of the country.

T - Responsible Citizen of the Macedonian Society

Caring about our communities is the cornerstone of the corporate social responsibility philosophy of Makedonski Telekom. We respond to the needs of the communities by supporting organizations and activities that advance the quality of life where our customers, shareholders, suppliers, contractors, local community members and employees work, live and do business. Our Corporate Social Responsibility practices are tightly integrated into our culture and business.

Our sponsorship and donation strategy supports:

- Access to arts and cultural experiences for the broadest spectrum of audiences, regardless of their income levels
- Sports events which promote team spirit and healthy lifestyles and bring individuals and communities closer together
- Activities referring to academia and engaging the community involved in higher education & research
- Essential services that promote social and emotional health and well-being

As part of our commitment to create value in a world that is constantly changing, we are determined to be a good corporate citizen in every corner of our community. We strongly believe that by fulfilling our responsibilities in the economic, social, environmental and other areas, we will ultimately enhance our corporate value. And it is only through outstanding efforts to sustain our CSR levels that we can meet the expectations of our various stakeholders.

Culture and Public Life

As good corporate citizens, Makedonski Telekom and T-Mobile support a large number of cultural institutions and activities, such as museums, galleries, music festivals, concerts of public interest, exhibitions, etc. Our goal is to increase the access to and the awareness of culture and arts for people of all ages and from all socioeconomic backgrounds. The reason is simple: culture is the bridge that brings people together, and that does not differ from our primary mission - we also exist in order to connect people.

Festivals and Concerts

The T brand in Macedonia is an old friend with the most famous and globally recognized cultural event - the Ohrid Summer Festival, which every year gathers world known theatre, ballet and music artists. The rich cultural programme, which lasts for 40 days, begins with an official opening in the splendid Antique Theatre, which has been the stage of many famous artists such as José Carreras, Jessye Norman, the Choir of Viennese Children, Aldo Ciccolini, Julian Rahlic, Ivo Pogorelic, the Russian Opera and Ballet and many others.

In 2009, we continued the friendship that we started in 2008 – support of the Skopje Summer Festival. This event has grown into one of the most recognized cultural events in Skopje, offering a programme that satisfies different tastes.

We have provided entertainment and furthered the cultural arts for all citizens of the RM through the multi-performance street event Buskerfest 2009, the International Film Festival Manaki Brothers and the Festival of Traditional Values In Vinica Veritas which was held for the first time this year.

In December, the first humanitarian concert of the young Macedonian star Lambe Alabakovski was held with the support of Makedoski Telekom where the funds collected from the tickets were intended for the restoration of the Jovan Bigorski Monastery. In addition, on 18 December 2009, the Company gave its contribution so as to enable the holding of the celebration for the citizens of the Republic of Macedonia on the city square in Skopje, on the occasion of the long-awaited visa liberalization of the country.

Culture and Youth

When it comes to the youngest, one tradition started a long time ago - Zlatno Slavejce, and through Grozdoberce we have only confirmed our dedication and intention for true friendship with our dearest. In 2009, we sponsored many events throughout the country, some marking the tradition, like Vevcani and Strumica carnivals and others the many years of culture – Skopje Summer and Ohrid Summer festivals, the Balkan Music Square festival, different events relating to the traditional and humanitarian values, as well as pop and rock concerts for people from all generations.

Education and Civil society

One of the most prevalent issues over the past decade is the progress of the education, which is considered to be the conceptual and empirical foundation of the democratic citizenship. Moreover, it is seen as a way of contributing to the establishing of a solid basis for cultural and social integration and a key to the future preservation of our environment and habitat.

We strongly believe that the education is a key to a productive future and it has a power to make a positive impact on the lives of individuals. Education is our corporate responsibility as we strive to be partners to educators, civil-society organizations and the government.

Integral to the mission of improving the knowledge of young people, we have established a traditional partnership with the Faculty for Electrical Engineering and Information Technology. Every year, we contribute to the granting of the traditional awards to the best students and support the activities necessary for the preparation for participation in the competitions in the country and abroad.

"PC for Every Student"
Furthermore, the support for the project "PC for Every Student" demonstrates our commitment to the education and promotes the effective use of technology in the classrooms over the country. The donation consisted of installing networks for connecting all PC-s in one communication network, thus providing an increased quality of the educational process. Until now, 1951 classrooms have been connected in 93 schools. In addition, in order to provide the students with a possibility to use the advantages of the internet at the speed of light, the 2010 plan for extending the optic network encompasses the dormitories as well, which serves as an additional support to our aim for extension of the access to technology.
Donation of PC-s
Every year, we donate PC-s to many civil society organizations supporting the activities of marginalized groups, women and those with little or no access to technology. In 2009, computers were donated to the Association of People with Labour Disabilities of the Republic of Macedonia, the Information Technologies Development Foundation – Information Centre Kriva Palanka, Youth Association - Krusevo and others.

In **2009**, we sponsored:
- The Society for Electronics, Telecommunications, Automatics and Informatics of Macedonia – IX International Conference ETAI 2009
- The MASIT ICT Chamber of Commerce - Conference of the SEE IT Associations and Businesses
- The Civic Association "Macedonian Human Resources Association Skopje" – 1st International Human Resources Conference

In **2009**, we made donations:
- Faculty of Electrical Engineering and Information Technologies - Skopje
- Donation of computers
- American Chamber of Commerce in Macedonia - Social Entrepreneurship Student Award

Health and Safety
One of the most important areas that require the involvement of a responsible company is the strengthening and enhancing of the community relations by helping to improve the quality of life through contribution of funds and resources to health service providers and other non-governmental organizations. Companies must contribute to the strengthening of the capacities of these institutions so as to promote the sustainability of the efforts pertaining to health and safety matters.

We demonstrate our commitment to the health and safety activities by interaction and active cooperation with the health service providers, non-governmental institutions that work on creating awareness, prevention and assistance in dealing with certain illnesses, and organizations working for improved well-being of various stakeholders in our community, especially those standing for the rights of the marginalized groups.
WEB Doctors
In 2008, our company started a partnership with the Civic Association "WEB Doctors" by creating a webpage, while in 2009 our employees prepared additional functional systems of the current functionalities on the WEB Doctors webpage and software for administration/management of contents and customers. Today, this webpage is one of the most visited pages in the country.
Red Cross
In 2009, Makedonski Telekom donated MaxADSL packages for 36 locations of the Red Cross, for the purpose of providing better communication and active cooperation between the numerous Red Cross offices in the country. In addition, we also helped:
- GLOG Association Bitola – telephone cards for universal use
- Association of parentless children and youth from the foster homes and foster families of the Republic of Macedonia GRADIME IDNINA - Skopje - the event "You can help as well"
- Gerontology institute 13 Noemvri from Skopje – sheets, blankets and pillows

Sports
Whether it is for the pleasure of the experience, professionalism or simply for fun, sports provoke dialog, transcend boundaries, and teach us how to be tolerant and accept one other. The team spirit and the importance of team work are the core principles of sportsmanship.
Sport partners in 2009:
- Traditional sponsorship of the biggest international sports event in the country - the Ohrid Swimming Marathon
- Traditional sponsorship of the futsal tournament between the media and several big companies from Macedonia, organized by Sportsko Radio for the purposes of strengthening the team spirit and the mutual respect
- Support for the holding of the Small Olympic Games where 1200 students from all over Macedonia took part in order to support the activities of public interest and promote them in the sphere of sports in the Republic of Macedonia.

The Humanity as Our Motive and Our Aim - T - Mobile for Macedonia Foundation

The purpose of the Foundation is to demonstrate its corporate responsibility through humanitarian activities and donations. The activities are carried out exclusively by T-Mobile employees, who enthusiastically volunteer to implement all measures planned by the organization. During the past few years, the Foundation has been focusing on the well-being of the children, as well as on the improvement of the local healthcare.
The most active channel for raising funds for the people in need of urgent surgery or medical treatment, projects of social interest and non-governmental organizations are the T-Mobile special donation numbers. Since the Foundation's inception in 2002, more than 640,000 Euros have been raised through the donation numbers for more than 200 individuals. Furthermore, approximately 210,000 additional Euros were donated through more than 50 projects implemented by the Foundation for the benefit of the society.

In 2009 we donated books and technical equipment for the children with special needs, thus helping the modernizing of the educational process for these children.
On the occasion of the seventh birthday of the T-Mobile for Macedonia Foundation, it handed over the donation of ECG and medical equipment for the ambulance vehicles in 10 municipalities across Macedonia.
Facing the New Year and Christmas Holidays, in December 2009, the T-Mobile for Macedonia Foundation traditionally organized the humanitarian New Year's caravan for sharing sweet presents to the children with special needs, children from economically challenged families, children without parents, as well as elderly living in the nursing homes.
That same month, one more special donation was given for the reconstruction of one of the oldest monasteries in the country, St. Jovan Bigorski which was afflicted by an accidental fire.
The Centre for Institutional Development, by monitoring the activities of the T-Mobile for Macedonia Foundation, took an initiative to nominate the Foundation for recognition in the category of citizens' associations encouraging donation practices that have provided special contribution to the creation of a positive environment for the development of philanthropic activities in the Republic of Macedonia. The T-Mobile foundation proves the need of its existence every day, by bringing hope and more smiles to the faces of those in need.

For us, all the customers are equally important. Regardless of their purchasing power, we have dedicated plenty of time to build strong relationships with different target groups and to offer them customized solutions, made according their own needs and demands.
And that is not all - we have created places for our customers where they can feel comfortable, educate, inform and, on top of everything, entertain themselves. By doing this, we have enabled the customers to make the best possible choice.

Top Quality, Efficiency and Innovativeness – The Best Partner for the Customers

The best choice for our customers

The year 2009 was of extreme importance not only for the business sector, but also for the country in general. Having in mind the economic crisis and the European and worldwide trends, the country was striving to keep the balance and the stability not only in the economic, but also in all the other society segments. It was obvious that there would be a decrease in the operation of many companies, but there were developments as well. The Macedonian customer is highly knowledgeable in terms of all the world telecommunication trends and it was expected from Makedonski Telekom and T-Mobile to continue with the introduction of innovative services, especially in the sphere of content and entertainment enrichment.
In a highly competitive environment, Makedonski Telekom and T-Mobile maintained their leadership position on the Macedonian market. This success is based on the continuous dedication to high-quality service, communication and strengthening the relations with the customers, fortifying the sales channels and creating customized offers to meet the needs of specific customer segments.

Main focuses/trends in 2009: launching commercial FTTH products (Optic packages), strong growth of the broadband customer base (almost 130,000 broadband customers), increasing the number of IPTV customers (nearly 15,000 customers), highly successful sales of the Call & Surf and Office Complete packages (almost 35,000 signed contracts), stagnation of the voluntary churn as a result of the churn prevention measures, a doubled number of customers with loyalty contracts to ensure sustainability (above 140,000 by EoY) achieving almost 50% customers of the total residential base, increase of equipment sales, further development of good business relations with top customers.

Highlights in 2009

In terms of the content, we implemented product segmentation that provides a basis for the presentation of company products. With the new concept, the customers can experience the current offer, a fun module and platform for the presentation of voice-based products and tariff models. Product segmentation pilot-projects have been introduced in Karpos, Gostivar & Strumica shops. The products and services are segmented and successfully implemented in 3 joint shops with the main scope to improve the customers' experience. Makedonski Telekom extended its existing sales network with up to 35 new PoS around the RoM. T-Mobile started with the sales of IPhone and BlackBerry. Jointly, the Companies started with the sales of the new fixed mobile converged product - Family + (mobile telephony, fixed telephony and ADSL).

Legal and ethical issues of content provision
Makedonski Telekom AD has a number of activities related to content provision via different services and channels, including IPTV and WEB. The content provided to our customers is obtained partly via internal production (mostly for web content) and via agreements with content providers (for web and IPTV content). For all the content which is externally produced, Makedonski Telekom has direct agreements with the producers or authorized distributors of this content, fully respecting the legal and regulatory requirements, including all necessary licenses for the provided services. During the content acquisition and content production processes and their provision towards the customers, Makedonski Telekom fully respects the ethical principles, keeping the service on a high level from an ethical point of view.

Creating unforgettable experiences for the customers
We are completely dedicated to the strengthening of the information society and widening of the internet penetration in Macedonia. That is why besides the existing solutions, we are continuously working on finding new ones in terms of Internet access. In times when information is the most important thing, our offers enable the customers get to it first. Feeling the benefits of the most modern services with the highest quality, the customers are provided with a higher value for their money and with services which are simple and user-friendly.

Internet Services - With a view to strengthening its position as the leading and most innovative, broadband Internet provider in Macedonia, in 2009, Makedonski Telekom introduced the first fibre-to-the-home (FTTH) products on the Macedonian market. These residential products consist of triple play (Internet+voice+IPTV), double play (Internet+voice) and Internet-only packages, with symmetrical access speeds of up to 40 Mbps, which is several times faster than the residential products available from other providers. For business customers, Makedonski Telekom introduced fibre-to-the-business (FTTB) products, consisting of double play (Internet+voice) and Internet-only packages, with symmetrical access speeds of up to 60 Mbps, which are also unique on the market. Going forward, Makedonski Telekom plans to extend its FTTH network coverage, enhance the FTTH product portfolios and serve a wider range of customer segments, in order to fortify its position as the leading and most innovative provider on the market.

MaxTV - The Start MaxTV Package with 60 channels and three upgrade packages, comprising Albanian and International channels, was introduced. The MaxTV Archive was also launched as a part of the MaxTV VoD library, which contains the most popular programs broadcasted on national TV channels. Several other MaxTV applications were launched as well – MaxTV Extras, MaxTV Games, MaxTV Radio, My Bill. Furthermore, other novelties were provided for the customers, such as recording via Internet and mobile, activation of TV Packages via the MaxTV application, local TV channels by cities and regions, first HD Channel, etc.
An open air cinema promotion of MaxTV was performed – public watching of movies at the city square and the city park + world premiere of Bruno at the cinema – three days free-of-charge cinema by MaxTV.

ADSL 2+ speed became reality on the Macedonian market in February 2009, with the upgrade of the Internet access speed of the MaxADSL products up to the level of ADSL2+. Makedonski Telekom introduced the new MaxADSL access speeds to support the acquisition of new MaxADSL customers and improve the satisfaction of residential and business customers. Since the launch of double and triple play services, as well as FTTH products, Makedonski Telekom continuously targets the existing MaxADSL customers and motivates them to try the new innovative products and migrate to higher double and triple play services.
Voice Services - The main focus is on loyalty offers (499/200, free phone sets, Call Weekend) to ensure long-term customer loyalty and reduce the churn.
Bundled Services
- Introduction of entry level options for double and triple play - Call&Surf Start and 3 Max Start aimed at making the services available for a wider market.
- Introduction of the 2 Max (voice + TV) portfolio to satisfy the customers who have no need for Internet.
- All in one - double play services for small businesses.

T-Mobile Macedonia kept the market leadership position with a 56.4% (YE2009) subscriber market share. The Company launched 3G services (high speed Internet and video calls)
In 2009, the first convergent product Family+ packages were introduced, as well as the top-up concept in prepaid – Free Weekend, Free SMS and Lower Price upon Top-up.

Almako Shop - 2010 Sales conceppt

Experience Cafe & Shop - 4010 Sales concept

Experience Cafe & Shop - 4010 Sales concept

One Face to the Customers

The joint retail network was successfully launched. We developed a retail network in order to ensure one face to the customers and to enable a consistent customer experience. We introduced an integrated T shop design, a standardized and integrated product and service portfolio, uniform sales desks, universal sales agents and aligned customer-visible processes. By doing all this, we aimed to enable a holistic customer approach and to leverage the full cross-selling potential.

A new sales concept for enriching the urban life
Flagship Store - Experience Café

We started the year by creating a special place for our customers.
In January 2009, a completely new sales concept was launched in Macedonia for the first time ever - the Experience Café and shop, a multimedia environment where the customers can seat and chat while enjoying a cup of their favourite coffee and at the same time be able to buy the telecommunication products they need. The new shop is selling a new blend of technology experiences with moments of fun and enjoyment. It is a place where one can feel the smell of the old and original mixed with the contemporary, modern and high-tech equipment. As a part of Deutsche Telekom, T-Home and T-Mobile in Macedonia follow the most modern retail trends and contribute for raising the public awareness in terms of the needs of telecommunication services.
Through our sales concept, we merged the local habit of our citizens for enjoying the European coffee brand with the experience and the fun that comes with our services. Here, people can feel the unique experience of our MaxTV product, to gain knowledge, to download contents on their mobile phone, to search the Internet or simply to have fun.

We did not stop here; later, in 2009, we promoted something different on the Macedonian market – the Almako one-stop-shop. 'Explore, have fun and find what is right for you' is the basic idea of the Almako shop, which practices an open approach towards the customers and an interactive presentation of all telecommunication services and solutions offered by the T-Home and the T-Mobile brands.
Here our customers can get information, gain knowledge and have fun, as well as be able to find everything in one place. This shop merged the customers' expectations and our needs for presenting our products in a state-of-the-art manner. The latest multi-touch based Microsoft technology was used for the presentation of the contents that correspond to our services: 'Fun, music, moments to share'. With its main purpose 'Explore, have fun and make your choice' this innovative shop enables a distinctive differentiation in service, a more attractive customer experience and a better orientation. For the first time on the Macedonian market customers can enjoy a simple use of the new multimedia devices: a multi & single touch intractable, interactive experience, consultations, easy on-the-spot tariff & handsets comparison.

Our sales concept promotes us as the best entertainment provider and offers comfortable places for our customers.

Being aware of the customers' expectations, we continue following the path of innovativeness.

Information Provider

IDIVIDI.com.mk is the web portal of Makedonski Telekom which has existed for six years now. It provides the latest news from all around the world - top stories in the sphere of entertainment, technology, lifestyle, health, sports, politics and business. IDIVIDI aims to attract people from different generations, by giving them insight in the new global trends. The portal also provides various services which are very helpful for the visitors. The almost 70,000 visits a day make IDIVIDI one of the most popular and most visited web portals in Macedonia.

T-Home web redesign

During 2009, the project of redoing T-Home's website started, migrating the product website to a new platform and a new communication concept, implementing the newest web design style.

Social media

2009 was a year in few projects related to the social media were launched. Company profiles were created on several social networks (Wikipedia and LinkedIn). Furthermore, we created a MaxTV group, which successfully gathered and animated the MaxTV fans. Since the very beginning, the group of the IPTV service fans has been growing organically following the number of customers and reaching 20% of the whole IPTV customer base.

The profile is used as a communication channel for sharing news, dealing with customer care issues, as well as collecting valuable feedback from the customers.

For the successful ones

The world of communications is moving with an increasingly high speed. Many companies have difficulties when facing the constant challenges of the modern times. We took the leadership role as a supporter for business under different circumstances. By creating appropriate choices with our services and products, designed according to the newest technologies, our partners are able to maximize the usage of their resources for further development.

A combined approach offering knowledge and competences with system integration services, as value added to traditional telecommunication services, was extended and several complex projects were delivered by means of this approach, including disaster recovery solutions for certain customers and complex data interconnectivity solutions.
Following the technology trends, several new projects were started with a focus on the FTTB project; Fiber interconnection and fiber network were successfully developed in Skopje, interconnecting the key customers.
With our rich product portfolio, starting from ADSL, Metronet, FlatNetPRO, an Internet based private network, video surveillance and digital certificates to integrated technical solutions, we provide the right choice for the customers.

Integrated Technical Solutions

The global economy and the fast market changes gave rise to a need of maximum flexibility, a quick reaction and adaptation of the business to the current conditions. Therefore, the need of information technology has a basic role, which makes the management of the telecommunications and the IT systems more complex and important.

Our T portfolio of integrated technical solutions includes:
- Infrastructural solutions
- Advanced technological solutions
- IT solutions and support of the IT infrastructure
- Consultancy services from the ICT area

The future focus will include further integration of ICT and telecommunication services, an extended offer of maintenance services and products in parallel with intensive retention activities in all product segments.

Data Services

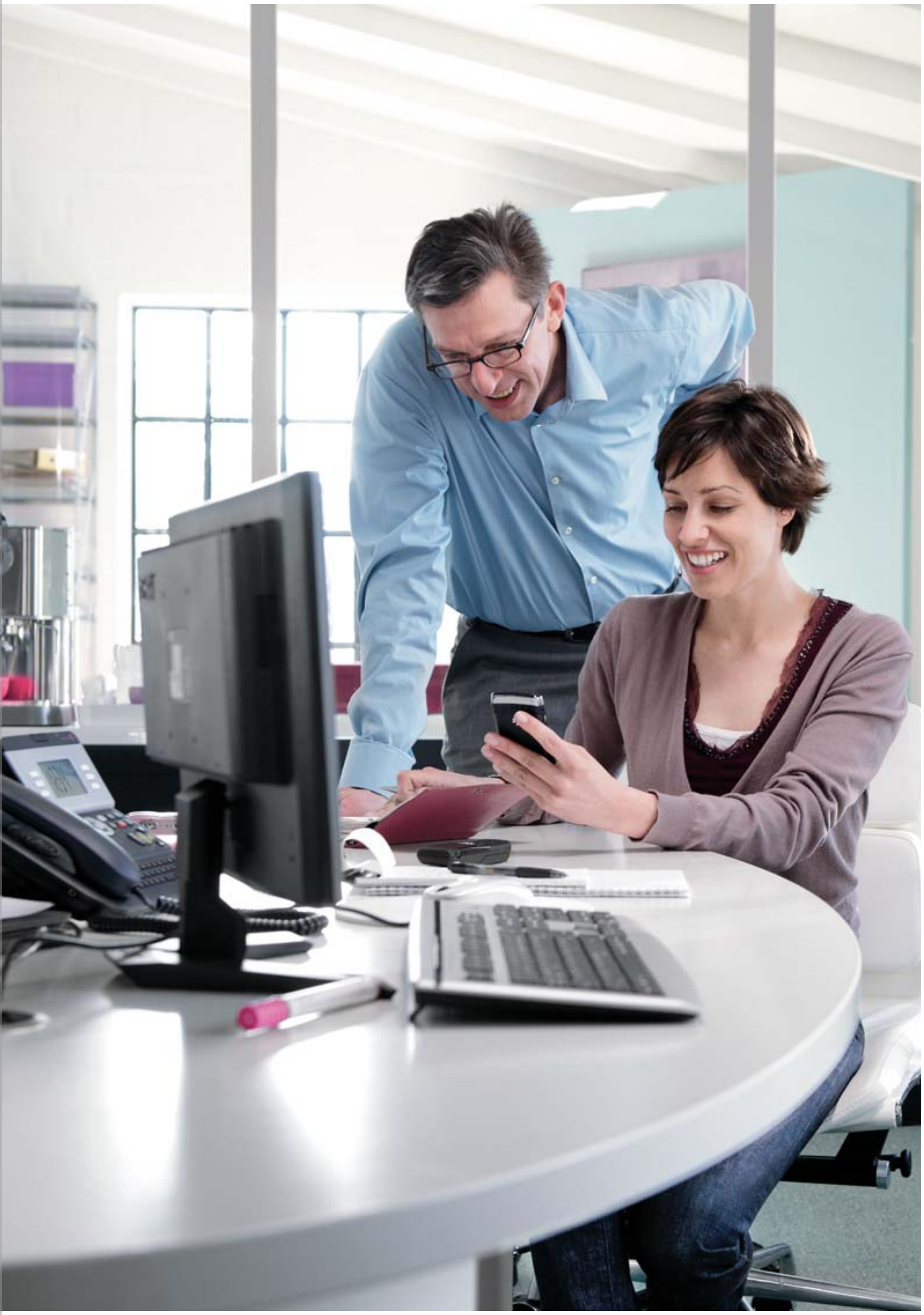
The business customers relying on data services are served with a plethora of product extensions, VAS and campaigns in order to offer more value for money and build up the customer satisfaction. The main focus continues to be increasing the reliability of services and fulfilling the continuously growing bandwidth demand. In order to fulfil these needs, backup solutions for VPN based services were introduced; a new increased speed range in Ethernet based services was offered; campaigns for equipment and multiple speed increase of Internet access for businesses were conveyed; and for the most demanding ones, the Internet connectivity became a fully managed service. In this manner, the track was set for further deployment of security services and potential speed increases within other data services.
Makedonski Telekom is continually fortifying its market position not only in the domestic business segment, but also in the international business, with an extended offer of International connectivity services.

Providing a high quality service for the SoHo & SME customer segment promises a huge potential for sales of telecommunication services and system solutions. It resulted with a significant market penetration with a widely accepted and cost-effective solution.

With a proactive sales approach as a more efficient way, we covered this customer segment and increased the efficiency by using of multi channel push through a connection between agents, shops, partners and Call Centres as telesales activities.
The support, the treatment, the educational presentations with tailor-made solutions and the proactive sales approach contributed to:
- 27% increase of the TRI*M Index at the end of the year
- 27% sales over the plan for Office Complete services
- 44% increase of the YoY result for Data/Internet services
- increased partners' participation in the overall sales result by 4% in the last 4 months of 2009

Building relations with our customers – Strengthening the Customer Service

Having in mind the strengthened competitiveness in the mobile segment, especially with the aggressive communication of ONE (completely taken over by Telekom Slovenije in 2009), we enriched the ways of communication with our customers in order to be the first to hear their requests, comments and complains and to act upon them.
- Customer Technical Support strengthening - It provides support via phone, e-mail and in person (at the customer's and T-Mobile's premises) for all advanced services & handsets: Internet, iPhone, Blackberry, using the handset as a modem, etc.
- Several new systems/applications introduced in terms of customer service, which helps to resolve almost all SMS, Internet and similar value-added services issues raised by the customers during the first contact and remotely.
- Introduction of a new application for visual tracking of the 2G network problems and a new network incident alerting procedure defined within the Incident Management: the incidents are proactively reported by the CC supervisors and solution information is obtained. Thus, the customers get on-time information.
- ICCA or International Customer Contact Analysis study was introduced in 2009 with the aim of measuring and improving the service and customer satisfaction. This action supported the leading position of T-Mobile in custo-



mer satisfaction as regards the customer service provided on the market.

- Customer Feedback Management – new regular reporting introduced and acting upon customer feedback on T-Mobile services, products and processes delivered via Customers Service and Sales.
- New Call Centre platform Avaya has been implemented which brought several enhancements and benefits for the operations:
  - to improve the customer service quality during the first contact resolution
  - treatment according to customer type, interest, involvement, in order to improve customer service quality with service levels
  - to improve proactive call contacts/campaigns
  - entering the customers' comments to improve customer feedback management, thereby also improving the customer service quality
  - to improve the customer service efficiency (re-identification of the customer, call- back setup, consultation and consultative call transfer, e-mail transfer, e-mail forward, e-mail require and resend options, etc.)
- Contract Renewal on regular basis for certain business segments was introduced. This increased the customer satisfaction, ensured that the customers' expectations are met, and had a positive effect on the whole process of contract renewals since it was possible to contact all customers prior to the automatic contract renewal and enabled them to use the benefits.
- The complaint handling area was strengthened with the introduction of a system for electronic submission of all customer complaints via all channels. This ensured that all customer complaints are correctly registered and treated.
- International Customer Service Week 2009 celebration: A Call to Excellence. In 2009, the T-Mobile Customer Service celebrated a small jubilee – 5 years of International Customer Service World in T-Mobile and in Macedonia. As in the years before, it was dedicated to celebrating the people who serve the customers on a daily basis and who promote team spirit and inter-departmental communication.
- More than 11.000.000 customers requests and inquires were handled through the different CS channels: IVR, telephone, e-mail, direct contact, etc.

Customer Focused Company

We continue the process of transforming the Companies into a customer-focused and market-driven company in a highly competitive environment.

We are providing the customers with unique privileges so that they could obtain what they need in terms of practical solutions, running their businesses, getting informed and having more entertainment in their homes, all of that at the speed of light. Besides this, at our points of sales we also enable the customers to make a comparison of the technological with the commercial aspects of the offers and to make their best choice.

"To each and every challenge, we have an innovative solution"

Behind the scenes – Investments in technology and support for innovations

The Backbone of the Company - innovations, communication & fulfilment of all customer expectations

As the leaders in the telecommunication industry on the Macedonian market, the two Companies besides the operation in different segments, have one goal: **to maintain the network at a high technological level in order to provide a wide range of products and services that will satisfy customers' demands.**

Managing of a high quality service and keeping the customer satisfaction on a high level is a very complex issue which needs lots of time and dedication. There is no quick success in this area, but the results from the undertaken measures are coming later, after a while. There is a daily fight and progress, with every installation and appearance at people's home. This happens even 100.000 times per year, for new installations or for solving technical problems. There are hundreds of people in this process and they have cooperation with all the other Companies employees, because in all this we are together – the IT, Sales, Marketing, Finance, Public Relations....

The constant upgrades on the network provide benefits not only for our residential or our business customers, but we contribute for economic development of the country as a whole.

In 2009, the Companies made significant efforts to upgrade the network and extend the capacities in all network segments, aiming to support strong growth of broadband services.

In the area of access network, there are two main focuses:

- Increasing of broadband penetration with extension of ADSL capacities and coverage
- Modernize the network infrastructure and start implementation of FTTH.

Fact-sheet in regard the network upgrades:

- Increased number of newly installed DSL ports for app. 60.000 - on new locations and as extension of the existing ones.
- With additional 34 new installed locations, there is a reach of 96% of coverage of all sites where Remote Subscriber Units from PSTN network are located.
- Upgrading of the capacities of the aggregation links that are considered to be a bottleneck in the network - 53 links were migrated from E1 to Ethernet.
- In order to keep the technology leadership on the Macedonian market using future-proof technology for provisioning of high-quality BB services, Makedonski Telekom started with deployment of fiber access infrastructure up to the end customer (Fiber to-the-home – FTTH). Gigabit Passive Optical Network (GPON) equipment was installed and fiber optic infrastructure with capacity of app. 6500 home passed was build in few areas in Skopje.
- Increased number of BB customers and increased demand for video and data services are the main drivers for upgrade of the transport network capacity.
- IP/MPLS Network, as a base for transport of IP services, is extended in order to be able to support expected traffic growth.
- Replacement of the Core routers and Primary International Gateways in Skopje with higher capacity equipment and upgrade of the aggregation links 1 to 10 Gb/s.
- Extension of IP/MPLS network influences to the extension of underlying DWDM network. The upgrade of the DWDM network is done also considering increased bandwidth demands from domestic and foreign ISPs, T- Mobile Macedonia as well as the growth of the customer demands for international leased lines. Therefore, during the second half of 2009 the Company continued with upgrades from 1 to 10G cards on few locations and extension of international cross border links.

In parallel with the development of the service portfolio for the residential customers and the upgrade of the network infrastructure, the Companies continued with the efforts to transform the needs of the Business Customers into reality and to make it daily practice.

The constant work on developing the best possible ways for answering the demands of the already developed Business segment in the country brings constant growth in the service quality and enriches the product portfolio for Business customers. In 2009, new project was established within Makedonski Telekom and migration of TDM-based ILLs and VPNs towards IP based solutions was started. The migration is done using existing copper infrastructure with implementation of (Ethernet in the First Mile) EFM modems as well as using optical infrastructure via Ethernet aggregation switches and optical demarcation devices.

In terms of Service Platforms, the main focus was put on increasing the quality of customer experience for IPTV service. IPTV Head end equipment was extended for additional number of channels and new applications like Bill on TV, Games, TV archive, access to EPG through Web, etc.

For provisioning of higher service quality and increasing the network efficiency, Monitoring systems like Signaling Monitoring System and IP Monitoring System are extended.

Beside network and infrastructure development, the Technical areas of the Companies continuously increase the efficiency in their processes for service provisioning and fault clearance in order to contribute to higher customer satisfaction.

Investments in the systems & processes
Extension of the network
Higher capacity
Extension of the links
Update of applications

Increased service quality

Customer segment growth

Information Technology

Focusing on provisioning reliable and secure IT systems/solutions, IT has continued with the trend of development of IT landscape with the implementation of new systems and upgrade of the existing systems for increasing the efficiency of corporate business processes:

- **Upgrade of commercial e-mail services** (HW replacement/SW upgrade) current messaging system for commercial use (@t-home.mk) has been upgraded in order to support the new technologies (web 2.0, address book, calendaring features, SyncML)
- **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 the particular sources of revenue losses in the Revenue Management Chain,

In the last quarter of 2009, started the project for implementation of data mining models and IT tool for churn prevention, customer segmentation and tariff simulator that will help company in retaining customer and prepare specific offers to the targeted customers.

Makedonski Telekom launched new products VoIP and IPTV and bundled services like 2Play and 3Play, supported with strong IT solutions for maintenance of platforms and development workflows for increasing efficiency of provisioning processes.

In line with the potential future developments of the Companies, the IT Areas have developed strategy and defined IT architecture roadmap for consolidation of the current systems in both companies and defining the prerequisites for their integrations in line with Deutsche Telekom Information Technology strategy. This strategy is related to the IT system consolidation in the following five years.

The activities for infrastructure integration include:

- Common E-mail infrastructure,
- Common Windows Domain,
- E-mail and file archiving,
- Common storage infrastructure as well as implementation of common SW solutions like:
- Implementation of common platform for Bill Formatting,
- Consolidation of Call Centre

During the 2009 the preparatory activities and few projects were started for consolidation of Interconnect billing and implementation of CRM.
Having the Customer as a main focus and the Telecom shops as a frontline with the customers, several activities started for improvement of the efficiency within the shops and the sales processes in general. The joint steps of the two Companies provided possibilities for offering common services to the end users – the customers. This marked the start of the Joint Retail Network solution for Telekom shops.

The results of this, was simplified process, better service and improved Customer satisfaction.
The positive outcome of the common work showed to be the real undertaken step which helped the Companies to create a strong basis and plan the future joint steps.

Referring to the investments within the mobile segment, several important projects were initiated and implemented.

Implementation of a 3G network

3G license was acquired at the end of 2008, and the implementation started in the first half of 2009. The commercial start was on June 17th 2009. By the end of 2009, 53% of the population was covered with a high quality 3G signal allowing the customers to feel the benefits of the mobile broadband services.

Acquisition of GSM 1800 frequency

It increased T-Mobile's capacity for GSM service and allowed to have adequate capacity in high traffic areas, mainly Skopje and bigger cities.

Installation of Mega BSC (2000 TRU's)

It allowed the Company to serve the whole area of Skopje with only one BSC (Base Station Controller), which contributed to significantly decreased signaling and increased reliability in the network

Implementation of a new Packet Core Network

It enables the T-Mobile MK to have huge traffic and a capacity for it in the packet network (data traffic) which was expected with the introduction of the 3G.

WSQM (Wireless Service Quality Monitoring)

This system enables T-Mobile MK to monitor the end user experience in real time which is helpful for identify the problems early and it contributes for decreasing the time for their handling.

The Companies focus is to keep the highest possible quality standards on 100% coverage on the territory of the Macedonia and to satisfy the needs of the biggest group of customers – as a part of the T family

A STRONG IT SOLUTION LEADS TO INCREASED EFFICIENCY!

Makedonski Telekom AD - Skopje Consolidated Financial Statements

For the year ended
31 December 2009
With the Report of the Auditor Thereon

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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 financial statements

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

Consolidated statement of comprehensive income

In thousands of denars	Note	2009	2008
		Year ended 31 December	
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

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

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

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.
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.

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, 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 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.

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:

- 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.

- 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.

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 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.

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 delin quency in interest or principal payments;
- the lender, for economic or legal reasons rela ting to the borrower's financial difficulty, gran ting 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;
- 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).

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.

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.

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.

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.
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.

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, 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 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%.

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

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

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.

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.

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.

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.

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 from 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 from 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.

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.

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	662,766	562,378	312,321
-Domestic	661,959	759,603	253,902
-Foreign	137,293	174,816	261,698
Liabilities to related parties	60,771	34,756	98,754
Other liabilities	1,522,789	1,531,553	926,675
Financial liabilities	974,856	785,926	784,765
Accrued expenses	1,002,535	1,141,842	780,723
Deferred revenue	75,081	77,862	93,586
VAT payable	46,370	34,551	37,898
Advances received	34,765	34,765	34,765
Other	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:

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

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.

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. Flinance 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.

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.

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

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.

	Financial assets					
Assets In thousands of denars	Loans and receivables	Held- to-maturity	Available-for-sale	At fair value through profit and loss	Carrying amount	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 December 31, 2009.

	Financial assets					
Assets In thousands of denars	Loans and receivables	Held- to-maturity	Available-for-sale	At fair value through profit and loss	Carrying amount	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

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).

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	-	-

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.

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.

Calendar of events for 2010

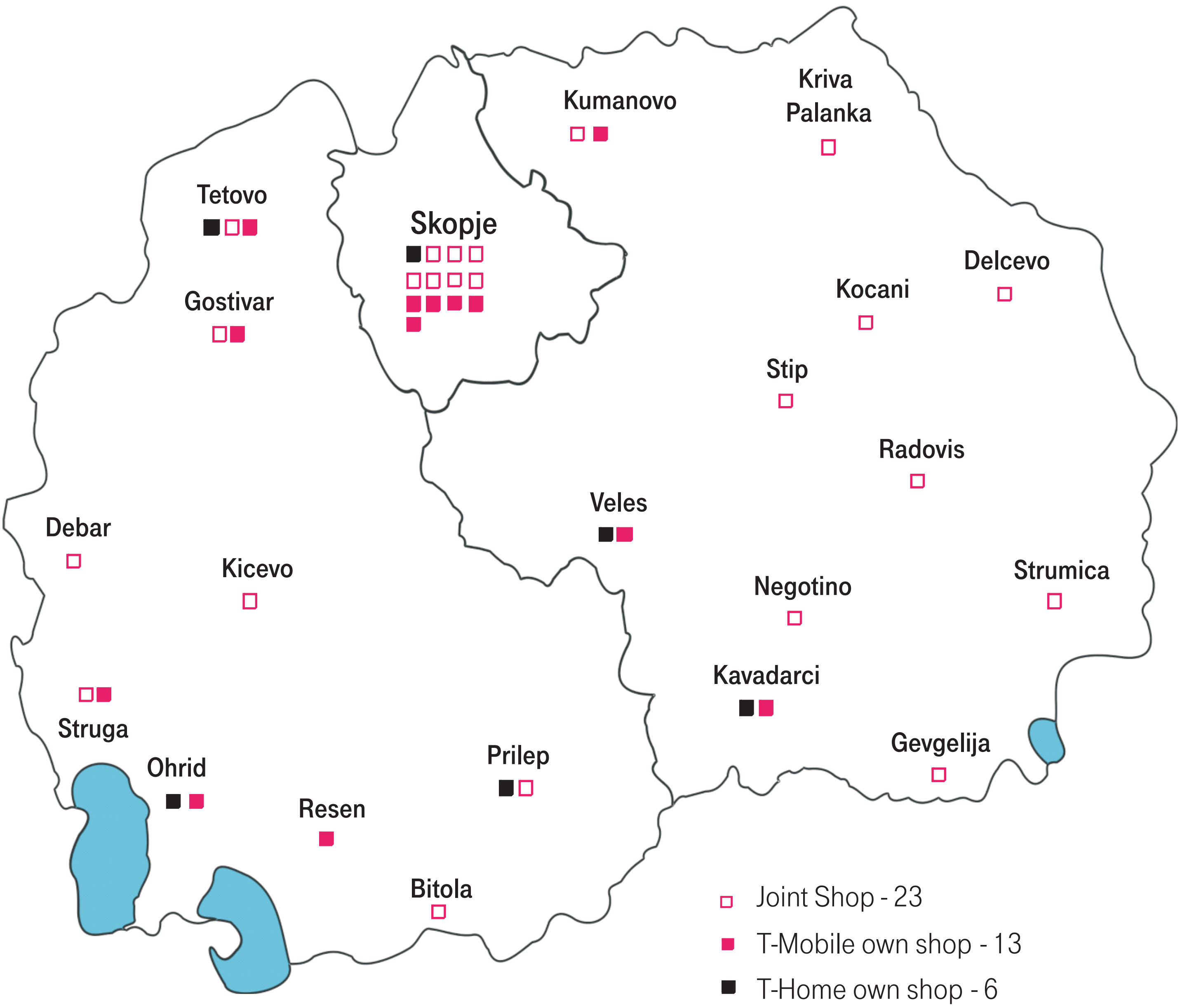
Meetings of the Shareholders' Assembly of Makedonski Telekom in 2010

Date	Event/Type of Report
30.04.2010	Annual meeting of the Shareholders' Assembly of Makedonski Telekom
25.06.2010	Shareholders' Assembly meeting of Makedonski Telekom
10.12.2010	Shareholders' Assembly meeting of Makedonski Telekom

Meetings of the Shareholders' Assembly of Makedonski Telekom in 2009

Date	Event/Type of Report
29.04.2009	Annual meeting of the Shareholders' Assembly of Makedonski Telekom
04.11.2009	Shareholders' Assembly meeting of Makedonski Telekom

Our One stop shop network



Forward looking statement

This document contains forward looking statements, which are not historical facts, including statements about our beliefs, expectations. Such kinds of statements are based on our current plans, estimations and projections, taking into consideration the financial conditions, the result of the companies and the Group operation and therefore you should not place undue reliance on them. They speak only as of the date they are made and we undertake no obligation to update publicly any of them in light of new information or future events.

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