Makedonski Telekom AD - Skopje
Annual accounts

BALANCE SHEET
as at 31 December 2010

(in denars)

POSITION	Code	AMOUNT			
			Current year		
		Previous year	Gross	Allowance account	Net (4-5)
1	2	3	4	5	6
ASSETS					
A.RECEIVABLES FOR REGISTERED NOT PAID CAPITAL	001				
B.FIXED ASSETS (003+009+014)	002	**14,794,502,483**	**38,580,814,858**	**27,024,009,095**	**11,556,805,763**
I. INTANGIBLE ASSETS (from 004 to 008)	003	**516,730,038**	**2,509,304,516**	**1,984,674,425**	**524,630,091**
1.Start up capital	004				
2.Research and development expenditures	005				
3.Concessions, patents, licenses, trademarks and other rights	006	516,730,038	2,509,304,516	1,984,674,425	524,630,091
4.Goodwill	007				
5.Advances for intangible assets	008				
II. TANGIBLE ASSETS (from 010 to 013)	009	**7,571,940,845**	**32,876,557,528**	**25,022,376,630**	**7,854,180,898**
1.Land and buildings	010	4,462,010,758	14,638,849,505	10,468,444,679	4,170,404,826
2 Plant and equipment	011	1,643,640,600	13,152,664,344	11,067,299,864	2,085,364,480
3.Tools, plant and office furniture and fittings and vehicles	012	705,730,797	4,245,245,364	3,486,632,087	758,613,277
4.Advances for tangible assets and tangible assets under construction	013	760,558,690	839,798,315		839,798,315
III. LONG-TERM FINANCIAL INVESTMENTS (from 015 to 021)	014	**6,705,831,600**	**3,194,952,814**	**16,958,040**	**3,177,994,774**
1.Investments in related entities	015	2,797,590,628	2,797,590,628		2,797,590,628
2.Loans to related parties	016				
3.Investments in joint ventures	017				
4.Loans to joint ventures partners	018				
5.Investments in securities	019	61,966,550	82,083,393	16,958,040	65,125,353
6.Other investments (granted loans, deposits, obligatory long-term investments)	020	107,917,071	315,278,793		315,278,793
7.Treasury shares	021	3,738,357,351			
C.CURRENT ASSETS (023+028+034+038)	022	**9,852,738,931**	**10,252,798,447**	**1,371,879,384**	**8,880,919,063**
I.INVENTORIES (from 024 to 027)	023	**185,556,514**	**497,579,105**	**225,095,971**	**272,483,134**
1.Raw materials and other materials	024	66,478,377	244,924,595	116,601,200	128,323,395
2.Work in progress (unfinished production and semi-products)	025				
3.Trading goods and finished goods	026	68,436,259	119,782,559	34,444,283	85,338,276
4.Advance payments, deposits and bails	027	50,641,878	132,871,951	74,050,488	58,821,463
II. RECEIVABLES (from 029 to 033)	028	**2,020,650,311**	**2,961,440,315**	**1,134,695,486**	**1,826,744,829**
1.Trade receivables	029	1,511,352,062	2,521,992,620	1,133,490,062	1,388,502,558
2.Receivables from related entities	030	205,465,087	252,108,410		252,108,410
3.Receivalbes based on joint ventures	031				
4.Other receivables	032	253,242,604	132,652,801	1,205,424	131,447,377
5.Prepayments, deferred expenditure and deferred revenue	033	50,590,558	54,686,484		54,686,484
III.SHORT-TERM FINANCIAL INVESTMENTS (from 035 to 037)	034	**7,544,758,526**	**6,773,592,340**	**12,087,927**	**6,761,504,413**
1.Investments in related parties	035				
2.Treasury shares	036				
3.Other investments	037	7,544,758,526	6,773,592,340	12,087,927	6,761,504,413
IV. CASH AND SECURITIES	038	**101,773,580**	**20,186,687**		**20,186,687**
D.TOTAL ASSETS (001+002+022)	039	**24,647,241,414**	**48,833,613,305**	**28,395,888,479**	**20,437,724,826**
E.OFF BALANCE SHEET RECORDS - ASSETS	040	41,319,491	48,865,434		48,865,434

BALANCE SHEET
as at 31 December 2010

(in denars)

POSITION	Code	Previous year	Current year
1	2	3	4
A.EQUITY AND RESERVES (042+043+044+045+050-051+052+053)	041	**21,731,342,827**	**17,470,435,399**
I. REGISTERED CAPITAL	042	**9,606,178,689**	**9,606,178,689**
II. SHARE PREMIUM	043	**540,659,375**	**540,659,375**
III.REVALUATION RESERVES	044	**2,294,516,237**	**2,294,516,237**
IV.RESERVES (from 046 to 049)	045	**1,916,777,547**	**-1,821,579,804**
1.Statutory reserves	046	1,916,777,547	1,916,777,547
2.Treasury shares reserves	047		-3,738,357,351
3.Statutory reserves	048		
4.Other reserves	049		
V.RETAINED EARNINGS	050	**903,181,740**	**903,181,740**
VI.ACCUMULATED LOSS (-)	051		
VII.PROFIT FOR THE CURRENT YEAR	052	**6,470,029,239**	**5,947,479,162**
VIII.LOSS FOR THE CURRENT YEAR	053		
B.PROVISIONS FOR LIABILITIES AND EXPENSES (from 055 to 057)	054	**311,766,937**	**520,389,500**
1.Provision for pension and other obligation	055		
2.Provision for taxes	056		
3.Other provisions	057	311,766,937	520,389,500
C.TRADE LIABILITIES (059+(from 064 to 071) or 058= (075+076)	058	**1,655,054,423**	**1,522,093,357**
1.Liabilities for debt securities (060+063)	059		
a. Liabilities for regular debt securities (061+062)	060		
a. 1.Long term liabilities for ordinary debt securities	061		
a. 2.Short term liabilities for ordinary debt securities	062		
b.Liabilities for convertible debt securities	063		
2.Liabilities for loans	064		
3.Liabilities for advances, deposits and bails	065	34,265,496	40,207,643
4.Trade payables	066	764,645,456	947,918,310
5.Liabilities for bills and cheques	067		
6.Liabilities to related entities	068	249,246,204	421,986,515
7.Liabilities to joint venture partners	069		
8.Other liabilities, including liabilities for taxes and social contributions	070	605,785,029	110,554,653
9.Liabilities for dividends	071	1,112,238	1,426,236
D.ACCRUED EXPENSES AND DEFERRED REVENUE	072	**949,077,227**	**924,806,570**
E.TOTAL EQUITY AND LIABILITIES (041+054+058+072)	073	**24,647,241,414**	**20,437,724,826**
F.OFF BALANCE SHEET RECORDS - LIABILITIES	074	41,319,491	48,865,434
I.LONG TERM TRADE LIABILITIES	075		
II.SHORT TERM TRADE LIABILITIES	076	1,655,054,423	1,522,093,357

Makedonski Telekom - AD Skopje

Annual accounts

INCOME STATEMENT
for the period 01.01 to 31.12.2010

(in denars)

Ordinal number	Position	Code			AMOUNT	
					Previous year	Current year
1	2	3			4	5
1.	Sales revenues	2	0	1	8,511,938,910	8,430,092,365
2.	Change in value of work in progress and finished goods	x	x	x		
2a.	Finished goods and work in progress - opening balance	2	0	2		
2b.	Finished goods and work in progress - closing balance	2	0	3		
3.	Revenues from using of own products, goods and services	2	0	4	66,230,321	88,500,566
4.	Other operating revenues	2	0	5	265,185,198	69,156,981
5.	Cost of materials (207+208)	2	0	6	3,045,186,415	3,134,479,187
5a.	Cost of raw and other materials	2	0	7	223,402,679	252,534,833
5b.	Cost of goods sold and services	2	0	8	2,821,783,736	2,881,944,354
6.	Employee costs (210+211)	2	0	9	880,273,438	972,737,427
6a.	Net wages and allowances	2	1	0	592,006,811	667,571,792
6b.	Taxes, social and pension contributions etc. (212+213)	2	1	1	288,266,627	305,165,635
	1.Pension contribution	2	1	2	154,283,063	161,900,374
	2.Taxes and social contribution	2	1	3	133,983,564	143,265,261
7.	Depreciation/amortization and impairment (215+216)	2	1	4	1,873,704,713	1,890,370,013
7a.	Depreciation/amortization and impairment on start up capital, tangible assets and non tangible assets (long term assets)	2	1	5	1,789,774,220	1,866,596,639
7b.	Impairment of current assets	2	1	6	83,930,493	23,773,374
8.	Other operating expenses	2	1	7	1,155,625,497	960,268,759
9.	Income from investments (219+220)	2	1	8	4,358,431,980	4,026,253,292
9a.	Income from investments in related parties	2	1	9	4,355,314,260	4,019,130,968
9b.	Income from investments in unrelated parties	2	2	0	3,117,720	7,122,324
10.	Income from other investments and loans (222+223)	2	2	1		
10a.	Income from other investments in and loans to related entities	2	2	2		
10b.	Income from other investments in and loans to unrelated entities	2	2	3		
11.	Financial Income (225+226)	2	2	4	394,673,189	404,918,879
11a.	Financial Income from operations with related parties	2	2	5		
11b.	Financial Income from operations with unrelated parties	2	2	6	394,673,189	404,918,879
12.	Impairment of financial assets and investments	2	2	7	100,271	1,174,039
13.	Financial expenses (229+230)	2	2	8	140,217,106	90,008,939
13a.	Financial expenses from operations with related parties	2	2	9		
13b.	Financial expenses from operations with unrelated parties	2	3	0	140,217,106	90,008,939
14.	Profit before tax (201+204+205+218+221+224)-(202-203+206+209+214+217+227+228)	2	3	1	6,501,352,158	5,969,883,719
15.	Loss before tax (202-203+206+209+214+217+227+228)-(201+204+205+218+221+224)	2	3	2		
16.	Income tax	2	3	3	31,322,919	22,404,557
17.	Profit after tax (231-233)	2	3	4	6,470,029,239	5,947,479,162
18.	Loss after tax (233-231) or (232+233)	2	3	5		
19.	Extraordinary revenues	2	3	6		
20.	Extraordinary expenses	2	3	7		
21.	Profit from extraordinary activities before taxation (236-237)	2	3	8		
22.	Loss from extraordinary activities before taxation (237-236)	2	3	9		
23.	Profit tax from extraordinary activities	2	4	0		
24.	Profit from extraordinary activities after taxation (238-240)	2	4	1		
25.	Loss from extraordinary activities after taxation (240-238) or (239+240)	2	4	2		
26.	Other profit tax which are not represent in the previous positions	2	4	3		
27.	Profit for the current year (234+241-243) or (234-242-243) or (241-235-243)	2	4	4	6,470,029,239	5,947,479,162
28.	Loss for the current year (235+242+243) or (235-241+243) or (242-234+243)	2	4	5		
	Services (246< or =208)	2	4	6	2,352,720,624	2,476,341,888
	Average headcount on base of work hours in the accounting period (absolute amount)	2	4	7	1,287	1,265
	Working months in period	2	4	8	12	12

Makedonski Telekom AD - Skopje

Taxation period: 01/01/-31/12/10

TAX RETURN

I	DETERMINATION OF THE INCOME TAX FOR THE UNRECOGNIZED EXPENSES				
A	Reconciliation of the unrecognized expenses for the year: sum from no.1 to 29			01	526,966,787
	1		Cost of the materials and the cost of trade goods sold exceeding the amount computed by the method of using average cost prices, and the amount of the costs before the date of their sale or use	02	
	2		Difference between transfer price and market price from the transactions, which the tax payers have had with related parties	03	
	3		Unpaid calculated salaries from current year	04	
	4		Unpaid allowances based on employ related costs for the year, in amount set with Income Tax Law	05	
	5		Costs for organized food and transportation to and from work for the employees, over the amount determined with law	06	
	6		Unpaid allowances for the volunteers and for the persons engaged in conducting public affairs, and unpaid allowances otherwise provided by law	07	
	7		Unpaid part of the salary to the employees and members of management body on basis of the employer's business success	08	
	8		Personal allowances for the members of management and supervisory board above 50% of the amount paid as well as calculated and unpaid allowances to the members of management and supervisory board	09	3,100,002
	9		Other cost reimbursements which are not covered by article 14 paragraph 1 from the Income Tax Law	10	91,887,893
	10		Expenses for usage of passenger vehicles, food and beverages, gifts, purchase of movables or real estate for members of the Board of directors or for the shareholders	11	902,234
	11		Depreciation of tangible and intangible assets, which is higher than the depreciation calculated using a proportionate method on assets cost value	12	40,199,149
	12		The amount of remaining current value of the fixed assets which are not in use, but fully depreciated, for which no approval is obtained by Public Revenue Office	13	430,552
	13		Part of the depreciation calculated by functional method over 10%, for which no approval is obtained by Public Revenue Office	14	
	14		Proportional amount of the depreciation of the assets for which tax deduction has been used according article 31 from the Income Tax Law for 2007 and 2008	15	
	15		Interest costs for loans used for procurement of cars, furniture, carpets, pieces of figurative and applied art and other decorative objects for administrative premises	16	
	16		Part of the interest rates from loans derived from the creditors with status of related parties, over the amount of the existing interest rates provided from the commercial banks	17	
	17		Interest on loans received from shareholders or co-owners with over 25% participation in the capital of the company, that for more than 3 times exceeds the amount of the portion owned by the shareholder	18	
	18		Costs for research and development which are not incurred within private research and development centres or through independent scientific institutions	19	
	19		Insurance premiums not paid and paid insurance premiums that are not related for the purposes set out in Article 17-b of the Income Tax Law	20	857,808
	20		Cost of withholding tax charged to the payer, tax penalties and fines, penalties and penalty interest and costs of forced collection	21	46,315,464
	21		Costs for economic propaganda and marketing that are not within the function of promoting the business activity	22	19,178,606
	22		Donations expenses which are not in relation to the Law of donations and sponsorships in public activities and donation expenses above 5% from the total revenue generated in the current year	23	558,527
	23		Sponsorships expenses which are not in relation to the Law of donations and sponsorships in public activities and sponsorship expenses above 3% from the total revenue generated in the current year	24	1,808,953
	24		Cost for representation	25	27,612,315
	25		Written-off bad debt receivables, except ones which are written-off based on court decision, and uncollected receivables from customers in bankruptcy and liquidation	26	22,174,543
	26		Calculated long-term provisions, except for those prescribed by Law on forests	27	260,258,308
	27		Scholarships payments	28	1,102,496
	28		Special reserves for insurance and reinsurance companies, which exceeds 75% of reservations in accordance with Article 23 paragraph 2 from the Income Tax Law	29	
	29		Other reconciliation of expenses in accordance with Income Tax Law which are not quoted in above lines	30	10,579,937

B	**Tax credit for delayed cost recognition: * sum from no.30 to no.38**			**31**	**302,921,221**
	30		Paid salaries from previous years, for which tax base was increased in the year of the calculation	32	
	31		Paid allowances based on employ related costs from previous years, in amount set with Income Tax Law, for which tax base was increased in the year of the calculation	33	
	32		Paid allowances for the volunteers for which tax base was increased in the year of the calculation	34	
	33		Paid part of the salary to the employees and members of management body on basis of the employer's business success from previous years, for which tax base was increased in the year of the calculation	35	
	34		Paid personal allowances to the members of management and supervisory board above 50%, for which tax base was increased in the year of the calculation	36	
	35		Amount of collected written-off receivables and financial investments from Article 20-a from the Income Tax Law	37	3,159,208
	36		Amount of the reversed long term provisions, for which in the previous period tax base was increased	38	297,230,555
	37		Part of the depreciation of fixed assets calculated using proportional method in accordance Regulation for depreciation of assets for which in the previous period higher depreciation rate was used and tax base was increased	39	1,716,461
	38		On other basis determined with the Law, for which in the previous period tax base was increased	40	814,997
C	**Tax base * AOP 1 - AOP 31 ≥ 0**			**41**	**224,045,566**
D	**Calculated income tax *AOP 41 x prescribed rate**			**42**	**22,404,557**
E	**TAX REDUCTIONS AND EXEMPTIONS: * SUM FROM NO. 39 TO NO.40**			**43**	
	39		Decrease of tax in proportion to the participation of the foreign person in the total capital of the company as of 31 December 2009, if the investment is before 31 December 2006 ** filling in this line with Tax Statement for 2009*	44	
	40		Decrease of tax for the amount of purchase and put into operation for 10 fiscal cash registers	45	
F	**Avoiding of double taxation**			**46**	
	41		Amount of the tax contained in the foreign taxed revenues/profit (withhold tax) till the prescribed rate, except the tax from the dividends received from non resident and the tax paid on the profit from non resident subsidiary owned by domestic entity	47	
G	**Tax payment/return**				
	42		Income tax after deductions (AOP 42 - AOP 43 - AOP 46 ≥ 0)	48	22,404,557
	43		Settled advance tax payments for the tax period	49	55,933,911
	44		Residual amount for over paid income tax from previous periods	50	
	45		Amount for payment/over paid amount (AOP 48 - AOP 49 - AOP 50)	51	-33,529,354
H	**Special information for the first part**				
	46		Transferred unused part of the right to decrease the tax from Article 36-b from the Income Tax Law	52	
	47		Percentage of the participation of the foreign capital in the total capital at 31 December in the year (this date continues to present in three year period)	53	
	48		Total revenue in year	54	13,018,922,083
	49		Total costs for donations in the year	55	8,628,278
	50		Total costs for sponsorships in the year	56	16,216,264
	51		Amount of tax credit when AOP 01 - AOP 31≤ 0	57	
II	**INFORMATION FOR THE FINANCIAL RESULT AND FOR THE ALLOCATIONS**				
I	**Gain/loss before taxation**				
	52		Profit for the year after taxation	58	5,947,479,162
	53		Loss for the year	59	
	54		Advanced dividend payment in the tax period	60	
	55		Dividends paid from the profit and free reserves from previous year	61	6,470,029,239
	56		Accumulated gain and free reserves in period from 01.01.2009	62	5,947,479,162
	57		Accumulated loss in period from 01.01.2009	63	
J	**Special information for the second part**				
	58		Amount of transferred gains as of 31 December 2008 and reserves that can be allocated, decreased for the amount of uncovered losses, legal reserves and statutory reserves determined with Company's Statute	64	903,181,740
	59		Amount of transferred uncovered losses as of 31 December 2008 which affects the gains from 2008	65	

Makedonski Telekom AD - Skopje

Notes to the annual accounts

For the year ended

31 December 2010

Notes to the annual accounts

1. GENERAL INFORMATION

1.1. About the Company

These annual accounts relate to Makedonski Telekom AD - Skopje, (hereinafter referred as: "the Company"), 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 Company'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 in Macedonia.

The Macedonian telecommunications sector is regulated by the Electronic Communications Law (ECL) enacted in March 2005. 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. With the changes of the ECL published on 4 August 2008, the Concession Contracts of the Company 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 the Company 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. With the latest amendments on ECL, as of 1 July 2010 data retention obligation was introduced for the Company to keep unprocessed traffic data for 24 months. It is expected the Broadcasting Council to intensify actions against CaTV operators due to retransmission of TV Channels without regulated Intellectual property (IP) rights.

The Company is using Long run incremental costs methodology (LRIC) for wholesale regulated services. On 4 October 2010 the Agency has implemented LRIC Bottom – up costing model and published final results on 20 December 2010, which will be applicable from March 2011.

Based on the ECL, the Agency may prescribe retail regulation of fixed telephony services. The Agency finished the procedure for analyses of relevant markets and based on the analysis conclusions, the Agency is planning to impose retail price regulation on the Company. In addition bigger pressure on retail pricing is expected due to the Guideline for price squeeze testing introduced by the Agency in 2010.

Additionally, the Agency organized public debate upon regulatory challenges in relation with the next generation access networks.

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. New Rulebook on access and use of specific network assets was published by the Agency in December 2010. According to the new Rulebook the Company has obligation to offer access to ducts and dark fibre.

On 27 May, 2010 new number portability (NP) service was introduced: WLR with NP, giving option for all WLR users to migrate their numbers into the Company's Wholesale Partner network.

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 2010 was 1,265 (2009: 1,287).

Notes to the annual accounts

1.2. Investigation into certain consultancy contracts

On 13 February 2006, Magyar Telekom Plc., the controlling owner of the Company, (via Stonebridge Communications AD - Skopje (under liquidation), majority shareholder of 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 2009.

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

Notes to the annual accounts

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 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 216,577 thousand has been identified as potential tax impact (together with related penalty interest) as of 31 December 2009 arising from the transactions conducted by the Company subject to the Final Report. This impact has been recognized in the Income statement as Other operating expense and financial expenses against Other liabilities. In 2010 the amount related to the identified potential tax impact (together with related penalty interest) amounted to MKD 227,972 thousand, which were paid in 2010 upon an executive decision issued by the Public Revenue Office. In addition, the value of one contract of MKD 105,147 thousand capitalised within treasury shares was reclassified and derecognized against the Retained earnings. The other contracts that were identified by the Final Report and the reports of the tax and legal experts related to transactions undertaken by the Company were expensed in the related periods (2001-2007).

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

In 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 Telemacedonia) and Zoltan Kisjuhász (former CEO of Stonebridge and former non-executive member of the Board of Directors of Makedonski Telekom AD - Skopje) on the account of a reasonable doubt for committed criminal act. These individuals are proposed to be charged with having „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. On 9 April 2010 the Company received notification from the Bureau of judicial expertise that based on the order of the Primary Court Skopje 1 Skopje the Bureau will perform expertise on the case. The expertise was performed on 11 May 2010 and the experts from Ministry of Justice of the Republic of Macedonia – Court Expertise Office – Skopje, asked for some additional documents from the Company's side in order to prepare the expertise. The Company received

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Notification from the Court Expertise Office – Skopje that the expertise will continue on 18 October 2010. The experts asked additional information related to certain agreements concluded in 2005 and 2006, and related invoices. The Company has collected and submitted requested information/documentation to the Court Expertise Office on 1 November 2010. After preparation the expertise will be submitted from the responsible Judge to the Public Prosecutor. The Public Prosecutor should decide whether he/she will initiate prosecution act against accused persons or not depending on the expertise and other relevant proofs collected in the phase of investigation.

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 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.

Notes to the annual accounts

2. SIGNIFICANT ACCOUNTING POLICIES

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

2.1. Basis of preparation

These annual accounts are prepared, in all material respects, in accordance with the Company Law (published in Official Gazette No. 28/04, 84/05, 25/07, 87/08, 42/10 и 48/10) and Rule Book for Accounting (Official Gazette No.159/2009 and No.164/2010), whereby the International Financial Reporting Standards (IFRS) comprising IFRS 1 to IFRS 8, International Accounting Standards (IAS) comprising IAS 1 to IAS 41, International Financial Reporting Interpretations Committee (IFRIC) comprising IFRIC 1 to IFRIC 17 and Standing Interpretations Committee (SIC) Interpretations comprising SIC 1 to SIC 32, were published. IFRS (including IFRS 1), previously known as IAS were initially published in the Official Gazette in 1997, and since then several updates have followed. The last update was in December 2010, being effective from 2010.

The annual accounts are presented in Macedonian denars.

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

2.2. Foreign currency translation

2.2.1. Functional and presentation currency

The annual accounts are presented in Macedonian denars, which is the Company's functional and presentation currency.

2.2.2. Transactions and balances

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

The foreign currencies deals of the Company are predominantly EURO (EUR) and United States Dollars (USD), based.

The exchange rates used for translation at 31 December 2010 and 31 December 2009 were as follows:

	2010 MKD	2009 MKD
1 USD	46.31	42.67
1 EUR	61.51	61.17
1 CHF	49.30	41.12

2.3. 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 Company include, cash and securities, short – term financial investments and equity instruments of another entity (investments in securities) and contractual rights to receive cash (trade and other receivables) or another financial asset from another entity.

Notes to the annual accounts

Financial liabilities of the Company 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.

2.3.1. Financial assets

The Company 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 Company commits to purchase or sell the asset. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognized at fair value, and transaction costs are expensed in the Income statement.

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

Impairment losses of financial assets are recognized in the Income statement 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 Balance sheet. 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 Company 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 Company manages such asset and makes purchase and sale decisions based on its fair value in accordance with the Company investment strategy for keeping investments within portfolio until there are favourable market conditions for their sale.

'Financial assets at fair value through profit or loss' are subsequently carried at fair value. Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are recognized in the Income statement (Income from investments in unrelated parties/Impairment of financial assets and investments) in the period in which they arise.

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

(b) Loans and receivables

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

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

- cash
- deposits with bank
- trade receivables

Notes to the annual accounts

- other receivables
- employee loans
- receivables and loans to third parties

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

Cash

Cash include cash on hand and cash on the gyro accounts of the Company.

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 Company will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the trade receivable is impaired.

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

The Company'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 Impairment of current assets in the Income statement with a parallel release of the cumulated impairment on the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against the recognized loss in the Income statement.

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

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 Other operating expenses evenly over the term of the loan.

Impairment losses on Employee loans, if any, are recognized in the Income statement (Impairment of current assets).

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

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

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

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

2.3.2. 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.

2.4. 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 and if the normal resale value is higher than the cost of the phone set. If the normal resale value is lower than costs, the difference is recognized as impairment immediately.

Impairment losses on Inventories are recognized in Impairment of current assets.

2.5. 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 Company, 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.

2.6. Tangible assets

Tangible assets are stated at cost less accumulated depreciation and impairment losses (see note 2.8).

The cost of an item of Tangible assets 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

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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.

Items of Tangible assets are restated at the year-end using official revaluation coefficients based on the general manufactured goods price increase index. Such coefficients have been applied to historical cost or later valuation and to accumulated depreciation as to approximate replacement cost. The net effect of revaluation is recorded against revaluation reserves. The last revaluation of property, plant and equipment was made in year 2000.

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 Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the Income statement during the financial period in which they are incurred.

When assets are scrapped, the cost and accumulated depreciation are removed from the accounts and the loss is recognized in the Income statement as other operating expenses.

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

Depreciation is charged to the Income statement on a straight-line basis. Assets are not depreciated until they are available for use. Land is not depreciated.

The depreciation is calculated using the following annual rates of depreciation, which are also tax allowable:

	2010	2009
	%	%
Buildings	2.5-10	2.5-10
Aerial and cable lines	10	10
Telephone exchanges	25	25
Computers	25	25
Electronic devices	25	25
Furniture and fittings	20	20
High frequency and radio devices	25	25
Mechanical devices	10-25	10-25
Vehicles	25	25

2.7. Intangible assets

Intangible assets that are acquired by the Company are stated at cost less accumulated amortisation and impairment losses (see note 2.8).

Items of intangible assets are restated at the year-end using official revaluation coefficients based on the general manufactured goods price increase index. Such coefficients have been applied to historical cost or later valuation and to accumulated depreciation as to approximate replacement cost. The net effect of revaluation is recorded against revaluation reserves. The last revaluation of intangible assets was made in year 2000.

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 amortisation is calculated using the following annual rates of amortisation, which are tax allowable:

	2010	2009
	%	%
Software and software licences	20	20
Concession	20	20

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Amortisation is charged to the Income statement on a straight-line basis. Intangible assets are amortised from the date they are available for use.

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.

2.8. Impairment of tangible and intangible assets

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

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

Impairment losses are recognized in the Income statement (Depreciation and amortization). Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.9. Investment in subsidiaries

In thousands of denars	2010	2009
T-Mobile Macedonia AD Skopje	2,791,453	2,791,453
e-Makedonija	6,138	6,138
	2,797,591	2,797,591

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

	Country of incorporation	Ownership interest 2010	Ownership interest 2009
T-Mobile Macedonia AD Skopje	Macedonia	100	100
e-Makedonija	Macedonia	100	100

During 2004, the Company established the e-Makedonija foundation with the main purpose support of information technology development in the Republic of Macedonia.

2.10. Provisions and contingent liabilities

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

Provisions are measured and recorded as the best estimate of the expenditure required to settle the present obligation at the balance sheet date. The provision charge is recognized in the Income statement 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.

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Share capital consists of the following:

In thousands of denars	2010	2009
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.

As of 31 December 2010, the ordinary shares of the Company were held as follows:

In thousands of denars	2010	%
Stonebridge AD Skopje, in liquidation	4,887,778	51.00
Government of the Republic of Macedonia	3,336,497	34.81
The Company (treasury shares)	958,388	10.00
International Finance Corporation (IFC)	179,698	1.88
Other minority shareholders	221,527	2.31
	9,583,888	100.00

2.12. Treasury shares

When the Company 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 Company'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 Company's equity holders.

2.13. Statutory reserves

Under local statutory legislation, the Company is 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 Company.

2.14. Revaluation reserves

The revaluation reserve relates to tangible and intangible assets and comprises the cumulative increased carrying value using official revaluation coefficients based on the general manufactured goods price increase index producers price index on the date of revaluation. The last revaluation of tangible and intangible assets was made in year 2000.

2.15. Revenues

Revenues for all services and equipment sales are shown net of VAT and discounts. 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 Company and specific criteria of IAS18 on the sale of goods and rendering of services are met for the provision of each of the Company's services and sale of goods.

Customers of the Company are granted loyalty awards (credit points) based on their usage of the Company's services including timely payment of their invoices. Loyalty awards can be accumulated and redeemed to obtain future benefits (e.g. handsets, telecommunication equipment, etc.) from the Company. When customers earn their credit points, the fair value of the credit points earned are deducted from the revenue invoiced to the customer, and recognized as deferred revenue. On redemption (or expiry) of the points, the deferred revenue is released to revenue as the customer collected (or waived) the undelivered element of the deemed bundle.

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

2.15.1. Fixed line telecommunications revenues

Revenue is primarily derived from services provided to customer subscribers and other third parties using telecommunications network, and equipment sales.

Customer subscriber arrangements typically include an equipment sale, subscription fee and monthly charge for the actual voice, internet, data or multimedia services used. The Company 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. These units are identified and separated, since they have value on a standalone basis and are sold not only in a bundle, but separately as well. Therefore the Company recognizes revenues for all of these elements using the residual method that is the amount of consideration allocated to the delivered elements of the arrangements equals the total consideration less the fair value of the undelivered elements.

The Company provides customers with narrow and broadband access to its fixed 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 they relate 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 premium rate services (voice and non-voice) are recognized on a gross basis when the delivery of the service over the network is the responsibility of the Company, the Company establishes the prices of these services and bears substantial risks of these services, otherwise presented on a net basis.

Third parties using the telecommunications network include other telecommunications providers which terminate or transit calls on the 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 applicable. The revenues and costs of these terminate or transit calls are stated gross in these annual accounts as the Company is the principal supplier of these services using its own network freely defining the pricing of the service, and recognized in the period of related usage.

2.15.2. System integration and IT revenues

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.

Revenue from hardware sales is recognized when the risk of ownership is substantially transferred to the customer, provided there are no unfulfilled obligations that affect the customer's final acceptance of the arrangement. Any costs of these obligations are recognized when the corresponding revenue is recognized.

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 Balance sheet as Trade receivables.

2.16. Employee benefits

2.16.1. Short term employee benefits and pensions

The Company, 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 Company makes these contributions to the Governmental and private funds. The cost of these payments is charged to the Income statement in the same period as the related salary cost. No provision is created for holiday allowances for non-used holidays as according the local legislation the employer is obliged to provide condition for usage, and the employee to use the annual holiday within one year. This is also exercised as Company policy and according the historical data employees use their annual holiday within the one year legal limit. The Company does not operate any other pension scheme or post retirement benefits plan and consequently, has no obligation in respect of pensions. The Company 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 annual accounts 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 high quality bonds that are denominated in the currency in which the benefits will be paid. In addition, the Company is not obligated to provide further benefits to current and former employees.

2.16.2. Bonus plans

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

2.16.3. 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 Company 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.

2.17. Marketing expenses

Marketing costs are expensed as incurred.

2.18. Income tax

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 at the moment of the dividend payment, regardless of whether in monetary or non-monetary form, to the foreign non resident legal entities and, foreign and domestic individuals. The dividends paid out to the resident legal entities are tax exempted. Apart of distribution of dividends, the tax is still payable on the non-deductable expenses incurred in that fiscal year, decreased by the amount of tax credits and other tax relief's.

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2.19. Tax audits

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. During 2010 there was tax audit conducted by the Public revenue office for income tax for 2008 and 2009, withholding tax for 2007 and 2008 and VAT for 2009. 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 annual accounts.

2.20. Leases

2.20.1. Operating lease –Company as lessor

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

2.20.2. Operating lease –Company as lessee

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

2.21. 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.

2.22. Dividends

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

3. FINANCIAL RISK MANAGEMENT

3.1. Financial risk factors

The Company does not apply hedge accounting for its financial instruments, all gains and losses are recognized in the Income statement. The Company is exposed in particular to credit risks related to its financial assets and 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 and the management thereof are provided below.

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

a) Foreign currency risk

The functional currency of the Company is the Macedonian denar.

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The foreign exchange risk exposure of the Company 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 Company 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 Company 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.

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 Company is minimizing interest rate risk through defining of fixed interest rates in the period of the validity of certain financial investments. 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 Company 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.

c) Other price risk

The Company'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 Company strategy, the investments within portfolio are kept until there are favourable market conditions for their sale.

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 Company 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 Company.

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 Company'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.

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- 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), then 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 Company 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 customer's credit worthiness and through preventive barring – which determinates the credit limit based on the customer's previous traffic revenues.

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

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

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

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 Company 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 Company'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 Company'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 Company's objectives when managing capital are to safeguard the Company'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 2010, is MKD 17,470,435,399, as per local GAAP (2009: MKD 21,731,342,827). Out of this amount MKD

9,606,178,689 (2009: MKD 9,606,178,689) represent share capital and MKD 1,916,777,547 (2009: MKD 1,916,777,547) represent statutory reserves, which are not distributable (see note 2.13). The Company has also acquired treasury shares (see notes 2.12). 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 than 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 annual accounts 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 securities, trade receivables and other current financial assets mainly have short term maturity. For this reason, their carrying amounts at the balance sheet 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 balance sheet date.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The Company 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. Estimated impairment of tangibles and intangibles

We assess the impairment of identifiable tangibles 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 2% (2009: 1%) to determine the terminal value after 10 years. Value in use was determined using discounted cash flow analysis. The discount rate used was 9.38% (2009: 8.55%).

4.2. 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 2.3.1 (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).

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4.3. Provisions

Provisions in general are highly judgmental, especially in case of legal disputes. The Company 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 Company 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.

4.4. 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 Company's agents also spend a portion of their agent fees for marketing the Company's products, while a certain part of the Company'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 Company's fixed network. 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.

5. EVENTS AFTER THE FINANCIAL STATEMENT DATE

There are no events after the balance sheet date that would have impact on the 2010 profit for the year, balance sheet or cash flows.

Nikolai Beckers	Slavko Projkoski
Chief Executive Officer	Chief Finance Officer