Annual Report 2007

Life is for sharing

T · · Mobile


Life is for sharing
T Mobile

Company Info

Innovation leader, responsible towards society

T-Mobile Macedonia is recognized as innovation leader with best network quality, company which offers innovative easy to use services. As the first mobile phone operator in Macedonia, T-Mobile Macedonia was founded in September 1996 under the name of MobiMak. Since 2001 the company has been run as an independent subsidiary of Makedonski Telekomunikacii. On 1 September 2006, the rebranding from MobiMak to T-Mobile Macedonia took place after a lead time of several months. The company was re-branded into T-Mobile Macedonia, becoming part of the international T-Mobile family.

T-Mobile Macedonia is recognized in TM International as the T-Mobile country with best network quality. Our network covers 99.9% of the population and over 98.5% of the territory of the Republic of Macedonia. We are proud of our network quality which we continuously upgrade in order to provide high quality and affordable services.

Thanks to T-Mobile's international presence, customers can count on the availability of their favourite services even when they are abroad and they can take advantage of the unified, favourable calling rates. T-Mobile customers can communicate all over the world, using our roaming service which is offered in over 90 countries.

T-Mobile Macedonia was first to introduce GPRS and EDGE thus significantly increasing the data transfer speed. The company is recognized as the innovation leader introducing innovative and easy to use services, like web' walk, web SMS, Push mail, providing the true freedom to move for everyone.

The confidence of more than million customers in a country with a population of 2 000 000 confirms our leading position and obliges us to continue our mission – to become the most highly regarded service company.

As a successful company, we feel responsible towards the society and we invest in Macedonia. Through the Foundation T-Mobile for Macedonia, numerous humanitarian activities are conducted. We take care of the environment with strict eco activities whose purpose is to keep Macedonia clean and safe.

Global player in mobile communications

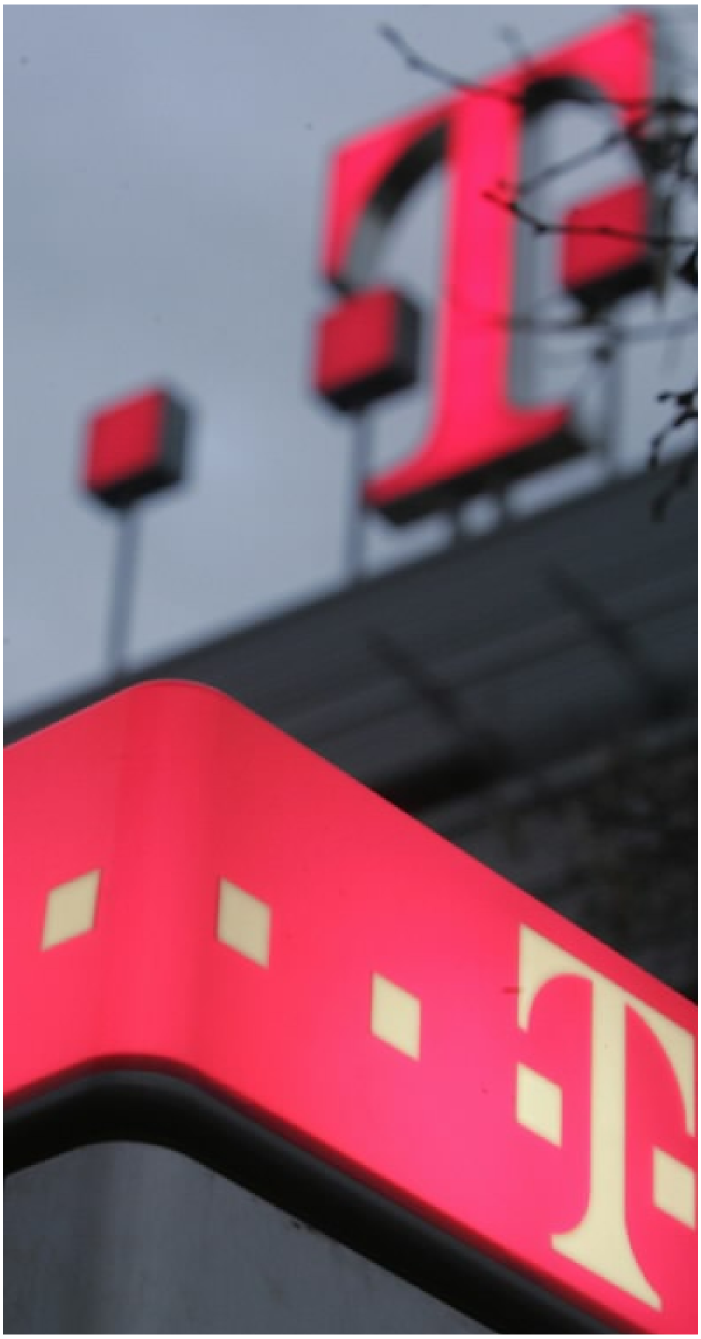
As one of the world's biggest mobile operators, T-Mobile International offers its customers the latest technologies and modern multimedia services. Since it was formed in December 1999, T-Mobile International, a wholly-owned subsidiary of Deutsche Telekom, has established itself as one of the world's leading mobile operators.

The development of new technologies and user-centric complete services has enabled the T-Mobile Group to enhance its position each year. The company operates in Europe and the United States and currently has around 120 million customers (12/2007) – a figure that is growing all the time.

T-Mobile International was the first and only operator so far to launch a uniform transatlantic network based on the world's most successful digital mobile communications standard GSM (Global System for Mobile Communications). T-Mobile's companies were among the first mobile communications providers to use future-oriented technologies such as GPRS, UMTS (3G) and WLAN.

Deutsche Telekom and T-Mobile International have twelve direct and indirect shareholdings in mobile communications companies worldwide. The Group is the sole or majority shareholder in Germany, the United States, the United Kingdom, Austria, the Netherlands, the Czech Republic and Poland. Deutsche Telekom also has a stake in telecommunications companies in Hungary, Croatia, Slovakia, Macedonia and Montenegro.

As part of the Group's "Focus, fix and grow" strategy, T-Mobile International has set the goal of further expanding the global Mobile Communications business area.



Global Brand attributes

Multinational multimedia brand

We will be the most highly regarded service company... with the passion to provide the true freedom to move for everyone.
Reliability, simplicity and inspiration – this is what T-Mobile stands for with its products and services Customers recognize T-Mobile on the basis of its three brand attributes: reliability, simplicity, and inspiration – three clear benefits that mobile phone users say they want and need.

Reliability
A key commitment to customers is a brand that people can trust and depend upon. Reliability stands for the bond of trust and confidence between T-Mobile and its customers. “I am T-Mobile – count on me.” customer wants.

Simplicity

T-Mobile makes the complex simple and is committed to delivering smart simplicity. People want products and services that are easy to use, regardless of the underlying technology. Why complicate things when there is an easier way?

Inspiration

We are dedicated to creating services that will inspire and surprise our customers by offering new benefits and new possibilities for communication. We are committed to offering both enjoyable and useful to have at hand wherever and however the customer wants.

Statements

Ladies and Gentlemen,

2007 was a year closely tided to the dynamics of the telecommunications market. Third mobile operator enters the market and the entire 12 month period was characterised by increased competitive pressure. Also, mobile market is developing rapidly and brings new services, technologies and more advanced customer needs. These conditions bring new challenges for T-Mobile, but also are making us even stronger.

2007 was also a year for celebration. We reached the one-million customer mark, which is no small feat considering that the total population of Macedonia is just over two million with a mobile penetration rate of 72 percent. This means that T-Mobile Macedonia owns 66 percent of the Macedonian mobile market – a market that the company helped launch in 1996 as the country's first mobile operator. Since then, the company has led the way in innovation focus on network quality and above all putting the customer's needs.

Following the rapid movement of the market, we face new challenges and offer new services and technologies, always even step before our customer's expectations. But the speed of development is not the only step to success. We also need to stay a reliable partner and following the customer centricity and the abilities of the local market to offer these services at very attractive prices.

Our efforts inevitably led to a significant increase in our revenues and EBITDA for 2007. We are resolved to continue with this successful development.

Lawrence

Michael Lawrence, CEO

Ladies and Gentlemen,

In 2007 we reached the one-million customer mark. This is not just a number. These are different people, counting on us. As a service company our top priority is customer centricity. We need to continuously improve our understanding of our customers and their understanding of us. In 2007 we increased our customer satisfaction; commit our "simply closer" approach at our point of sale; simplify the procedures towards customers resulting with even better customer satisfaction.

2007 was also a year of innovations – T-Mobile offered services which are taking the customers into a new communication era – converged internet and mobile services like: "webSMS"; "Web'n' Walk"and "Push Mail". With these services our customers can surf the internet with their mobile phones, chat with friends, correspond via e-mail, and keep track of all appointments thanks to the calendar function.

2007 was also a year of decreased prices in prepaid and business segment for more than 30%. Also new prepaid tariff models were introduced offering very attractive voice and SMS prices. We will follow this strategy in the future: our customer's satisfaction, innovative services and competitive prices.

Zarko Lukovski,
Chief Operating Officer

T-Mobile management

Michael Lawrence, CEO

Michael Lawrence is the CEO of T-Mobile Macedonia. He is working for T-Mobile for more than 11 years. He established a mobile Joint Venture with China Unicom in 4 main regions of China in 1998/99. Then he established a UMTS Consortium in France and later controlled the mobile operator PTC in Poland. Since 2004 he is leading T-Mobile Macedonia. Under his leadership, T-Mobile Macedonia is securing a high revenue market share and generating high EBITDA margins. Dr. Michael Lawrence is an engineer graduated at RWTH Aachen. Later he was a consultant for mergers & acquisitions at Deutsche Bank.

Eftim Betinski, CTO

Eftim Betinski is the Chief Technical Officer in T-Mobile Macedonia. Started as an O&M engineer at 1991 and his carrier has developed up to position of CTO in 2001. His main achievements are: 2G/GPRS/EDGE 596 BTS (4115 TRX's) on 441 locations, 3 MSC & 6BSC on 3 locations with complete O&M staff, developing own Investment & Planning dep., Radio Network dep., Core Network dep., Network development & Strategy, Developing of Prepaid System for up to 1M (900k in 2007). Graduated Engineer for Electronics and Telecommunications, graduated on Moscow's University for Telecommunications in 1990.

Zarko Lukovski, COO

Zarko Lukovski, is T-Mobile's Chief Operating Officer since September 2007. He is a member of the Board of Directors of Macedonian Telekom AD – Skopje since November 2006 and Chairmen of the Board since December the same year. Lukovski has great experience in computer sciences and telecommunication integration. His experience contains work on the Swedish and Macedonian market. He took part in the project of Ministry of Finance for electronic signature. For a longer period Lukovski worked and cooperated with different world brands such as Fujitsu, Siemens, Microsoft, Philips, Compaq, Xerox, Hewlett Packard, Motorolla, Ericsson where he gained broad international experience.

Dejan Krstevski, CFO

Dejan Krstevski is the CFO of T-Mobile Macedonia. He's been working for T-Mobile Macedonia for 7 years, from 2005 as Chief Financial Officer. He previously worked for Makedonski Telekom for 4 years as Head of Finance, Strategy Department. In T-Mobile he established Customer Finance Department, Centralized Procurement, SAP development, Business Planning processes, Fraud Management System (FMS). Under his leadership, T-Mobile Macedonia is securing a high profitability and generating high EBITDA margins. Dejan Krstevski has BA Degree in Mechanical Engineering and in Economics, MBA and is currently working on doctoral thesis (PhD).

Eftim Betinski - CTO
Chief Technical Officer

Zarko Lukovski, COO
Chief Operating Officer

Michael Lawrence - COO
Chief Operating Officer

Dejan Krstevski - CFO
Chief Finance Officer

Dusko Kantardziev - CITO
Chief IT Officer

Dusko Kantardziev, CITO

Dusko Kantardziev is a CIO of T-Mobile Macedonia. His career spans over 15 years at various positions in Makedonski Telekom and T-Mobile. He established the first international relations and telephone traffic accounting after secession of Yugoslav PTTs in 1991. In a two-year foray, he was technical director of an electronic security company delivering solutions to large businesses and the army. In 1996 he was member of the setup team to establish the first mobile network in the country – MobiMak, being responsible for the billing and customer care operations. Since 2001 he is a CIO of T-Mobile, leading the most complex IT environment in the country. Dusko Kantardziev is a BSc Electronics and Telecommunications, graduated on the University Cyril and Methodius, Electro technical Faculty in Skopje.

One million strong

In 2007, T-Mobile Macedonia reached the one-million customer mark – an outstanding number, having into consideration that the total population of Macedonia is just over two million with a mobile penetration rate of 72 percent.
This outstanding number is proving that we are going on the right track. The company provides two thirds of the population with mobile service. is an engineer graduated at RWTH Aachen. Later he was a consultant for mergers & acquisitions at Deutsche Bank.

Looking Forward

In 2007 the third mobile operator begins operations and mobile market in Macedonia became very competitive with 3 mobile operators with a population of just 2.2 millions. But these conditions are making us even stronger. In order to keep our high market share, we are dedicated to being the most highly regarded service company. We strive to follow the rapid market movement and face new challenges, go even step before customer's expectations. First of all, we value people and their needs – our customers - each of them as an individual, our employees and the whole society. We focus and invest in our network quality and innovative easy to use services.
We will work hard in the years ahead to stay number one mobile operator in the country.

People – customers, employees, society

Customers

We strongly believe that customer insight and understanding are paramount for becoming the best service company. We value every customer as an individual, offering tailor made services for every segment of customers: prepaid, postpaid and business.

Customer satisfaction depends also a great deal on the quality of customer service. T-Mobile Call Centre is prepared to handle inquires 24 hours a day, 7 days a week, 365 days a year. In 2007, Customer service department handled more than 1.1 million customer's requests and inquires through different CS channels: IVR, telephone, e-mail etc. Our operators are answering all questions on 3 different languages – Macedonian, Albanian and English.

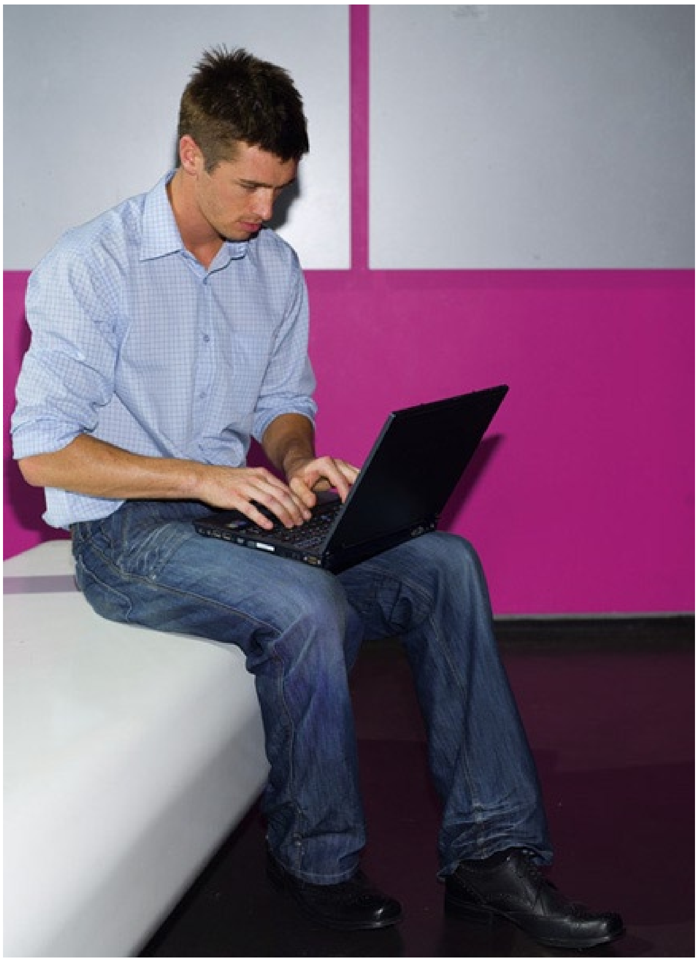
We commit our “simply closer” approach also at our point of sale. Our frontline employees are committed to give best service to our customers, with personal approach. Our large network consists of 130 shops and point of sales through Macedonia offering availability and easy approach to our services and devices.

We celebrated traditional Customer Service Week. Customer Service Week is celebrated all over the world and for the first time in Macedonia – to celebrate customer service professionalism and to raise awareness organisation-wide of the vital role played by customer service professionals. In order to simplify the procedures towards customers, we develop Simply Serve Programme and My T-Mobile self – care portal, which is constantly approved.

Employees

Motivated and competent employees ensure satisfied customers, who are the key to the success; at the same time, they also have a decisive influence on our reputation and quality as a service company. Therefore, we invest in learning and development in order to increase employees' satisfaction and working efficiency. This applies equally to talented junior staff and graduates, as well as experienced executives and experts.

We track skills and possibilities of every employee and organize seminars for improving professional skills relevant for particular job, also foreign languages studies, presentation studies etc. Having into consideration that every employee has different needs and character traits we organized trainings and team buildings all this with one purpose to accomplish cooperation between the employees in the departments, between the departments and between all functional parts in the company.



Employee satisfaction is also very important. In 2007 we continue to organizing parties and family days for employees and their families, rewards for best employees of the following year, offering low prices and special packages of mobile handsets, offering discounts for travelling, organizing humanitarian and eco actions etc.

In this way, we are raising the profile of Deutsche Telekom as a talent-oriented company and also inspire greater innovation in our high-tech working areas, helping us to become the international market leader in services for connected life and work.

Society

T-Mobile recognizes and accepts the social responsibility that its position as market leader brings. That's why we work to give something back to local communities.
Through sponsorships and humanitarian work of Foundation T-Mobile for Macedonia, we fulfill our obligation towards society.

Foundation T-Mobile for Macedonia is a non – profit organization, founded in 2002 for support and initiation of humanitarian activities and donations. Made up entirely of volunteers from T-Mobile Macedonia departments, the Foundation strives to contribute to various segments of Macedonian life, focusing on children, health and humanitarian projects.

In 2007, Foundation organized its traditional humanitarian caravan supporting families in need with household items and Christmas packages for the children. Humanitarian concerts are very popular for raising awareness for help and quick and effective way for collecting funds. This year, the Foundation organized three humanitarian concerts: humanitarian concert for support of children with cerebral palsy; humanitarian concert for fund raising for restoration of the Psychiatric ward in Gevgelija and two concerts in Prilep for children suffering from Louis Barr's syndrome. Humanitarian numbers for collecting funds for urgent surgeries and medical treatments were increased by 12, thus at the end of the year, there were 50 donation numbers, for 50 individuals.

Our commitment as corporate responsible company is also fulfilled by our sponsorship activities. By following T-Mobile sponsorship strategy, we focus on sports and cultural life of our country. In 2007, our main focus was to support most successful sports in Macedonia. Thus, we made contracts for partnership with Tennis and Handball Federation and we also supported best woman volleyball team, called T-Mobile volleyball team.

Services, network, technology

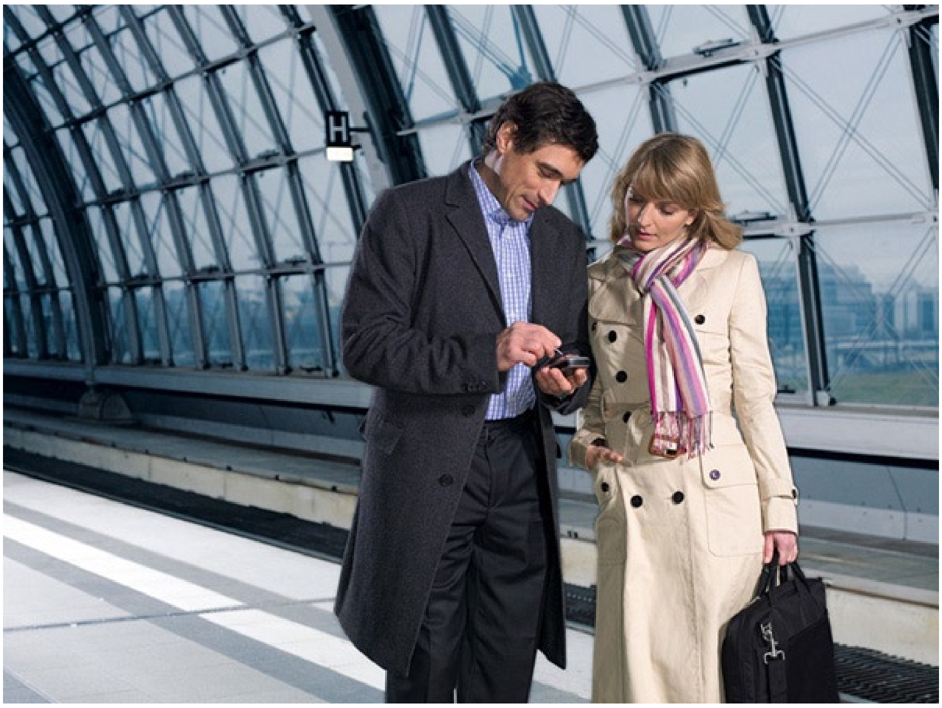
Services

In our time mobile phone is a part of everyday life. Mobile market is expanding and innovations and new services move rapidly forward. To meet our customer's needs, we must act even step before their expectations. T-Mobile is recognizable as innovation leader. Our goal is to offer world trends in mobile telephony, but also competitive prices and services adapted to local market and tailor made for every customer segment: pre-paid, post-paid and business.

2007 was a year of new services, reduced prices and new tariff models.
We introduce "webSMS"; "Web'n' Walk"and "Push Mail" services which provide real freedom of movement for everyone. With these services we are taking the customers into a new era – now they can surf the internet with their mobile phones, chat with friends, correspond via e-mail, and keep track of all appointments thanks to the calendar function. We will continue to follow this track – seeking converged internet and mobile services.

In 2007 T-Mobile offered three new tariff models, for pre-pad, post-paid and business segment. With Easy Talk and Easy SMS pre-paid customers get very attractive voice and SMS price. Relax Family is a new post – paid family concept with extremely attractive price of 0, 9 DEN for minute among family members. In the business segment, we offered new tariff model – Team Business with one joint monthly fee and calls among team members up to 0 DEN.

Prices also decreased significantly in postpaid and business for up to 30%, which notably increase the customer satisfaction. Our special offer – 100 for 100 offered 100 minutes for only 100 denars and significant reduction of prices for weekend calls.



Network and technology

T-Mobile is recognizable as innovative leader with strong customer centricity. This is not an easy job, because customer communication needs are growing, day by day – following service innovations. Nowadays mobile phone is a work toll, entertainment device and information tool. It is our goal to offer best and up to date services, but to stay reliable partner.

This can be done only with best network and constant upgrade and strengthening of the network capacity. The coverage, capacity and reliability of the network are crucial to recruiting customers and retaining them over the long term. We are proud of our network, built 11 years ago, in 1996, when we built a national network around the stable network operational system, which provides non-stop availability and it can respond to any system malfunctions in real time.

 IToday, our network covers 99.8% of the population and 96% of the territory of Macedonia. T-Mobile network is one of the best in the region, not only in our country. And our goal is to remain number one, by constant upgrade and strengthening our network capacity, enhance signal coverage and introduce state-of-the-art technologies.

In 2007 we invested in improvement of radio network reliability, GSM radio network extension, we introduced new technologies and platforms that will support new products and enable fastest access via internet. Thanks to these investments and improvement of the network, our customers can benefit from fastest possible connection, high speed GPRS services such as internet browsing, file downloading, real multimedia streaming, e-mailing, etc. and call success rate of more than 99%.

T-Mobile Macedonia AD Skopje

Financial Statements

For the year ended
31 December 2007
With the Report of the Auditor Thereon

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Independent Auditors' Report

To the Board of the Directors and Shareholders of T-Mobile Macedonia A.D. Skopje

Report on the Financial Statements

We have audited the accompanying financial statements of T-Mobile Macedonia A.D. Skopje, which comprise the balance sheet as of December 31, 2007, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Laws and Regulations of the Republic of Macedonia. 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 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

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

PRICEWATERHOUSECOOPERS

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of T-Mobile Macedonia A.D. Skopje as of December 31, 2007, and of its financial performance and its cash flows for the year then ended in accordance with Laws and Regulations of the Republic of Macedonia.

General Manager
Ljube Gjorgievski

Certified auditor
Ljube Gjorgievski

Skopje
19 February 2008
PricewaterhouseCoopers dooel Skopje

Enterprise for auditing and consultant services PRICEWATERHOUSECOOPERS DOOEL SKOPJE

Income statement

In thousands of denars	Note	For the year ended 31 December 2007	2006
Revenues	1	10,101,370	8,985,189
Other operating income	2	127,669	344,681
Depreciation and amortisation		(1,212,797)	(1,839,417)
Gross salaries		(323,454)	(339,351)
Other operating expenses	3	(4,300,710)	(3,719,317)
Profit from operations		**4,392,078**	**3,431,785**
Finance income	4	227,804	156,215
Finance expenses	4	(45,771)	(37,585)
Net finance income	4	**182,033**	**118,630**
Profit before income tax		**4,574,111**	**3,550,415**
Income tax expense	5	(627,366)	(460,226)
Net profit for the year		**3,946,745**	**3,090,189**

The notes on pages 5 to 25 are an integral part of these financial statements.

Balance sheet

In thousands of denars	Note	As at 31 December 2007	2006
Assets			
Property, plant and equipment	6	1,565,652	1,402,722
Advances for property, plant and equipment		-	10,888
Intangible assets	7	1,602,185	1,644,855
Other investments		305	305
Total non-current assets		**3,168,142**	**3,058,770**
Inventories	8	210,197	264,446
Trade and other receivables	9	2,626,998	5,379,999
Deposits with banks	10	305,632	417,568
Cash and cash equivalents	11	2,144,893	1,814,101
Total current assets		**5,287,720**	**7,876,114**
Total assets		**8,455,862**	**10,934,884**
Equity and liabilities			
Share capital	12	2,791,453	2,791,453
Statutory reserves		558,291	558,291
Retained earnings		3,946,745	6,462,794
Total equity		**7,296,489**	**9,812,538**
Provision for other liabilities and charges	13	291,360	6,368
Total non-current liabilities		**291,360**	**6,368**
Provision for other liabilities and charges	13	431	150
Trade and other payables	14	667,788	939,235
Current income tax liability		199,794	176,593
Total current liabilities		**868,013**	**1,115,978**
Total liabilities		**1,159,373**	**1,122,346**
Total equity and liabilities		**8,455,862**	**10,934,884**

The financial statements set out on pages 1 to 25 were authorised for issue on 19 February 2008 by the Management of T-Mobile Macedonia AD, Skopje and are subject to review and approval by the Board of directors and shareholders on date that will be subsequently agreed.

Michael Lawrence Chief Executive Officer	Zarko Lukovski Chief Operating Officer	Dejan Krstevski Chief Financial Officer

The notes on pages 5 to 25 are an integral part of these financial statements.

Cash flow statement

In thousands of denars	Notes	For the year ended 31 December 2007	2006
Operating activities			
Profit before income tax		4,574,111	3,550,415
Adjustments for:			
Depreciation and amortisation		1,212,797	1,839,417
Impairment losses on trade and other receivables	3	116,788	94,878
Collected written off receivables	2	(13,851)	(21,438)
Write off/(back) inventories to net realisable value	3	20,846	(2,014)
Interest income	4	(227,804)	(156,215)
Interest expense	4	10	1,100
Other non cash adjustments		3,195	3,017
Provisions for legal cases	3	183,055	150
Write off of inventories	3	28,342	20,062
Effect of foreign exchange rate changes on cash and cash equivalents		20,798	(11,722)
Loss/(gain) on disposal of property plant and equipment		3,666	728
Cash generated from operations before changes in working capital		**5,921,953**	**5,318,378**
Decrease /(increase) of inventories		4,922	(46,814)
Increase of receivables		(110,965)	(767,173)
(Decrease)/ increase of payables		(105,305)	496,458
Increase of provisions		102,218	150
Cash generated from operations		**5,812,823**	**5,000,999**
Interest and bank charges paid		(10)	(3,936)
Income taxes paid		(604,165)	(317,055)
Cash flows from operating activities		**5,208,648**	**4,680,008**
Investing activities			
Acquisition of property, plant and equipment		(790,645)	(502,903)
Acquisition of intangible assets		(705,577)	(515,487)
Deposits with banks		89,676	46,634
Proceeds from sale of property, plant and equipment		3,920	3,335
Short term loans given to related parties		2,877,000	(4,000,000)
Interest received		110,564	150,629
Cash flows from investing activities		**1,584,938**	**(4,817,792)**
Financing activities			
Dividends paid		(6,462,794)	-
Repayment of loans		-	(84,658)
Cash flows from financing activities		**(6,462,794)**	**(84,658)**
Net increase/(decrease) in cash and cash equivalents		330,792	(222,442)
Cash and cash equivalents at 1 January		1,814,101	2,036,543
Cash and cash equivalents at 31 December	11	**2,144,893**	**1,814,101**

The notes on pages 5 to 25 are an integral part of these financial statements.

Statement of changes in equity

In thousands of denars	Note	Share capital	Statutory reserve	Retained earnings	Total
Balance at 1 January 2006		2,791,453	558,291	3,372,605	6,722,349
Net profit for the year		-	-	3,090,189	3,090,189
Balance at 31 December 2006	12	**2,791,453**	**558,291**	**6,462,794**	**9,812,538**
Balance at 1 January 2007		2,791,453	558,291	6,462,794	9,812,538
Net profit for the year		-	-	3,946,745	3,946,745
Dividends paid		-	-	(6,462,794)	(6,462,794)
Balance at 31 December 2007	12	**2,791,453**	**558,291**	**3,946,745**	**7,296,489**

The notes on pages 5 to 25 are an integral part of these financial statements.

Notes to the financial statements

General information

T-Mobile Macedonia AD, Skopje (hereinafter "The Company") is a joint stock company incorporated and domiciled in the Republic of Macedonia, for provision of telecommunication services.

The Company's immediate parent company is Makedonski Telekomunikacii AD, Skopje with 100% share, registered in the Republic of Macedonia. The ultimate parent company is Deutsche Telekom AG registered in Federal Republic of Germany.

The Company's registered address is "Orce Nikolov" Street bb, 1000, Skopje, Republic of Macedonia.

The total number of employees of the Company is 436 as of December 31, 2007, and 434 as of December 31, 2006.

Investigation into certain consultancy contracts

On February 13, 2006, Magyar Telekom, the controlling owner of the Company, announced that it was investigating certain contracts entered into by a fellow subsidiary of Magyar Telekom to determine whether they were entered into in violation of Magyar Telekom policy or applicable law or regulation. Subsequent to this on February 19, 2007 the Board of Directors of the Company, based on the recommendation of the Audit Committee of AD Makedonski Telekomunikacii and Audit Committee of Magyar Telekom adopted a resolution for independent internal investigation regarding certain contracts to be conducted. The investigation, conducted by an independent law firm and supervised by the Audit Committee of Magyar Telekom, is still ongoing.

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

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

Significant accounting policies

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

Notes to the financial statements

Significant accounting policies continued

(a) Basis of preparation

The financial statements are presented in Macedonian denars, rounded to the nearest thousand. These financial statements are prepared, in all material respects, in accordance with the Law on Trade Companies (Official Gazette No. 28/2004), Rule Books for Accounting (Official Gazette No. 40/1997, 73/1999, 94/2004, 11/2005 and 116/2005). The financial statements are prepared on the historical cost basis modified for the revaluation of property, plant and equipment, intangible assets and equity in the years of inflation using the official revaluation coefficients based on the general manufactured goods price increase index, available-for-sale financial assets, and financial assets at fair value through profit or loss.

The preparation of financial statements 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 financial statements are disclosed in accounting policy (v). Actual results could differ from those estimates.

(b) Foreign currency transactions

Transactions in foreign currencies are translated to denars at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to denars at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. 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 United States Dollars (USD), EURO (EUR) and Swiss Francs (CHF) based. The exchange rates used for translation at 31 December 2007 and 2006 were as follows:

	2007	**2006**
	MKD	MKD
1 USD	41.66	46.45
1 EUR	61.20	61.17
1 CHF	36.86	38.07

(c) Property, plant and equipment

(i) Owned assets

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (refer accounting policy e). The cost of self-constructed assets includes the cost of materials and direct labour.

Items of property, plant and equipment 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.

Notes to the financial statements

Significant accounting policies continued

(c) Property, plant and equipment continued

(ii) Subsequent costs

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.

(iii) Depreciation

Depreciation is charged to the income statement on a straight-line basis over the prescribed useful lives of items of property, plant and equipment. 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:

	2007	**2006**
	%	%
Exchanges / Switches	25	25
Base stations	25	25
Buildings	2.5	2.5
Computers	25	25
Electronic devices	25	25
Furniture and other office equipment	20	20
Vehicles	25	25

An asset's carrying amount is written down immediately to its recoverable amount if the assets carrying value is greater than its estimated recoverable amount (refer accounting policy e).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement under the operating expenses section.

(d) Intangible assets

Intangible assets that are acquired by the Company are stated at cost less accumulated amortisation (see below) and impairment losses (refer accounting policy e).

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.

Notes to the financial statements

Significant accounting policies continued

(d) Intangible assets continued

(i) Subsequent expenditure

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.

(ii) Amortisation

Amortisation is charged to the income statement on a straight-line basis over the prescribed useful lives of intangible assets. Intangible assets are amortised from the date they are available for use. The amortisation is calculated using the following annual rates of amortisation, which are also tax allowable:

	2007	**2006**
	%	%
Software and licences	20	20
Leasehold improvement	20	20

(e) Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to depreciation/amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest level for which there is separately identifiable cash flows (cash-generating units). Impairment losses are recognized in the income statement. Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

(f) Investments

The Company's investments in non-profit organization T-Mobile Macedonia Foundation are stated at cost.

(g) 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.

Notes to the financial statements

Significant accounting policies continued

(h) Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the 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 reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of the estimated future cash flows. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against the recognised loss (provision) in the income statement.

(i) Cash and cash equivalents

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

(j) Trade and other payables

Trade and other payables are stated at their cost, representing fair value.

(k) Share capital

Ordinary shares are classified as equity.

(l) 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. Statutory reserves can be distributed at the approval of the shareholders meeting.

(m) Dividends

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

Notes to the financial statements

Significant accounting policies continued

(n) Revenue recognition

Revenue is primarily derived from services provided to subscribers and other third parties using the telecommunications network and equipment sales. Revenues for all services and equipment sales are shown net of VAT, discounts and after elimination of sales within the Company, and are recognized when the amount of the revenue can be reliably measured, it is probable that future economic benefits will flow to the Company and specific criteria are met for the provision of each of the Company's services described below.

Customer subscriber arrangements typically include an activation fee, equipment sale, subscription fee and monthly charge for the actual airtime used. The Company considers the various elements of these arrangements to be separate earnings processes and recognizes the revenue for each of the deliverables at their reversed residual amounts.

Customers may also purchase prepaid mobile cards which allow those customers to use the telecommunication network for a selected amount of time. Customers must pay for such services at the date when the card is purchased.

Third parties using the telecommunications network include roaming customers of other service providers and other telecommunications providers which terminate calls on the network.

The revenue recognition policies for the different Company's of services are below.

(i) Activation fees

Revenues earned from connecting subscribers to the mobile network are recognized upon service activation.

(ii) Subscription fees

Monthly subscription fees represent a fixed monthly fee charged to customer subscribers for access to the network. Such fees are recognized in the month during which the customer is permitted access to the network.

(iii) Outgoing traffic revenue

Outgoing traffic revenue represents usage of the mobile network from the subscribers upon agreed traffic prices. Revenue is recognised in the month the traffic was actually realised for the postpaid subscribers, or when there was actual sales of prepaid voucher for the prepaid customer.

(iv) Incoming traffic revenue

Incoming traffic revenue is recognized in the period of related usage.

A proportion of the revenue received is often paid to other operators (including roaming) for the use of their networks, where appropriate. These revenues and costs of these transit calls are stated gross in these financial statements and recognized in the period of related usage.

Notes to the financial statements

Significant accounting policies continued

(n) Revenue recognition continued

(v) Equipment sales

Revenues and costs from sale of telephone sets and accessories are recognized upon delivery.

(o) Finance income and expenses

Finance income and expenses comprises interest receivable on funds invested, dividend income, foreign exchange gains and losses, impairment losses on available-for-sale financial assets, and gains and losses on financial assets at fair value through profit and loss.

Interest income is recognised in the income statement on a time-proportion basis using the effective interest method. Dividend income is recognised in the income statement when the right to receive payment is established.

(p) Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

(q) Employees Benefits

(i) Pension and other obligations

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. The Company does not operate any other pension scheme or post retirement benefits plan and consequently, has no obligation in respect of pensions. In addition, the Company is not obligated to provide further benefits to current and former employees.

(ii) Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Company recognises termination benefits when it is demonstrably committed either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy.

Notes to the financial statements

Significant accounting policies continued

(q) Employees Benefits continued

(iii) 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.

(r) Provisions

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.

(s) Taxation

Income tax is recognised in the income statement except to the extent that it relates to items recognised directly to equity, in which case it is recognised in equity.

Current income tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

(t) Comparative information

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

(u) Financial risk management

Financial risk factors

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

(i) Foreign exchange risk

The Company's functional currency is the Macedonian denar.

The foreign exchange 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 USD and EUR. The Company uses cash deposits in foreign currency, predominantly in EUR and USD, and cash deposits in denars linked to foreign currency, to hedge its foreign currency risk as well as local currency risk in accordance with the available banks offers.

Notes to the financial statements continued

Significant accounting policies continued

(u) Financial risk management continued

(ii) ***Interest rate risk***

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.

(iii) ***Credit risk***

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 Company does not guarantee obligations of other parties.

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

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

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

(iv) ***Liquidity risk***

The 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.

(v) ***Fair value estimation***

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

(v) Critical accounting estimates and assumptions

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 discussed below.

Notes to the financial statements continued

Significant accounting policies continued

(v) Critical accounting estimates and assumptions continued

(i) Potential impairment of property, plant and equipment and intangibles

We assess the impairment of identifiable property, plant, equipment and intangibles whenever there is a reason to believe that the carrying value may materially exceed the recoverable amount and where impairment in value is anticipated. The recoverable amounts are determined by value in use calculations, which use a broad range of estimates and factors affecting those. Among others, we typically consider future revenues and expenses, technological obsolescence, discontinuance of services and other changes in circumstances that may indicate impairment. As this exercise is highly judgmental, the amount of potential impairment may be significantly different from that of the result of these calculations.

(ii) Impairment of trade and other receivables

We calculate impairment for doubtful accounts based on estimated losses resulting from the inability of our customers to make required payments. We base our estimate on the aging of our account receivables balance and our historical write-off experience, customer credit-worthiness and changes in our customer payment terms when evaluating the adequacy of the impairment loss for doubtful accounts. These involve assumptions about future customer behaviour and the resulting future cash collections. If the financial condition of our customers were to deteriorate, actual write-offs of currently existing receivables may be higher than expected and may exceed the level of the impairment losses recognized so far.

(iii) Provisions

Provisions in general are highly judgmental, especially in the cases of legal disputes. The Company assesses the probability of an adverse event as a result of a past event to happen and if the probability is evaluated to be more than fifty percent and a reliable estimate can be made of the amount of the obligation, the Company fully provides for the total amount of the liability. The Company is rather prudent in these assessments, but due to the high level of uncertainty, in some cases the evaluation may not prove to be in line with the eventual outcome of the case.

Notes to the financial statements

1. Revenues

In thousands of denars	**2007**	**2006**
Domestic market sales	9,496,236	8,447,029
Foreign market sales	605,134	538,160
	10,101,370	**8,985,189**

2. Other operating income

In thousands of denars	**2007**	**2006**
Income from FGSM	33,124	37,207
Income from installation and maintenance of mini links	31,607	29,586
Income from own product used	21,490	47,289
Re-branding income	14,911	200,461
Collected written of receivables	13,851	21,438
Extinguishment of liabilities	1,589	830
Rental income	-	29
Other	11,097	7,841
	127,669	**344,681**

3. Other operating expenses

In thousands of denars	**2007**	**2006**
Cost of goods sold	966,166	681,886
Transportation/Interconnection	723,460	637,050
Payments to foreign operators	473,346	411,090
Advertising, marketing and sponsorship	455,339	578,171
Leased lines	322,194	300,677
Provisions for legal cases	183,055	150
Other employee costs	177,081	142,293
Maintenance	167,161	162,462
Impairment losses on trade and other receivables	116,788	94,878
Rent	102,848	86,423
Raw materials, materials and energy	99,608	73,578
Radiofrequency, numeration and surveillance	94,609	93,361
Consultancy	46,664	57,585
Agent commissions	40,079	98,385
Billing postage	37,982	22,663
Write down of PPE to net realisable value	7,586	4,905
Cost of petty inventory	4,571	15,632
Write off/(back) inventories to net realisable value	20,846	(2,014)
Write off of inventories	28,342	20,062
Other	232,985	240,080
	4,300,710	**3,719,317**

The remuneration of the members of the Board of Directors amounted to MKD 2,055 thousand (2006: MKD 1,817 thousand).

Notes to the financial statements

4. Net finance income

In thousands of denars	2007	2006
Interest income	227,804	156,215
Finance income	227,804	156,215
Interest expense	(10)	(1,100)
Net foreign exchange losses	(45,761)	(36,485)
Finance expense	(45,771)	(37,585)
	182,033	**118,630**

5. Income tax expense

Reconciliation of effective tax rate

In thousands of denars		2007		2006
Profit before tax		4,574,111		3,550,415
Income tax	12%	548,893	15%	532,562
Non-deductible expenses	1.9%	86,154	1.9%	66,715
Tax exempted revenues	0.0%	-	(0.2%)	(7,199)
Tax incentives not recognised in the income statement	(0.2%)	(7,681)	(3.7%)	(131,852)
	13.7%	**627,366**	**13.0%**	**460,226**

Up to the date of approval of these financial statements, the tax authorities carried out a full-scope tax audit at the Company for 2001 and 2002. No issues have been identified in the performed tax audits.

The Government enacted new income tax rates on 30 December 2006 for 2007 and 2008. The income tax rate for 2007 is 12%, while the applicable tax rate for 2008 and the years after is 10 %.

The tax authorities may at any time inspect the books and records within 5 years subsequent to the reported tax year, and may impose additional tax assessments and penalties. The Company's management is not aware of any circumstances, which may give rise to a potential material liability in this respect.

Notes to the financial statements

6. Property, plant and equipment

In thousands of denars	Land and buildings	Equipment	Other	Assets under construction	Total
Cost					
At 1 January 2006	140,953	6,819,752	1,029,280	168,617	8,158,602
Additions	4,009	146,216	104,646	163,817	418,688
Transfer from assets under construction (see note 7)	-	202,332	5,438	(219,527)	(11,757)
Disposals	-	(152)	(40,947)	(159)	(41,258)
At 31 December 2006	**144,962**	**7,168,148**	**1,098,417**	**112,748**	**8,524,275**
Depreciation					
At 1 January 2006	36,633	5,336,763	670,159	-	6,043,555
Charge for the year	3,698	923,859	186,986	-	1,114,543
Disposals	-	(152)	(36,393)	-	(36,545)
At 31 December 2006	**40,331**	**6,260,470**	**820,752**	-	**7,121,553**
Carrying amount					
At 1 January 2006	**104,320**	**1,482,989**	**359,121**	**168,617**	**2,115,047**
At 31 December 2006	**104,631**	**907,678**	**277,665**	**112,748**	**1,402,722**

In thousands of denars	Land and buildings	Equipment	Other	Assets under construction	Total
Cost					
At 1 January 2007	144,962	7,168,148	1,098,417	112,748	8,524,275
Additions	4,234	413,114	168,757	165,504	751,609
Transfer from assets under construction	-	82,368	-	(82,368)	-
Disposals		(918,629)	(64,340)	(466)	(983,435)
At 31 December 2007	**149,196**	**6,745,001**	**1,202,834**	**195,418**	**8,292,449**
Depreciation					
At 1 January 2007	40,331	6,260,470	820,752	-	7,121,553
Charge for the year	3,656	437,252	140,185	-	581,093
Disposals	-	(918,047)	(57,802)	-	(975,849)
At 31 December 2007	**43,987**	**5,779,675**	**903,135**	-	**6,726,797**
Carrying amount					
At 1 January 2007	**104,631**	**907,678**	**277,665**	**112,748**	**1,402,722**
At 31 December 2007	**105,209**	**965,326**	**299,699**	**195,418**	**1,565,652**

Operating lease rentals amounting to MKD 102,848 thousand (2006: MKD 86,423 thousand) relating to the lease of property and equipment are included in the income statement.

Notes to the financial statements

7. Intangible assets

In thousands of denars	Software and licences	Other	Assets under construction	Total
Cost				
At 1 January 2006	3,408,409	117,935	455	3,526,799
Additions	519,593	4,590	260	524,443
Disposal	-	(346)	-	(346)
Transfer from assets under construction (see note 6)	11,757	-	-	11,757
At 31 December 2006	**3,939,759**	**122,179**	**715**	**4,062,653**
Amortisation				
At 1 January 2006	1,628,099	64,981	-	1,693,080
Charge for the year	703,624	21,250	-	724,874
Disposal	-	(156)	-	(156)
At 31 December 2006	**2,331,723**	**86,075**	-	**2,417,798**
Carrying amount				
At 1 January 2006	1,780,310	52,954	455	1,833,719
At 31 December 2006	**1,608,036**	**36,104**	**715**	**1,644,855**

In thousands of denars	Software and licences	Other	Assets under construction	Total
Cost				
At 1 January 2007	3,939,758	122,179	715	4,062,652
Additions	569,010	20,025	-	589,035
Transfer from assets under construction	715	-	(715)	-
At 31 December 2007	**4,509,483**	**142,204**	-	**4,651,687**
Amortisation				
At 1 January 2007	2,331,723	86,075	-	2,417,798
Charge for the year	616,718	14,986	-	631,704
At 31 December 2007	**2,948,441**	**101,061**	-	**3,049,502**
Carrying amount				
At 1 January 2007	1,608,035	36,104	715	1,644,854
At 31 December 2007	**1,561,042**	**41,143**	-	**1,602,185**

8. Inventories

In thousands of denars	**2007**	**2006**
Materials	26,696	27,912
Spare parts	30,227	40,245
Commodities	168,561	195,929
Petty inventory	6,178	979
Write down of inventories to net realisable value	(21,465)	(619)
	210,197	**264,446**

Notes to the financial statements

8. Inventories continued

Movement in allowance for inventories to net realizable value

In thousands of denars	**2007**	**2006**
Allowance at 1 January	(619)	(2,633)
(Charged)/released to expense	(20,846)	2,014
Allowance at 31 December	**(21,465)**	**(619)**

Allowance for inventory relates to obsolete commodities.

9. Trade and other receivables

In thousands of denars	**2007**	**2006**
Trade debtors		
-Foreign	71,305	95,434
-Domestic	1,448,655	1,158,555
Less: allowance for uncollectibility	(468,905)	(366,594)
Trade debtors – net:	1,051,055	887,395
Receivables from related parties	241,879	313,385
Advances given to suppliers	9,385	1,472
Prepayments	67,040	170,225
Short term loans given to related parties	1,247,230	4,005,587
VAT recoverable	94	79
Other	10,315	1,856
	2,626,998	**5,379,999**

Receivables from related parties represent receivables from Makedonski Telekomunikacii AD, Magyar Telekom Rt Group and Deutsche Telekom AG Group (refer note 16).

Loans to related parties represents short term loan given to Makedonski Telekomunikacii AD on 30 November 2006 with the interest income which Maktel will generate by means of the monetary asset management, decreased by the administrative charges.

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

In thousands of denars	**2007**	**2006**
Trade debtors	1,051,055	887,395
Receivables from related parties	241,879	313,385
Advances given to suppliers	9,385	1;472
Prepayments	67,040	170,225
Short term loans given to related parties	1,247,230	4,005,587
VAT recoverable	94	79
Other	10,315	1,856
	2,626,998	**5,379,999**

Notes to the financial statements

13. Provisions for other liabilities and charges

In thousands of denars	Legal cases	Customer loyalty program	Other	Total
January 1, 2006	-	-	1,698	1,698
Additional provision	150	-	4,670	4,820
December 31, 2006	**150**	-	**6,368**	**6,518**

In thousands of denars	Legal cases	Customer loyalty program	Other	Total
January 1, 2007	150	-	6,368	6,518
Additional provision	183,055	125,484	-	308,539
Unused amount reversed	-		(6,368)	(6,368)
Used during period	(196)	(16,702)	-	(16,898)
December 31, 2007	**183,009**	**108,782**	-	**291,791**

Analysis of total provisions:

	2007	**2006**
Non current (legal cases and other)	291,360	6,368
Current	431	150
	291,791	**6,518**

The Commission for protection of competition ("CPC") after conducting an administrative procedure, in September 2007 has determined an abuse of a dominant position by the Company due to the way of charging of the voice mail service. In this sense CPC has ordered a new way of charging of this service, (in order to enable the customers to have choice if they wants to use the service or not, without being charged for it) and initiated a tort procedure against the Company in this regard. The Management of the Company, based on external legal advise, believes that the amount of the penalty will not threaten the ability of the Company to continue as a going concern, and furthermore, believe, based upon appropriate discussions both internally and externally that the best estimate of any penalty is in the amount of MKD 182,118 thousand, which is the equal of the revenues of the Company from this service in the affected period.

The rest of provisions for legal cases relates to certain legal and regulatory claims brought against the Company. Based on appropriate legal advice, the management does not expect that the outcome of these legal claims will give rise to any significant loss beyond the amounts provided at 31 December 2007.

Notes to the financial statements

14. Trade and other payables

In thousands of denars	2007	2006
Trade payable		
-Domestic	94,926	248,601
-Foreign	111,331	317,618
Liabilities to related parties	198,614	129,824
VAT payable and social security payables	64,232	61,685
Not yet invoiced	615	12,250
Accrued liabilities	181,457	163,771
Other	16,613	5,486
	667,788	**939,235**

Liabilities to related parties represent liabilities to Makedonski Telekomunikacii AD, Magyar Telekom Rt Group and Deutsche Telekom AG Group (refer note 16).

15. Commitments and contingencies

Capital commitments

The amount authorized for capital expenditure as at 31 December 2007 was MKD 407,031 thousand (2006: MKD 874,871 thousand).

Operating lease commitments – where the Company is the lessee

Operating lease commitments were mainly in respect in the lease of buildings, business premises, and locations for base telecommunication stations and other telecommunications facilities.

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

	2007	2006
Not later than 1 year	80,176	77,665
Later than 1 year and not later than 5 years	257,776	282,679
Later than 5 years	87,812	126,506
	425,764	**486,850**

Notes to the financial statements

16. Related party transactions continued

Transactions with related parties continued

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

In thousands of denars	2007		2006	
	Receivables	**Payables**	**Receivables**	**Payables**
Makedonski Telekomunikacii AD,Skopje	235,571	150,944	288,622	103,381
Telemakedonija	-	16,873	-	3,864
Magyar Telekom	-	19,704	-	-
T-Mobile Montenegro	-	227	55	134
T-Mobile Hungary	99	25	213	16,028
T-Mobile Croatia	2,860	289	1,126	1,123
T-Mobile Slovakia	63	20	147	34
T-Systems PCM Gmbh	-	-	-	1,193
T-Mobile Czech Republic	-	224	120	364
T-Mobile Germany	1,269	328	3,388	1,395
T-Mobile Austria	1,221	524	1,897	1,300
T-Mobile UK	26	733	207	294
T-Mobile Holland	276	474	187	319
T-Mobile USA	285	-	825	225
T-Mobile International	-	7,130	-	-
Deutsche Telekom AG Germany	-	92	16,545	92
PTC "Era" Poland	34	-	53	-
T-Systems Nova Germany	-	987	-	78
Orange Netherlands	175	40	-	-
	241,879	**198,614**	**313,385**	**129,824**

Notes to the financial statements

16. Related party transactions continued

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

In thousands of denars	2007 Revenues	2007 Expenses	2006 Revenues	2006 Expenses
Makedonski Telekomunikacii AD, Skopje	1,570,415	726,297	1,456,772	664,723
Magyar Telekom	-	9,092	-	-
Telemakedonija	-	23,980	-	35,038
T-Mobile Montenegro	1,195	7,249	580	6,298
T-Mobile Hungary	2,597	2,624	3,347	2,425
T-Mobile Croatia	17,221	20,934	11,943	16,081
T-Mobile Slovakia	668	420	684	355
PTC "Era" Poland	1,454	905	92	72
T-Mobile Czech Republic	818	1,662	1,253	1,803
T-Mobile Germany	24,287	15,639	34,055	14,308
T-Mobile Austria	11,655	8,980	12,847	7,290
T-Mobile UK	1,807	3,899	2,814	2,201
T-Mobile Holland	1,673	2,171	2,431	2,391
Orange Netherlands	379	106	-	-
T-Mobile USA	6,143	4,782	5,448	4,787
	1,640,312	**828,740**	**1,532,266**	**757,772**

Key management compensation

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

	2007	2006
Short-term employee benefits	44,662	40,765
Termination benefits	22,520	-
Share-based payments	-	6,368
	67,182	**47,133**

17. Events after the balance sheet date

No material events subsequent to the balance sheet date have occurred which require disclosure in the financial statements.