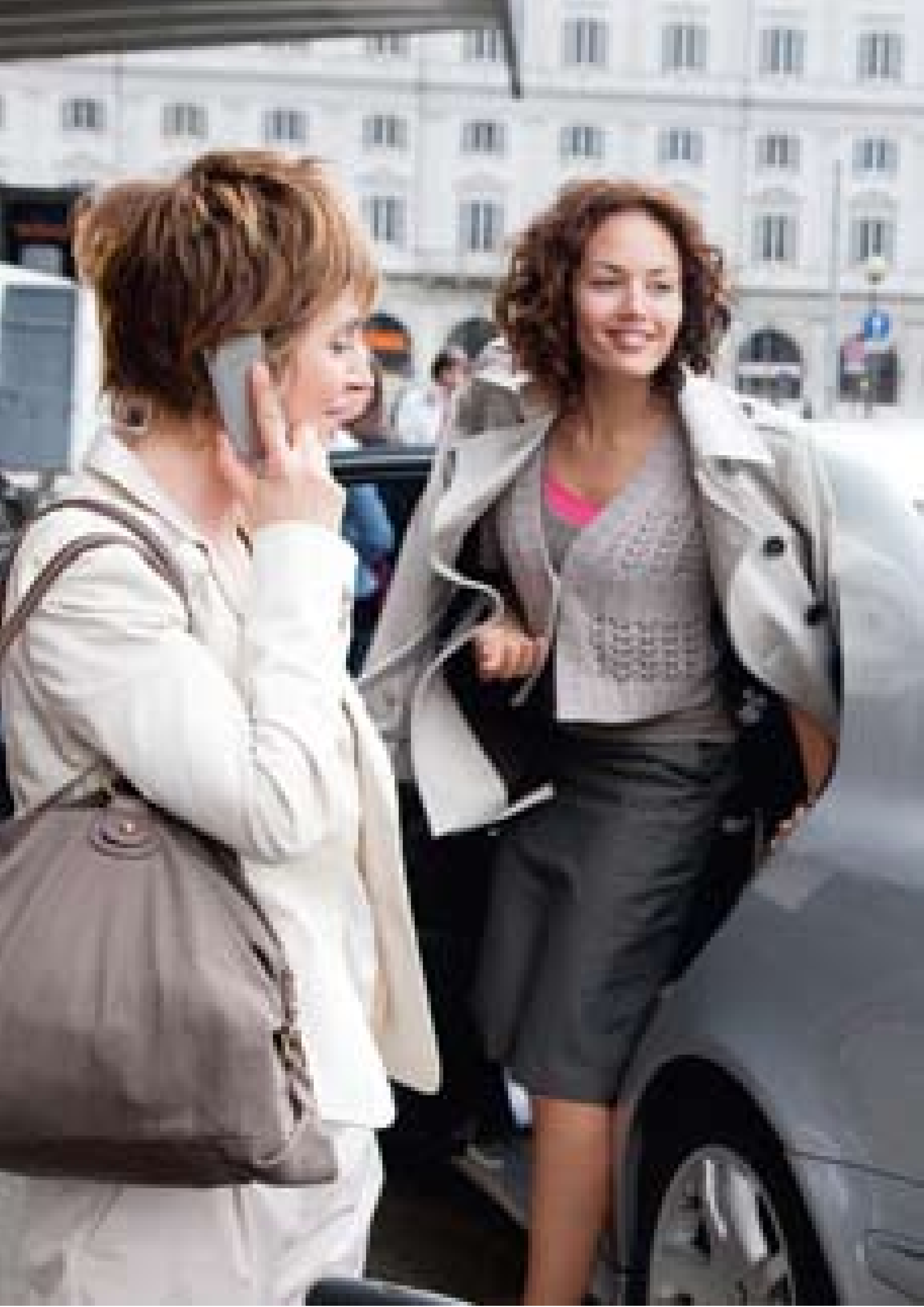
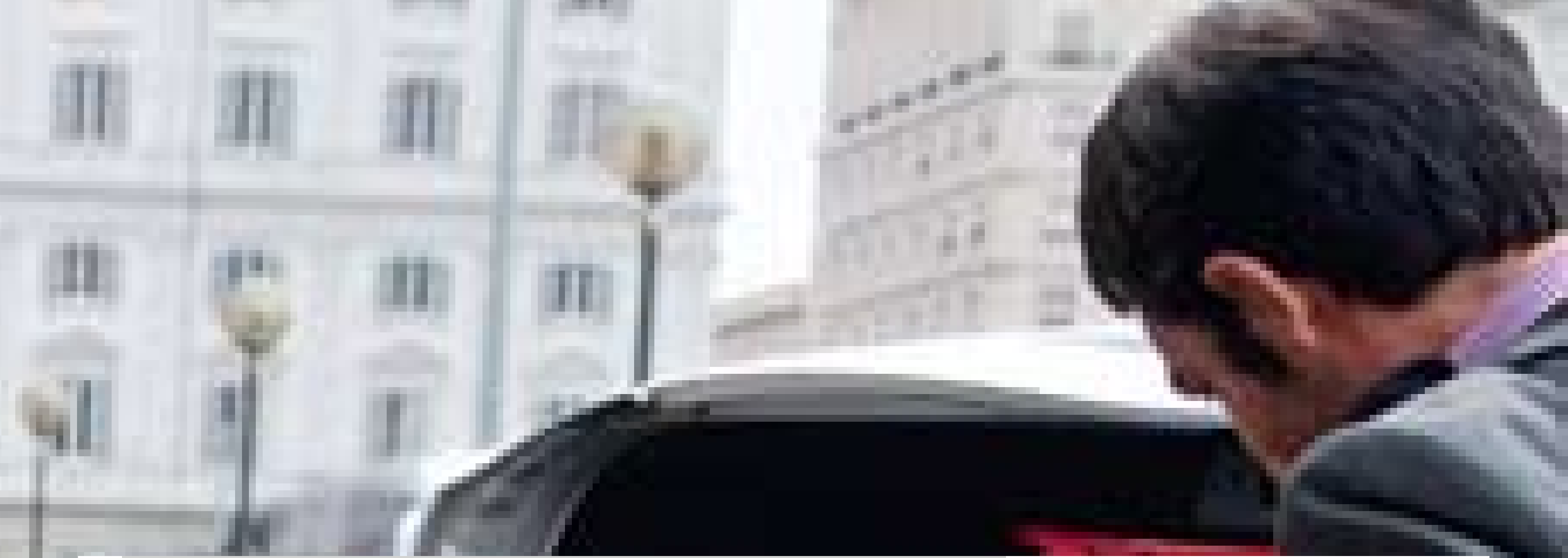
Annual report 2008

Life is for sharing

T-Mobile





Content

T-Mobile Macedonia

First mobile phone operator in Macedonia and regional leader on the telecommunications market

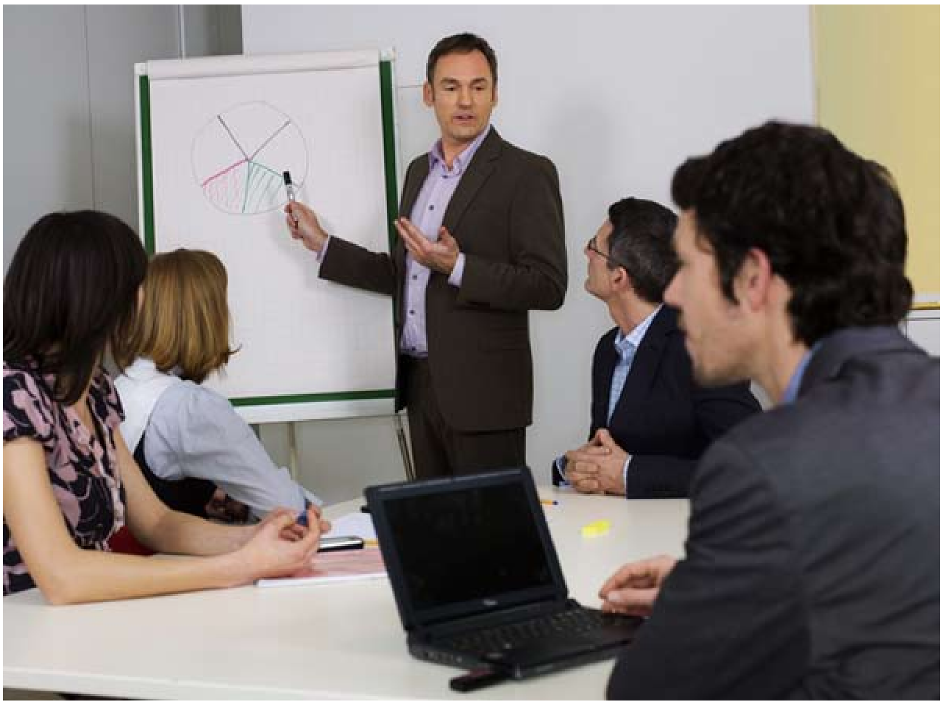
T-Mobile Macedonia is a leader on the telecommunications market, boasting the highest network quality and offering innovative services which are simple to use and it has always been focused on the customer.

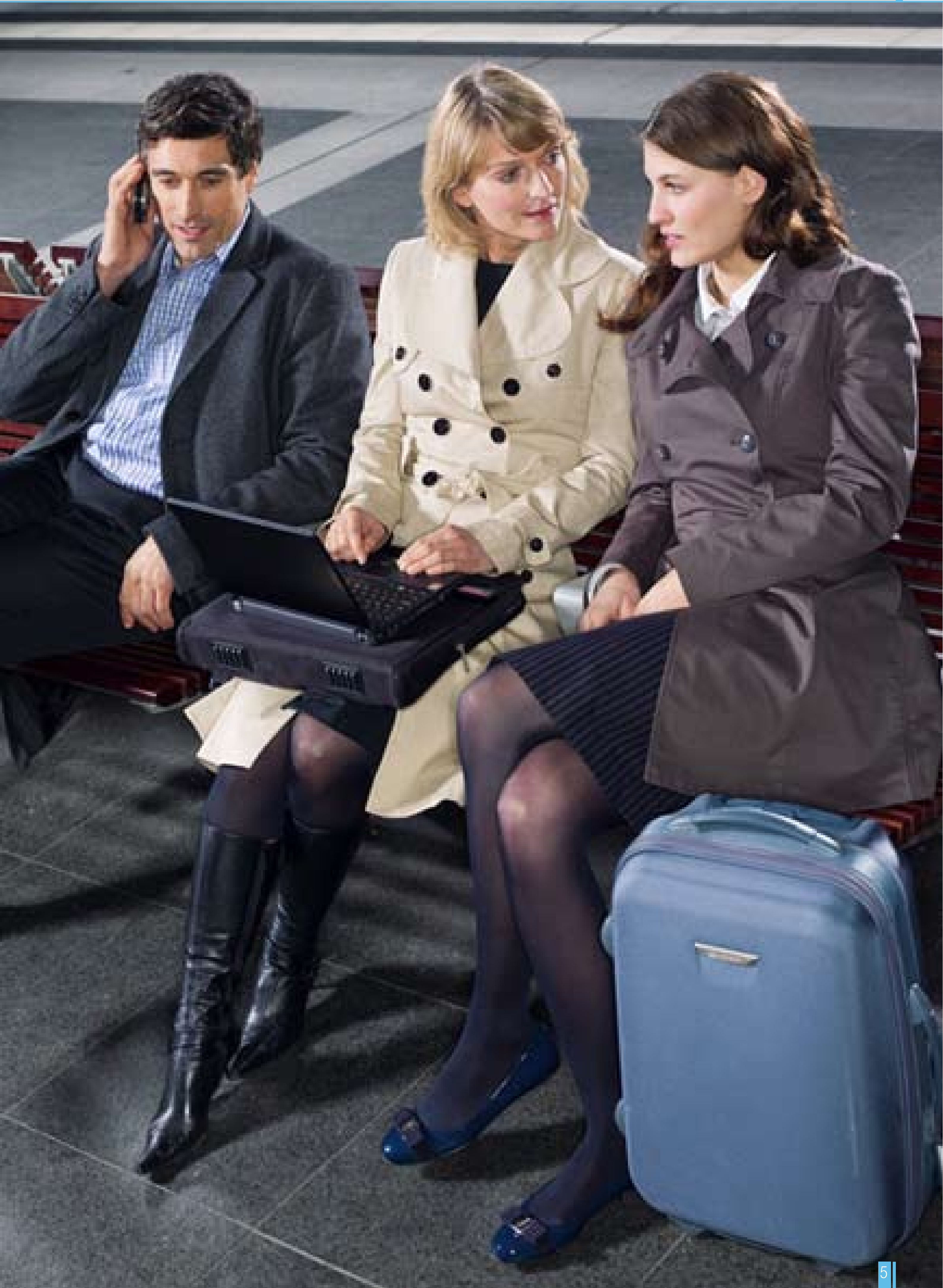
Formerly known as MobiMak, T-Mobile is the first mobile phone operator in Macedonia, founded in September 1996. Since 2001, the company has operated as an independent affiliate of Macedonian Telecommunications. After several months of preparations, MobiMak was rebranded into T-Mobile on the 1st of September 2006.The company rebranded itself into T-Mobile Macedonian and became a part of the T-Mobile family.

In TM International, T-Mobile Macedonia is known as a T-Mobile country with the highest quality network, boasting the best network in the region which we always strive to improve in order to provide the highest quality and easily accessible services. Network wise, we cover 99.9% of the population and 98.5 of the territory of the Republic of Macedonia.

It is our pledge to provide true freedom of movement. T-Mobile users can communicate freely wherever they are in the world, using the roaming services in more than 90 countries around the world and through over 200 mobile phone operators.

As a successful company, we feel responsible towards the society and we continue to invest in Macedonia. Through the T-Mobile Foundation for Macedonia, we continue to implement humanitarian activities. Through our ecological activities, we do our bit to look after the environment, whose central focus is to keep Macedonia clean and safe.





About T-Mobile International

Multinational and multimedia brand

T-Mobile International is one of the biggest global mobile phone operators and it offers its users the latest technologies and contemporary multimedia solutions.

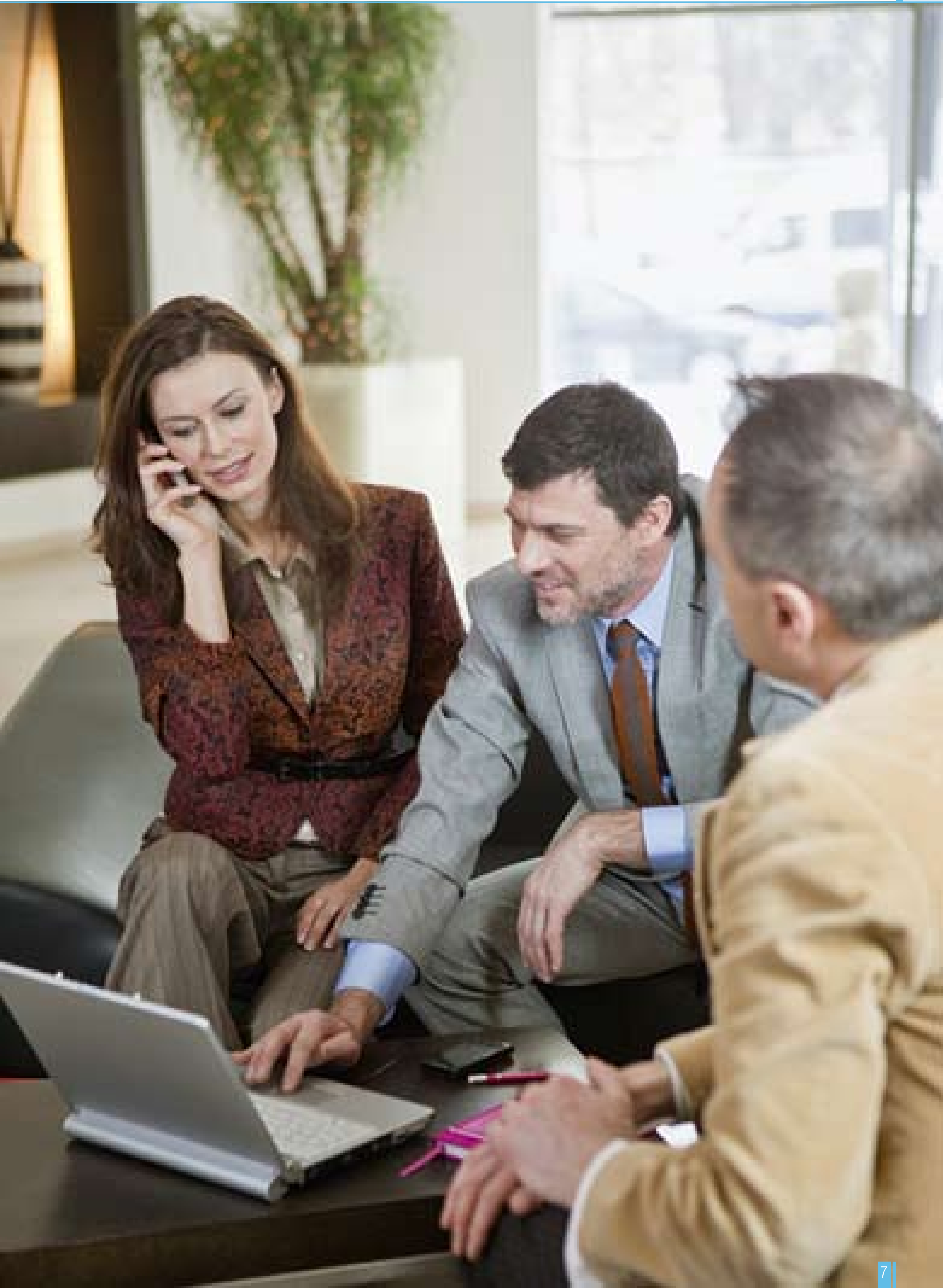
Since its formation in December 1999, T-Mobile International, an affiliate and entirely owned by Deutsche Telecom, has established itself as one of the leading global operators.

The development of new technologies and the service offers that are focused on the users have enabled the T-Mobile Group to improve its position every year. The company operates in Europe and the United States, and currently has around 128 million users (12/2008) – a number that is continually on the rise.

T-Mobile International is the first and only operator that has until now introduced the only transatlantic network, based on the most successful - GSM (Global System for Mobile Communications). The companies in the T-Mobile Group were among the first mobile phone operators to use the new generation technologies, such as GPRS, UMTS (3G) and WLAN.

The international mobile phone communication has become the main driving force in the development of Deutsche Telecom Group. In 2008, the company enhanced its presence in South Eastern Europe, with its share in the Greek company OTE. This latest engagement represents the completion of the central international interest of the Group, which is the main shareholder and has branches in USA, United Kingdom, Austria, Holland, the Czech Republic, Poland, Hungary, Slovakia, as well as the affiliates in Macedonia and Monte Negro.

As part of the Group's strategy – „Guidance, improvement and growth", T-Mobile International has set its objective for future development in the global sector of mobile phone communications.



New brand philosophy

In 2008, T-Mobile Deutsche Telecom established a new and unique brand philosophy. “Share Experiences” became the new corporative slogan for the international mobile phone family.

The essence of this brand is the promise that lies in the idea that life is made of wonderful moments worth sharing. That’s why we create and promote products and services of T-Mobile based on three central values, on which we have built our brand: confidence, simplicity and inspiration. By adhering to these corporative values, we have enabled the users to share their unique moments, anytime and anywhere.
The new brand motto has become part of the promotional campaigns of T-Mobile Macedonia, which as part of the international family, has successfully implemented the international platforms for brands.

Family of 1.3 million friends

In 2008, the biggest mobile phone company in Macedonia was significantly enhanced and reached a number of 1.3 million friends. Indeed, our users are our friends.
The fact that, in 2008 we managed to maintain our position as an innovative leader on the market even though it has become increasingly competitive, we earned the confidence that our partners, and above all, the users have bestowed upon us.

Mobilising on the Internet

In 2008, T-Mobile began offering services that led the users in a new era of communications – converged internet and mobile phone services. In line with the company’s vision „ Connected life and work “, one of the main corporate activities in T-Mobile is the „Internet mobilisation“.
We became pioneers in the use of Internet services through mobile phones, with web’n’walk.
With the introduction of 3G technology, T-Mobile provided an extremely fast Internet communication, and at the same time, it enriched its portfolio with new internet packages that made life a lot simpler for the users.
The trend moving towards the use of mobile data has gained speed. T-Mobile is forming this trend, which is assisted by a mix of high performance infrastructure, appealing prices and innovative models such as the iPhone 3G и 3GS.

In the coming years, we will be dedicated towards maintaining our position as the most respected service company, and of course remain, as warranted, the biggest mobile phone company in Macedonia. That’s because the family for us is the most important thing.

About us and our team

Michael Lawrence,
CEO

Ladies and gentlemen,

2008 was the year during which we promoted the corporative brand „T" and we presented the latest global brand platform before our users – „Share adventures".

Moreover, T-Mobile Macedonia in 2008 became a credible leader on the domestic mobile phone market, with 59.4% market share even though the competition was intense as never before, including the new ownership group of one of the most competitive companies (OTE/Cosmofon), which was acquired by Deutsche Telekom.

These services represent new challenges for T-Mobile, but they also make us stronger. Another element proving our concrete work during the last year is the share revenue from the market, which has reached a significant level of 69 %. Our efforts inevitably led towards revenue increase and EBITDA for 2008.

We are determined to continue this successful development in the future, to follow our strategy that leads to success: customer satisfaction, innovative services and competitive prices.

Zarko Lukovski,
Chief operational director

Ladies and gentlemen,

During 2008, by offering technologically innovative services and new tariffs and appealing prices, we continued to strive towards complete customer satisfaction for our users. What we started in 2007 – internet integration with mobile phone technology, we manage to perfect in 2008, and we will continue to do so in the future. Our offer of mobile devices expanded with new laptop computers and USB modems, which were provided with the new and improved web'n'walk packages. This significantly increased the quality and speed of mobile internet.

We introduced new tariffs and promotions and expanded our mobile phone offers which are adequate in every market segment, and this led to an increase of 9% and 28% in the prepaid and post paid user base respectively.

T-Mobile Macedonia is a company that boasts the highest index for satisfaction and loyalty on the market, which by far eclipses its competitors.

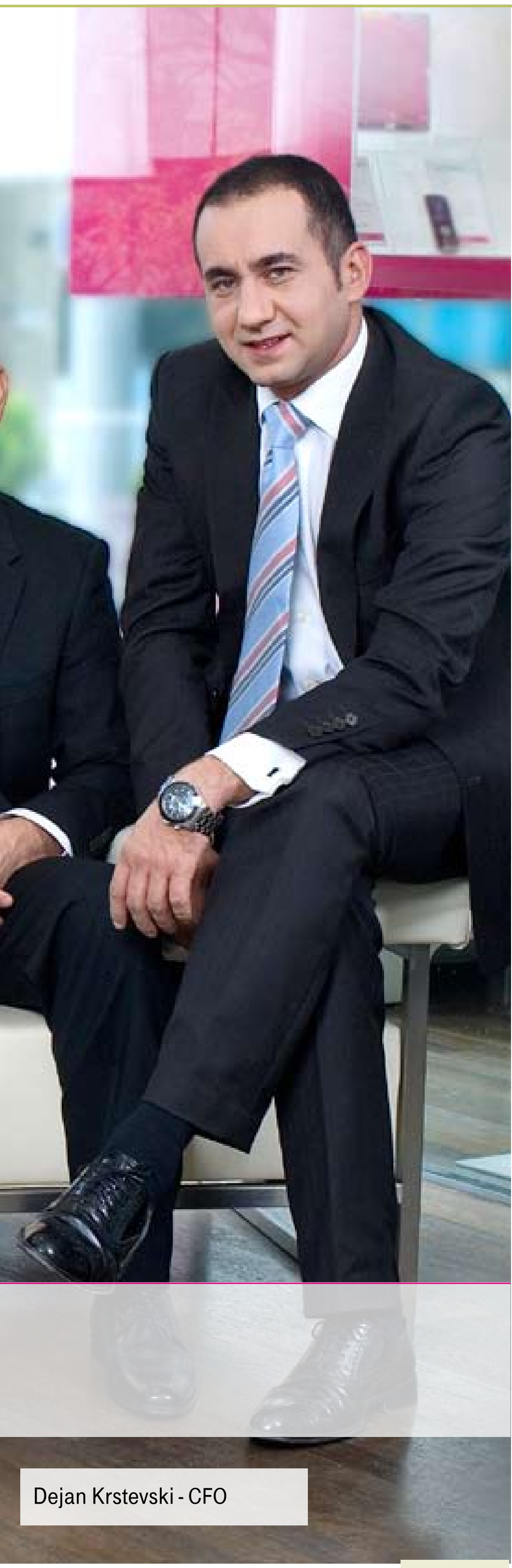
We enjoy the confidence of 1 300 000 users, and we believe this confirms our position as leaders and we are obligated to continue our mission – to become the most respected services company.

T-Mobile Management Team

Dusko Kantardziev - CITO | Zarko Lukovski - COO | Eftim Betimski - CTO | Michael Lawrence - CEO | Gabor Altmann - CMSO

Michael Lawrence, CEO

Michael Lawrence is the Chief Executive Director of Macedonia. He has worked for T-Mobile for 11 years. In 1998/99, along with China UNICOM, he implemented the joint endeavour in four main regions in China. He also implemented the UMTS consortium in France, and later controlled the RTS mobile phone operator in Poland. He became the Chief Executive Director of T-Mobile Macedonia in 2004. Under his leadership, T-Mobile Macedonia has had larger revenue share and has generated high EBITDA margins. Michael Lawrence is an engineer, and has graduated at the RWTH Aachen University. Later, he has worked as a mergers and acquisitions consultant for Deutsche Bank.



Dejan Krstevski - CFO

Zarko Lukovski, Chief Operational Director

Zarko Lukovski became the Chief operational director of T-Mobile in September2007. He is a member of the Board of Directors in Macedonian Telecommunications, and he became the Board's President in November 2006. Mr. Lukovski has a rich experience in computer sciences and telecommunication integration. His experience includes working on the Swedish and Macedonian markets. He was actively involved in the electronic signature project of the Ministry of finance. For a long time, Mr. Lukovski worked and collaborated with various global brands, such as Fujitsu, Siemens, Microsoft, Philips, Compaq, Xerox, Hewlett Packard, Motorola, Ericsson, thereby accumulating vast international experience.

Dejan Krstevski, Chief financial director

Dejan Krstevski has been with T-Mobile Macedonia for 7 years, and he was appointed as the Chief Financial Director in 2005. Mr. Krstevski has previously worked for Macedonian Telecom for 4 years as Head of finance, in the Sector for strategy. In T-Mobile, he formed the field of finance and the sectors for financial relations with the customers, the centralised procurement, business planning and control and accounting and financial operations. Under his leadership, T-Mobile Macedonia has ensured a high revenue growth, operational profitability and technological investment. Dejan Krstevski is a mechanical engineer, graduated economist and a post graduate in business administration, and currently, he's undertaking PhD studies at the Economics Faculty in Europe.

Eftim Betimski, Chief Director of technical operations

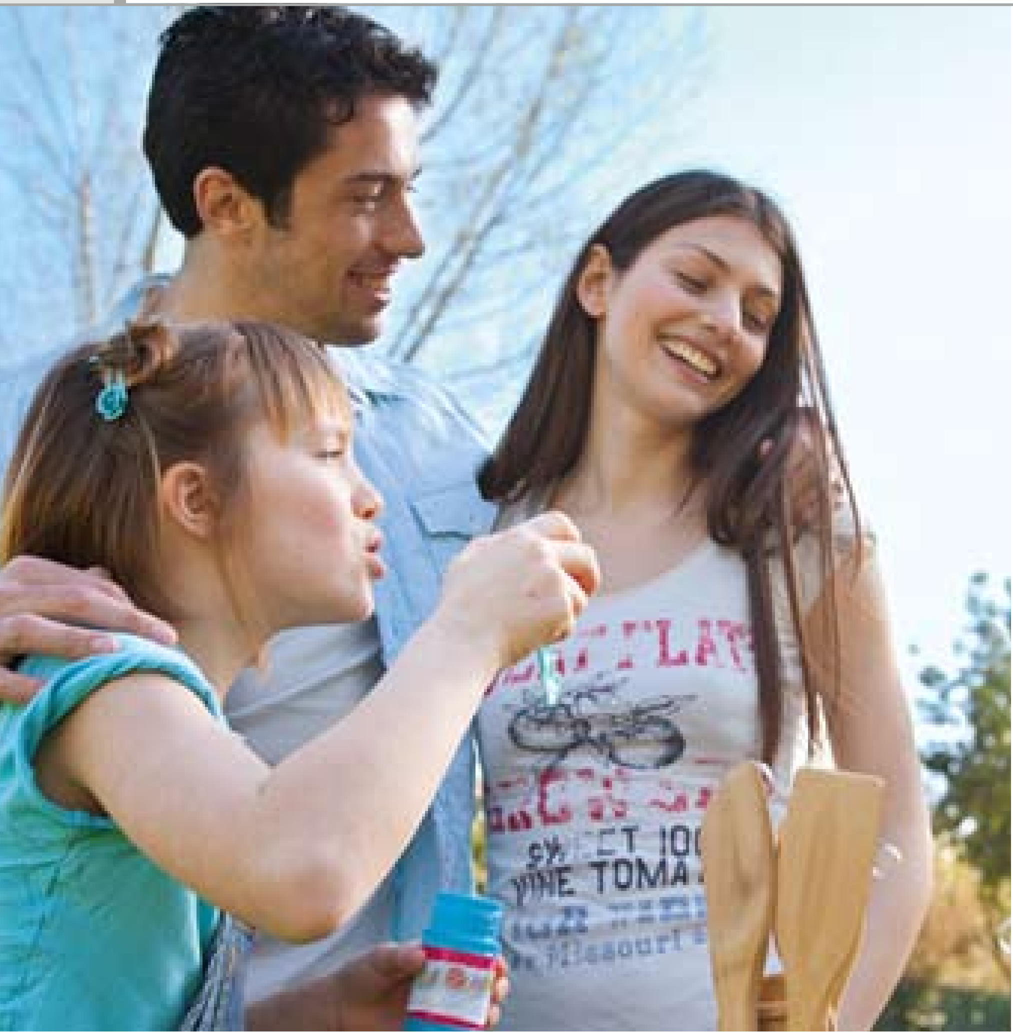
Eftim Betimski is the Chief Director of technical operations in T-Mobile. He began his career as an operations and maintenance engineer in 1991, after which it developed to a position of chief director of technical operations in 2001. His main achievements are: 2G/GPRS/EDGE 596 BTS (4115 transceivers)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

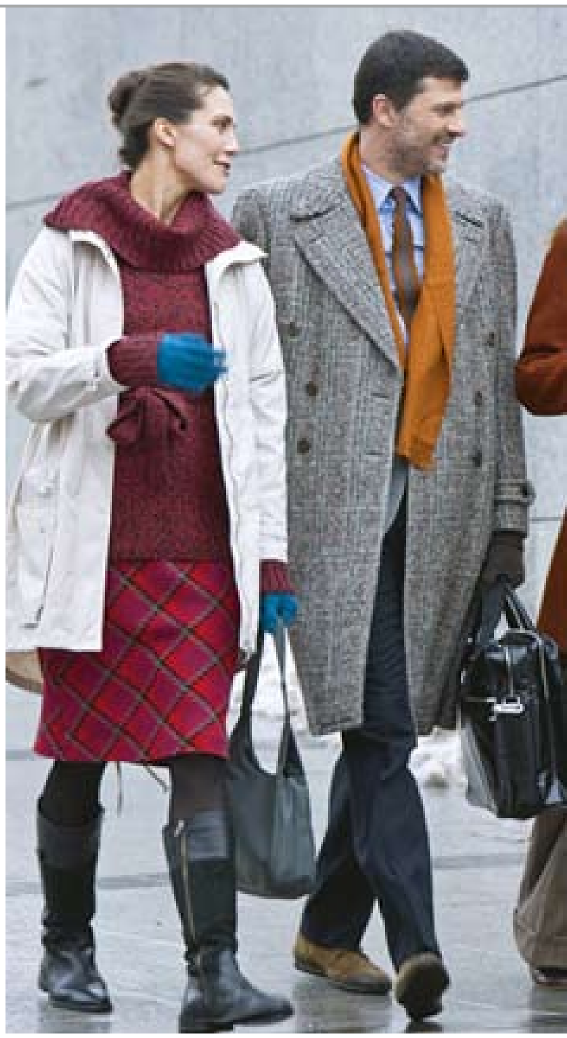
Dusko Kantardziev, Chief IT Director

Dusko Kantardziev is the Chief IT Director in T-Mobile Macedonia. His career spans over 15 years of various positions in Macedonian Telecom and T-Mobile. He implemented the first international communications and telephone communications accounting after the breakup of the former Yugoslavian postal and telecommunications service in 1991. During a two-year period, he was the technical director of an electronic safety systems company for large companies and the army. In 1996, he became a member of a team of founders of the first mobile phone network in the country – MobiMak, and he was responsible for the payment and user services. In 2001, he was appointed as the Chief IT Director in T-Mobile, leading the most complex IT environment in the country. Dusko Kantardziev is a graduated electrical engineer, the Electrical and telecommunications department and he graduated at the University of St. Cyril and Methodius in Skopje.

Gabor Altmann, Chief Marketing and Sales Director

Gabor Altmann is the Chief Marketing and Sales Director of T-Mobile since August, 2008. He holds a Ph.D degree in modern technologies and has an MBA degree in the International Management field from the respected Case Western Reserve University in Cleveland, USA. His professional growth starts with the Institute for Telecommunication in Budapest, through Chrack Telecom in Austria, C.E.R.M.P. (Centre Europeene de la Ressource de Mode Protege) in France, Ericsson in Budapest, Makedonski Telekom, Magyar Telekom as a Deputy Director for Business, Strategy and Marketing in T-Systems and since a few months ago, for the second time, he is back in Skopje, appointed on his current position. His long experience in the area of Marketing and Sales is his challenge in increasing the market share, but most of all increasing the customer satisfaction of retained customers.





Users

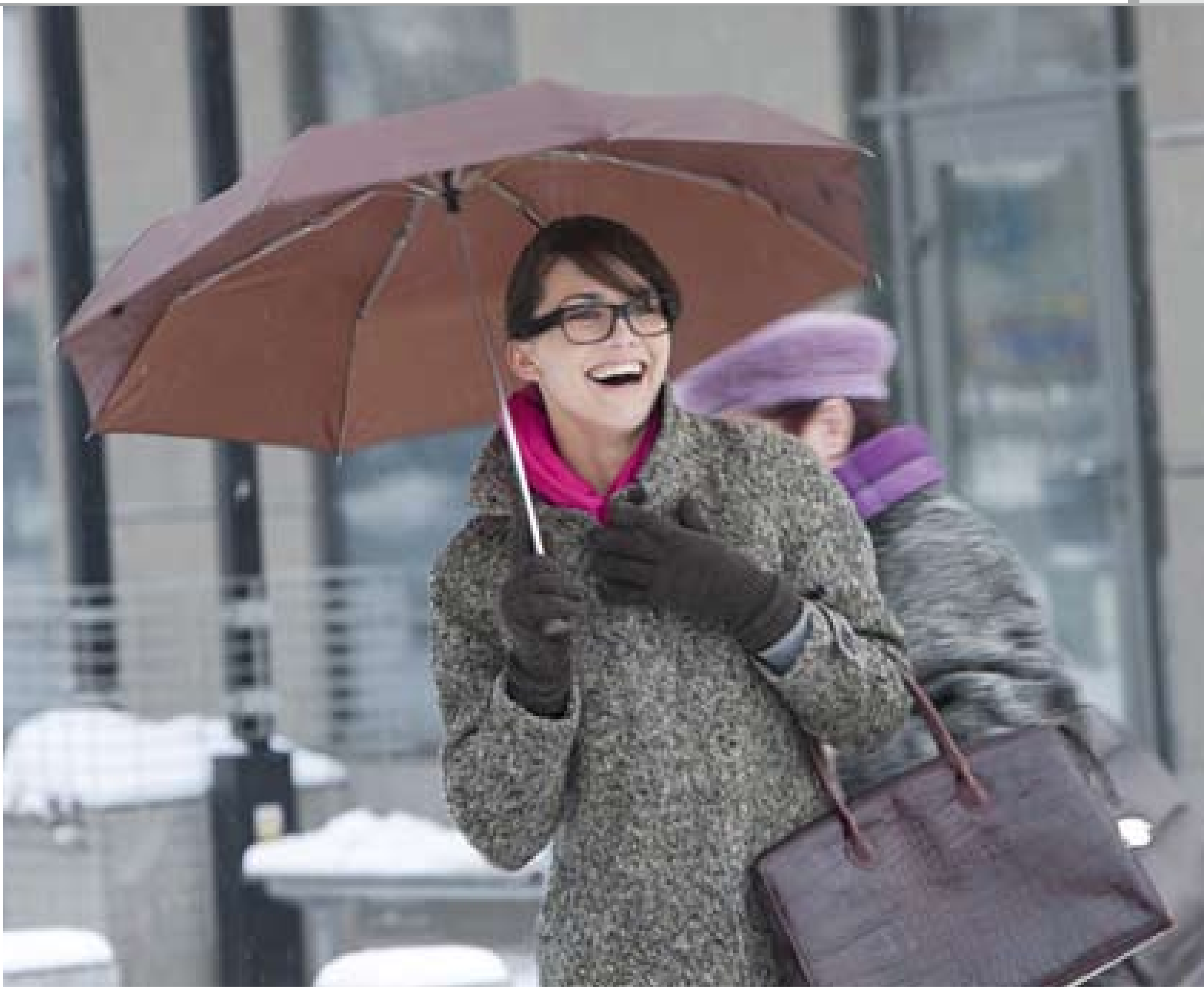
The satisfaction of our users and customers is our primary task.

To us, the users' needs always come first. To us, every user individually is important, and that's why we make sure that our services will cater to the needs of various types of users. Thus, we have prepared personalised prepaid post paid and services for our business users.

The satisfaction of our users and customers is our primary task. We have our own contact centre that is open 24 hours a day for our users, seven days a week throughout the year. In 2008, our contact centre was transformed and became even more available for our users. We have managed to respond to over 16.000000 calls made through various channels: IVR, telephone, e – mail. To alleviate interpersonal communication and to provide continuous cooperation, our team is prepared to answer every question, in three languages: Macedonian, English and Albanian.

T-Mobile has 130 stores and it is the largest Macedonian operator with the most widespread network in the region. Our users can reach the professionals and they are prepared and professionally trained to offer the best services at any time.

This year again, under the motto „One team – one aim", we have celebrated the week of user services, and as in the rest of the world, in Macedonia too we celebrated the professionalism in the field of user services. This gave us the opportunity to confirm once again and to highlight the significance of good and competent staff, team work and interpersonal cooperation. This has made T-Mobile the leading company in the field of user services.



Employees

Successful, competent and accomplished team

The well managed internal organisation, harmony and comfortable working atmosphere are preconditions for a successful company. That's why T-Mobile looks after its users and its employees equally. To ensure user satisfaction, it is necessary to have a successful, competent and an accomplished team. We look after and invest in our staff. We organise lectures, conferences, foreign language courses, study trips, we also offer sponsorships on study programmes and various professional specialisations. Our staff members are true professionals that improve by the day and acquire new experiences and knowledge.

Considering how different our employees are, we strive towards increasing interpersonal tolerance and understanding. Each day we invest in the improvement of internal cooperation between the sectors in our company.

We are aware that professional success depends on the satisfaction of our employees and their closest family. That's why in 2008, we have continued the tradition of organising various parties for our employees, lower prices and special packages, family days, humanitarian actions etc.

It is because of these advantages that today T-Mobile, as part of the global mobile phone family of Deutsche Telecom, holds high criteria and it is focused to a professional, talented and high quality working team.

Society

Corporative responsibility as tradition

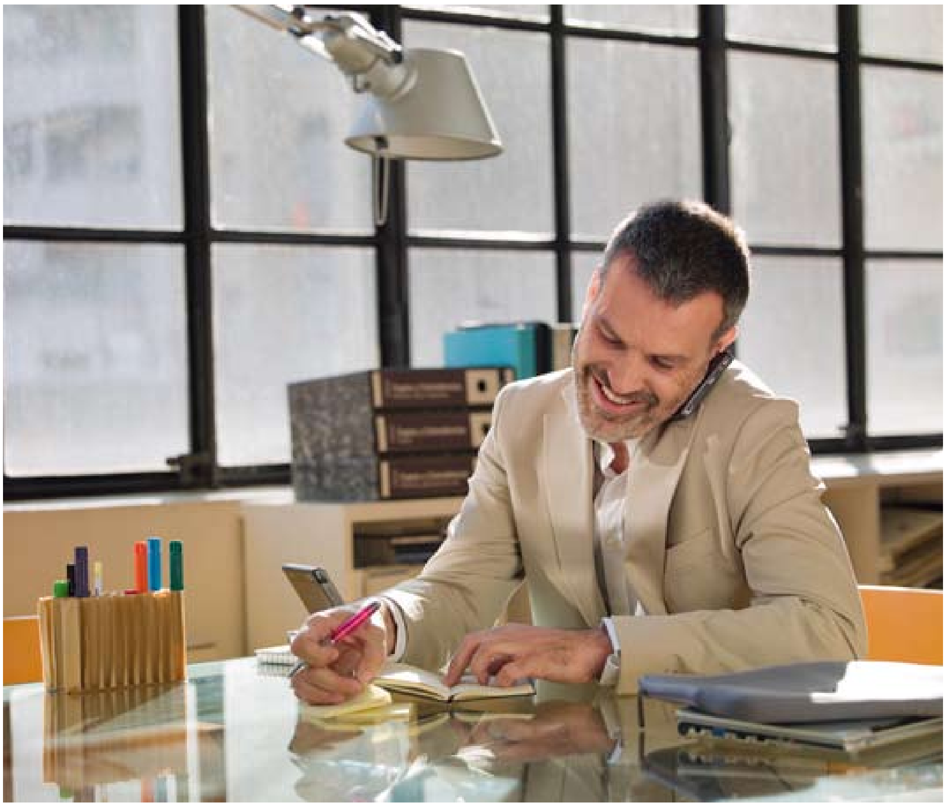
T-Mobile Macedonia is a company that fully recognises its social responsibility and invests in the society through various sponsorships and humanitarian activities.

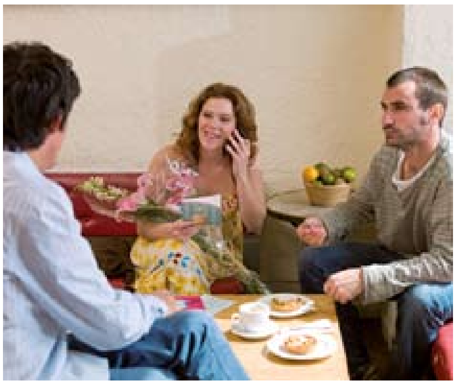
The T-Mobile Foundation for Macedonia is a non-profit organisation, founded in 2002 to support and initiate humanitarian activities and donations. Its members are volunteers from various T-Mobile Macedonia sectors, and the foundation strives to contribute in various social segments, focusing primarily on children, health and humanitarian projects.

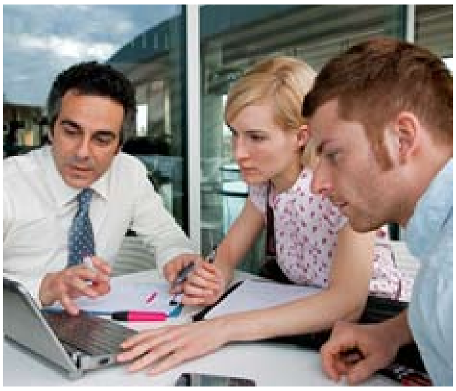
In 2008, a total of 7 million denars were collected for 66 persons and 36 organisations through the company's telephone numbers humanitarian purposes and for collecting donations for urgent medical treatments.

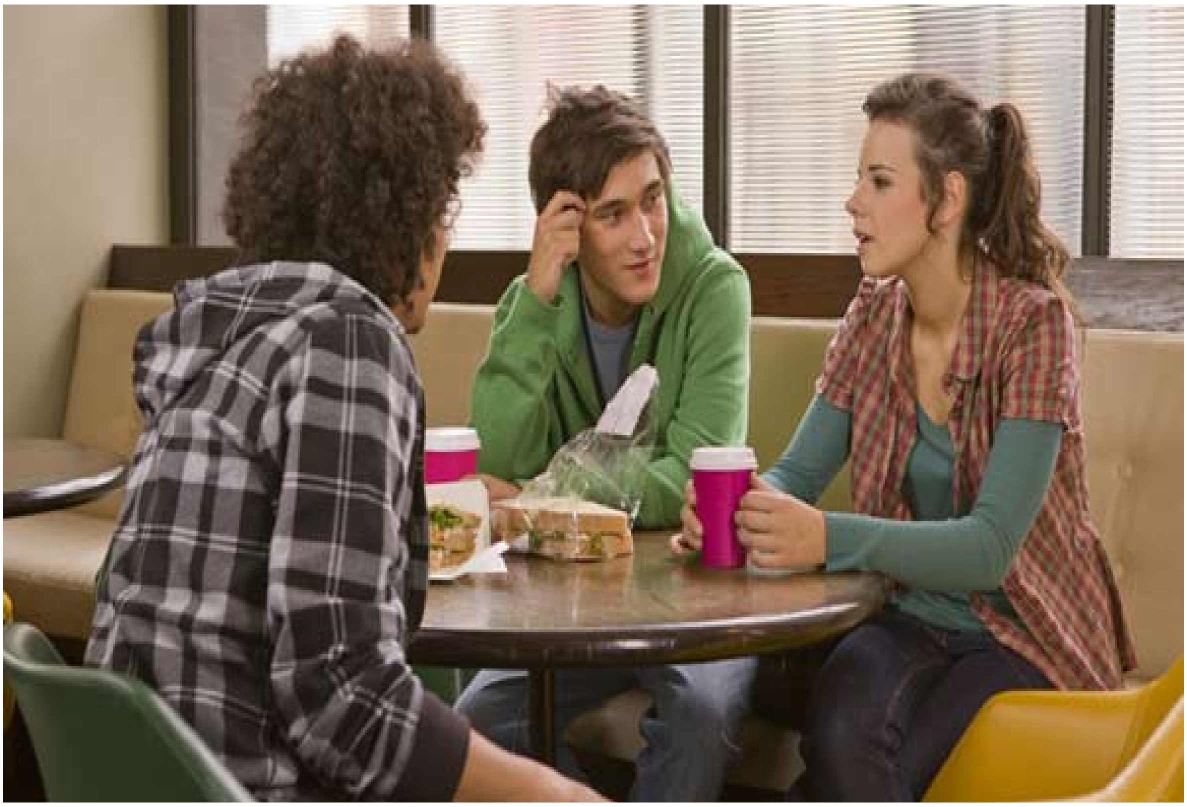
Also in 2008, the Foundation organised a traditional humanitarian caravan to support the socially endangered families, donating domestic appliances and Christmas presents for the children. The foundation also donated books and technical equipment to 4 schools for special needs children. At the Foundation's initiative, the employees in T-Mobile collected funds for the reconstruction of some of the rooms in the Children's home „11 Oktomvri"

Our dedication as a responsible corporative company is reflected through our sponsorship activities. In accordance with the T-Mobile sponsorships strategy, our focus is in sports and the cultural sphere in our country. In 2008, we signed an agreement with the Football Association, and in terms of supporting culture, T-Mobile sponsored the Manaki Film Festival, the Skopje Jazz festival, the Macedonian Opera and Ballet, the Lenny Kravitz concert, the Strumica Carnival etc. From its very beginning, T-Mobile Macedonia has proven itself as a company that is highly aware of its corporative responsibility, and one of the most fervent initiators of humanitarian activities and sponsorships in Macedonia.









Services

Highest index of satisfaction and loyalty on the market

This year, we have managed to bring mobile telephone services even closer to our customers. In times of tight competition, we achieved the highest index of satisfaction and loyalty on the market, far beyond the achievement of our competitors. We accomplished our goal to offer the best and the most favourable services, adapted to the local market and for every individual user segment: prepaid, post paid and business.

In 2008, we acquired the licence for 3G technology and with that technology, we implemented the contemporary standards in the web'n'walk services. We enabled our users to be part of the new generation on mobile phone telecommunications, to surf the internet at incredible speed and have access to fast and efficient internet and e-mail services, at anytime, anywhere. This new 3G technology also enabled us to introduce new video phone calls among for our users.

The new tariff model Flex was introduced in the post paid segment. By introducing the post paid tariff which enables common price calls all day, we met the need for free communication. For the prepaid users, we introduced free text messages, within the Easy SMS tariff. This led to 28% growth of the post paid user base and 9% growth of the pre paid user base.

We continuously worked on the introduction of new and interesting promotions. We introduced free text messages and using the web portal My T-Mobile, we upgraded the voicemail system with a new call service – call free; we also introduced new web'n'walk packages with Acer laptops and USB modem with internet access, the new iPhone 3G etc. These are some of the reasons as to why we have remained a leading company, with 59.4% share of the user market and 69% shares revenue.

We will continue our work in this direction, and offer more accessible and even higher quality mobile phone services.

Network upgrade and high technology

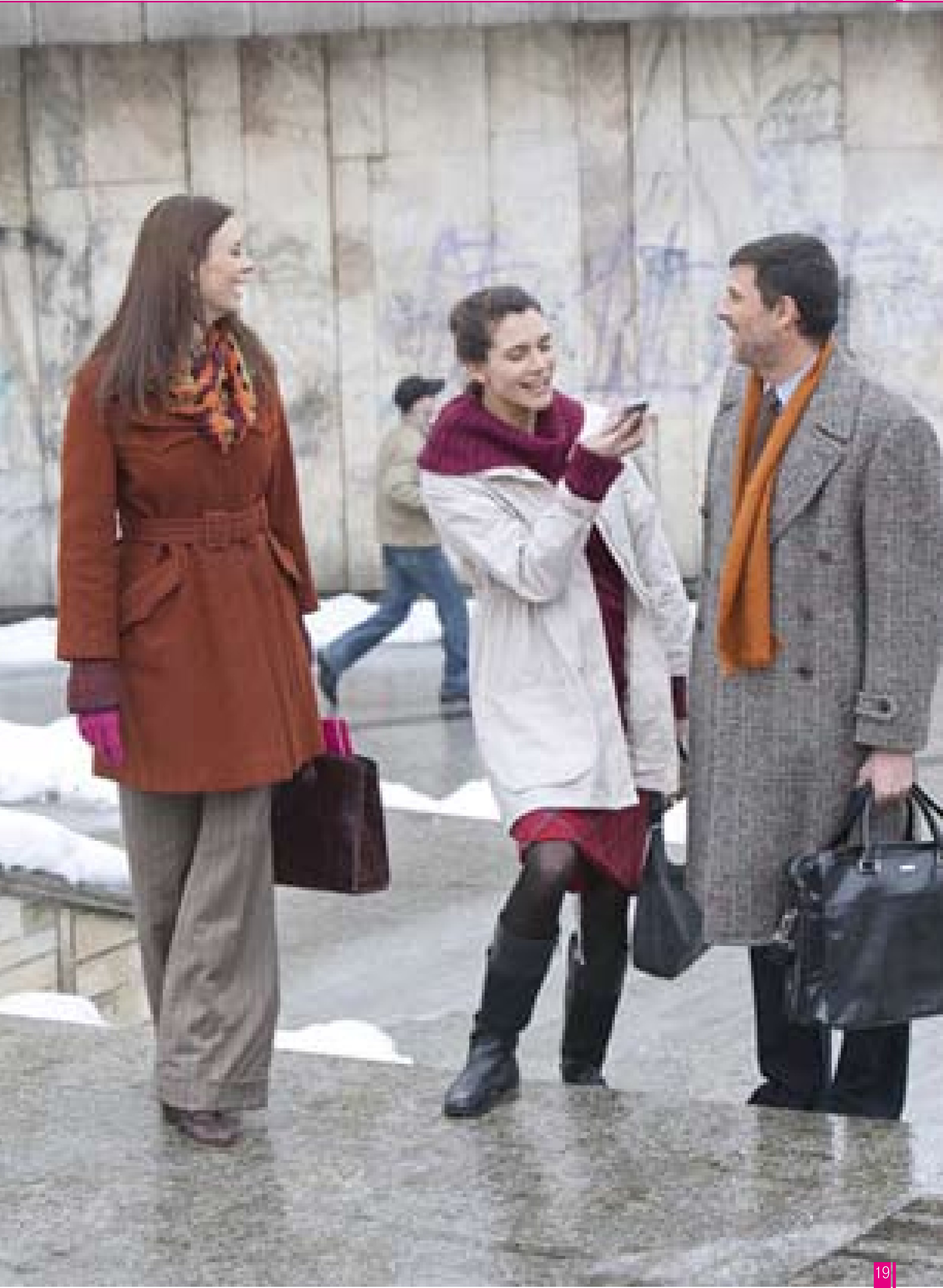
Innovations and new services develop every day, and so grow the communication needs of the users. That's why, in order to meet the requests of our users, we have be one step ahead of their expectations. Our goal is to offer the best and the most contemporary services, thereby sustaining the position of a partner.

This can only be achieved with the best network and continuous upgrade and strengthening of the network capacity. We are proud to declare that our network was built 12 years ago in 1996, when we built the national network around the stable network operational system, which today covers 99.8% of the population and 96% of Macedonia's territory. Since then, we have constantly been working on strengthening our network capacity improve the signal coverage and introduce high technology.

In 2008, we invested into the improvement of the stability of the radio network by implementing phase 1 of the MSS project – Mobile Software Switch. This project drastically increased the capacity of our main network, and we were successful in making the transition from the old „monolithic" type of main network to „horizontal" architecture, which uses the high quality VoIP (voice over IP) and is one step ahead of all IP transmissions. We thus gained better capacity and better solutions.

We also invested in information technological projects, with which we introduced new services, such as: transferability of mobile phone number, common retail network with Macedonian Telecommunications, upgrade of the voicemail system which introduces the service „Call free", expanding IVR etc.

We closely monitor the latest developments in the mobile phone technology, and that's why this year we took part in the 3G technology tender, and we acquired the license in December 2008. This license was necessary for the provision of wide range of services for all T-Mobile users, through the 3G technology. These investments and network improvement enabled our users to have the fastest possible connections, extremely fast 3G services, such as internet access, copying data files, real multimedia streaming, e-mail, over 99% successful realisation of calls etc.



T-Mobile Macedonia AD Skopje

Financial Statements

For the year ended

31 December 2008

With the Report of the Auditor Thereon

Contents

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Independent Auditor's Report

To the Board of Directors and Shareholders of T-Mobile Macedonia AD Skopje

Report on the financial statements

We have audited the accompanying financial statements of T-Mobile Macedonia AD Skopje (the "Company") which comprise the balance sheet as of 31 December 2008 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.

Our report has been prepared in Macedonian language and in English language. In all matters of interpretation of information, views or opinions, the Macedonian version of our report takes precedence over the English version.

Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of 31 December 2008, and 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 Gjorgjievski

СКОПЈЕ

Certified auditor
Ljube Gjorgjievski

Skopje
5 March 2009

PricewaterhouseCoopers REVIZIJA D.O.O. Skopje

T-Mobile Macedonia AD Skopje
Financial statements

Balance sheet

In thousands of denars	Note	As at 31 December 2008	2007
Assets			
Current assets			
Cash and cash equivalents	5	581,744	2,144,893
Deposits with banks	6	3,234,395	305,632
Trade and other receivables	7	1,544,842	2,626,998
Inventories	8	241,267	210,197
Total current assets		**5,602,248**	**5,287,720**
Non-current assets			
Property, plant and equipment	9	1,749,103	1,565,652
Intangible assets	10	2,301,011	1,602,185
Other investments		305	305
Total non-current assets		**4,050,419**	**3,168,142**
Total assets		**9,652,667**	**8,455,862**
Liabilities			
Current liabilities			
Trade and other payables	11	1,503,649	667,788
Current income tax liabilities		58,266	199,794
Provision for other liabilities and charges	12	431	431
Total current liabilities		**1,562,346**	**868,013**
Non-current Liabilities			
Provision for other liabilities and charges	12	385,263	291,360
Total non-current liabilities		**385,263**	**291,360**
Total liabilities		**1,947,609**	**1,159,373**
Equity			
Share capital		2,791,453	2,791,453
Statutory reserves		558,291	558,291
Retained earnings		4,355,314	3,946,745
Total equity	13	**7,705,058**	**7,296,489**
Total equity and liabilities		**9,652,667**	**8,455,862**

The financial statements set out on pages 1 to 34 were authorised for issue on 5 March 2009 by the Management of T-Mobile Macedonia AD Skopje, and are subject to review and approval by the Board of directors on 10 March 2009 and by the shareholders on date that will be subsequently agreed.

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

The notes on pages 5 to 34 are an integral part of these financial statements.

Income statement

In thousands of denars	Note	Year ended 31 December 2008	2007
Revenues	14	10,655,942	10,101,370
Other operating income	15	208,275	127,669
Depreciation and amortisation		(1,203,738)	(1,212,797)
Gross salaries		(348,822)	(323,454)
Other operating expenses	16	(4,553,135)	(4,300,710)
Profit from operations		**4,758,522**	**4,392,078**
Finance expenses	17	(59)	(45,771)
Finance income	18	155,888	227,804
Net finance income		**155,829**	**182,033**
Profit before income tax		**4,914,351**	**4,574,111**
Income tax expense	19	(559,037)	(627,366)
Net profit for the year		**4,355,314**	**3,946,745**

The notes on pages 5 to 34 are integral part of these financial statements

Cash flows statement

In thousands of denars	Note	Year ended 31 December 2008	2007
Operating activities			
Net profit before tax		4,914,351	4,574,111
Adjustments for:			
Depreciation and amortisation		1,203,738	1,212,797
Write (back)/down of inventories to net realisable value	16	(6,854)	20,846
Impairment losses on trade and other receivables	16	154,651	102,937
Write off of inventories	16	10,226	28,342
Provisions for liabilities and charges	16	70,929	183,055
Interest expense	17	59	10
Interest income	18	(138,600)	(227,804)
(Gain)/Loss on disposal of property, plant and equipment		(192)	3,666
Other non cash adjustments		22,839	3,195
Effect of foreign exchange rate changes on cash and cash equivalents		11,009	20,798
Cash generated from operations before changes in working capital		**6,242,156**	**5,921,953**
(Increase)/decrease in inventories		(34,536)	4,922
Increase in receivables		(342,968)	(110,795)
Increase/(decrease) in payables		647,637	(105,534)
Increase of provision		22,974	102,218
Cash generated from operations		**6,535,263**	**5,812,764**
Interest paid		(59)	(10)
Income taxes paid		(700,565)	(604,165)
Cash flows from operating activities		**5,834,639**	**5,208,589**
Investing activities			
Acquisition of property, plant and equipment		(704,226)	(790,645)
Acquisition of intangible assets		(1,204,890)	(705,577)
Loan repayment received		1,123,000	2,877,000
Deposits drown from banks		300,084	410,617
Deposits placed with banks		(3,199,753)	(300,084)
Proceeds from sale of property, plant and equipment		12,015	3,920
Interest received		233,736	110,564
Cash flows from investing activities		**(3,440,034)**	**1,605,795**
Financing activities			
Dividends paid		(3,946,745)	(6,462,794)
Cash flows from financing activities		**(3,946,745)**	**(6,462,794)**
Effect of foreign exchange rate changes on cash and cash equivalents		(11,009)	(20,798)
Net (decrease)/increase in cash and cash equivalents		(1,563,149)	330,792
Cash and cash equivalents at 1 January		2,144,893	1,814,101
Cash and cash equivalents as 31 December	5	**581,744**	**2,144,893**

The notes on pages 5 to 34 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 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	**13**	**2,791,453**	**558,291**	**3,946,745**	**7,296,489**
Balance at 1 January 2008		2,791,453	558,291	3,946,745	7,296,489
Net profit for the year		-	-	4,355,314	4,355,314
Dividends paid		-	-	(3,946,745)	(3,946,745)
Balance at 31 December 2008	**13**	**2,791,453**	**558,291**	**4,355,314**	**7,705,058**

The notes on pages 5 to 34 are an integral part of these financial statements.

Notes to the financial statements

1. General information

1.1. About the Company

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 Telekom 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.

T-Mobile Macedonia AD is the leading mobile service provider in Macedonia.

The Macedonian telecommunications sector is regulated by the Electronic Communications Law ("ECL") enacted in March 2005. With the latest changes of the ECL published on 4 August 2008, the existing Concession Contracts of the Company and immediate parent company are no longer valid as of 5 August 2008. On 5 September 2008 the Agency for Electronic Communications ("The Agency"), ex officio, has issued a notification to the Company for those public electronic communication networks and/or services which have been allocated thereto under the Concession Contracts. The licence for the radiofrequencies previously granted with the Concession Contract was also issued by the Agency.

The Agency on 29 June 2007 has published the draft analysis conducted on Market 16 (Call termination services in public mobile communication networks) and based on it on 26 November 2007 has brought a decision by which T-Mobile Macedonia was designated with Significant Market Player position in the market and several obligations were imposed (interconnection and access, non-discrimination in interconnection and access, accounting separation and price control and cost accounting). The Company is currently implementing the defined obligations. The Company is obliged to submit financial reports based on accounting separation by 31 May 2009.

The Company submitted Reference Interconnection Offer ("RIO") to the Agency on 29 February 2008. On 28 March 2008, Agency decided to significantly decrease the mobile termination rates. The new termination rates of T-Mobile Macedonia, with a confirmation letter issued by the Agency are applied from 1 August 2008. After using all legal means against the decision of the Agency, the Company has published the RIO with the changes imposed by the Agency. The Company, also, initiated a court procedure before the Administrative Court of Republic of Macedonia concerning this decision of the Agency but the case does not postpone the execution of the decisions of the Agency.

The Agency in November 2007 has published a public tender for granting one license for 3G radiofrequencies utilization. Cosmofon won the tender and started the 3G commercial operations from 12 August 2008. On 2 September 2008 a decision for granting three 3G licences for 10 million EURO one off fee each was published. On 15 September 2008 a new tender for additional three 3G licenses was published. The Company won one license which was granted to it on 17 December 2008. The Company is obliged to launch commercial start of the 3G services by 17 June 2009. The Government of Republic of Macedonia has published an official decision for granting additional two 3G licenses with 5m EUR one off fee, each. The public tender for granting these licenses is published on 27 January 2009.

The Company's registered address is "Orce Nikolov" Street bb, 1000, Skopje, Republic of Macedonia. The number of employees as at 31 December 2008 was 444 (2007: 436).

1.2. Investigation into certain consultancy contracts

On February 13, 2006, Magyar Telekom Plc., the controlling owner 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. Subsequent to this on 19 February 2007, the Board of Directors of the Company, based on the recommendation of the Audit Committee of Makedonski Telekom AD Skopje and the Audit Committee of Magyar Telekom Plc., adopted a resolution to conduct an independent internal investigation regarding these contracts. The investigation, conducted by an independent law firm and supervised by the Audit Committee of Magyar Telekom Plc., is still ongoing.

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

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

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

As previously disclosed, Magyar Telekom Plc. has taken remedial steps to address issues previously identified by the independent investigation, including steps designed to revise and enhance Magyar Telekom Plc.'s internal controls. Magyar Telekom Plc is considering whether and to what extent the recent Status Report warrants additional remedial actions. The independent investigation is continuing. Magyar Telekom Plc. cannot predict when the internal investigation will be concluded, what the final outcome of the investigation may be, or the impact, if any, the investigation may have on the Company's financial statements or results of operations.

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

2. 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.

2.1. Basis of preparation

These financial statements are prepared, in all material respects, in accordance with the Law on Trade Companies (Official Gazette No. 28/2004) and Rule Books for Accounting (Official Gazette No. 40/1997, 73/1999, 94/2004, 11/2005 and 116/2005).

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

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 note 4. Actual results may differ from those estimated.

Notes to the financial statements

2. Significant accounting policies continued

2.2. Foreign currency translations

2.2.1. Functional and presentation currency

The financial statements are presented in thousands of 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 and 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), United States Dollars (USD) and Swiss Francs (CHF) based. The exchange rates used for translation at 31 December 2008 and 31 December 2007 were as follows:

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

2.3. Financial instruments

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

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

2.3.1. Financial assets

The Company classifies its financial assets in the following categories:

(a) at fair value through profit or loss

(b) loans and receivables

(c) available-for-sale (AFS)

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

Regular way purchases and sales of financial assets are recognized on the trade-date, the date on which the Company commits to purchase or sell the asset. Investments, if any, 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, if any, are initially recognized at fair value, and transaction costs are expensed in the income statement.

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

2. Significant accounting policies continued

2.3. Financial instruments continued

2.3.1. Financial assets continued

(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, if any. 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 (Other financial income/expense) 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 and cash equivalents
- deposits with bank
- receivables and loans to third parties
- trade receivables
- employee loans
- other receivables (e.g. interest receivables)

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

Cash and cash equivalents

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

Trade and other receivables

Trade and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the 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.

Notes to the financial statements

2. Significant accounting policies continued

2.3. Financial instruments continued

2.3.1. Financial assets continued

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

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

Individual valuation is carried out for customers under liquidation; bankruptcy proceedings and for the total receivables of customers with overdue receivables. Itemized valuation should also be performed in special circumstances.

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

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

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

Employee loans

Employee loans, if any, 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 Employee related expenses evenly over the term of the loan.

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

Available-for-sale financial assets, if any, 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.

2. Significant accounting policies continued

2.3. Financial instruments continued

2.3.1. Financial assets continued

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.

Loss events can be the followings:

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

If any such evidence exists for AFS financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the income statement – is removed from equity and recognized in the income statement (Finance income). Impairment losses recognized in the income statement on equity instruments shall not be reversed through the income statement.

2.3.2. 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.

Notes to the financial statements

2. Significant accounting policies continued

2.5. Property, plant and equipment (PPE)

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

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

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

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

Depreciation is charged to the income statement on a straight-line basis over the 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:

	2008	2007
	%	%
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
Truck vehicles	25	25

2.6. Intangible assets

Intangible assets that are acquired by the Company are stated at cost less accumulated amortisation and impairment losses.

Items of intangible assets are revaluated 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

2. Significant accounting policies continued

2.6. Intangible assets continued

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 also tax allowable:

	2008	2007
	%	%
Software and licences	20	20
3G Licence	10	-

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.

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.

2.7. Impairment of PPE and intangible assets

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

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

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

2.8. 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.

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.

2.9. Share capital

Ordinary shares are classified as equity.

Notes to the financial statements

2. Significant accounting policies continued

2.10. 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.

2.11. 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.

2.12. Revenues

Revenue is primarily derived from services provided to customer subscribers and other third parties using telecommunications network, and equipment sales. Revenues for all services and equipment sales (Note 14) 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 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 using the residual method.

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

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

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

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

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

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

2. Significant accounting policies continued

2.13. Employee benefits

2.13.1. 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 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 these financial statements. In addition, the Company is not obligated to provide further benefits to current and former employees.

2.13.2. 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.

2.13.3. Termination benefits

Termination benefits are payable whenever an employee's 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.

2.14. Marketing expenses

Marketing costs are expensed as incurred. Marketing expenses are disclosed in Note 16.

2.15. Corporate Income tax

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

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.

2.16. Leases

Leases of property, plant and equipment where the Company has substantially all the risks and rewards of ownership, are classified as finance leases.

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

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.

Notes to the financial statements

2. Significant accounting policies continued

2.17. 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 these financial statements and are disclosed in the relevant notes.

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, except financial assets classified as available for sale, if any, that are recognised in equity. The Company is exposed in particular to risks from movements in exchange rates, interest rates, and market prices that affect its assets and liabilities. Financial risk management aims to limit these market risks through ongoing operational and finance activities.

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

3.1.1. Market risk

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

As the vast majority of the revenues and expenses of the 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.

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

a) Foreign currency risk

The Company's functional currency is the Macedonian denar.

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

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

Notes to the financial statements

3. Financial risk management continued

3.1. Financial risk factors continued

3.1.1. Market risk continued

a) Foreign currency risk continued

The Company accumulated more cash in EUR and USD than its trade payables in EUR and USD. At 31 December 2008, if EUR would have been 5% (2007: 5%) weaker or stronger against MKD profit would have been MKD 57,007 thousand (2007: 42,468 MKD thousand) after tax in net balance higher or lower, respectively. At 31 December 2008, if USD would have been 5% (2007: 5%) weaker or stronger against MKD profit would have been MKD 23,083 thousand (2007: 17,847 MKD thousand) after tax in net balance higher or lower, respectively.

b) Interest rate risk

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

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

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

The Company had MKD 2,436,492 thousand deposits (including call deposits) as of 31 December 2007, 1 percentage point rise in market interest rate would have caused (ceteris paribus) the interest received to increase with approx. MKD 27,072 thousand annually after tax, while similar decrease would have caused the same decrease in interest received. Amount of deposit is MKD 3,814,243 thousand (including call deposits) as of 31 December 2008, therefore 1 percentage point rise in market interest rate would have caused (ceteris paribus) the interest received to increase with approx. MKD 34,328 thousand annually after tax, while similar decrease would have caused the same decrease in interest received.

c) Other price risk

As of 31 December 2007 and 2008, the Company do not hold investments or other financial instruments, which could be affected by risk variables such as stock exchange prices.

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.

With regard to financing activities, transactions are primarily 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. Basically, the methodology evaluates banks' financial ratios as an integral part of the four CAEL components - Capital, Assets, Earnings and Liquidity. The final score of the banks (on a scale from 1 to 5) is related to the banks' operations and performance for the analysed period. The Company policy is to invest in banks, which final score varies within following 3 ranges:

Notes to the financial statements

3. Financial risk management continued

3.1. Financial risk factors continued

3.1.2. Credit risk continued

- 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 and involvement of the executive unit. The overdue payments are followed through a debt escalation procedure based on customer's type, credit class and amount of debt.

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

The Company has no significant concentration of credit risk with any single counter party or Company 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 and the amount of cash deposits in banks at the balance sheet date.

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

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

In thousands of denars	**2008**	**2007**
Deposits with banks	3,234,395	305,632
Cash and cash equivalents	581,670	2,144,892
Loans to related parties	-	1,247,230
Trade debtors – domestic	1,198,770	979,750
Trade debtors – foreign	92,132	71,305
Receivables from related parties	160,648	241,879
Other financial assets	19,906	10,409
	5,287,521	**5,001,097**

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

Largest amount of one deposit in 2008 is MKD 660,000 thousand (2007: MKD 400,000 thousand). The Company has deposits with 8 domestic banks (2007: 8 domestic banks).

Notes to the financial statements

3. Financial risk management continued

3.1. Financial risk factors continued

3.1.3. Liquidity risk

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

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 Accounts Payable Department. Any excess cash is mostly deposited in commercial banks.

All trade payables have maturity within one year.

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. There is no gearing as at 31 December 2007 and 2008 related to current and non-current loans.

3.3. Fair value estimation

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

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 discussed below.

4.1. Estimated impairment of property, plant and equipment, and intangible assets

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. If impairment is identified using the value in use calculations, we also determine the fair value less cost to sell (if determinable), to calculate the exact amount of impairment to be charged (if any). As this exercise is highly judgmental, the amount of potential impairment may be significantly different from that of the result of these calculations. Management has performed an impairment test based on 10 years cash flow projections. Value in use was determined using discounted cash flow analysis. The discount rate used was 9.4%. No impairment was identified in 2008.

Notes to the financial statements

4. Critical Accounting Estimates and Judgments continued

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 customers in bankruptcy and liquidation, 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 aging of our account receivables balance and our historical write-off experience, customer credit-worthiness and recent changes in our customer payment terms. These factors are reviewed periodically, and changes are made to calculations when necessary (see note 2.3.1). 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.

4.3. Provisions

Provisions in general are highly judgmental, especially in the case 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, the Company fully provides for the total amount of the estimated 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.

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. 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.

Notes to the financial statements

5. Cash and cash equivalents

In thousands of denars	2008	2007
Call deposits	579,848	2,130,860
Cash on hand	74	1
Cash equivalents	1,822	14,032
	581,744	**2,144,893**

Cash equivalents comprise of cheques with original maturity of less than 3 months.

The interest rate on call deposits ranged from 1.80% p.a. to 5.00% p.a. (2007: from 1.60% p.a. to 5.50%. These deposits have maturities of less than 3 months.

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

In thousands of denars	2008	2007
MKD	562,465	1,244,098
EUR	11,722	756,205
USD	7,556	144,582
Other	1	8
	581,744	**2,144,893**

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

In thousands of denars	2008	2007
A	529,318	2,025,907
B	52,426	112,672
C	-	6,314
	581,744	**2,144,893**

6. Deposits with banks

Deposits with banks represent cash deposits in the reputable domestic banks with interest rates in range from 2.83% p.a. to 6.15 % p.a. (2007: 3.44% p.a. to 4.64 % p.a.) with maturity between 3 and 12 months.

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

In thousands of denars	2008	2007
MKD	1,651,877	-
EUR	1,128,418	93,146
USD	454,100	212,486
	3,234,395	**305,632**

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

In thousands of denars	2008	2007
A	3,234,395	305,632
	3,234,395	**305,632**

Notes to the financial statements

7. Trade and other receivables

In thousands of denars	2008	2007
Trade debtors - Domestic	1,816,986	1,448,655
Less: allowance for impairment	(618,216)	(468,905)
Trade debtors - domestic-net	1,198,770	979,750
Trade debtors - Foreign	92,132	71,305
Receivables from related parties	160,648	241,879
Short term loans given to related parties	-	1,247,230
Other	19,906	10,409
Financial assets	**1,471,456**	**2,550,573**
Prepayments and accrued income	32,024	67,040
Advances paid	41,467	9,385
Less allowance for impairment	(105)	-
Advances paid – net	41,362	9,385
Other receivables	**73,386**	**76,425**
	1,544,842	**2,626,998**

Receivables from related parties represent receivables from Makedonski Telekom AD, Magyar Telekom Plc. Group and Deutsche Telekom AG Group (refer note 23).

As of 31 December 2008, domestic trade debtors of MKD 871,111 thousand (2007: MKD 714,617 thousand) are impaired. The ageing of these receivables is as follows:

In thousands of denars	2008	2007
Less than 30 days	177,381	145,064
Between 31 and 180 days	190,177	147,063
Between 181 and 360 days	72,724	74,476
More than 360 days	430,829	348,014
	871,111	**714,617**

Out of the total amount of the allowance for impairment MKD 505,653 thousand (2007: MKD 443,812 thousand) represent allowance calculated on a portfolio bases. The rest of MKD 106,764 thousand (2007: MKD 25,093 thousand) represents specific allowance for impairment calculated for receivables from customers under liquidation and charged penalties, which are fully impaired. In addition, the Company has a specific provision calculated in respect of a certain group of customers in amount to MKD 5,799 thousand (2007: nil).

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

In thousands of denars	2008	2007
Trade debtors - domestic-net	1,198,770	979,750
Trade debtors - Foreign	92,132	71,305
Receivables from related parties	160,648	241,879
Short term loans given to related parties	-	1,247,230
Other	19,906	10,409
Financial assets	**1,471,456**	**2,550,573**
Prepayments and accrued income	32,024	67,040
Advances paid-net	41,362	9,385
	1,544,842	**2,626,998**

Notes to the financial statements

7. Trade and other receivables continued

Movement in allowance for impairment of domestic trade debtors

In thousands of denars	2008	2007
Impairment losses at 1 January	(468,905)	(366,592)
Charged to expense	(154,651)	(102,938)
Write off	5,340	625
Impairment losses at 31 December	**(618,216)**	**(468,905)**

Movement in allowance for advances paid

In thousands of denars	2008	2007
Impairment losses at 1 January	-	-
Charged to expense	(105)	-
Impairment losses at 31 December	**(105)**	**-**

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

There are no individually significant impaired receivables.

As of 31 December 2008, foreign trade receivables in amount of MKD 31,996 thousand (2007: MKD 23,182 thousand) were past due but not impaired. These relate to a number of international customers assessed on individual basis in accordance with past Company experience and current expectations, in line with the principle of prudence. The analysis of these past due foreing trade receivables is as follows:

In thousands of denars	2008	2007
Less than 30 days	21,870	12,136
Between 31 and 60 days	3,941	1,657
Between 61 and 90 days	1,799	1,013
Between 91 and 180 days	3,969	7,370
More than 181 days	417	1,006
	31,996	**23,182**

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

The Company has renegotiated domestic trade receivables in carrying amount of MKD 15,838 thousand.

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

In thousands of denars	2008	2007
Group 1	816,395	629,817
Group 2	115,159	84,980
Group 3	14,321	19,241
	945,875	**734,038**

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

Notes to the financial statements

7. Trade and other receivables continued

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

In thousands of denars	**2008**	**2007**
Group 1	58,735	47,313
Group 2	1,299	810
Group 3	102	-
	60,136	**48,123**

Group 1 – customers with no disconnections in the last 12 months;

Group 2 – customers with up to 3 times disconnections in the last 12 months;

Group 3 – customers with more than 3 times disconnections in the last 12 months.

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

In thousands of denars	**2008**	**2007**
MKD	1,462,983	2,532,961
EUR	52,140	79,886
USD	29,713	14,110
Other	6	41
	1,544,842	**2,626,998**

8. Inventories

In thousands of denars	**2008**	**2007**
Materials	25,806	26,696
Spare parts	30,218	30,227
Inventories for resale	194,124	168,561
Petty inventory	5,730	6,178
Write down of inventories to net realisable value	(14,611)	(21,465)
	241,267	**210,197**

Movement in allowance for inventories to net realizable value

In thousands of denars	**2008**	**2007**
Allowance at 1 January	(21,465)	(619)
(Write back)/charged to expense	6,854	(20,846)
Allowance at 31 December	**(14,611)**	**(21,465)**

Materials mainly comprise of smaller spare parts for telecommunication equipment, office materials etc. Allowance for inventory mainly relates to obsolete inventories for resale.

Notes to the financial statements

9. Property, plant and equipment

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 period	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**

In thousands of denars	Land and buildings	Equipment	Other	Assets under construction	Total
Cost					
At 1 January 2008	149,196	6,745,001	1,202,834	195,418	8,292,449
Additions	10,361	134,903	247,434	380,514	773,212
Transfer from assets under construction (see note 10)	180	274,983	-	(286,064)	(10,901)
Disposals	-	(105,563)	(197,404)	(1,384)	(304,351)
At 31 December 2008	**159,737**	**7,049,324**	**1,252,864**	**288,484**	**8,750,409**
Depreciation					
At 1 January 2008	43,987	5,779,675	903,135	-	6,726,797
Charge for the period	3,789	449,172	114,080	-	567,041
Transfers	(11,416)	-	11,416	-	-
Disposals	-	(105,447)	(187,085)	-	(292,532)
At 31 December 2008	**36,360**	**6,123,400**	**841,546**	**-**	**7,001,306**
Carrying amount					
At 1 January 2008	105,209	965,326	299,699	195,418	1,565,652
At 31 December 2008	**123,377**	**925,924**	**411,318**	**288,484**	**1,749,103**

Operating lease rentals amounting to MKD 130,544 thousand (2007: MKD 102,848 thousand) relating to the lease of property and equipment are included in the income statement.

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10. Intangible assets

In thousands of denars	Software and licences	3G license	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**

In thousands of denars	Software and licences	3G license	Other	Assets under construction	Total
Cost					
At 1 January 2008	4,509,483	-	142,204	-	4,651,687
Additions	686,380	613,837	12,529	11,879	1,324,625
Disposals	(108,122)	-	(3,952)	-	(112,074)
Transfer from assets under construction (see note 9)	10,901	-	-	-	10,901
At 31 December 2008	**5,098,642**	**613,837**	**150,781**	**11,879**	**5,875,139**
Amortisation					
At 1 January 2008	2,948,441	-	101,061	-	3,049,502
Charge for the year	620,903	-	15,794	-	636,697
Disposals	(108,122)	-	(3,949)	-	(112,071)
At 31 December 2008	**3,461,222**	**-**	**112,906**	**-**	**3,574,128**
Carrying amount					
At 1 January 2008	1,561,042	-	41,143	-	1,602,185
At 31 December 2008	**1,637,420**	**613,837**	**37,875**	**11,879**	**2,301,011**

Notes to the financial statements

11. Trade and other payables

In thousands of denars	**2008**	**2007**
Trade payables		
-Domestic	261,771	94,926
-Foreign	614,504	111,331
Liabilities to related parties	132,275	198,614
Not yet invoiced	833	615
Other financial liabilities	5,055	16,613
Financial liabilities	**1,014,438**	**422,099**
VAT and social security payable	71,549	64,232
Accrued liabilities	417,662	181,457
Other liabilities	**489,211**	**245,689**
	1,503,649	**667,788**

Liabilities to related parties represent liabilities to Makedonski Telekom AD, Magyar Telekom Plc. Group and Deutsche Telekom AG Group (refer note 23).

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

In thousands of denars	**2008**	**2007**
Less than 90 days	866,866	201,951
Between 90 and 180 days	1,757	1,166
Between 181 and 360 days	7,652	3,140
	876,275	**206,257**

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

In thousands of denars	**2008**	**2007**
MKD	1,129,497	587,712
EUR	368,987	75,411
USD	4,976	4,316
Other	189	349
	1,503,649	**667,788**

12. Provisions for other liabilities and charges

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**

Notes to the financial statements

12. Provisions for other liabilities and charges continued

In thousands of denars	Legal cases	Customer loyalty program	Other	Total
January 1, 2008	183,009	108,782	-	291,791
Additional provision	70,929	92,639	4,379	167,947
Used during period	(1,025)	(73,019)	-	(74,044)
December 31, 2008	**252,913**	**128,402**	**4,379**	**385,694**

Analysis of total provisions:

	2008	**2007**
Non current (legal cases and other)	385,263	291,360
Current	431	431
	385,694	**291,791**

The major part of the provisions for legal cases, refer to legal case for charging of voice mail services. Based on the external legal advices in 2007, the Company recognised a provision of MKD 182,118 thousands in 2007 financial statements. After the decision was received from Commission for protection of Competition on 25 February 2008, the Company recorded additional provision for this legal case in the amount of MKD 69,625 thousands.

The rest of provisions for legal cases relates to other 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 2008.

13. Capital and reserves

Share capital consists of the following:

Share capital

	2008	**2007**
Ordinary shares	9,169,244	9,169,244
	9,169,244	**9,169,244**

Share capital consists of 9,169,244 ordinary shares with a nominal value of 5.00 EUR held by Makedonski Telekom AD Skopje.

Dividend

During 2007, the Company has paid dividends to the owner in the amount of MKD 3,372,605 thousand for 2005 and MKD 3,090,189 thousand for 2006.

As at 4 March 2008 the Board of Directors' acting as a Shareholders' Assembly brought a decision for declaration of dividends for 2007 in the amount of MKD 3,946,745 thousands. Up to date of issuing of these financial statements, the Company fully paid the dividends declared for 2008 and no dividends are declared for 2008.

Notes to the financial statements

14. Revenues

In thousands of denars	2008	2007
Domestic market sales	10,123,087	9,496,236
Foreign market sales	532,855	605,134
	10,655,942	**10,101,370**

15. Other operating income

In thousands of denars	2008	2007
Penalty charged	79,995	4,707
Income from installation and maintenance of mini links	34,697	31,607
Income from FGSM	29,823	33,124
Income from own product used	23,025	21,490
Rental income	13,430	-
Re-branding income	3,495	14,911
Collected written of receivables	-	13,851
Extinguishment of liabilities	498	1,589
Gain on disposal of property plant and equipment	12,015	3,920
Other	11,297	2,470
	208,275	**127,669**

16. Other operating expenses

In thousands of denars	2008	2007
Cost of goods sold	967,054	966,166
Transportation/Interconnection	771,878	723,460
Advertising, marketing and sponsorship	609,777	455,339
Payments to foreign operators	457,993	473,346
Leased lines	350,879	322,194
Other employee costs	202,306	177,081
Maintenance	192,205	167,161
Impairment losses on trade and other receivables	154,651	116,788
Rent	130,544	102,848
Raw materials, materials and energy	109,712	99,608
Agent commissions	98,838	40,079
Radiofrequency, numeration and surveillance	74,863	94,609
Provisions for legal cases	70,929	183,055
Billing postage	47,468	37,982
Consultancy	14,104	46,664
Write down of PPE to net realisable value	11,609	7,586
Cost of petty inventory	5,915	4,571
Write off/(back) inventories to net realisable value	(6,854)	20,846
Write off of inventories	10,226	28,342
Other	279,038	232,985
	4,553,135	**4,300,710**

Notes to the financial statements

17. Finance expenses

In thousands of denars	2008	2007
Interest expense	(59)	(10)
Net foreign exchange transaction loss	-	(45,761)
Finance expenses	**(59)**	**(45,771)**

18. Finance income

In thousands of denars	2008	2007
Interest income	138,600	227,804
Net foreign exchange transaction gain	17,288	-
Finance income	**155,888**	**227,804**

Interest income is generated from financial assets classified as loans and receivables.

19. Income tax expense

Reconciliation of effective tax rate

In thousands of denars		2008		2007
Profit before tax		4,914,351		4,574,111
Income tax	10.0%	491,435	12%	548,893
Non-deductible expenses	1.5%	70,182	1.9%	86,154
Tax incentives not recognised in the income statement	(0.1%)	(2,580)	(0.2%)	(7,681)
	11.4%	**559,037**	**13.7%**	**627,366**

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

20. Disclosures of financial assets and liabilities

Categorisation of financial assets and liabilities

Financial assets

The table below shows the categorisation of financial assets as at 31 December 2007:

Assets (in thousands of denars)	**Financial assets** Loans and receivables	**Carrying amount 2007**	**Fair value 2007**
Cash and cash equivalents	2,144,893	2,144,893	2,144,893
Bank deposits with original maturity over 3 months	305,632	305,632	305,632
Trade and other receivables	2,550,573	2,550,573	2,550,573
Other non-current financial assets	305	305	305
Total	**5,001,403**	**5,001,403**	**5,001,403**

The table below shows the categorisation of financial assets as at 31 December 2008:

Assets (in thousands of denars)	**Financial assets** Loans and receivables	**Carrying amount 2008**	**Fair value 2008**
Cash and cash equivalents	581,744	581,744	581,744
Bank deposits with original maturity over 3 months	3,234,395	3,234,395	3,234,395
Trade and other receivables	1,471,456	1,471,456	1,471,456
Other non-current financial assets	305	305	305
Total	**5,287,900**	**5,287,900**	**5,287,900**

All financial instruments are recognised initially at fair value.

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

Notes to the financial statements

21. Commitments

Capital commitments

The amount authorized for capital expenditure as at 31 December 2008 was MKD 76,686 thousand (2007: MKD 407,031 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:

	2008	**2007**
Not later than 1 year	72,271	80,176
Later than 1 year and not later than 5 years	229,428	257,776
Later than 5 years	82,954	87,812
	384,653	**425,764**

22. Contingencies

The Company is involved in routine legal proceedings in the ordinary course of business.

The Company is defending an action brought by Newsphone S DOO – Skopje with regards to lost future profits as a result of termination of contract by the Company. While liability is not admitted, if defence against the action is unsuccessful, damage compensation would be in amount of MKD 983,083 thousand.

In May 2007, The Agency issued invoices for surcharge on radiofrequency fee for 2004 and 2005 in the amount of MKD 150,790 thousand. The Company has already paid invoices in the amount of MKD 125,561 thousand issued by the Agency relating to these same periods and considers these fees as finally settled and has not recognised nor paid the new invoices issued in May 2007. The Agency has initiated a court procedure. Parties submitted their arguments and proofs to the court in written, the case is ongoing in a first degree procedure. Based on legal advice, the Management of the Company expects that it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation.

Notes to the financial statements

23. Related party transactions

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

Transactions with related parties

Transactions with related parties include provision and supply of telecommunication services and equipment, loans granted and supply of consultancy services. The amounts receivable and payable are disclosed in the appropriate notes (see notes 7 and 11).

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

	2008		2007	
In thousands of denars	**Receivables**	**Payables**	**Receivables**	**Payables**
Parent Company				
Makedonski Telekom AD	176,772	128,234	235,571	150,944
Ultimate Parent Company				
Deutsche Telekom	-	-	-	92
Subsidiaries of Ultimate Parent Company				
Magyar Telekom	-	6,148	-	19,704
IQSYS Magyar Telekom	-	10,901	-	-
Telemakedonija	-	-	-	16,873
T-Mobile Crna Gora	(288)	(1,920)	-	227
T-Mobile Hungary	814	381	99	25
T-Mobile Croatia	(4,153)	(8,695)	2,860	20
T-Mobile Slovakia	168	58	63	289
PTC Poland	39	232	34	-
T-Mobile Czech Republic	141	574	-	224
T-Mobile Germany	4,965	6,890	1,269	328
T-Mobile Austria	3,511	2,246	1,221	524
T-Mobile UK	223	547	26	733
TULIP	-	-	276	474
T-Mobile USA	1,491	479	285	-
T-Mobile International	(25,452)	(15,372)	-	7,130
T-Systems	1,607	709	-	987
T-Mobile Netherlands	810	863	175	40
	160,648	**132,275**	**241,879**	**198,614**

Notes to the financial statements

23. Related party transactions continued

Transactions with related parties continued

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

	2008		2007	
In thousands of denars	**Revenues**	**Expenses**	**Revenues**	**Expenses**
Parent Company				
Makedonski Telekom AD	1,151,977	749,581	1,570,415	726,297
Subsidiaries of Ultimate Parent Company				
Magyar Telekom	-	6,148	-	9,092
Telemakedonija	-	3,137	-	23,980
T-Mobile Crna Gora	1,939	11,392	1,195	7,249
T-Mobile Hungary	5,485	4,587	2,597	2,624
T-Mobile Croatia	12,182	18,228	17,221	20,934
T-Mobile Slovakia	1,154	914	668	420
PTC Poland	1,312	1,542	1,454	905
T-Mobile Czech Republic	2,004	3,493	818	1,662
T-Mobile Germany	33,108	29,008	24,287	15,639
T-Mobile Austria	20,886	14,267	11,655	8,980
T-Mobile UK	2,978	4,137	1,807	3,899
TULIP	1,090	1,478	1,673	2,171
T-Mobile USA	12,174	7,853	6,143	4,782
T-Mobile International	(25,452)	(11,040)	-	-
T-Systems	-	2,321	-	-
T-Mobile Netherlands	4,495	2,707	379	106
	1,225,332	**849,753**	**1,640,312**	**828,740**

Loans to related parties

In thousands of denars	**2008**	**2007**
Loans to Parent Company		
Beginning of the year	1,247,230	4,005,587
Loan repayment received	(1,123,000)	(2,877,000)
Interest charged	106	118,643
Interest received	(124,336)	-
End of the year	**-**	**1,247,230**

Key management compensation

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

In thousands of denars	**2008**	**2007**
Short-term employee benefits	55,700	46,717
Termination benefits	-	18,628
Share-based payments	3,516	-
	59,216	**65,345**

The remuneration of the members of the Company's Board of Directors for the year ended 31 December 2008 amounted to MKD 6,238 thousand (2007: MKD 2,055 thousand) included in short-term employee benefits, These are included in personnel expenses (refer note 16).

Notes to the financial statements

23. Related party transactions continued

Key management compensation continued

The share-based payments represent compensation of key management from the Parent Company as part of a Mid Term Incentive Plan (MTIP) launched in 2004 by Magyar Telekom Plc., whereby the targets to be achieved are based on the performance of the Magyar Telekom Plc. share. Participants include top and senior managers of the Magyar Telekom Group.

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

24. Events after balance sheet date

No material transactions have occurred after balance sheet date which require disclosure in these financial statements.

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