

**TOPLIFIKACIJA GROUP
SKOPJE**

**AUDITORS' REPORT
AND
CONSOLIDATED FINANCIAL
STATEMENTS FOR THE YEAR
ENDED 31.DECEMBER 2004**

Skopje, April 2005

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**MACEDONIAN
AUDIT
CENTER LTD
SKOPJE**

**No. 05-139
Skopje, April 7, 2004**

**TO THE
SHAREHOLDERS ASSEMBLY OF
TOPLIFIKACIJA GROUP SKOPJE**

AUDITORS' REPORT

According to your request, we have audited the 2004 consolidated financial statements of Toplifikacija Group Skopje ("The Group"). The Consolidated Income Statement, Consolidated Balance Sheet, Consolidated Cash Flow Statement, Consolidated Statement of Changes in the Equity, Accounting policies to the consolidated financial statements and the Notes to the consolidated financial statements are considered under consolidated financial statements.

Consolidated financial statements on which we are reporting, are prepared in accordance with the International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Committee, recognised in the Republic of Macedonia.

The consolidated financial statements are responsibility of the Group's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We have conducted our audit in accordance to International Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examination, on a test basis, of the evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the attached 2004 Consolidated financial statements fairly present the financial result, the financial position, the cash flows and the changes in equity of Toplifikacija Group Skopje, in conformity with the International Financial Reporting Standards.

Skopje, April 7, 2005

Certified Auditor

Antonio Veljanov

Director

Antonio Veljanov

TOPLIFIKACIJA GROUP SKOPJE
CONSOLIDATED INCOME STATEMENT

	Notes	2004 Den.000	2003 Den.000
Sales revenues	D; 9	1,439,633	1,516,520
Cost of sales	E; 10	(784,390)	(1,001,350)
GROSS PROFIT		655,243	515,170
Income from additional activities	F; 11	94,701	51,337
Expenses from additional activities	G; 12	(76,076)	(22,382)
General and administrative expenses	H; 13	(394,708)	(397,083)
OPERATING PROFIT		279,160	147,042
Financing and other income	I; 14	83,597	50,393
Financing and other expenses	J; 15	(173,614)	(106,086)
PROFIT BEFORE TAXES		189,143	91,349
Profit tax	S; 16	(38,181)	(8,901)
NET PROFIT		150,962	82,448
Minority interest in the losses (profit) of the consolidated entities (net)	U; 29	(11)	69
NET PROFIT FOR THE PERIOD		150,951	82,517
Basic earnings per share (Denars per share)	17	344	184
Diluted earnings per share (Denars per share)	17	335	183

Consolidated financial statements, accounting policies and the accompanied notes, are approved by the Board of Directors and recommended to the Shareholders Assembly.

Skopje, April 2005

Board of Directors
President

TOPLIFIKACIJA GROUP SKOPJE
CONSOLIDATED BALANCE SHEET

	Notes	2004 Den.000	2003 Den.000
ASSETS			
Current assets			
Cash and cash equivalents	K; 19	18,236	36,348
Trade receivables	L; 20	609,826	681,598
Short term financial assets		1,615	6,416
Other short term assets and prepaid expenses	21	9,050	12,045
Inventories	M; 22	83,893	114,716
Total current assets		722,620	851,123
Non-current assets			
Investments in associated companies	N; 23	465	-
Available-for-sale investments	O; 23	67,131	38,027
Differed tax assets, net	S; 16	-	6,375
Property, plant and equipment	P; 24	1,108,210	1,095,803
Total non-current assets		1,175,806	1,140,205
TOTAL ASSETS		1,898,426	1,991,328
LIABILITIES AND EQUITY			
Current liabilities			
Trade payables	Q; 25	259,778	393,180
Short term borrowings	R; 26	77,520	149,009
Other short term liabilities and accrued expenses	27	118,586	122,847
Total current liabilities		455,884	665,036
Non-current liabilities			
Long-term borrowings	R; 28	2,979	-
Differed tax liabilities, net	S; 16	3,593	-
Total non-current liabilities		6,572	-
TOTAL LIABILITIES		462,456	665,036
Minority interest	29	547	536
Equity			
Shareholders capital	T	1,394,100	1,394,100
Treasury shares (-)		(1,242)	-
Reserves		53,026	39,062
Fair value and other reserves		(127,714)	(156,887)
Consolidated accumulated profit		117,254	49,481
TOTAL EQUITY		1,435,424	1,325,756
TOTAL LIABILITIES AND EQUITY		1,898,426	1,991,328

Notes comprise an integral part of the 2004 Financial statements

Auditors' report is on pages 1

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TOPLIFIKACIJA GROUP SKOPJE
CONSOLIDATED CASH FLOW STATEMENT

	2004	2003
	<u>Den.000</u>	<u>Den.000</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
PROFIT/LOSS BEFORE TAXES	189,143	91,349
Adjustments for:		
Depreciation of Property, plant and equipment	77,317	73,268
Provision for bad and doubtful trade receivables	143,215	44,793
Provision for inventories	1,193	-
Income from previous periods	5,018	6,857
Dividend income	(4,940)	(3,364)
	<u>410,946</u>	<u>212,903</u>
Trade receivables	(71,443)	(161,474)
Short term financial assets	4,801	(5,080)
Other short term assets and accrued expenses	2,995	911
Inventories	29,630	23,527
Trade payables	(133,402)	288
Other short term liabilities and prepaid expenses	2,683	2,037
Net cash used in ordinary business	<u>246,210</u>	<u>73,112</u>
Paid profit tax	(21,566)	(7,375)
Net cash flows from operating activities	<u>224,644</u>	<u>65,737</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Disposal of available-for-sale investments	310	-
Acquisition of investments in associated companies	(465)	-
Proceeds from dividends	4,940	3,364
Property, plant and equipment additions	(89,867)	(46,009)
Property, plant and equipment disposals	143	56
Net cash flows from investing activities	<u>(84,939)</u>	<u>(42,589)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from long term borrowings, net	2,979	-
Repayment of short-term borrowings, net	(71,489)	(11,569)
Acquired treasury shares	(1,242)	-
Paid dividends	(88,065)	(33,471)
Net cash flows from financing activities	<u>(157,817)</u>	<u>(45,040)</u>
NET INCREASE (DECREASE) OF THE CASH FLOWS	(18,112)	(21,892)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF YEAR	36,348	58,240
CASH AND CASH EQUIVALENTS AT THE END OF YEAR	<u>18,236</u>	<u>36,348</u>

TOPLIFIKACIJA GROUP SKOPJE
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Number of ordinary shares	Amount of ordinary shares	Number of treasury shares	Amount of treasury shares	Number of priority shares	Amount of priority shares	Reserves	Fair value and other reserves	Consolid. accumulated income	Total equity
Opening balance as at January 1, 2003	428,657	1,327,978	-	-	21,343	66,122	25,483	(166,719)	46,109	1,298,973
Adjustments for previous periods income	-	-	-	-	-	-	-	-	6,857	6,857
Restated opening balance	428,657	1,327,978	-	-	21,343	66,122	25,483	(166,719)	52,966	1,305,830
Fair value adjustments of the financial assets available-for-sale	-	-	-	-	-	-	-	9,832	-	9,832
Paid-in shares	-	-	-	-	-	-	-	-	-	-
Treasury shares	-	-	-	-	-	-	-	-	-	-
Net profit for year 2003	-	-	-	-	-	-	-	-	82,517	82,517
Distribution of accumulated profit to reserves	-	-	-	-	-	-	13,579	-	(13,579)	-
Distribution of accumulated profit to dividends from ordinary shares	-	-	-	-	-	-	-	-	(68,988)	(68,988)
Distribution of accumulated profit to dividends from priority shares	-	-	-	-	-	-	-	-	(3,435)	(3,435)
Closing balance as at December 31, 2003	428,657	1,327,978	-	-	21,343	66,122	39,062	(156,887)	49,481	1,325,756
	Number of ordinary shares	Amount of ordinary shares	Number of treasury shares	Amount of treasury shares	Number of priority shares	Amount of priority shares	Reserves	Fair value and other reserves	Consolid. accumulated income	Total equity
Opening balance as at January 1, 2004	428,657	1,327,978	-	-	21,343	66,122	39,062	(156,887)	49,481	1,325,756
Adjustments for previous periods income	-	-	-	-	-	-	-	-	5,018	5,018
Restated opening balance	428,657	1,327,978	-	-	21,343	66,122	39,062	(156,887)	54,499	1,330,774
Fair value adjustments of the financial assets available-for-sale	-	-	-	-	-	-	-	29,414	-	29,414
Paid-in shares	-	-	-	-	-	-	-	-	-	-
Treasury shares	-	-	(804)	(1,242)	-	-	-	-	-	(1,242)
Net profit for year 2004	-	-	-	-	-	-	-	-	150,951	150,951
Distribution of the revaluation reserve	-	-	-	-	-	-	-	(241)	241	-
Distribution of accumulated profit to reserves	-	-	-	-	-	-	13,964	-	(13,964)	-
Distribution of accumulated profit to dividends from ordinary shares	-	-	-	-	-	-	-	-	(70,942)	(70,942)
Distribution of accumulated profit to dividends from priority shares	-	-	-	-	-	-	-	-	(3,532)	(3,532)
Closing balance as at December 31, 2004	428,657	1,327,978	(804)	(1,242)	21,343	66,122	53,026	(127,714)	117,254	1,435,424

Notes comprise an integral part of the 2004 Financial statements

Auditors' report is on page 1

**TOPLIFIKACIJA GROUP SKOPJE
ACCOUNTING POLICIES TO THE
CONSOLIDATED FINANCIAL STATEMENTS**

Basis for Preparation of the Financial Statements

A. Basic presentation

Toplifikacija Group Skopje (Group) has prepared the Financial statements presented on pages 2 to 32, in accordance with the International Financial Reporting Standards (IFRS) which are issued by the International Accounting Standards Committee and at the same time are accepted in Republic of Macedonia.

The prepared financial statements are based on the principal of historical costs, except for the property, plant and equipment, which are stated at their revalued (fair) value, as well as for the investments available-for-sale, which are stated at their realizable (fair) value as at 31. December 2004.

All assets, with estimated useful life or collection period within one year from the date of the Balance sheet, are presented as short-term assets. All liabilities, with payment period within one year from the Balance sheet date, are presented as short-term liabilities.

The short-term assets are decreased for the amount of the provision for uncollectible short-term assets. Property, plant and equipment are decreased for the amount of accumulated depreciation.

B. Consolidation

Consolidation of the financial statements of the Group companies is carried out as follows:

- first, the balances of all items of assets, liabilities and equity of the balance sheet as at December 31, 2004 and 2003, are added one-by-one, as well as, the items of the revenues and expenditures of the income statement for 2004 and 2003;
- second, the balances of the receivables and liabilities as at December 31, 2004 and 2003, resulting from transactions between companies within the Group, are fully eliminated;
- third, the balances of the investments of the parent-company in the companies of the Group as at December 31, 2004 and 2003, and the corresponding parts of the equity-balances in those companies, are fully eliminated; the remaining part of the equity is shown in the consolidated balance sheet as minority interest;
- forth, the revenues and expenditures for 2004 and 2003, resulting from transactions between companies within the Group, are fully eliminated.

C. Profits / losses on translation of foreign currencies

All assets and liabilities in foreign currencies are converted into Denars at the exchange rates ruling at the balance sheet date.

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Gains and losses arising from the translation of receivables and liabilities in foreign currencies during the year have been credited or charged to other income or expenses.

The exchange rates ruling at 31. December are as it follows:

	2004	2003
1 EUR=	61.3100 Den.	61.2931 Den.
1 USD=	45.0676 Den.	49.0502 Den.

Principal Accounting Policies

The principal accounting policies adopted for the preparation of the 2004 consolidated financial statements, if not mentioned otherwise, are consistent with those of the previous year.

D. Sales revenues

Sales revenues are stated at the moment of distribution of heating energy to connected consumers, at invoiced value, decreased for VAT, discounts and after eliminating the intergroup transactions. Sales are recognized as they arise, when significant risks and rewards associated to the sale have been transferred to the buyer and the amount can be reliably measured.

E. Cost of sales

Cost of sales represent all material costs arising during 2004, directly connected to sales and after eliminating the costs arising from intergroup transactions.

F. Income from additional activities

Income from additional activities during 2004, arising from construction and assembling services, trading of inventories and other services are stated at invoiced value, decreased for VAT, discounts and after elimination of the intergroup transactions.

G. Expenses from additional activities

Expenses from additional activities represent all material costs arising during 2004, which are directly connected to income from additional activities after elimination of the intergroup transactions.

Principal Accounting Policies (Continued)

H. General and administrative expenses

General and administrative expenses are consisted of all costs arising during the year, which are not directly connected to sales and income from additional activities and are recognized as they arise after elimination of the intergroup transactions.

I. Financing and other income

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Financing and other income, which are calculated during the year, are shown as revenues, independent from their collection. They are consisted of income from available-for-sale investments, interest revenues, gains on exchange, write off of debts to Agency for privatization for utilization of the heating distribution system and other revenues.

Interest revenues are recognized on a time proportion basis, taking into account the effective yield on the asset. Dividends are recognized when the right to receive payment is established.

J. Financing and other expenses

Financing and other expenses, which are calculated during the year, are shown as expenses, independent from their payment. They are consisting of interest expenses, losses on exchange, expenses from utilization of the heating distribution system and other expenses.

K. Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise of cash in hand and deposits held at call with banks.

L. Trade receivables

Trade receivables include all invoiced but uncollected receivables from the distribution of heating energy. Trade receivables are recognized at their recoverable amount i.e. at cost less for any impairment losses for all bad and doubtful receivables.

Full provision was made at 31st December 2004 and recorded as other expenses, for all receivables which are considered to be uncollectible and which have been brought to court i.e. with maturity over 12 months for households and maturity over 36 months for legal entities.

M. Inventories

Inventories are valued at the lower of cost and net realizable value. Cost includes all expenses for bringing the inventories to their present condition and location. Net realizable value is selling price less cost to complete the inventory and sell it.

The cost of inventory is recognized as an expense in the period in which the related revenue is recognized, calculated under the average price method.

Principal Accounting Policies (Continued)

M. Inventories (Continued)

The write down of inventories is charged to expenses. Any reversal of such a write down in later period is credited to income by reducing that period's cost of goods sold.

N. Investments in associates

Investments in associates in the Group's Financial Statements are stated in accordance with the equity method. Associates are defined as companies, other than subsidiary or joint venture, over which the investor has significant influence. Investments in associates are presented in the financial statements at cost, subsequently increased or decreased for the amount of the realized profit or loss from the previous year of the associate. Group's participation in the associate financial results is recorded in income statement.

O. Available-for-sale investments

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Available-for-sale investments are consisted of investments into long-term equity securities of financial and non-financial legal entities. Investments intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, are classified as available-for-sale investments. These are included in non-current assets.

Investments are valued at cost, including transaction costs. Subsequently, investments are stated at their fair value that is their market value. Unrealized gains and losses arising from changes in the fair value of available-for-sale investments are recorded in shareholder's equity as fair value and other reserves, until the investment is sold at which time the unrealized gain or loss previously reported in the equity is included in net profit or loss.

P. Property, plant and equipment

(1) Basic presentation

Property, plant and equipment (PPE) should be recognized when it is certain that the company possesses them, and it is probable that future benefits will flow from them and acquisition costs can be reliably measured.

Initially PPE are stated at cost, and are subsequently revaluated at year-ends.

Cost of property, plant and equipment is comprised of all costs for its purchasing, which includes:

- invoiced value of property, plant and equipment (decrease for all discounts);
- customs and taxes during its purchase;
- preparing expenses;
- initial expenses for delivery;
- installation expenses;
- reimbursement of experts expenses such as architects and engineers.

Principal Accounting Policies (Continued)

Q. Property, plant and equipment (Continued)

The assets can be measured according to their fair value at the balance sheet date (revaluation).

The fair value of the property, plant and equipment was established by revaluation from individual experts, in amount of their market value. The last revaluation was done at 31. December 1998. Due to the low inflation in the period ending 31 December 2004, the previously established market value does not significantly vary from the current market value.

Revaluation of the PPE according to their market value means replacing the gross book keeping value with the market value and eliminating the amount of the accumulated depreciation. The result of this operation is the net value of the assets, which means its market value.

Revaluations should be credited to equity (other reserves) unless reversing a previous charge to income. Decreases in revaluation should be charged to income unless reversing a previous credit to equity (other reserves).

In case of disposals of the PPE, the carrying amount is recognized as other expenses. Research costs are recognized as expenses as they arise.

(2) Special presentation

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Management of the Group as property are presenting all technical parts that are required for accomplishing of certain technical operation. Replacement of those parts is recognized as additions to assets.

There is a specific definition of standard overhaul for each of these assets. If the overhaul activities are realized each period, then the corresponding costs are recognized as expenses for current maintenance. If the overhaul costs are realized in period of several years, then they are recognized as expenses for investment maintenance.

Expenses for current and investment maintenance are presented as general and administrative expenses.

(3) Depreciation

The estimation of the useful life and the depreciation rate of the property, plant and equipment are a matter of estimation based on the company's experience with working with similar assets.

Principal Accounting Policies (Continued)

Q. Property, plant and equipment (Continued)

Estimation of useful life of the assets must consider following:

- (I) expected usage of assets based on expected utilization of production capacity and volume;
- (II) expected wear and tear of the assets based on many factors such as number of shifts, repayment and maintenance program in useful and non-useful period.
- (III) technical obsolescence, which arise from changes and improvement of production or from changes in market demand of the product or service produce from the asset.
- (IV) legal or other limitations to the usage of the asset such as expiration of using period.

The company determined the useful life at rates which are not higher then the minimal rates for depreciation, prescribed by Macedonian law. Depreciation method is according to the constant method.

The basic depreciation rates in use are:

	Depreciation rates		Useful life	
	2004	2003	2004	2003
Property	2-8 %	2 %	12 - 50 yrs	50 yrs
Plant and equipment	5-15 %	5 %	6 - 20 yrs	20 yrs
Furniture	10-20 %	16-20 %	5 - 10 yrs	6 - 10 yrs
Vehicles	16 %	16 %	6.25 yrs	6.25 yrs

In 2004, the Group reappraised the useful life of some particular assets from the property, plant and equipment. The result is an increase of the calculated depreciation of 6,628 thousands denars in 2004 relative to the previous year.

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S. Trade payables

Trade payables are stated at their invoiced value.

Trade payables are written off by crediting other revenues, after the expiration of the legal maturity period or by off-court agreement between parties.

T. Borrowings

Borrowing liabilities represent short term and long term borrowings stated at their nominal value. The amounts of the interest agreed are shown as other expenses in the income statement and as other liabilities in the balance sheet. Foreign loan liabilities are stated at the exchange rate at 31st December, and losses or gains of exchange are stated as other revenues or expenses.

Principal Accounting Policies (Continued)

U. Income tax (current and differed)

Current taxes from income are calculated according to the regulations of the Republic of Macedonia. The income tax is calculated on the basis of income before taxes at 15% rate, adjusted for:

- certain revenues that are redeemable according to law, and
- certain expenses that are not-deductible according to law;

The differed income tax is calculated using the method of liabilities for all taxable time differences appearing at the balance-sheet-date as the difference between the income tax base for assets and liabilities and its carrying amounts, for the purpose of financial reporting. The differed tax assets and liabilities are calculated according to Tax Rate Regulation ruling at the balance-sheet-date.

V. Equity

1) Shareholders' capital

The Group's shareholders' capital is comprised of initially paid-in funds from the shareholders. Shareholders' capital is recognized at the nominal (par) value of the issued shares (ordinary and priority).

The uncovered loss can be charged to shareholders' capital for the amount which is in excess of the reserves.

2) Treasury shares

The shares issued and owned by the Group are considered as treasury shares. They are recognized at cost and are presented as decrease in the Group's equity.

3) Legal reserves

Legal reserves are formed from the profit and in accordance with the regulations as well as by distributing the revaluation reserves, and can be used for covering losses. Under the local

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statutory legislation, the Group is required to set aside a minimum of 15% of its year net-profit in the reserves, but not more than 20% of the Group's shareholders' capital. As long as these reserves do not exceed 20% of the Group's shareholders' capital, they can be used for covering losses. If they exceed 20% of the Group's shareholders' capital, they can be used for dividends only after a decision of the Shareholders' Assembly.

TOPLIFIKACIJA GROUP SKOPJE
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Basic data about the Group

Toplifikacija Group, along the parent-company Toplifikacija AD Skopje, is comprised of two subsidiaries, whose management of the financial and operational policies is dominantly controlled by the parent-company, as follows:

Subsidiaries	2004	2003
	Portion	Portion
1. Skopje Sever AD Skopje	99.74%	99.74%
2. Toplifikacija Bitola LTD Bitola	98.34%	98.34%

The portions of the parent-company and the subsidiaries in the consolidated total assets of the Group are as follows:

Company	2004	2003
	Portion	Portion
1. Toplifikacija AD	82.53%	83.30%
2. Skopje Sever AD	14.69%	14.32%
3. Toplifikacija Bitola LTD	2.78%	2.38%
Total	100.00%	100.00%

The portions of the parent-company and the subsidiaries in the consolidated revenues of the Group are as follows:

Company	2004	2003
	Portion	Portion
1. Toplifikacija INC	93.03%	93.06%
2. Skopje Sever INC	4.30%	4.40%
3. Toplifikacija Bitola LTD	2.67%	2.54%
Total	100.00%	100.00%

2. Foundation and ownership transformation

The parent company Toplifikacija AD Skopje was founded in 1965 by a Decision of the Municipality of the City of Skopje No.6223/1 from 01.07.1965, as a part of the Directorate for reconstruction and rebuild of the City of Skopje, named as Directorate for central heating of the City of Skopje.

In the meantime, the Directorate has been transformed to socially owned organization, than to shareholding company in mixed ownership and at the end of the transformation process to shareholding company in private property, according to the subsequent legislative changes.

During 1999, Toplifikacija INC Skopje has entered into a property transformation of the company, according to the Law for transformation of the enterprises with social capital, and has made the necessary reconciliation with the Law on trade companies.

2. Foundation and ownership transformation (Continued)

The company is filed in the trade register at the Primary Court Skopje I Skopje under No. 7826 from 05.10.1999. The Agency for privatization, after completion of the privatization of the social

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capital, has issued a Certificate No. 09-189/1 from 12.07.2000, certifying that, 70.39% of the equity are ordinary shares privatized by the employees, 24.87% are ordinary shares of the Agency for privatization and 4.74% are priority shares of the Fund for pension and disability insurance of the Republic of Macedonia.

3. Shareholders capital

The Capital of the parent company is comprised of 450,000 shares, authorized, issued and paid-in, with a par-value of 51.13 EUR, of which, 428,657 ordinary shares and 21,343 priority shares. The structure of the shareholding capital as at 31.December 2004 is as follows:

Type of shareholders	Ordinary shares	Priority shares	Total shares	%
1.Individuals and legal entities	427,853	-	427,853	95.08
2.Treasury shares	804	-	804	0.18
3.Pension Fund of RM	-	21,343	21,343	4.74
Total shares :	428,657	21,343	450,000	100.00
	%	95.26	4.74	100.00

In the course of transferring of the shareholding book of Toplifikacija AD, in an electronic form, to the Central Securities Depository, due to unsettled probate proceedings in front of competent courts of the Republic of Macedonia, 96 ordinary shares (at 31st Dec 2003: 858) are filed as treasury shares, until the settlement of the above proceedings.

The priority shares of the Pension Fund of RM are participative and convertible. The participative right allows the holders of these shares to participate in the distribution of the dividends alongside the holders of ordinary shares, if the dividend is higher than 2% on the nominal value of the priority shares, which is compulsory dividend for this priority shares, according to law. The convertibility right in the course of selling these shares allows compulsory, legal, conversion into ordinary shares, according to 1 : 1 rate.

During 2004, 137,601 (in 2003: 117,047) ordinary shares were traded through the Macedonian Stock Exchange, which represents 32.10% (in 2003: 27.31%) of the total number of ordinary shares.

4. Activity

The basic activity of the Group is production and distribution of heating energy.

The additional registered activities of the Group are:

- Designing of heating-supply pipeline networks;
- Connection to and disconnection from the pipeline network;
- Construction of connection lines from the pipeline network to the buildings;

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- Maintenance of the equipment in the connected buildings;
- Sales of crude oil, raw material and spare parts;
- Transportation;
- Renting of business premises.

During 2004 and 2003 the activity is performed through heating plants “East”; “West” and “North”, as well as the heating plant “11 October” in Skopje and the heating plant in Bitola.

The heating plants “Vodno” and “Park” are put out of the technological exploitation, due to technical reasons, while the heating capacity planned for these was redirected towards the heating plant “West”.

Distribution of heating energy to the consumers is carried out in accordance with the temperature diagram which is designed on the basis of movements in the outdoor temperatures in the Skopje geographic area during the heating season.

Other accompanied registered activities are determined in correlation with the basic activity, as follows: production and distribution of gas fuels; building and installation of heating and gasification capacities; different investment programs, studies, investment and technical documentation for steam-power capacities, heating and gasification networks; scientific research; system engineering in the area of steam-power techniques and energetic; production of software and other activities.

In the previous period the activities of Toplifikacija Group expanded in the field of internal and external trade.

The total number of employees in Toplifikacija Group, as at 31.December 2004, is 379 (2003: 384 employees).

The number of employees in the parent-company and the subsidiaries is as follows:

Name of the company	2004 number	2003 number
1. Toplifikacija AD	349	354
2. Skopje Sever AD	4	4
3. Toplifikacija Bitola LTD	26	26
Total	379	384

5. Connected users to central heating facilities

During 2004 and 2003, the capacity of connected users to central heating facilities is as follows:

Types of users	31.12.2004 Capacity (MW)	31.12.2003 Capacity (MW)
Households – lump payment	389,645	375,045
Legal entities – lump payment	29,611	42,173
Households – measured payment	27,075	27,075
Legal entities – measured payment – standard	112,431	100,378
Legal entities – measured payment – nursery schools	13,969	15,702
Legal entities – measured payment – schools	16,450	16,961
Total connected users	589,181	577,334

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Toplifikacija AD Skopje keeps two sets of records of the capacity of the connected users to central heating facilities: installed and registered. Registered capacity is calculated on the basis of consumption measurement during the heating season. Namely, a large portion of the consumers from the business sector and the households can regulate the consumption of heating energy, thus changing the demand for heating energy, compared to the installed value, calculated according to the engineering project of a specified building.

The development plans for the following period of Toplifikacija AD Skopje include completion of the project for installment of measuring devices at all consumers connected to the heating system.

6. Services price list

The price list of services for distribution of heating energy in the area of Skopje performed by Toplifikacija Skopje is as follows:

Price list date		1.03.2003- 31.12.2004	22.01.2002- 28.02.2003
Tariffs	Units	Price in MKD	Price in MKD
1. HOUSEHOLDS			
1.1. Lump payment			
1.1.1. For 12 months installments	m ²	23.50	21.50
1.1.2. For 6 months installments	m ²	47.00	43.00
1.2. Measured payment			
1.2.1. Heating power	MW	454,326.60	416,050.00
1.2.2. Delivered energy	MWh	1,511.80	1,384.40
2. LEGAL ENTITIES			
2.1. GENERAL TARIFFS			
2.1.1. Lump payment	MW	3,530,762.82	3,233,300.20
2.1.2. Measured payment			

TOPLIFIKACIJA GROUP SKOPJE
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2.1.2.1. Heating power	MW	616,115.57	564,208.40
2.1.2.2. Delivered energy	MWh	2,430.80	2,226.00
2.2. ELEMENTARY SCHOOLS			
2.1. Lump payment	MW	1,964,215.23	1,798,731.90
2.2. Measured payment			
2.2.1. Heating power	MW	462,593.48	423,620.40
2.2.2. Delivered energy	MWh	1,803.45	1,651.50

The price list is subject to previous procedure of agreement by the Energy Regulatory Commission of the Republic of Macedonia.

7. Contract for utilization of the heating distribution network

In the course of transformation, the heating distribution network was separated from the parent-company and transformed into government property, while the remaining equity of the parent-company was privatized.

The parent-company has entered into an agreement with the Agency for Privatization of RM, as a representative of the State, for utilization of the heating distribution network at an indefinite period of time, for a compensation fee.

The fix amount of the compensation fee, payable to the Government, is Denar counter-value of EUR 50,000. The parent-company, with the above-mentioned agreement, also obligated to pay additional compensation fee, equal to the annual depreciation of buildings and equipment of the heating distribution network, amounting to Denar counter-value of around EUR 600,000. It is stipulated with the agreement that the parent-company shall pay to the Government the amount of the additional fee in excess of the amount invested in new capacities of the heating distribution network and of the amount of investment maintenance expenses of the heating distribution network.

8. Guarantees to creditors

As a guarantee that the parent-company will meet its liabilities towards Stopanska Bank AD Skopje that arise from the Revolving Loan Contract no.1.4-898 from 05.11.2004 amounting EUR 1,943,131.00, the Group with Notary Act No.ODU 634/04 from 12.11.2004, pledged 13,060 ordinary shares issued by Komercijalna Bank AD Skopje (See: Note 26.1.).

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

9.1. SALES REVENUES PER TYPES OF CUSTOMERS

	2004	2003
	<u>Den. 000</u>	<u>Den. 000</u>
Sales of heating to citizens, owners of flats and households	932,103	921,383
Sales of heating to legal entities in the private and public sector	507,530	595,137
Total sales revenues per types of customers	<u>1,439,633</u>	<u>1,516,520</u>

9.2. SALES REVENUES PER COMPANY WITHIN THE GROUP

	2004	2003
	<u>Den. 000</u>	<u>Den. 000</u>
Sales of heating by Toplifikacija AD Skopje	1,336,502	1,415,605
Sales of heating by Skopje-Sever AD Skopje	66,112	65,015
Sales of heating by Toplifikacija AD Bitola	37,019	35,900
Total sales revenues per company within the group	<u>1,439,633</u>	<u>1,516,520</u>

10.1. COST OF SALES PER TYPES

	2004	2003
	<u>Den. 000</u>	<u>Den. 000</u>
Cost of fuel oil	699,209	798,027
Cost of gas	25,958	140,539
Cost of electricity	54,358	55,697
Cost of water	4,865	7,087
Total cost of sales per types	<u>784,390</u>	<u>1,001,350</u>

10.2. COST OF SALES PER COMPANY WITHIN THE GROUP

	2004	2003
	<u>Den. 000</u>	<u>Den. 000</u>
Sales of heating by Toplifikacija AD Skopje	721,423	922,255
Sales of heating by Skopje-Sever AD Skopje	38,838	51,028
Sales of heating by Toplifikacija AD Bitola	24,129	28,067
Total cost of sales per company within the group	<u>784,390</u>	<u>1,001,350</u>

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11. INCOME FROM ADDITIONAL ACTIVITIES

	2004	2003
	<u>Den. 000</u>	<u>Den. 000</u>
Income from other services	46,390	35,432
Income from trading of inventories	45,055	12,421
Renting income	3,256	3,484
Total income from additional activities	<u>94,701</u>	<u>51,337</u>

Renting income represents income from leased equipment to other companies under operating lease (2003: same conditions).

12. EXPENSES FROM ADDITIONAL ACTIVITIES

	2004	2003
	<u>Den. 000</u>	<u>Den. 000</u>
Cost of performing other services	27,263	12,817
Cost of trading of inventories	48,813	9,565
Total expenses from additional activities	<u>76,076</u>	<u>22,382</u>

13. GENERAL AND ADMINISTRATIVE EXPENSES

	2004	2003
	<u>Den. 000</u>	<u>Den. 000</u>
Wages and contributions to wages	140,502	143,682
Depreciation	77,317	73,268
Compensation for utilization of the heating distribution network	46,434	46,414
Reimbursement of the employees' expenses	25,253	25,441
Rewards to management and employees	4,655	4,526
Raw materials	11,586	23,818
Services for current maintenance	7,061	8,023
Services for investment maintenance	9,979	11,164
Spare parts for maintenance	11,381	3,637
Expenses for court charges	4,506	4,330
Insurance premium	4,615	6,194
Expenses for telephone services	4,176	7,315
Other operating expenses	47,243	39,271
Total general and administrative expenses	<u>394,708</u>	<u>397,083</u>

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14. FINANCING AND OTHER INCOME

	2004	2003
	Den. 000	Den. 000
Dividend income	4,940	3,364
Interest income	6,998	6,608
Gains on exchange	500	2,645
Income from disposal of property, plant and equipment	96	648
Inventory surpluses income	9,116	1,479
Income from collected insurance damages	3,029	1,133
Income from write-off payables in accordance with the agreement with the Agency of privatization	56,780	32,568
Other financing and other income	2,138	1,948
Total financing and other income	83,597	50,393

15. FINANCING AND OTHER EXPENSES

	2004	2003
	Den. 000	Den. 000
Loan interest expenses	5,912	16,125
Interest expenses from trade payables	16,710	37,640
Losses on exchange	1,210	1,887
Book-value of disposed property, plant and equipment	143	55
Inventory shortages	3,130	146
Other financing and other expenses	2,101	5,440
Provision for bad and doubtful trade receivables	143,215	44,793
Provision for inventories	1,193	-
Total financing and other expenses	173,614	106,086

TOPLIFIKACIJA GROUP SKOPJE
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16. PROFIT TAX

The profit tax for the year ending December, 31 2004 and 2003 is consisted of a current and differed portion as it follows:

	2004	2003
	Den. 000	Den. 000
Current profit tax expense	(28,213)	(8,683)
Differed profit tax expenses derived from appearance and reimbursement of taxable time differences	(9,968)	(218)
Profit tax in the Income statement	(38,181)	(8,901)

The calculation of the differed tax is as follows:

	Income statement		Balance sheet	
	2004	2003	2004	2003
	Den. 000	Den. 000	Den. 000	Den. 000
Differed tax assets				
Provision for bad and doubtful receivables	-	-	8,216	8,216
Depreciation of PPE	-	357	357	357
	-	357	8,573	8,573
Differed tax liabilities				
Provision for bad and doubtful receivables	(9,666)	(575)	(10,240)	(575)
Depreciation of PPE	(302)	-	(1,925)	(1,623)
	(9,968)	(575)	(12,165)	(2,198)
Net differed tax assets (liabilities)	(9,968)	(218)	(3,593)	6,375

The adjustment of the profit tax calculated with profit tax rate according to Macedonian regulations with the profit tax calculated using the effective tax rate of the Group for the years ending December, 31 2004 and 2003 is as follows:

	2004	2003
	Den. 000	Den. 000
Profit before taxes	189,143	91,349
Income tax of 15% according to Macedonian regulations	28,371	13,702
Profit tax from non-deductible expenses	22,084	10,544
Profit tax from tax exempt revenues and income	(741)	(495)
Profit tax from investments in PPE freed from taxes	(11,534)	(6,202)
Calculated profit tax	38,181	17,550
Other tax relief (listed company)	-	(8,649)
Profit tax in the Income statement	38,181	8,901
Effective profit tax rate	20.19%	9.74%

The liabilities for profit tax of the Group are based on the submitted tax reports to the tax authorities, and are considered final after they are controlled by the tax authorities or after the expiration of a ten year period from the year of their submission to the tax authorities.

TOPLIFIKACIJA GROUP SKOPJE
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17. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the net profit attributable to shareholders, decreased for the priority shares dividends, by the weighted average number of issued ordinary shares during the year.

According to the Central Securities Depository (CSD) statement as at December, 31 2004, The Group owns 804 treasury shares purchased in November of 2004. Besides this, in the Statement there are 96 (in 2003: 858) recorded as treasury shares that are actually ordinary shares with limited rights because they belong to deceased owners and the establishing of their ownership is in process.

	<u>2004</u>	<u>2003</u>
Net profit attributable to shareholders (Den.000)	150,951	82,517
Priority shares dividends (Den.000)	(3,532)	(3,435)
Adjusted net income (Den.000)	147,419	79,082
Weighted average number of ordinary shares in issue	428,590	428,657
Basic earnings per share (Denars per share)	344.0	184.5

Diluted earnings per share is calculated as the Group has issued 21,343 participative, convertible priority shares which leads to necessary corrections to the numerator and denominator of the basic earnings per share.

The convertible priority shares is assumed to have been converted into ordinary shares and the net income attributable to the shareholders is adjusted for the priority shares dividends.

Also, the weighted average number of ordinary shares in issue is adjusted for the weighted average number of the convertible priority shares.

	<u>2004</u>	<u>2003</u>
Net profit attributable to shareholders (Den.000)	150,951	82,517
Weighted average number of ordinary shares in issue	428,590	428,657
Weighted average number of convertible priority shares	21,343	21,343
Adjusted weighted average number of ordinary shares in issue	449,933	450,000
Anti-diluted earnings per share (Denars per share)	335.5	183.4

18. DIVIDENDS PER SHARE

At the Annual Shareholders Assembly of Toplifikacija Group for 2004, which has been appointed for April 2005, an ordinary shares dividend in amount of 174.35 Denars per share amounting to a total dividend of 74,734 thousands of Denars is to be proposed. These financial statements do not reflect this dividend payable, which will be accounted for in the Statement of changes in equity in the year ending 31 December 2005. The dividends for ordinary shares declared in 2004 are 70,942 thousand denars or 165.50 denars per share.

TOPLIFIKACIJA GROUP SKOPJE
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

19. CASH AND CASH EQUIVALENTS

	2004	2003
	Den. 000	Den. 000
Stopanska banka AD Skopje*)	549	2,053
Cash at banks	8,069	26,015
Cash in hand	9,390	8,158
Foreign currency cash at banks	142	61
Foreign currency in hand	68	61
Cheque	18	-
Total cash and cash equivalents	18,236	36,348

*) According to the Agreements for borrowing no.1-4-938, Stopanska banka AD is authorized to withdraw cash from the account of the governing company in order to collect its receivables from the borrowings.

20.1. TRADE RECEIVABLES BY TYPES OF USERS

	2004	2003
	Den. 000	Den. 000
Domestic receivables - legal entities users	311,704	410,400
Bad and doubtful domestic receivables - legal entities users	217,552	144,673
	529,256	555,073
Provision for bad and doubtful domestic receivables - legal entities users	(217,552)	(144,673)
Total receivables from legal entities users	311,704	410,400
Domestic receivables - households users	298,122	271,198
Bad and doubtful domestic receivables - households users	350,123	302,358
	648,245	573,556
Provision for bad and doubtful domestic receivables - households users	(350,123)	(302,358)
Total receivables from households users	298,122	271,198
Total net trade receivables	609,826	681,598

20.2. OBSOLESCE OF RECEIVABLES FROM LEGAL ENTITIES USERS

	2004	2003
	Den. 000	Den. 000
Over 36 months	217,552	144,673
From 24 to 36 months	15,750	67,098
From 12 to 24 months	59,687	56,282
Up to 12 months	236,267	287,020
Total receivables from legal entities users	529,256	555,073

20.3. OBSOLESCE OF RECEIVABLES FROM HOUSEHOLDS USERS

	2004	2003
	Den. 000	Den. 000
Over 36 months	172,746	162,698
From 24 to 36 months	57,075	63,752
From 12 to 24 months	120,302	75,908
Up to 12 months	298,122	271,198
Total receivables from households users	648,245	573,556

TOPLIFIKACIJA GROUP SKOPJE
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

20.4 RECEIVABLES FROM LEGAL ENTITIES USERS MOVEMENT

	2004	2003
	<u>Den. 000</u>	<u>Den. 000</u>
Receivables for delivered heating energy as at 1 January	410,400	341,479
New receivables for delivered heating energy during the period (including VAT)	734,870	678,724
Collected receivables for delivered heating energy	(753,087)	(569,941)
Transfer to bad and doubtful receivables for delivered heating energy	(80,479)	(39,862)
Receivables for delivered heating energy as at 31 December	311,704	410,400
Bad and doubtful receivables for delivered heating energy as at 1 January	144,673	131,808
New bad and doubtful receivables for delivered heating energy during the period	80,479	39,862
Collected bad and doubtful receivables for delivered heating energy	(7,600)	(26,997)
Bad and doubtful receivables for delivered heating energy as at 31 December	217,552	144,673

20.5 RECEIVABLES FROM HOUSEHOLDS USERS MOVEMENT

	2004	2003
	<u>Den. 000</u>	<u>Den. 000</u>
Receivables for delivered heating energy as at 1 January	271,198	223,438
New receivables for delivered heating energy during the period (including VAT)	1,103,600	964,778
Collected receivables for delivered heating energy	(951,415)	(818,377)
Transfer to bad and doubtful receivables for delivered heating energy	(125,261)	(98,641)
Receivables for delivered heating energy as at 31 December	298,122	271,198
Bad and doubtful receivables for delivered heating energy as at 1 January	302,358	267,390
New bad and doubtful receivables for delivered heating energy during the period	125,260	98,641
Collected bad and doubtful receivables for delivered heating energy	(77,495)	(63,673)
Bad and doubtful receivables for delivered heating energy as at 31 December	350,123	302,358

21. OTHER SHORT-TERM ASSETS AND PREPAID EXPENSES

	2004	2003
	<u>Den. 000</u>	<u>Den. 000</u>
Receivables from government for over paid VAT	702	3,250
Receivables from government for over paid income tax	5,000	5,000
Receivables from employees and other short-term receivables	3,276	3,489
Pre-paid expenses	72	78
Other short-term assets and accrued expenses	-	228
Total short-term assets and accrued expenses	9,050	12,045

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22. INVENTORIES

	Notes	2004 Den. 000	2003 Den. 000
Raw materials		41,889	69,847
Strategic raw materials	1	399	541
Spare parts		27,441	28,625
Strategic spare parts	1	12,202	13,364
Small inventory		3,577	3,013
Provision of inventories		(1,615)	(674)
Total inventories		83,893	114,716

1 - Strategic raw materials and spare parts are held for continuing business operations of the Group during the heating season. No value adjustments (provision) of the strategic inventories has been made.

23. INVESTMENTS

	Note	2004 Den. 000	2003 Den. 000
Investments in associated companies:			
TE-TO AD Skopje	1	465	-
Total		465	-
Investments available for sale:			
UNI bank AD Skopje	2	5,000	5,000
Vardar AD insurance company Skopje	2	-	310
Sileks bank AD Skopje	2	625	625
Komercijalna bank AD Skopje	2; 4	69,349	69,349
Nokateks AD Veles	2	43	43
Tourist company Otesevo Resen	2	15	15
Total		75,032	75,342
Adjustment to fair value of available-for-sale investment in Komercijalna bank		(7,843)	(37,257)
Adjustment to fair value of available-for-sale investment in Nokateks	3	(43)	(43)
Adjustment to fair value of available-for-sale investment in Tourist company Otesevo Resen	3	(15)	(15)
Net available-for-sale investment		67,131	38,027
Total investments		67,596	38,027

1- The investments represent 30% of the companies equity, therefore the management of the Group records them using the equity method.

1- The investments represent less than 20% of the companies equity. Management of the Group determines them as available-for-sale investments.

3- Since the investments are not stated in the CSD statement, full provision was made for these investments.

4- All of the 13,060 ordinary shares with par value of 5,000.00 denars issued by Komercijalna bank Ad Skopje, are pledged as guarantee for the borrowings from Stopanska bank AD Skopje.

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24. PROPERTY, PLANT AND EQUIPMENT

a) Changes during 2003

	Property Den.000	Plant Den.000	Equipment Den.000	PPE in progress Den.000	TOTAL Den.000
Cost or valuation					
Balance as at January, 1 2003	485,025	743,961	133,221	11,614	1,373,821
Additions for extending of the heating distribution network	10,420	8,720	5,884	(15,820)	9,204
Other additions	877	8,432	5,539	21,957	36,805
Transfer from PPE in progress	1,989	10,122	2,301	(14,412)	-
Disposals	-	-	(1,142)	-	(1,142)
Revaluation	-	-	-	-	-
Balance as at December, 31 2003	498,311	771,235	145,803	3,339	1,418,688
Accumulated depreciation					
Balance as at January, 1 2003	32,968	148,273	69,462	-	250,703
Depreciation	9,771	40,844	22,653	-	73,268
Disposals	-	-	(1,086)	-	(1,086)
Revaluation	-	-	-	-	-
Balance as at December, 31 2003	42,739	189,117	91,029	-	322,885
Net book value as at December, 31 2003	455,572	582,118	54,774	3,339	1,095,803
Net book value as at December, 31 2002	452,057	595,688	63,759	11,614	1,123,118

b) Changes during 2004

Cost or valuation					
Balance as at January, 1 2004	498,311	771,235	145,803	3,339	1,418,688
Additions for extending of the heating distribution network	18,053	24,674	5,857	-	48,584
Other additions	495	7,719	11,333	21,736	41,283
Transfer from PPE in progress	19	12,903	2,160	(15,082)	-
Disposals	(59)	(37)	(1,755)	-	(1,851)
Revaluation	-	-	-	-	-
Balance as at December, 31 2004	516,819	816,494	163,398	9,993	1,506,704
Accumulated depreciation					
Balance as at January, 1 2004	42,739	189,117	91,029	-	322,885
Depreciation	10,040	42,277	25,000	-	77,317
Disposals	(1)	(2)	(1,705)	-	(1,708)
Revaluation	-	-	-	-	-
Balance as at December, 31 2004	52,778	231,392	114,324	-	398,494
Net book value as at December, 31 2004	464,041	585,102	49,074	9,993	1,108,210
Net book value as at December, 31 2003	455,572	582,118	54,774	3,339	1,095,803

As at December, 31 2004 the Group has not mortgaged any of its PPE as a guarantee for meeting its liabilities.

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25. TRADE PAYABLES

	2004	2003
	<u>Den. 000</u>	<u>Den. 000</u>
Domestic trade payables for purchasing of fuel oil, natural gas, electricity and water	232,471	310,497
Payables to government for utilization of the heating distribution network	6,908	22,956
Other domestic trade payables	20,154	47,496
Foreign trade payables	245	4,973
Trade payables for commission and consignment sales	-	7,258
Total trade payables	<u>259,778</u>	<u>393,180</u>

25.1. PAYABLES TO GOVERNMENT FOR UTILIZATION OF THE HEATING DISTRIBUTION NETWORK

	2004	2003
	<u>Den. 000</u>	<u>Den. 000</u>
Balance as at January, 1	22,956	9,111
Fix compensation in amount of EURO 50.000	3,706	3,134
Compensation as a counter value of the calculated depreciation of the heating distribution network	43,280	43,280
Decrease of the liability in amount of the expenses for the extending of the heating distribution network	(48,584)	(19,836)
Reversed liabilities for fix compensations for 2002 and 2003 without VAT	(6,254)	-
Counter value in denars for the amount of 50,000 euro, fix contribution for 2002 and 2003	7,396	-
Paid liabilities for fix contribution for 2002 and 2003.	(7,396)	-
Decrease of the liability in the amount of the expenses for putting regulators in the existing heating distribution network as base for future upgrades	-	(5,884)
Decrease of the liability in the amount of the expenses for investment maintenance	(8,196)	(6,849)
Payment of the liability	-	-
Balance as at December 31	<u>6,908</u>	<u>22,956</u>

26. SHORT-TERM BORROWINGS

	2004	2003
	<u>Den. 000</u>	<u>Den. 000</u>
Short-term domestic borrowings	49,838	92,090
Short-term foreign borrowings	21,455	50,688
Due unpaid long-term debt	6,227	4,451
Current portion of the long term borrowings	-	1,780
Total short-term borrowings	<u>77,520</u>	<u>149,009</u>

TOPLIFIKACIJA GROUP SKOPJE
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

26.1. SHORT-TERM DOMESTIC BORROWINGS

	Note	2004 Den. 000	2003 Den. 000
Top trade	1	3,000	3,000
Top trade	2	3,000	3,000
Top trade	3	2,000	3,000
Tutunska Banka AD Skopje	4	1,949	3,090
Stopanska banka AD Skopje	5	-	50,000
Stopanska banka AD Skopje	6	-	30,000
Stopanska banka AD Skopje	7	39,889	-
Total short-term domestic borrowings		49,838	92,090

1- Approved and utilized in amount of 5,000 thousands of MKD with no. 04-05-32 at March 29, 2002, with maturity 6 months from the utilization date and interest of 15% per year

2- Approved and utilized in amount of 3,000 thousands of MKD, with no. 04-05-82 at August 6, 2002, with maturity 6 months from the utilization date and interest of 15% per year

3- Approved and utilized in amount of 3,000 thousands of MKD with no. 04-05-195 at November , 08 2002, with maturity 6 months from the utilization date and interest of 15% per year

4- Approved on December 3, 2003 in amount of 4,270 thousands of MKD and utilized in amount of 3,090 thousands of MKD on December 3, 2003, with maturity period of one year and interest rate of 12% per year.

5- Approved on October 27, 2003 in amount of 816,060.06 EUR and utilized on October 28, 2003 in amount of 50,000 thousands of MKD with four installments repayment (June 15; July 15; August 15 and September 15, 2004) and interest rate of monthly EURIBOR plus 5.697 index points annually.

6- Approved on December 26, 2003 in amount of 489,650.00 EUR and utilized on December 29, 2003 in amount of 30,000 thousands of MKD with four installments repayment (June 15; July 15; August 15 and September 15, 2004) and interest rate of monthly EURIBOR plus 5.697 index points annually.

7- The amount of 39,889 represents short-term liability from borrowing from Stopanska bank with no. 1.4-938 from November 16 2004 in the amount of 650,723.93 Euro with due date of 10 months and interest rate of 1 month EURIBOR + 4.5% per year. By a notary act ODU no. 634/04 the Group pledged 13,060 ordinary shares with par value of 5,000 denars as guarantee for meeting the liabilities. The Group is obliged to forward at least 50% of its inflow of foreign currency through Stopanska bank, as well as 50% from the inflow of denars. Stopanska bank is authorized by the Group to withdraw cash from the denar or foreign currency accounts in order to collect its matured receivables.

26.2. SHORT-TERM FOREIGN BORROWINGS

	Notes	2004 Den. 000	2003 Den. 000
ZZ Medical, Frankfurt am Mein, Germany	1	21,455	50,688
Total short-term foreign borrowings		21,455	50,688

1- Approved on May 22, 2003 in amount of 2,000,000 EUR and utilized in four tranches in period from June 26 to October 2, 2003 in amount of 122,453 thousands of MKD with maturity date on May 6, 2004 and interest rate of 8.9% annually.

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27. OTHER SHORT-TERM LIABILITIES AND ACCRUED EXPENSES

	2004	2003
	Den. 000	Den. 000
Payables against government and other institutions for taxes	14,042	3,710
Payables for personal income tax	633	614
Payables for salary contributions	2,465	2,371
Payables against employees for net wages	1,914	2,017
Trade payables for employees loans	2,715	2,484
Domestic advance payment	5,231	5,372
Ordinary shares dividends payables	525	35,656
Agency for privatization ordinary shares dividends payables	59,406	41,398
Other dividend payables	3,587	3,587
Pension Fund priority shares dividends payables	15,577	12,045
Payables for contributions of the Group management	3,856	5,400
Payables for buy up shares to Agency for privatization	6,052	6,052
Other short term liabilities	720	99
Calculated expenses for December 2005/2004	1,863	2,042
Total short-term liabilities and accrued expenses	118,586	122,847

28. LONG TERM BORROWINGS

	2004	2003
	Den. 000	Den. 000
Vaishaupt Slovenija	2,979	-
Total long-term borrowings	2,979	-

It is a Contract for long term purchase of equipment between Toplifikacija AD and Vaishaupt from Republic of Slovenia, for the amount of 52,996.50 Euro, with fixed interest rate of 3%, 2 years grace period and mature date of 5 years. As requested by the terms of the Contract Komercijalna bank issued a confirmed payable guarantee in favor of Toplifikacija AD under the same terms as the Contract above plus a 1.2% provision on the outstanding balance of the guarantee calculated every 3 months.

29. MINORITY INTEREST

	2004	2003
	Den. 000	Den. 000
Changes of equity minority interest		
Balance as at January 1	774	774
Paid-in capital	-	-
Balance as at December 31	774	774
Chang in minority interest in financial result		
Balance as at January 1	(238)	(169)
Portion of the profit (loss) which belongs to the minority shareholders	11	(69)
Balance as at December 31	(227)	(238)
Balance as at December 31	547	536

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30. CONTINGENT LIABILITIES

The Group is not engaged in any court procedures, where it is sued by other companies, nor it has issued guarantees in favor of other companies, or mortgages on its PPE that could result in materially significant contingent liabilities that could influence the 2004 Financial statements.

31. DISCLOSURES ON THE RELATED PARTIES

During the ordinary course of action the parent company (Toplifikacija AD Skopje) is engaged in different business transactions with related parties such as its subsidiaries and associated companies. These transactions are conducted under normal commercial terms and the volume of such transactions is as follows:

	2004	2003
	Den. 000	Den. 000
Investment of the parent company (Toplifikacija AD) in the subsidiaries	249,430	249,430
Trade receivables	74,386	77,176
Trade payables	(74,386)	(77,176)
Receivables for advances	482	-
Payables for advances	(482)	-
Sales revenues	39,490	29,035
Expenses	(39,490)	(29,035)

The above noted transactions are eliminated for the purpose of the Group Consolidated Financial Statements.

32. ADJUSTMENTS BETWEEN THE CONSOLIDATED PROFIT BASED ON LOCAL REGULATIONS AND THE NET PROFIT CALCULATED USING IFRS

	2004	2003
	Den. 000	Den. 000
Net profit based on local regulations	104,152	92,597
Depreciation of PPE	2,013	(2,379)
Provisions for bad and doubtful receivables made in the previous periods	64,438	3,831
Rewards to management and employees recognized as decrease of the accumulated profit	(4,655)	(4,526)
Differed profit tax	(9,968)	(218)
Revenues from previous periods recorded in the present period	(5,018)	(6,857)
Net Profit based on IFRS	150,962	82,448

33. RISK MANAGEMENT

The Group is engaged in different kind of business transactions that includes trade receivables, trade liabilities, borrowings as well as investments available-for-sale. The most important types of risks to which the Group is exposed and the methods used by management to control them, are as follows:

a) Currency risk

The Group is exposed to currency risk through transactions in foreign currencies from using services and purchase of goods from foreign entities as well as utilization of foreign borrowings and domestic borrowings with foreign currency clausal. According to this, the Group is exposed to possible foreign currencies rates fluctuations, which is still limited as the Denar is pegged to EUR and monetary projections envisage stability of the exchange rate of the Denar against EUR. The Group has no special policy or methods for currency risk management as there are no market instruments in Republic of Macedonia to avoid this kind of risk.

b) Credit risk

The Group is subject of credit risk in cases when its customers will not be able to fulfill its obligations. There is no significant concentration of credit risk as the customers are various entities (households and legal entities) from the country and from different business sectors. The Group has no special policy for credit risk as there are limited possibilities (various number of clients with small balances as well as undeveloped security market instruments). The Group policy is monitoring on an ongoing basis of the uncollected receivables, making regular court procedures and recording its impairment for all bad and doubtful receivables.

c) Interest rate risk

The Group is exposed to risk of interest rate fluctuations from the used short and long term interest bearing borrowings agreed with variable rates. Due to the fact that the Group uses borrowings with short-terms of repayment and the long-term borrowings are agreed with fix interest rates, there is no significant exposure to this kind of risk. The Group has no special policy or methods for interest rate risk management as there are no market instruments in Republic of Macedonia to avoid this kind of risk.

d) Market risk

The Group is exposed to market risk which arise from the prescribed procedure for previous agreement for price lists from the Energy Regulatory Commission of the Republic of Macedonia. The Group is exposed to risk of significant increase of market prices of the main inputs (fuel oil and natural gas) which have main influence of the Group's expenses and the Group is not in position to make fast reaction by changing prices of its services due to the agreement regime. The Group has no special policy or methods for market risk management as there are no market instruments in Republic of Macedonia to avoid this kind of risk.

34. EVENTS AFTER THE BALANCE SHEET DATE

There are no events after the balance sheet date with material significance that are necessary for presentation in the 2004 Financial statements