

PROSPECTUS



ТОПЛИФИКАЦИЈА АД

With headquarters in Skopje, str. Londonska bb, registered in the Trade Register under S.No. 7826 on 05.10.1999.

Quotation of shares of Toplifikacija AD Skopje at the First Market of the Macedonian Stock Exchange for Long-Term Securities AD Skopje

A request has been submitted for quotation of shares of Toplifikacija AD Skopje on the First Official Market. The nominal value of the shares of Toplifikacija AD Skopje amounts to EUR 51.13. The request for quotation concerns the following types of shares:

- 428,657 ordinary shares, with voting privilege;
- 21,343 priority shares, owned by the Fund for Pension and Disability Insurance of the Republic of Macedonia, which after being sold are transformed into ordinary shares.

In conformity with the Law on Transformation of Enterprises with Social Capital, Toplifikacija AD Skopje was transformed into a mixed ownership company, with a basic stock of 450,000 shares with a nominal value per share of EUR 51.13, i.e. EUR 23,008,094.

In conformity with the Law, the enterprises that are transformed into private ownership issue to the Pension and Disability Insurance Fund, free of charge, an amount of 15% of the remaining social capital, which in the case of Toplifikacija AD Skopje amounts to 21,343 shares, or 4.74% of the basic stock. These are priority shares, which are transformed with the act of purchase into ordinary shares, with the same privileges as the other ordinary shares of the company.

Before the act of quotation at official markets, the ordinary shares of Toplifikacija AD Skopje were traded at the Third Unofficial Market of the Macedonian Stock Exchange AD Skopje, under the code TPLF.

The company does not offer new ordinary shares for sale with the act of quotation.

The information in the Prospectus is correct and complete, up to the date of the Prospectus, regardless of the time when any of the existing shareholders or potential investors has received the Prospectus. In conformity with the Book of Rules for Quotation at the Macedonian Stock Exchange, the company is obligated

to inform the Stock Exchange, the shareholders and the public about any significant business and financial deal.

The Macedonian Stock Exchange does not guarantee that the data in the Prospectus are correct and complete. Any statement to the contrary of this, by any person, is illegal.

A signed Statement has been submitted to the Macedonian Stock Exchange, with which the management of Toplifikacija AD Skopje undertakes the responsibility for the information presented in this document. It reads: "According to our belief, and in agreement with our knowledge and data available to us, we state that all the data in this Prospectus constitutes a full and true presentation of the assets and liabilities, profits and losses, financial and business status of the issuer, the privileges contained in the securities, and that data has not been omitted that could influence the completeness and truthfulness of the Prospectus."

The authorized Sponsor of the quotation is KB-Broker AD Skopje, Kej Dimitar Vlahov No. 4, Skopje.

The authorized auditor of the financial reports of Toplifikacija AD Skopje for 2001, 2002 and 2003 is the Macedonian Audit Center.

This Prospectus does not represent an offer to purchase the shares of Toplifikacija AD Skopje. The correctness of the data in this document does not imply that the financial situation and operation of the company are unchanged after the date when the Prospectus is issued. It is recommended that each potential investor make their own assessment for eventual investment in company shares. When a specific decision is made, one should have in mind regularly published data and information, publications linked with the business operation, about the capital, as well as significant changes in regard to the financial situation of Toplifikacija AD Skopje.

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SUMMARY

Toplifkacija AD is the largest producer of heating energy in the country, and at the same time, it represents an important segment of the energy system of the Republic of Macedonia.

The primary activity of Toplifkacija AD Skopje is production and distribution of heating energy. In the near future, Toplifkacija AD will expand its activity into production of electricity and distribution of gas.

The operation of the company started with the establishment of the Board for Central Heating for the City of Skopje in 1965. Since its establishment and until 1999, the company went through several organizational forms, in conformity with the laws that were in force in various periods. In 1999, in conformity with the Law on Transformation of Enterprises with Social Capital, a transformation of the company took place. During that year, a harmonization was made to comply with the Law on Trade Companies.

Today, Toplifkacija AD is a modern, professionally organized company, with a high level of automation in the production process, with introduced measurement of consumed heating energy, and with a development strategy for future organization and technological development in operations.

The company has already prepared an investment program for expanding its business into other branches of the energy system, such as production of electricity and distribution of gas, in order to achieve higher profits from operations.

Toplifkacija implements its activity on the domestic market. The daily situation on the international market for energy components is monitored, because the price of the basic raw material of the company - fuel, depends upon the trends on this market. Also, the technical and technological developments in the field of energy are monitored, and efforts are made, in compliance with the needs and possibilities, to apply these in the system of Toplifkacija AD.

The marketing motto of the company is **maximum quality service, with minimal operational costs**. The main goal of the business strategy is to maintain the leading position on the domestic market, for the services that are offered.

Core capital, shares, voting privilege, shareholders

The core-registered capital of Toplifkacija AD amount to EUR 23,008,094 , divided into 450,000 shares, of which 428,657 are ordinary shares and 21,343 are priority shares.

The nominal value per share is EUR 51.13

The shares are on name, and they are completely free to be transferred.

The total number of shareholders is 635.

All shares are registered in the Central depository for securities and each shareholder can take statement for account for his shares from Depository any time .

Of the total number of shares, 95.26% are owned by physical persons and legal entities (of which 55% are owned by employees), and 4.74% are owned by the Pension and Disability Insurance Fund.

Dividend

During the past six years, a dividend has been paid out to the shareholders, from the profits made after setting aside the legal obligations.

During these six years, the dividend is at a level of 5.5% of the nominal value of a share, and it is paid out after the Assembly of Shareholders was held, which is usually in April, and payment of the dividend starts in May.

The payment of dividend amount conforms to the recommendations of the Management and Supervisory Board, and the Decision to do so is made by the Assembly of Shareholders.

Quotation

A request has been submitted for quotation at the First Market of the Macedonian Stock Exchange.

The shares of Toplifikacija AD were traded until now at the Third Market, under the code TPFL.

Sponsor of the quotation

Sponsor of the quotation is KB-Broker AD Skopje.

Book of Shareholders

Shareholders book is maintains in the Central Depository of securities

Risk factors

The risk factors are listed in the relevant chapter of this Prospectus, and all potential buyers should read them carefully before they decide to buy shares.

Summary review on financial information

The information about financial operations of Toplifikacija AD are presented in the following tables, which have been taken over from the audit report by the Macedonian Audit Center.

The audit was made in conformity with the International Auditing Standards, while the financial reports (unique and consolidated) conform to the International Accounting Standards.

Profit and loss account, after harmonization with IAS

in (000) Denars

Description	2001	2002	2003
Sales	1.312.518	1.304.879	1.516.520
Cost of sales	(883.686)	(865.985)	(1.001.350)
Gross income	428.832	438.894	515.170
Income from additional activities	21.447	54.222	51.337
Expenses from additional activities	(12.818)	(12.141)	(22.382)
General and administrative expenses	(384.384)	(410.282)	(387.665)
Operative income	53.077	70.693	156.460
Financing and other income	88.302	92.939	57.250
Financing and other ehpenses	(40.662)	(55.680)	(61.293)
Revaluation adjustments	(58.499)	(55.740)	(44.793)
Income before income tax	42.218	52.212	107.624
Income tax	(7.577)	(4.960)	(8.683)
Net income	34.641	47.252	98.941
Minority interest in the losses of the consolidated entities	22.	237	144
Net income for the period	34.663	47.489	99.085
Basic earnings per share(denars per share)	73,4	103,3	223,1
Deluted earnings per share(denars			

per share	-	-	220,2
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Financial statement after harmonization with IAS

in (000) Denars

Description	2001	2002	2003
Total short-term assets	744.902	775.692	851.123
Total long-term assets	1.078.577	1.048.611	1.036.085
Total assets	1.823.479	1.824.303	1.887.208
Total short-term liabilities	570.396	632.181	665.036
Total long-term liabilities	3.359	1.774	-
Total liabilities	573.935	633.955	665.036
Total funds	1.249.544	1.190.348	1.222.172
Total assets and funds	1.823.479	1.824.303	1.887.208

in Denars

Description	2001	2002	2003
Profit per share	93,81	116,02	239,16
Dividend per share	150,98	160,94	165,50
Dividend for priority shares ¹	150,98	160,94	165,50

Structure of employees and average salary in denars

Qualification	2002		2003	
	employees	salary (MKD)	employees	salary (MKD)
University education I group	7	38.500	6	38.186
University education II group	27	25.040	27	26.082
Higher education	7	22.740	7	22.481
Secondary school	214	17.620	215	17.977
Highly qualified	42	20.240	41	20.735
Qualified	47	16.680	43	16.941
Semi-qualified	13	13.400	11	12.809
Unskilled	8	11.650	8	11.473
TOTAL:	365	18.580	358	18.924

¹ In conformity with legal stipulations, the Company pays out 2% fixed dividend for priority shares, which are reserved for buy-out by the employees.

RISK FACTORS

- The overall political environment in the Balkans, as well as the transition processes, significantly influence the operation of the company, in the sense of limiting long-term development policy.
- Dependence upon imports and the exchange rate. The primary raw material for production of heating energy is crude oil or gas, these are imported and their price depends upon the price of these raw materials on the world markets and the exchange rate of the dollar.
- The overall economic situation in the country, accompanied by a high level of illiquidity of the economy and a low standard of living of the population, are also significant risk factors in the sense of achieving the desired results from operations.
- The capital market is rather limited, in contrast to the already established markets in Europe and in the world, because stock exchange operations are still in development, and the main trading takes place on the Third Market, which is limited, non-transparent and not attractive, especially for foreign investors.
- Competition in the field of our primary activity - production and distribution of heating energy, is positive till now, considering that until recently there were no other central heating systems in the country. Recently, other central heating systems have appeared, which because of their size, however, are no serious competition in the primary activity.
- The competition of Toplifikacija AD during the past period and in the future consists in alternative sources for heating, manifested through local heating systems that use various types of fuels. It is estimated that in the near future additional competition will come with the distribution of natural gas to a limited number of consumers.
- The expansion of the primary activity is limited. Central heating systems can be implemented in urban environments, with a specific density of heating consumption. Almost all urban environments that meet these criteria have been covered. Within this framework, the strategic commitment of the company is to enter into new activities, such as the production of electricity and distribution of gas.

CAPITALIZATION AND INDEBTEDNESS**Capitalization (book value)**

The capitalization of Toplifikacija AD - Skopje on 31 December 2003 is shown in the following table:

	in 000 Denars	in EUR
1. Shareholding capital		
- Shareholders	1.327.980	21.663.621
- Pension and Disability Insurance Fund	66.120	1.078.629
2. Reserves	39.062	-
3. Retained profits	43.925	716.998
4. Losses from past years	-	-
5. Long-term loans	-	-
Total capitalization	1.477.087	24.096.035

Indebtedness

1. Long-term loans	-	-
2. Short-term loans	149.009	2.430.815

TOTAL:	149.009	2.430.815
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DIVIDEND AND DIVIDEND POLICY

From the moment the Privatization process was completed in 1999, Toplifkacija AD adopted the policy to pay out a dividend from earned profits.

After the profit is reduced by the legal obligations, for reserves and by 5% for the management team, with a decision by the Shareholders Assembly a dividend has been paid out for 2001, 2002 and 2003 for priority and ordinary shares, in the following gross amount:

	2001	2002	2003
- dividend for priority shares	3.222.357	3.434.942	3.532.524
- dividend for ordinary shares	64.718.495	68.988.622	70.941.964
TOTAL:	67.940.852	72.423.564	74.474.488

- A dividend for ordinary shares has been paid out for period 2001 in of amount of 150.98 denars per share.
- A dividend for ordinary shares has been paid out for 2002 in of amount 160.94 denars per share.
- A dividend for ordinary shares has been paid out for period 2003 in of amount of 165.50 denars per share

This represents around 80% of the total profit. In comparison to the nominal share value, the dividend that was paid out is at a level of 5.5%.

The dividend policy in the near future will be harmonized with the business and development policy of the Company, as well as with the increase in net profit. However, the general commitment is that a high percentage of the earned profit should be distributed as a dividend to the shareholders.

The dividend is paid out in installments, so that it would not have repercussions upon the current liquidity. In any case, payment goes on until the end of September of the year for which the payment is performed.

CHRONOLOGY OF THE COMPANY'S DEVELOPMENT

Toplifkacija AD was founded in 1965, in conformity with the Decision by the Assembly of the city of Skopje, for the establishment of the Board for Central Heating for the city, as a legal entity, registered under No. 223/1 of 01.07.1965. The Board for Central Heating for the city of Skopje was established as a working unit in the form of an institution that would perform permanently the activity of a social service, whereby in the general interest the needs would be met of citizens, organizations and other social institutions.

In 1973, and based on a Decision by the Assembly of Workers, the Board for Central Heating for the city of Skopje established itself as an Organization of Associated Labor (OAL), with special social interest, under the name "Central Heating of the City of Skopje", in short "Toplifkacija". It was registered as such at the District Commercial Court in Skopje. The activity of the OAL is to execute the program and projects for central heating for the city of Skopje, as an investor, as well as for providing studies, research and projects, exploitation of the heating transmission system in the city, management of several already constructed facilities for central heating, and completion of the construction of already started facilities for central heating.

In 1979, the Company was changed into a Work Organization for Production and Distribution of Heating Energy "Toplifkacija", CO (with full liability), Skopje because of harmonization with the Law on Associated Labor, and based on the Self-Management Agreement for Association of Labor of the workers in the Work Organization. Hereby, it remained an economic entity of special social interest for the execution of utility services.

In 1989, the Work Organization made adjustments according to the Law on Enterprises and transformed into a Social Enterprise for Production and Distribution of Heating Energy "Toplifikacija" Skopje, CO (with full liability).

Following the changes in the ownership transformation imposed by the enactment of the Law on Social Capital, the Company passed a Decision in 1991 to transform into a shareholding company, whereby it changed from an enterprise with social ownership into an enterprise with mixed ownership, under the name Toplifikacija AD - Skopje c.o.

The Privatization of Toplifikacija started in 1991, with the enactment of the Decision for transformation of the social enterprise into a shareholding company with mixed ownership.

The basis for this transformation is the Law on Trade with and Disposition Over Social Capital (Official Gazette of SFRY, No. 84/89), which together with the amendments (Official Gazette No. 46/90) is called the Law on Social Capital.

The socially owned enterprise of that time - Toplifikacija, Skopje - used the opportunity offered by this Law and based on the issuing of shares, acquired additional capital that came into the enterprise.

The acquisition of additional capital was made by means of issuing shares with a discount, so-called internal shares, whereby the discount was for the account of the social capital.

Internal shares were sold to the employees in the company.

In conformity with Article 3 of the Law on Transformation of Enterprises with Social Capital, and until the Laws on Local Self-Government, Public Enterprises and Utility Services were enacted; Toplifikacija was excluded from the process of completing the privatization. With the enactment of these laws, the conditions were created to complete the already started privatization.

The procedure for Transformation of Toplifikacija AD continued in 1999, in conformity with the Decision to start the procedure for transformation.

Based upon this Decision, a Transformation Program was prepared and an evaluation was made by the Payment Operations Office (ZPP). Hereafter, the Commission of the Government of the Republic of Macedonia for Transformation of Enterprises with Social Capital, passed a Decision for privatization. After a public announcement, an Agreement was concluded with the Privatization Agency for the sale of the social capital of Toplifikacija AD.

After this procedure was concluded, Toplifikacija AD transformed into a shareholding company with mixed ownership, with 68.35% nominated private capital, and 31.65% social capital, disposed over by the Privatization Agency of the Republic of Macedonia and the Pension and Disability Insurance Fund.

In the meanwhile, during the privatization procedure itself, and in conformity with the Law, free-of-charge shares were issued to the Pension Fund in the amount of 4.74% of the total capital. In a legal procedure, After this, the company was re-registered at the competent court, and adjustments were made in accordance with the Law on Trade Companies.

The Company was registered in the Trade Register with ruling T.reg.No. 7826 of 05.10.1999, as Shareholding Company Toplifikacija AD - Skopje for the Production and Distribution of Heating Energy, at the Registration Court Skopje I - Skopje.

FIELD AND VOLUME OF OPERATIONS

The primary field of operations of Toplifkacija AD - Skopje is production and distribution of heating energy in the area of the city of Skopje, which on the average provides around 95% of total revenues, and only 5% are revenues from secondary activities.

Within the framework of its primary field of operation, Toplifkacija AD provides heating for housing and business premises per user category, as follows:

	No. of apartments	Surface (m ²)	Capacity (MW)
Housing premises	47.292	2.824.983	390,841

	No. of buildings	Registered capacity (MW)
Business premises	6.000	139,947

Expressed in relative numbers, as a percentage, in order to get a more realistic picture, Toplifkacija AD provides heating to 30% of the city of Skopje, or to 10% of the Republic of Macedonia, and thus it comprises a significant segment of the energy system in the Republic of Macedonia.

Physical volume of production

During the heating months in 2003, a total of 783.874.4 MWh of heating energy was produced, which corresponds to the needs that depend upon the weather conditions.

Of the totally produced heating energy, 2% is used for own technological needs, while the remainder is delivered to the consumers.

The production per month, at the four heating plants, is as follows:

Month	Produced energy (in MWh)
January	165.827,2
February	158.310,0
March	106.170,6
April	62.017,2
October	44.559,8
November	97.098,8
December	149.890,9
Total:	783.874,4

Secondary activities mainly consist of the following:

- construction and installation of heating and gas facilities;
- investment programs, studies, investment-technical documentation for thermo-energy facilities;
- scientific research in the area of thermo-techniques and energy;
- preparation of application software;
- transport for third parties;
- design for own needs and for third parties;
- import, export, etc.

ORGANIZATIONAL SET -UP

Toplifikacija AD is organized as a unique legal entity - a shareholding company with mixed ownership, which performs its activity through several organizational units:

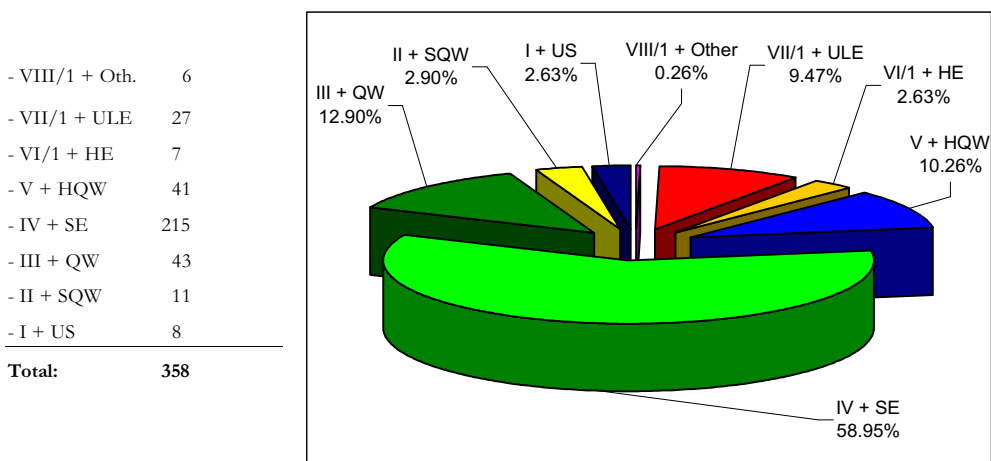
- Sector for production and maintenance of thermal facilities;
- Sector for distribution and measurement of heating energy and gas;
- Sector for development, design and investment;
- Sector for economics;
- Sector for personnel and legal matters.

Within each one of these sectors there are business units, and within their framework there are departments. Tasks are distributed among these departments.

This internal organization and distribution of production - technical, personnel - organizational, economic-financial and commercial - marketing functions was made in conformity with the nature of operations, as well as with the experience drawn from past forms of organization of the company. The main goal of the internal organization is to provide a high level of execution of the foreseen tasks, with minimal operational expenditures.

The company is a member of the Chamber of Economy of the Republic of Macedonia and the Association of Trade Unions of the Republic of Macedonia.

Toplifikacija AD has a total of 358 employees, in 2003 year , distributed according to their level of education as follows:

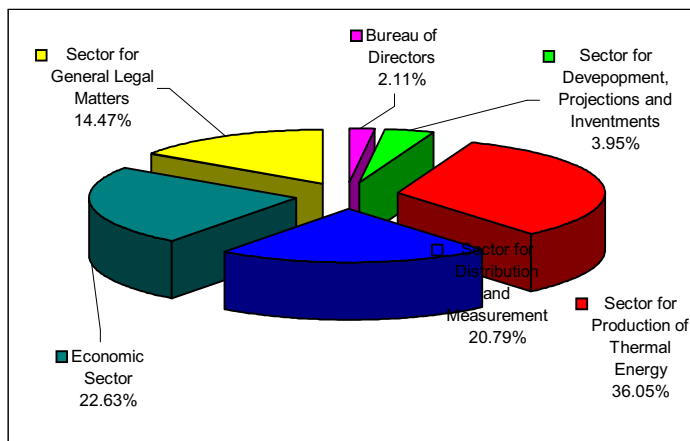


(Oth. - other; ULE - university level education; HE - higher education; HQ - highly qualified worker; SE - secondary education; QW - qualified worker; SQW - semi-qualified worker; US - unskilled)

Distribution of employees by sectors:

- Bureau of Directors	7	
- Sector for Development, Projections and Investments	14	
- Sector for Production of Thermal Energy	117	
- Sector for Distribution and Measurement	75	

- Economic Sector	86
- Sector for Personnel and Legal Matters	55
Total:	354



One of the main elements that is incorporated in the organizational structure of the Company is the system of remuneration. Toplifikacija AD has several systems of remuneration. The employees continue to receive regular wages in the same manner as they did before the process of privatization. The increase in earnings now depends on the improvement of economic indicators within a group, sector or the whole Company. The system for recording essential data within groups or sectors enables the functioning of the system of stimulant remuneration. The main principal of the system of stimulant remuneration is that a portion of the increased economic results is obtained by the persons who actually achieved them (group or sector), while the other portion is regarded as an improvement of the economic results in the whole Company.

A managerial team was formed at the Company level, which is in charge of management of the whole Company. The team has the following basic assignments: improvement of current operations and the organization of the Company; preparation of new projects in order to increase the Company's scope of operations and its profitability; etc.

OTHER BUSINESS POLICIES

The Company especially focuses on the pricing policy of rendered services, which has to be in line with the legal provisions of the Country.

The price of the thermal energy is computed in the technical departments of the Company; however, the decision to apply a certain price is made by the Board of Directors of the Company.

The computation of the price has to be in line with the Methodology for Determining the Price of Certain Types of Energy (Official Gazette no. 43/98). After the decision is made, the Company has to notify the Independent Deregulation Commission.

Commission only controls whether the computation of price was done in compliance with mentioned Methodology, and if does not have any remarks regarding the application of Methodology, the new price of energy will be applied within 15 days.

In the field of the tax policy, the Company is burdened as all other companies, with the VAT Tax. The Company estimate a tax rate of 18%, as all other companies.

The Personal Tax, the Import Duties, the Profit Tax and the Wage Contributions are equal for all companies in the country.

- The Personal Income Tax Rates are between 15% and 18%
- The Profit Tax rate amounts to 15%
- Total Rate of Wage Contributions amounts to 32% of gross wages
- The Import Duty Rate is paid in accordance with the custom tariffs.

DEVELOPMENT POLICY

The development of the Company in the future will be directed towards following assignments:

- **Modernization of the existing process.** Heating systems are facilities with a very long period of exploitation, therefore, it is always necessary to introduce new technical solutions which can be very useful at a certain moment but which did not exist at the time of the construction of the facility. In the past years, several more intensive measures were undertaken to solve this problem e.g. automatic regulation systems were applied in sub-stations of many buildings, the consumption of thermal energy started to be measured and the total production of thermal energy was placed under a monitoring system. This process will continue in the future enabling the heating system of Toplifikacija AD to become more comparable to functional abilities of more advanced European systems. Also, the initiated reconstruction of thermal energy sources will be continued in the future, so that natural gas can be used as an alternative fuel on certain locations.
- **Measures for maintaining a continuous provision of energy.** The continuous provision of energy is very important for every heating system. Every halt to the provision of thermal energy during the critical periods of the heating season may cause significant material damages to the heating system, to the consumers and to the whole electro-energetic system (which remains an only alternative when the heating system breaks down). Material damages may result from the fact that the facility of Toplifikacija AD cannot be replaced, and in case of a halt, heating energy cannot be obtained from other sources, as it is done within the electro-energetic system. When it's cold outside, halts to the provision of heating energy often leads to the freezing of pipelines and equipment in power plants, to the freezing and cracking down of internal installations in buildings, as well as to averages in the electro-energetic system (if it is overburdened with turned on heaters, due to the undelivered heating energy from Toplifikacija AD). Bearing in mind the complexity of consequences from similar situations in the past, the company made investments to maintain a constant provision of heating energy. This will practice will continue in the future.
- **Increase in the number of connected consumers on the territory of the existing system.** On the territory of the existing heating system there are a lot of old and new buildings, which have still not been connected to the system. The Company intends to connect all buildings to the existing system, increase the total number of consumers that are connected to the system and improve the overall economic performance of the system.
- **Construction of new heating systems.** All potential consumers of heat that are not connected to the existing system will be connected to the newly- constructed heating systems. In this way, the Company will be able to connect the consumers in the most rational manner and attract potential investments from other subjects. Toplifikacija AD will invest in such systems but it will not always intend to become the dominant owner thereof. By creating the best conditions for attracting potential investments, the Company will have an opportunity to increase the scope of its activity and to construct several heating systems throughout the country, in a very short period of time. Regardless of the portion of Toplifikacija AD in these systems they will all be forced to cooperate with each another and to use the services of Toplifikacija AD, increasing the viability of its functions.

- **Participation in the construction of sources for combined production of thermal and electric energy.** The sources for combined production of thermal and electric power are the most rational sources for production of thermal energy currently used by heating systems. These sources have numerous advantages. First, they are very economic, i.e. the price of thermal energy from such sources is very low and profits are very high
From an ecological point of view these energy objects are very convenient because the portion of emitted hazardous materials in the air in relation to the produced quantity of thermal or electric energy is very low. In cases when such facilities utilize natural gas as fuel these qualities are even more evident, especially from the ecological point of view, because the emission of pollutants is exceptionally low.
- **Participation in the gasification of the Republic of Macedonia.** The gasification of the Republic of Macedonia will be organized as a joint stock company in which the equity owned by the state will be sold in several next years. The main interest of Toplifkacija AD in this project is associated with the provision of gas to small users. The Company is prepared to invest in the expansion of the gas network. In normal conditions, the distribution of gas is a very profitable activity and it may become a very solid and profitable way to expand the basic activity of Toplifkacija AD.
- **Participation in other profitable projects.** Toplifkacija AD is a financially solid Company with a very high credibility among domestic banks. This will enable the realization of new projects in which in addition to investments from own sources Toplifkacija AD might be followed by serious domestic and foreign banks. In this sense, the Company has already initiated few projects, which incorporate the acquisition of domestic companies and the construction of new production facilities. Toplifkacija AD will try to involve, in these projects, foreign companies, with a lot of experience in the appropriate field. The engineering of heating and cooling systems and the representation of distinguished foreign companies are some of the activities that are associated with the development of these projects. Some of these activities have already been initiated with satisfactory economic effects.

FINANCIAL CONDITION

Financing

Toplifkacija AD finances its activity with revenues from current operations and very rarely with short-term loans from commercial banks. In the past five years the Company did not have any difficulties to finance its current reproduction.

The above-mentioned period was characterized with a high level of liquidity, generated on behalf of ,operation , which (together with the small percentage of uncollected sales) did not have a negative impact on the current financing of the reproduction

The Company used the surplus of funds, generated on behalf of the depreciation, to upgrade the existing system and to buy-out shares of AD Skopje – Sever. Thanks to the investment of 4.000.000 EUR Toplifkacija AD is now the dominant owner in this company, it owns more than 99% of its equity.

The business policy in the future will be directed towards financing from own sources and occasionally from short-term loans. These loans will mainly be taken before the start of the heating season, when it is urgent to procure large quantities of technological fuel in order to secure the continuous functioning of the Company during the heating season.

Special attention in the sphere of financing is focused on the collection of outstanding receivables even though their annual percentage is exceptionally low, i.e. around 5-8%. In absolute amounts, during the last 5 years, they have reached the amount of 600,000,000 Denars.

Liabilities

As mentioned above Toplifikacija AD - Skopje was very solvent, during the last 5 years, and was able and managed to settle its liabilities within legally proscribed deadlines.

Liabilities from current operations are paid within the agreed deadlines. It should be noted that deadlines in some instances are overdue, especially during the second half of the heating season (January-April), i.e. when Toplifikacija AD starts to credit its consumers. Namely, heating costs for the period January-April is paid during the period January-July. Even in this period, payments are not more than 60 days late. In this period of the year, especially if the price of fuel is high, as it was the case in the previous heating season, the Company takes short-term loans, which in the past amounted to 100-150 million Denars. Such loans are usually reimbursed at the beginning of the following heating season, and interests are paid within the agreed deadlines.

Receivables

Toplifikacija AD has a relatively high collection rate of receivables. In the last 5 years it amounted to 92-95% of invoiced sales. Receivables are, generally, collected without greater difficulties.

However, the great internal indebtedness of business and non-business entities, the great number of bankruptcies and the low wages in other companies resulting from the overall economic situation in the country pose a serious threat to the regular collection of receivables. Thanks to the extreme mobility of the collection services and their good organization, it is anticipated that the percentage of collection in the future will remain on a high level.

According to the data from the Accounting Department the situation with the receivables, on December 31, 2003, was the following:

- Receivables from business entities and individual consumers	790.996.000	De-
nars		

This situation changes every day and depends on the amount of uncollected receivables from previous years.

Liquidity

Toplifikacija AD deposits its free assets in commercial banks. Even though it has foreign currency accounts in 3 commercial banks Toplifikacija AD does not hold any foreign currency because its activity is exclusively performed on the domestic market. Current payments abroad are made with the foreign currency that is freely bought on the foreign currency market.

Financial Indicators

Within the business and financial operations, the Company continuously analyses and keeps track of the following indicators: liquidity, indebtedness, profitability, as well as a number of investment indicators.

The Company especially focuses its attention on the management of current capital.

On its every day collegial meetings, the Board of Directors defines the expected money flows, compares planned and actual flows of money and on the basis of achieved amounts sets priorities for payment and prepares a plan for the collection of receivables.

Special attention is focused on suspicious and disputable receivables.

No.	DESCRIPTION OF INDICATORS LIQUIDITY INDICATORS	2001	2002	2003
1	Current liquidity – proportion of current assets, reduced by inventories, to short-term liabilities	1.10	1.01	1.11
2	Overall liquidity – proportion of current assets to short-term liabilities	1.31	1.23	1.28
3	Turnover coefficient of inventories	7.55	6.26	8.73
4	Collection period of receivables from sales	165	158	164
5	Payment period of payables to suppliers	168	166	143
6	Receivables from sales in relation to payables to suppliers coefficient	1.46	1.44	1.73

No.	DESCRIPTION OF INDICATORS INDICATORS OF INDEBTEDNESS	2001	2002	2003
1	Proportion of debt to equity (D/E)	48.80%	45.50%	47.70%
2	Level of indebtedness – proportion of total debt to total assets	31.50%	34.80%	35.20%
3	Long-term indebtedness – proportion of long-term debt to total assets	0.20%	10%	-
4	Overall solvency – proportion of profits before interests and taxes to total liabilities	13.00%	15.70%	16.20%
5	Long-term solvency – proportion of profits before interests and taxes to long-term debt	2107.10%	5600.20%	-

This group of indicators shows the long-term liquidity of the Company i.e. its ability to pay long-term liabilities.

No.	DESCRIPTION OF INDICATORS PROFITABILITY INDICATORS	2001	2002	2003
1	Gross profit rate – proportion of gross profit to revenues from sales	32.70%	33.60%	34.00%
2	Net profit rate – proportion of net profit to revenues from sales	2.60%	3.60%	6.50%
3	Return rate of investments – proportion of profit before interests and taxes to total assets	0.50%	0.30%	5.70%
4	Equity yield – proportion of net profits to equity	2.90%	3.40%	7.10%
5	Yield of invested assets – proportion of net profit to total assets	1.90%	2.60%	5.20%

No.	DESCRIPTION OF INDICATORS INVESTMENT INDICATORS	2001	2002	2003
1	Net profit per share – proportion of total net profit to number of issued shares	80.81 Den.	110.23 Den.	230.82
2	Price/profit coefficient – proportion of market price	18.30	14.24	6.20

	to net profit per share			
3	Capitalization rate of shares – proportion of net profit per share to the market value per share	5.50 %	7.00%	16.10
4	Dividend per share – proportion of dividends to number of shares	128.03 Den	136.47 Den.	153.09
5	D/P coefficient – proportion of dividend per share to net profit per share	1.58	1.24	0.66
6	Dividend yield rate – proportion of gross dividend per share to market value per share	10.20%	10.30%	11.60

Additional data for calculation of indicators

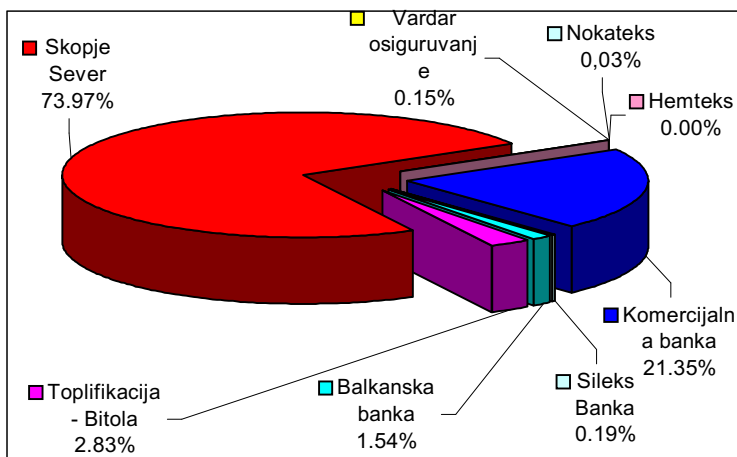
No.	DESCRIPTION OF DATA	2001	2002	2003
1.	Expenses from interests (000 Denars)	32.354	47.136	51.558
2.	Number of issued and paid ordinary shares	428.657	428.657	428.657
3.	Number of issued priority shares	21.343	21.343	24.343
4.	Market price per share (Denars)	1.479	1.570	1.430
5.	Gross dividend for ordinary shares (000 Denars)	64.719	68.989	70.942
6.	Gross dividends for priority shares (000 Denars)	3.222	3.435	3.532
7.	Net dividend for ordinary shares (000 Denars)	54.882	58.498	65.621
8.	Net dividend for priority shares (000 Denars)	3.222	3.435	3.532

From the mentioned above it can be concluded that a lot of attention is been focused on the management of the current capital and on the implementation of control mechanisms for indicating possible problems associated with the financing, as well as for undertaking measures to overcome such problems.

Investments

Toplifikacija AD-Skopje mainly invests in commercial banks and companies of interest. Its investments can be broken down in the following manner:

		<u>December 31, 2003</u>
Komercijalna banka	69.349.000,00 Den	
Sileks banka	625.000,00 Den	
Balkanska banka	5.000.000,00 Den	
Toplifikacija – Bitola	9.202.900,00 Den	
Skopje Sever AD	240.227.047,00 Den	
Vardar osiguruvanje	320,824.00 Den	
Nokateks	43,365.00 Den	
<u>Hemteks</u>	<u>15,906.00 Den</u>	
Total:	324.784.042,00 Den	



Investments in Equity

Investments in equity are made from the current accumulated depreciation account and are mainly placed in thermal energy sources, in the network, and in procedures for measuring the delivered thermal energy. The main purpose for these investments is the preservation of the heating-system's high level of functional capacity, its automatization and modernization, as well as the establishment of new heating-systems throughout the Country.

In order to illustrate the above mentioned, it's worth noting that during the last three years, Toplifikacija AD has invested in the construction of a new heating station in Skopje-Sever (North Skopje).

The Company also invested in the activation of heating boiler plants in the town of Bitola.

Toplifikacija AD is a dominant owner of all of its buildings.

MANAGEMENT

The management of Toplifikacija AD is organized on a two-level system. The Statute of the Joint Stock Company was adjusted to the Commercial Code

Toplifikacija -AD is managed by:

- the Shareholders' Assembly
- the Supervisory Board
- the Board of Directors

These three bodies are completely separated from one another and the membership in these bodies is regulated with the positive legal regulations.

Shareholders' Assembly

The Shareholders' Assembly is the highest body of the joint stock company. It was established on October 5 1999, when the former Toplifikacija AD implemented the appropriate adjustments to the Commercial Code.

The Assembly is made up of 15 (fifteen) representatives they represent a certain number of shareholders. Because the total number of shareholders totals to more than 600, freely formed groups may delegate authorized representatives to represent them.

Supervisory Board

The Supervisory Body is composed of 5 members, who were elected on a session of the Assembly with a majority of votes.

The members of the Supervisory Body elect a President from their own ranks. His assignment is to chair the meetings of the Supervisory Board.

At its meetings, the Supervisory Body usually monitors the activity of the Board of Directors, whose members are appointed by the Supervisory Board. The Supervisory Board also performs other activities, which are defined in the Statute of the joint stock company. In their scope of work the members of the Supervisory Board must act in compliance with the rules that apply to diligent and prudent businessmen and they must also protect the interests and equity of the shareholders and the Joint Stock Company.

The following persons have been appointed as current members of the Supervisory Board:

1.	Delidinkov Grozdan	President	graduated electronics engineer, employed at the Joint Stock Company as the Chief Consumption Engineer
2.	Iliev Dine	Member	graduated electronics engineer, employed at the Joint Stock Company as the Chief System Engineer
3.	Hristu Nikolas	Member	secondary school , employed at the Joint Stock Company as a referent for
4.	Cekovski Branko	Member	mechanical engineer, employed at the Joint Stock Company as the Chief Maintenance Engenering
5.	Kovačevski Zoran	Member	secondary school, employed at the Joint Stock Company as the Chief Accountant

Short Autobiography of the President of the Supervisory Body

Delidinkov Grozdan, was born in 1948, in Gevgelija, RMacedonija . He attended elementary and secondary school in Skopje, where he also graduated on the Faculty Mechanics at the University of Kiril and Metodij , in Skopje.

He started working for Toplifikacija AD – Skopje in 1987 as Chief Consumption Engineer.

Since 1987 to date, he has been the as Chief Consumption Engineer

Also, since June5, 2003 to date, he has been the President of the Supervisory Board of Toplifikacija AD.

Earnings of the Members of the Supervisory Board

According to the joint stock company's enactments, the members of the Supervisory Board are entitled to 0.5% of the net profit in its gross amount after each annual statement.

All current members are employees of the Joint Stock Company and in accordance with its enactments are entitled to regular monthly wages.

Board of Directors

In accordance with Toplifikacija AD's Statute, the Supervisory Board appoints the 7 members of the Board of Directors of the Joint Stock Company.

The members of the Supervisory Board appoint, from their own ranks, the President of the Board of Directors who, in accordance with the Commercial Code also is the Director of the Enterprise, i.e. he represents the enterprise in dealings with third parties and the public. The President also makes decisions on issues in the field of labor relations in the joint stock company.

The task of the President and the members of the Board of Directors is to implement the business policy of the enterprise, i.e. to make decisions on issues associated with the concrete activities and development of the Company. They regularly notify the Supervisory Board of every important issue concerning the business policy strategy, efficiency, profitability, costs and liquidity of the company. They perform their activity on everyday compulsory staff meetings and on the meetings of the Board of Directors.

The Supervisory Board Current has appointed the following persons as current members of Board of Directors:

1.	Dr. Dimitar Hadži Mišev	President	graduated mechanical engineer, employed at the Joint Stock Company as the General Director
2.	Pocev Eftim	Member	graduated mechanical engineer, employed at the Joint Stock Company as the Assistant Director for Capital stiff companies
3.	Ninevski Gorgi	Member	graduated mechanical engineer, employed at the Joint Stock Company as an Assistant Director for Quality
4.	Makenaxiev Dragan	Member	graduated Economist, employed at the Joint Stock Company as a steersman of departement of selling
5.	Kirovski Hristo	Member	graduated mechanical engineer, employed at the Joint Stock Company as a steersman of sector for producing
6.	Bo{kovska Sowa	Member	graduated lawyer, employed at the Joint Stock Company as a steersman of departement of prosecuting
7.	Alfons Veta	Member	graduated mechanical engineer, employed at the Joint Stock Company as a steersmsn of sector for distribution

Short Autobiography of the President of the Board of Directors

Dr. Dimitar Hadji-Mišev, graduated mechanical engineer, was born in Strumica, in 1954. He attended elementary and secondary school in his native town. In the year 1973/74 he enrolled at the Mechanical Faculty in Skopje. He graduated in Energetics at the Mechanical Faculty in Skopje, in May 1978. In the school year of 1978/79 he enrolled at the Thermal-energy postgraduate studies on the Mechanical Faculty in Belgrade. He obtained his Master of Science Degree in June 1982 on the Cathedra for Non-Stationary Thermo-Energetic Processes. In the years of 1985/86, during his preparation of his doctoral dissertation he resided in Moscow for 10 months. In January 1989 he obtained a doctoral degree also in the field of non-stationary thermo-energetic processes.

Since his graduation to date, he has been an employee of Toplifikacija AD – Skopje, where he has held the following positions: Chief Engineer for Production of Thermal Energy, Chief Engineer for Development, Director of the Sector for Development, Projections and Investments. In July 1993 he was appointed as the General Director of Toplifikacija AD.

Earnings of the Members of the Board of Directors

In accordance with the enactments of the Joint Stock Company members of the Board of Directors are entitled to 3% of the net profit in its gross amount, after each annual statement.

All current members of the Board of Directors also are employees of the Joint Stock Company and in accordance with the enactments of the Joint Stock Company receive regular monthly wages.

The Supervisory Board defines the manner in which the portion of the profit is divided among the members of the Board of Directors.

The President and the members of the Managerial Board are insured with the managerial insurance coverage in an insurance company, in accordance with the signed managerial contracts regulating their tasks.

EMPLOYEES AND LABOR RELATIONS

At present, Toplifikacija AD regularly employs 358 adequately qualified persons, who are divided into sectors, as it was presented in the previous text.

During the last years there the number of employees tends to decline. Due to the modernization and automatization of the production process and, of course, due to the reduction of redundant employees, from a maximum of 412 in 1996 the number of employees has dropped to only 3358.

However, this does not mean that the Joint Stock Company is closed for new employments. On the contrary, in the same period a great number of young and skilled persons were employed and they simultaneously replaced the persons who retired or moved to other companies.

The Joint Stock Company made special efforts to improve the skills of the employees by investing in additional vocational courses and specializations for current employees, in different fields of education. The younger employees are more involved in these activities.

Employees may exercise their rights and obligations in accordance with the Collective Agreement, signed with the Trade Union of the Joint Stock Company. In accordance with the Branch Agreement and the Law on Labor Relations, in the process of negotiating and exercising issues related to worker's rights, they act as a social partner with equal rights.

Within the Joint Stock Company there is a strong trade union that represents the interest of employees in all bodies of the Joint Stock Company. The trade union proposes and suggests ways in which the employees can protect their rights, as well as ways in which they can improve the standard of living.

All employees are covered with life insurance and insurance against accidents, in accordance with the Decision of the Managerial Board.

Toplifikacija AD regularly pays health and retirement contributions for its employees.

JUDICIAL PROCEEDINGS

In many instances Toplifkacija AD in its regular scope of work, in order to protect its property rights, has to initiate judicial proceedings.

These proceedings are often related to uncollected receivables from clients who irregularly or partially pay the provided thermal energy.

In such cases, regular judicial proceedings are initiated, upon a submission of a proposal for forced settlement, which has to be accompanied with valid or legally binding executive documents. Other relevant evidence may be provided during the proceeding.

The long-term practice and statistics of the Joint Stock Company show that annually, on average, 10,000 claims are made against residential clients and 1,000 against business clients. The total annual sum of collected claims amounts to 5% of the total invoiced amount.

On the other hand, because it regularly pays its current liabilities, the Joint Stock Company never or very rarely plays the role of a sued person.

REAL ESTATE

Toplifkacija AD is located on 5 main locations within the territory of the City of Skopje.

Its property is composed of the following land parcels and permanent buildings (power plants and administrative buildings):

Power Plants			
location	purpose	lands m ²	building m ²
PP Istok (East), Industriska bb, Skopje	power plant	9,786	10,009
PP Zapad (West), Londonska bb, Skopje	power plant and administrative buildings	9,079	6,729
PP 11-Oktomvri, Mihail Ćakov bb, Skopje	power plant	1,850	668
PP Park, Ilindenska bb, Skopje	power plant	1,082	89
PP Vodno, Skopje	power plant (pre-pump station)	811	337

Other properties:

Administrative Business Premises		
location	purpose	area m ²
Business premises, 49 J.Sandanski Street	collection point	102,51
Business premises, 1 N. Parapunov Street	collection point	57,97
Business premises, Mavrovka - Shopping Center	collection point	19,34

The Joint Stock Company is the owner of all of these properties. The properties are not burdened with mortgages and other claims.

INSURANCE

In order to protect its operations from all reasonable risks, every year, Toplifkacija AD insures all of its property, property interests and employees, in the largest insurance company in the country ADOR – Makedonija – KJUBI, in accordance with an agreed insurance coverage, that is appropriate for the market value of its property.

On the basis of the long-term cooperation and experience with ADOR – Makedonija – KJUBI, a defined type of insurance is implemented every year, and to date there haven't been any disputes, i.e. all claims and premiums were paid on time.

The insurance covers the following risks:

- insurance against thefts and robberies;
- insurance against the breaking down of machines and other hazards;
- insurance against fire and other hazards;
- combined insurance of electric equipment belonging to departments; and
- complete coverage of motor vehicles without a deductive franchise.

During the last 3 years, insurance premiums, on average, amounted to 6,000,000.00 Denars per annum.

PROTECTION OF HUMAN ENVIRONMENT

1. Current activities of Toplifikacija AD – Skopje's employees associated with determining and solving ecological problems

In the current period of its existence, Toplifikacija AD – Skopje has undertaken several steps to define, determine and solve certain technological problems, which have a negative energetic impact on the installations of the power plant and the human environment.

In most cases, the employees of Toplifikacija AD – Skopje develop and analyze all undertaken steps by themselves. These steps are very rarely subject to legal restrictions and norms. In most cases, the managerial team of Toplifikacija AD – Skopje intends to select a solution that can be financed by the company itself, and that can significantly reduce the concentration of gas polluters below the permitted levels.

Following measures have been undertaken in context of the previous paragraph:

- a) Improvement of the Book of Rules regarding the used quality of fuels;
- b) Installation of equipment for continuous monitoring of smoke and burning particles;
- c) Regular controls and analysis of the combustion process;
- d) Preparation of ecological elaborates;
- e) Addition of additives in the fuel;
- f) Independent projection and manufacturing of fuel-separation installations; and
- g) Construction and exploitation of neutralized wastewaters.

2. Measures for solving ecological problems in the future

It is evident that the maintenance of ecological parameters below the level of maximally allowed values is associated with a great number of difficulties and, in principal, does not depend so much on the combustion regime, but on the type of furnace and boiler, the manner of combustion and, to the greatest extend, on the type of fuel.

Due to above mentioned reasons, as in all other energy producing installations and buildings, the solving of ecological parameters in the Company is often emphasized as an imperative.

In present conditions, it's more than evident that every investment has to be justified and paid within a reasonable time interval, and that every investment must include elements for solving ecological problems.

In accordance with the current experience in Toplifikacija AD, as well as the experience of other enterprises that are producers or users of equipment discharging a low concentration of pollutants due to the combustion of fossil fuels, it was determined that, bearing in mind the needs of the company, there can be five possible and feasible ways for satisfying ecological standards regarding the allowed concentration of discharged particles from the combustion process:

1. Usage of fuels with a low concentrate of sulphur, and gas fuels;
2. Usage of ecological furnaces;
3. Installation of measuring appliances and governing valves for controlling the process of combustion;
4. Application of installations for purifying discharged polluters and dangerous materials; and
5. Application of installations for a combined production of electrical and thermal energy.

3. Planned effects

The main aim of the team of Toplifikacija AD is to reduce the emission of dangerous materials to 50% of maximally allowed quantities and norms. This will represent a contribution of the company for solving environmental problems in the area around its production capacities.

4. Phases of problem solving and the financial construction

It has been anticipated that the problems related to the excessive concentration of dangerous materials in the discharged smoke have to be solved in several phases, which will have to be implemented during the next 5 to 10 years.

We feel that deadline of 5 years, with the permission of authorized institutions will have to be prolonged to 10 years, especially if the Company can not provide the most optimal financial and technological conditions.

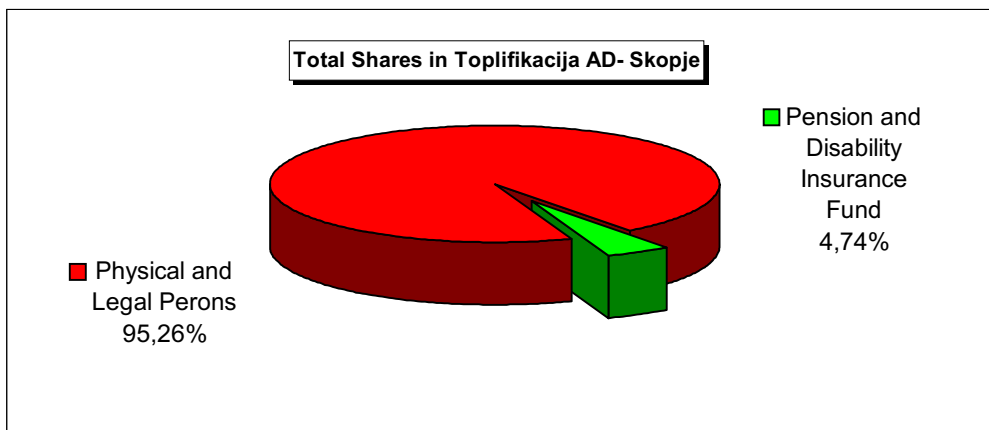
STRUCTURE OF SHAREHOLDERS

On December 31, 2000, the total number of shares amounted to 450,000, distributed according to the following ownership structure:

Shareholders	Ordinary shares	Priority shares	TOTAL	Portion of 4 (%)
1	2	3	4	5
Physical and legal persons	428,657	-	428,657	95.26 %
Pension Fund	-	21,343	21,343	4.74 %
TOTAL	428,657	21,343	450,000	100.00 %

The current managers i.e. the members of the Board of Directors currently hold 2,35% of the total number of shares.

The ownership structure can also be seen in the following graphs on the next page:



From the total number of shares 95.26% are ordinary shares and 4.74% are priority shares.

SHARES AND AN EXCERPT FROM THE STATUTE

This part of the report contains important information on the provisions of the Toplifkacija AD's Statute that are related to the equity and shares.

Complete information may be obtained from the Statute itself and the registration slip issued in the Trade Registry in the Basic Court Skopje 1 – Skopje for the Joint Stock Company that is kept at the headquarters of the joint stock company, at Londonska bb Street – Skopje.

BASIC CAPITAL AND SHARES

The shareholding capital of Toplifkacija AD, registered in the Trade Registry, amounts to 23.008.094 EUR or to 450,000 shares with a nominal value of 51,13 EUR per share, out of which:

- 428.657 are ordinary voting shares, held by physical and legal persons
- 21.343 priority shares held by the Pension and Disability Fund of the Republic of Macedonia. If they are sold they will be converted into ordinary shares.

All shareholders have right to take statement account from Central depository for their shares

The shares may freely be sold on legal transactions.

The ownership of shares is transferred to the new owner with its entry in the Central depository .

ANNOUNCEMENT

All announcements that are associated with the basic equity, shares and the Statute of Toplifkacija AD will be published in a domestic daily newspaper, which is distributed on the whole territory of the Republic of Macedonia.

SHAREHOLDERS' ASSEMBLY

Usually, the Shareholders' Assembly calls a meeting of the Board of Directors. If the Board of Directors does not assemble, the Assembly with a simple majority vote may call a meeting of the Supervisory Board.

A session of the Assembly may also be called by a shareholder, i.e. by shareholders holding a majority of ordinary shares.

The call for the Assembly's session has to be published in a daily newspaper and has to be posted on an announcement board in the Joint Stock Company.

Shareholders may appoint representatives to represent them in the Assembly, legal persons may authorize agents.



**MACEDONIAN
AUDIT CENTER LTD
SKOPJE**

No. 05-55

Skopje, April 16, 2004

**TO THE
SHAREHOLDERS ASSEMBLY OF
TOPLIFIKACIJA GROUP SKOPJE
AUDITORS' REPORT**

1. According to your request, we have audited the 2003 consolidated financial statements of Toplifikacija Group Skopje. 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.

2. Consolidated financial statements on pages 3 to 31, 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.

Comment:

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

4. 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.

Comment:

Comment:

Comment:

5. In our opinion, the attached 2003 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.

Comment:

Skopje, April 2004

Certified Auditor

Antonio Veljanov

Director

Antonio Veljanov

TOPLIFIKACIJA GROUP SKOPJE CONSOLIDATED BALANCE SHEET			
Item description	Notes	2003 Den.000	2002 Den.000
ASSETS			
Cash and cash equivalents	13	36,348	58,240
Trade receivables	3(°); 14	681,598	564,917
Short term financial assets	3(j); 15	6,416	1,336
Other short term assets and prepaid expenses	16	12,045	12,956
Inventories	3(z); 17	114,716	138,243
Total short term assets		851,123	775,692
Available-for-sale investments	3(j); 18	38,027	28,130
Property, plant and equipment	3(°); (e); 19	998,058	1,020,481
Total long term assets		1,036,085	1,048,611
TOTAL ASSETS		1,887,208	1,824,303
LIABILITIES AND EQUITY			
Trade payables	3(y); 20	393,180	392,892
Short term financial liabilities	21	149,009	158,804
Other short term liabilities and accrued expenses	22	122,847	80,485
Total short term liabilities		665,036	632,181
Long term liabilities	23	0	1,774
TOTAL LIABILITIES		665,036	633,955
Long term provisions	24	0	0
Minority interest		371	515
Capital	3(l)	1,394,100	1,394,100
Reserves	3(q)	39,062	25,483
Fair value and other reserves	3(k)	(255,286)	(265,118)
Accumulated income		43,925	35,368
TOTAL EQUITY		1,221,801	1,189,833
TOTAL LIABILITIES AND EQUITY		1,887,208	1,824,303

Notes comprise an integral part of the 2003 Consolidated Financial Statements
Auditors' report is on pages 1 and 2.

**TOPLIFIKACIJA GROUP SKOPJE
CONSOLIDATED INCOME STATEMENT**

Item description	Note	2003 Den.000	2002 Den.000
Sales	3(a); 4	1,516,520	1,304,879
Cost of sales	3(b); 5	(1,001,350)	(865,985)
GROSS INCOME		515,170	438,894
Income from additional activities	3(v); 6	51,337	54,222
Expenses from additional activities	3(g); 7	(22,382)	(12,141)
General and administrative expenses		(387,665)	(410,282)
OPERATIVE INCOME		156,460	70,693
Financing and other income	3(d); 8	57,250	92,939
Financing and other expenses	3(d); 9	(61,293)	(55,680)
Revaluation adjustments	2; 10	(44,793)	(55,740)
INCOME BEFORE INCOME TAX		107,624	52,212
Income tax		(8,683)	(4,960)
NET INCOME		98,941	47,252
Minority interest in the losses of the consolidated entities	29	144	237
NET INCOME FOR THE PERIOD		99,085	47,489
Basic earnings per share (Denars per share)	17	223.1	103.3
Deluted earnings per share (Denars per share)		220.2	

Consolidated financial statements, accounting policies and notes on pages 3 to 31, are approved by the Board of Directors and recommended to the Shareholders Assembly.

Skopje, _____ 2004

Board of Directors
President

Notes comprise an integral part of the 2003 Consolidated Financial Statements
Auditors' report is on pages 1 and 2.

TOPLIFIKACIJA GROUP SKOPJE
CONSOLIDATED CASH FLOW STATEMENT

	2003/02	2002/01
	Den.000	Den.000
CASH FLOWS FROM OPERATING ACTIVITIES		
INCOME/LOSS BEFORE TAXATION	107,624	52,212
Expenses not reflecting the cash flows:		
Depreciation	68,376	72,735
Provision for bad and doubtful trade receivables	44,793	55,740
Income from available-for-sale investments	(65)	0
Reversal of long term provision	0	(24,000)
Income tax	(7,375)	(4,946)
Adjusted net income	213,353	151,741
Trade receivables	(161,474)	(28,518)
Short term financial assets	(5,080)	3,914
Other short term assets and accrued expenses	911	(468)
Inventories	23,527	(21,153)
Trade payables	288	(14,026)
Short term financial liabilities	(11,569)	59,040
Other short term liabilities and prepaid expenses	(2,425)	540
Net cash flows from operating activities	57,531	151,070
CASH FLOWS FROM INVESTING ACTIVITIES		
Increase of available-for-sale investments	0	(15,299)
Decrease of available-for-sale investments	0	6,588
Property, plant and equipment additions	(46,009)	(45,669)
Property, plant and equipment disposals	56	1,350
Net cash flows from investing activities	(45,953)	(53,030)
CASH FLOWS FROM FINANCING ACTIVITIES		
Long term liabilities	0	0
Dividends and management allowances	(33,470)	(57,735)
Net cash flows from financing activities	(33,470)	(57,735)
NET INCREASE/DECREASE OF THE CASH FLOWS	(21,892)	40,305
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF YEAR	58,240	17,935
CASH AND CASH EQUIVALENTS AT THE END OF YEAR	36,348	58,240

Notes comprise an integral part of the 2003 Consolidated Financial Statements
Auditors' report is on pages 1 and 2.

TOPLIFIKACIJA GROUP SKOPJE
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Number of priority shares	Amount of priority shares	Number of ordinary shares	Amount of ordinary shares	Legal reserves	Fair value and other reserves	Consolidated accumulated income	Total capital
Opening balance as at January 1, 2002	21,343	66,122	428,657	1,327,978	12,744	(254,857)	72,805	1,224,792
Fair value adjustments of the financial assets available-for-sale	-	-	-	-	-	(10,261)	-	(10,261)
Paid-in shares during 2002	-	-	-	-	-	-	-	-
2002 Net income	-	-	-	-	-	-	47,489	47,489
Distribution of accumulated net income-part for legal reserves	-	-	-	-	12,739	-	(12,739)	-
Distribution of accumulated net income-part for dividends on ordinary shares	-	-	-	-	-	-	(64,719)	(64,719)
Distribution of accumulated net income-part for dividends on priority shares	-	-	-	-	-	-	(3,222)	(3,222)
Distribution of accumulated net income-part for management allowances	-	-	-	-	-	-	(4,246)	(4,246)
Closing balance as at December 31, 2002	21,343	66,122	428,657	1,327,978	25,483	(265,118)	35,368	1,189,833

	Number of priority shares	Amount of priority shares	Number of ordinary shares	Amount of ordinary shares	Legal reserves	Fair value and other reserves	Consolidated accumulated income	Total capital
Opening balance as at January 1, 2003	21,343	66,122	428,657	1,327,978	25,483	(265,118)	35,368	1,189,833
Fair value adjustments of the financial assets available-for-sale	-	-	-	-	-	9,832	-	9,832
Paid-in shares during 2003	-	-	-	-	-	-	-	-
2003 Net income	-	-	-	-	-	-	99,085	99,085
Distribution of accumulated net income-part for legal reserves	-	-	-	-	13,579	-	(13,579)	-
Distribution of accumulated net income-part for dividends on ordinary shares	-	-	-	-	-	-	(68,988)	(68,988)
Distribution of accumulated net income-part for dividends on priority shares	-	-	-	-	-	-	(3,435)	(3,435)
Distribution of accumulated net income-part for management allowances	-	-	-	-	-	-	(4,526)	(4,526)
Closing balance as at December 31, 2003	21,343	66,122	428,657	1,327,978	39,062	(255,286)	123,927	1,331,891

TOPLIFIKACIJA GROUP SKOPJE ACCOUNTING POLICIES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Basis for Preparation of the Financial Statements

A. Basic presentation

The parent-company has prepared the Financial statements presented on pages 3 to 31, in accordance with the International Financial Reporting Standards 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 revalued by independent appraisers according to their fair market value as at 31. December 1998.

All assets, with their 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 their payment period within one year from the date of the Balance sheet, are presented as short-term liabilities.

The short-term assets are decreased for the amount of the provision for uncollectible short-term assets. The 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, 2003 and 2002, are added one-by-one, as well as, the items of the revenues and expenditures of the income statement for 2003 and 2002;
- second, the balances of the receivables and liabilities as at December 31, 2003 and 2002, 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, 2003 and 2002, and the balances of the part of the equity of 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 2003 and 2002, 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.

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:

	2003	2002
1 EUR=	61.2931 Den.	61.0707 Den.
1 USD=	49.0502 Den.	58,5979 Den.

Principal Accounting Policies

The principal accounting policies adopted for the preparation of the 2003 consolidated financial statements, are consistent with those of the previous year.

D. Sales

Sales at domestic market arising from distribution of the heating energy to households and legal entities that are connected to the existing heating system for 2003, are stated at invoiced value, decreased for VAT, discounts and after elimination of the intergroup transactions, for the

E. Cost of sales

Cost of sales represent all material costs arising during the 2003 year, directly connected to sales after elimination of the intergroup transactions.

F. Revenue from additional activities

Revenues from additional activities during 2003, 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 2003, which are directly connected to revenues from additional activities after elimination of the intergroup transactions.

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

Financing and other income, which are calculated during the year, are shown as revenues, independent from their collection. They are consisted of revenues 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.

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 includes all invoiced but uncollected receivables from the distribution of heating energy.

Full provision was made at 31st December 2003 and recorded as other expenses, for all receivables which are considered to be uncollectable 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.

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. Available-for-sale investments

Available-for-sale investments comprise amounts invested in banks and other companies that represent less than 20% of the bank's or other companies equity. Management of the Group determines them as available-for-sale investments. They are recognized on the trade date at cost.

The distribution part of the net income in the companies is presented as financing and other income in the consolidated income statement.

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 previous reported in the equity is included in net profit or loss.

O. Property, plant and equipment

(1) Basic presentation

Property, plant and equipment (PPE) should be recognized when it's sure that the company possessed them, it is probable that future benefits will flow from it and its cost can be measured reliably.

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

- 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.

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 has been done at 31. December 1998. Due to the low inflation in period ending 31 December 2003, the previous established market value does not yield 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 cost are recognized as expenses as they arise.

(2) Special presentation

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

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, re-payment 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 the minimal rates for depreciation, prescribed by Macedonian law. Depreciation method is according to the constant method.

The basic depreciation rates in use are:

Property	2%
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Plant and equipment	5-14%
Furniture	8-20%
Means of transportation	16%

P. 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.

Q. Loan liabilities

Loan liabilities represent short term and long term loans 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.

R. Income tax

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

S. Equity

The equity represents the permanent working capital of Toplifikacija Group Skopje. It includes its shareholders capital, other resources, reserves, accumulated income and appropriated revaluation reserve.

Accumulated income comprise of all retained earnings at the date of the balance sheet.

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

T. Reserves

Legal reserves represent funds formed by compulsory distribution of 15% of the net income. The company's obligation for annual contribution to the reserves will not stop until the reserves reach an amount equal to one-fifth of its basic capital. The reserves may be used for covering losses.

LIST OF PARTICIPANTS

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the Patron of the Quotation

KB Broker - AD Skopje
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SIGNATORIES OF THE PROSPECTUS

Signatories of the Prospectus

June 10, 2001 Skopje

Toplifikacija AD Skopje

Supervisory Board

Delidinkov Grozdan
President

Iliev Dane
Member

Hristu Nikolas

Member

Cekovski Branko
Member

Kovačevski Zoran
Member

Toplifikacija AD Skopje

Members of the Board of Directors

Dr. Hadži Mišev Dimitar
President

Pocev Eftim
Member

Ninevski Gorgi
Member

Makenaxiev Dragan
Member

Kirovski Hristo
Member

Boškova Sova
Member

Alfons Veta
Member

Patron of the Quotation

Broker House-KB-Broker AD Skopje

Kolev Zoran
Director