



Macroeconomic Overview, the Republic of Macedonia

Population	2,035,000
Households	569,943
GDP (million denars)	264,599
GDP (\$, million)	\$5,072
GDP/capita (denars)	122,159
GDP/capita (\$)	\$2,443
GDP growth / drop	2.9%
CPI	99.6
Inflation rate (average)	-0.4%
Cost of living index	28
Unemployment rate	37.6%

* Source: Ministry of Finance; NBRM; IMF; Strategy and BD Area estim.

annual report

04

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The page features a light gray background with several overlapping, thin, light gray circles. On the right side, there is a large, semi-circular inset with a blue border, containing a photograph of a blue sky with white clouds and a blue ocean. The text 'About MT' is written vertically in a light gray, italicized font across the center of the page.

About MT



Success.

*We have the capability to achieve deeds;
we have the possibility to create a bright future.*

About MT

AD Makedonski Telekomunikacii

Makedonski Telekomunikacii is the leading national telecommunication operator providing public telecommunication services in the Republic of Macedonia. As a modern, professional company it follows the latest worldwide technological and market offer trends, serves its customers via a comprehensive scope of telecommunication services: telephony services, telegraph and telex services, public pay-phone services, leased line services, mobile telephony services, data transmission services, value added services, directory services, VSAT and other satellite services.

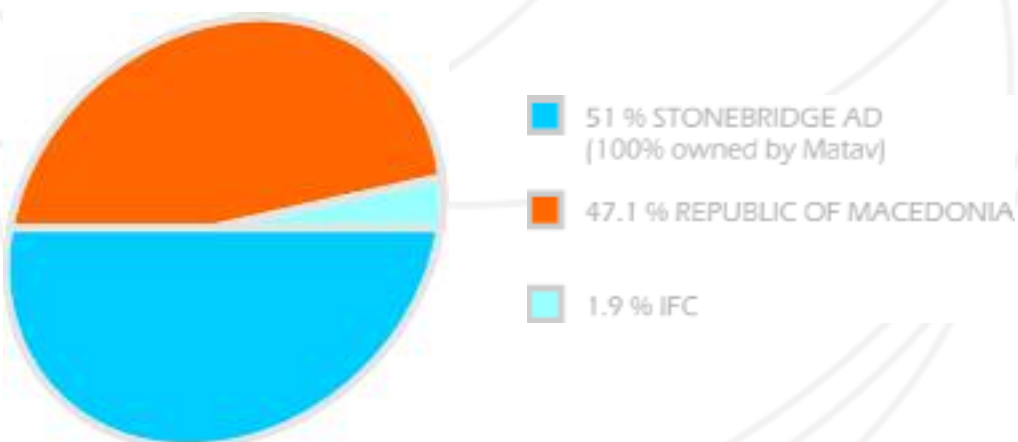
In 1997, AD Makedonski Telekomunikacii, separated from the company PTT Makedonija and became an independent telecommunication service provider. In 1998 the company was registered as a joint stock company under state ownership in order to prepare itself for forthcoming privatization. In 2000 the Consortium led by the Hungarian Telecommunications MATAV purchased

51% of MT's shares, thus becoming a dominant owner of the company.

MT is constantly focusing on achieving operational and functional excellence, to undertake value-added activities in order to improve the effectiveness of the company and answer the customers' needs and demands in an optimal way. In such a way the company prepared for the market opening and competition.

Ownership Structure

The shareholders of AD Makedonski Telekomunikacii in 2004:





Letter to the Shareholders

The page features a decorative graphic consisting of several overlapping, thin, light-gray circles on a white background. On the right side, there is a circular inset window showing a landscape with green trees, a red-roofed building, and a blue sky with light clouds. The overall design is clean and modern.



*We have a clear vision.
We have a strong mission.
We have determined goals.*

*We have the capability to achieve deeds;
we have the possibility to create a bright future.*



Letter to the Shareholders

Letter to the Shareholders

Dear Shareholders, Partners, Customers, Colleagues,

2004 was a challenging year for our company; full with the crucial steps that we have had to undertake in order to retain the sustainable growth and stable results of the company. We had to overcome many difficulties to succeed again to deliver the outstanding EBITDA margin of over 50 percent, to prepare the company for the liberalized market conditions, to bring benefits for our shareholders, our customers and our employees.

We were clearly focused on transforming our company as the leading telecommunication operator in Macedonia, into a customer-oriented, market-driven one. We concentrated on creating a company which is a respected player in the Macedonian economy and appreciated partner of society. Our company is continuously improving in every sphere of its operation; we look for top excellence in our every action. We are harmonizing the goals of our customers, shareholders, and employees driving towards ever greater success. We strive to be a highly professional company continuously seeking new business opportunities.

2004 was a great preparatory year for the company, in many segments: we created a new organizational structure oriented towards quick, flexible, effective, result-oriented organization. We are building an organization capable of being and acting professionally and determined in its overall operation in order to maintain its positive performance and make a valuable contribution to the success of the Matav and DT Group.

The decrease of the revenues from domestic usage was mainly due to the worsening of the economic environment in the country. In 2004 the sliding movement of the Macedonian economy hit almost all busi-

nesses within the country; the foreign direct investments were low, as well as GDP growth and unemployment caused the decrease of the population's purchasing power. Due to effective programmes, even in this difficult environment, MT succeeded to deliver the EBITDA and the EBITDA margin accepted and approved by the shareholders as an outstanding achievement of an excellent team.

The regulated prices changes, so-called rebalancing, in 2004 included changing the tariff model from the existing pulse-based to time-based billing model; this was in line with the company's long-term tariff policy, and in line with staying committed to customers' needs.

Showing the company's sensitivity and understanding for citizens living under difficult circumstances, in five different tariff packages, which were introduced onto the market, MT successfully harmonized the real customer needs and its business interests.

The Macedonian telecommunication market as part of European and global communication markets follows the universal development rules and standards. The start of the preparations for the new regulatory framework began in 2004 and a New Telecom Law was to be expected in 2005. Although there was no legal framework for liberalization, 2004 was crucial for MT's preparation for upgrading of the network and restructuring of the company.

The Road to Success programme was the leading corporate project of the company. MT with the help of this change management programme made the first significant steps to establish a customer-focused, market-driven and process oriented operation.

The main goals were also to improve efficiency and competitiveness, to increase the satisfaction of the customers, shareholders and employees, and to create a constructive corporate culture.

At the same time with the restructuring of the company, not only the units and areas, but also the processes and procedures were revised and optimized. In terms of the huge effort made to create the new organization this represents a great achievement since the company was able to successfully manage the everyday operation.

The "Lean Management" programme was inevitable in order to optimize the company's human resources for a more efficient operation. The company and the Trade Union formed a joint committee to elaborate the financial conditions being offered for those employees who left. The severance payment was up to international standards and offered them a good opportunity to start a new life and set up their own businesses.

In 2004, in order to improve the quality and range of services offered as well as customer relations the Sales and Customer Care was among the key focuses. MT permanently takes care of its customers providing them with the highest quality and up-to-date services. MT introduced many new services considering the market needs and customer expectations among which were the ADSL, Metro Ethernet and pre-paid services. Since the computer and the Internet penetration slightly improved the Internet usage increased. MT kept its leading position in the Internet dial-up access, and remained the only provider of ADSL service on the market.

AD Makedonski Telekomunikacii aims to maintain its network at an optimal technological level in order to be able to provide an appropriate platform for a wide range of products and services based on existing and

future customer demands. All Concession Contract requirements for 2004, regarding network quality parameters and service provisioning, have been met. The network quality has been significantly improved over the past few years as a result of the investments made in the network's modernization.

As an integral part of the social and economic framework of the community in which it operates, Makedonski Telekomunikacii responds to the needs and expectations of society in general. MT besides achieving significant success in its business wishes to share the benefits of this with its customers and business partners and with the citizens of Macedonia, through its sponsorship and donation activities. In 2004 AD Makedonski Telekomunikacii established the "e-Macedonia" Foundation to honour the tragic passing away of the late President of the Republic of Macedonia, Mr. Boris Trajkovski, with the goal to further develop the information society.

Dear Shareholders, Partners, Customers, Employees: We will continuously do our best to deliver good results and demonstrate excellent performance in the years to come.

Sincerely,

Attila Szendrei,
Chief Executive Officer of MT

Road to Success





Success.

Run it. Committed we run our Road To Success.



Road to Success

Our Road to Success

The Road to Success programme was the leading corporate project of MT, started as the essential change management programme. The goal of this giant programme was to establish a customer-focused, market-driven and process-oriented operation. The key targets of it were also to improve efficiency and competitiveness, to increase the satisfaction of the customers, shareholders and employees, and to create a constructive, open corporate culture.

The programme offered an excellent platform for sharing the best practice and know-how experience of Matav and Deutsche Telekom, combined with Macedonian potential. The biggest challenge for all of us was to understand the changes, to implement them within our day-to-day operations, to improve ourselves, thus improving the company and benefiting the shareholders, the customers and the employees.

At the end of 2004, we are proud to announce that we have succeeded in fulfilling the planned goals of our Road to Success, that we have created and adopted the new vision and mission of the company, striving to reach the best solutions and results. We are proud to cascade the new vision within all areas in the company, that we have succeeded in finding the way to shape our future.

As the result of our Road to Success, we have also created the special operational improvement programme, reviewing all the company's processes and activities, finding the solutions with which our company will achieve the top excellence.

We have also adopted a new, more efficient organizational structure, which will be implemented at the beginning of 2005.

We "ran" our Road to Success, but we remain committed to bringing a brighter future for the wellbeing of all - the shareholders, the customers, the employees, the citizens of the Republic of Macedonia.

Road to Success in figures

	<i>Before R2S</i>	<i>After R2S</i>
Headcount	3117	2406
Number of org. units	257	131
Number of Managers	328	142
Number of organizational levels	6	5
Increased ratio of:		
Line/ Employee		+32.5%
Revenue/ Employee		+20.3%
EBITDA / Employee		+19.5%
Net Income/ Employee		+28.1%



Road to Success Major goals of the programme



Prepared for the liberalization

The Macedonian telecommunication market as part of European and global communication markets follows the universal development rules and standards. Start of preparations of new regulatory framework began in the second half of 2004, and New Telecom Law was introduced in February 2005.

MT established the Libero project at the end of 2003 as an umbrella project for company preparations for liberalization and competitive market.

Although there was no legal framework for liberalization, the year 2004 was crucial for MT's preparation. Implementation of the necessary liberalization steps were started as upgrade of the network, restructuring the company and preparation for introduction of the new products and services.





Our Vision

To become/achieve:

- *Customer-oriented, market-driven company as the leading telecommunication operator in Macedonia*
- *Respected participant in the economy and society*
- *Continuous improvement in every sphere of our operations*
- *Harmonized goals of our customers, shareholders, and employees driving towards ever greater success as we build a better image, partnership and develop our wider role as a good corporate citizen*
- *Highly professional company continuously seeking new business opportunities*



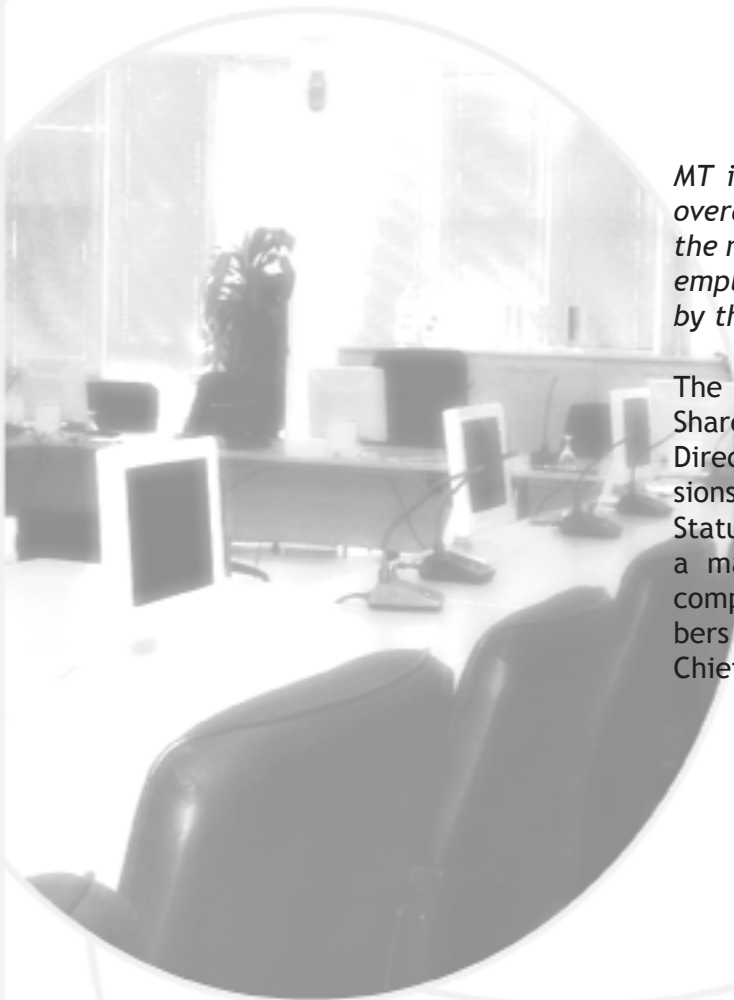


*Success.
We have a clear vision.*

MT Board of Directors

MT Board of Directors

Committed towards success



MT is fully committed towards bringing overall success to the company, satisfying the needs of customers, shareholders and employees. All MT activities are driven by this principle.

The management bodies of MT are the Shareholders' Assembly and the Board of Directors. In accordance with the provisions of the Shareholders' Agreement and Statute of MT, the Board of Directors has a managerial, leading function, and is composed of nine non-executive members and one executive member, the Chief Executive Officer (CEO).



Dejan Mickovik, Ph.D.

CHAIRMAN of the Board of Directors of MT

Representative of the Government of the Republic of Macedonia. Non-executive member of MT Board of Directors since October 2004.



Tamás Morvai

Non-executive member of the Board of Directors of MT

Representative of Stonebridge AD Skopje. Member of MT Board of Directors since February 2004.



Gavriilo Dzikovski

Vice Chairman of the Board of Directors of MT

Representative of the Government of the Republic of Macedonia. Non-executive member of MT Board of Directors since December 2002.



Zoltán Kisjuhász

Non-executive member of the Board of Directors of MT

Representative of Stonebridge AD Skopje. Member of MT Board of Directors since November 2004.



Asan Jakupi

Non-executive member of the Board of Directors of MT

Representative of the Government of the Republic of Macedonia. Member of MT Board of Directors since December 2002.



Zoltán Tiszai

Non-executive member of the Board of Directors of MT

Representative of Stonebridge AD Skopje. Member of MT Board of Directors since August 2004.



Snezana Ivanovska

Non-executive member of the Board of Directors of MT

Representative of the Government of the Republic of Macedonia. Member of MT Board of Directors since March 2004.



Rolf R. Plath

Non-executive member of the Board of Directors of MT

Representative of Stonebridge AD Skopje. Member of MT Board of Directors since February 2004.



Wolfgang Hauptmann

Non-executive member of the Board of Directors of MT

Representative of Stonebridge AD Skopje. Member of MT Board of Directors since April 2003.



Attila Szendrei

Executive member of the Board of Directors of MT

Representative of Stonebridge AD Skopje. Member of MT Board of Directors since September 2002.

Our Mission

To become a dominant and market-oriented company in the domestic and regional telecommunication industry by providing quality communication products and services within a three-year period. We will achieve this by:

- *Streamlining our coordination at the highest level to the greatest satisfaction of our customers, shareholders and employees*
- *Strengthening of our financial position while continuously focusing on the company's profitable growth (Revenues, EBITDA, NI)*
- *Constantly improving our products and services, our employees' knowledge and performance, our internal functioning*



From left to right: Ognjen Firfov, Siljan Roglev, Rolf R. Plath, Attila Szendrei, Thomas Koenye, Márton Halasi, Kiril Trendafilov.



*Success.
We have a strong mission.*

МАКЕДОНСКИ
ТЕЛЕКОМУНИКАЦИИ



MT Management Committee

Management Committee of AD Makedonski Telekomunikacii

2004 was marked as a year of the greatest challenges on our "Road to Success" - restructuring of the company to establish real customer orientation, preparation for the liberalized market, maintaining and developing cost efficiency and good performance, to create value for customers, shareholders and employees and contribute through our activities to the development of the Macedonian economy and improvement of the quality of life of Macedonian citizens.

The Management Committee of MT has the authority delegated by the Board of Directors as well as authority regarding the day-to-day activities of MT's operation, in order to ensure accuracy and efficiency in the functioning of the Company.

Members of the Management Committee at the end of 2004

Attila Szendrei, Chief Executive Officer

He has a Bachelor's Degree in Technical and Economical Engineering, and extensive experience in the large companies as Videoton and Zwack Unicum. Mr. Szendrei joined the Matáv Group as the Chief Executive Officer of MatávKabelTV. He has been the Chief Executive Officer and the executive member of the Board of Directors of Makedonski Telekomunikacii since 2002. His main task is to lead the company through change management programmes to face successfully the liberalization and the new challenges.

Rolf R. Plath, Chief Financial Officer

He has a university degree in Business Administration and he started his career in the Deutsch Sudamerikanische Bank AG in Hamburg, Sao Paulo and Mexico City. Mr. Plath joined T-Mobile of Deutsche Telekom in 1996 working in, Bonn and Beijing, China, and afterwards he acted as a consultant to the Chairman of the Board of DT in Bonn. After his jobs as Senior Director for Business Development and as Vice President for Corporate Finance in T-Mobile International AG&Co.KG, Bonn, he joined MT in 2004 as Chief Financial Officer, responsible for managing the financial stability and efficiency of the company.

Siljan Roglev, Chief Technical Officer

Mr. Roglev is an electrical engineer, his main working experiences are in the field of telecommunications. Since 1984 he has been working in different managerial positions within MT. Before coming to his current position Mr. Roglev was Director of the Total Quality Management Department in MobiMak. Since 2003 he has been the Chief Technical Officer of Makedonski Telekomunikacii responsible for maintaining and improving the advanced technical development of the company.



Márton Halasi, Chief Human Resources & Administration Officer

He holds a Bachelor's Degree in Telecommunication Engineering and Master's in Wireless Telecommunications, Teaching of technical subjects and Sociology. Managing the human resources, he has accumulated experience with Samsung Electronics Company, the ING and Commercial and Credit banks in the position of Chief HR Officer where he worked for more than 13 years. Mr. Halasi was assigned as the Chief Human Resources and Administration Officer in Makedonski Telekomunikacii in 2003, responsible for effective management and development of HR resources.

Thomas Koenye, Chief Marketing Officer

Mr. Koenye holds a double Masters of Art in Finance and Marketing. His career has been internationally built. He joined the world's leading food company Nestle in 1992, and subsequently worked in France and Switzerland. From 1996 he became the managing director for Nestle in Croatia and Bosnia-Herzegovina and in 2000 was promoted Managing Director for the region of former Yugoslavia. In 2003 moved to Paris, France to head the Export department and manage the French Overseas territories. He joined MT as Chief Marketing Officer in 2004 with the goal of strengthening the company's customer orientation.

Kiril Trendafilov, Business Executive Director of MTline

He has an MBA and a Bachelor's Degree in Electrical and IT Engineering. Mr. Trendafilov has acquired extensive working experience firstly in Zastava. He joined MT in 1999 as Regional Centre Director of Ohrid, and afterwards was promoted as Chief Operating Officer of MT. Since 2002 he has been the Executive Officer of MTline responsible for the fixed telephony segment, as well as in the part of the customer care and sales.

Ognen Firfof, Business Executive Director of MTnet and MTcom

He holds a Bachelor's Degree in Electrical Engineering - Computer Science, Master's Degree in Computer Sciences and MBA in Marketing. After working as a programmer and system engineer in the telecommunications sector, he was appointed as Director of the MTnet line of business in 1998. With the increasing significance of the internet segment, in 2001 he was appointed as Executive Director of MTnet. In 2004 he held the position of the Executive Director of MTcom, responsible for managing the business segment of the MT customers.

MT Organization Structure

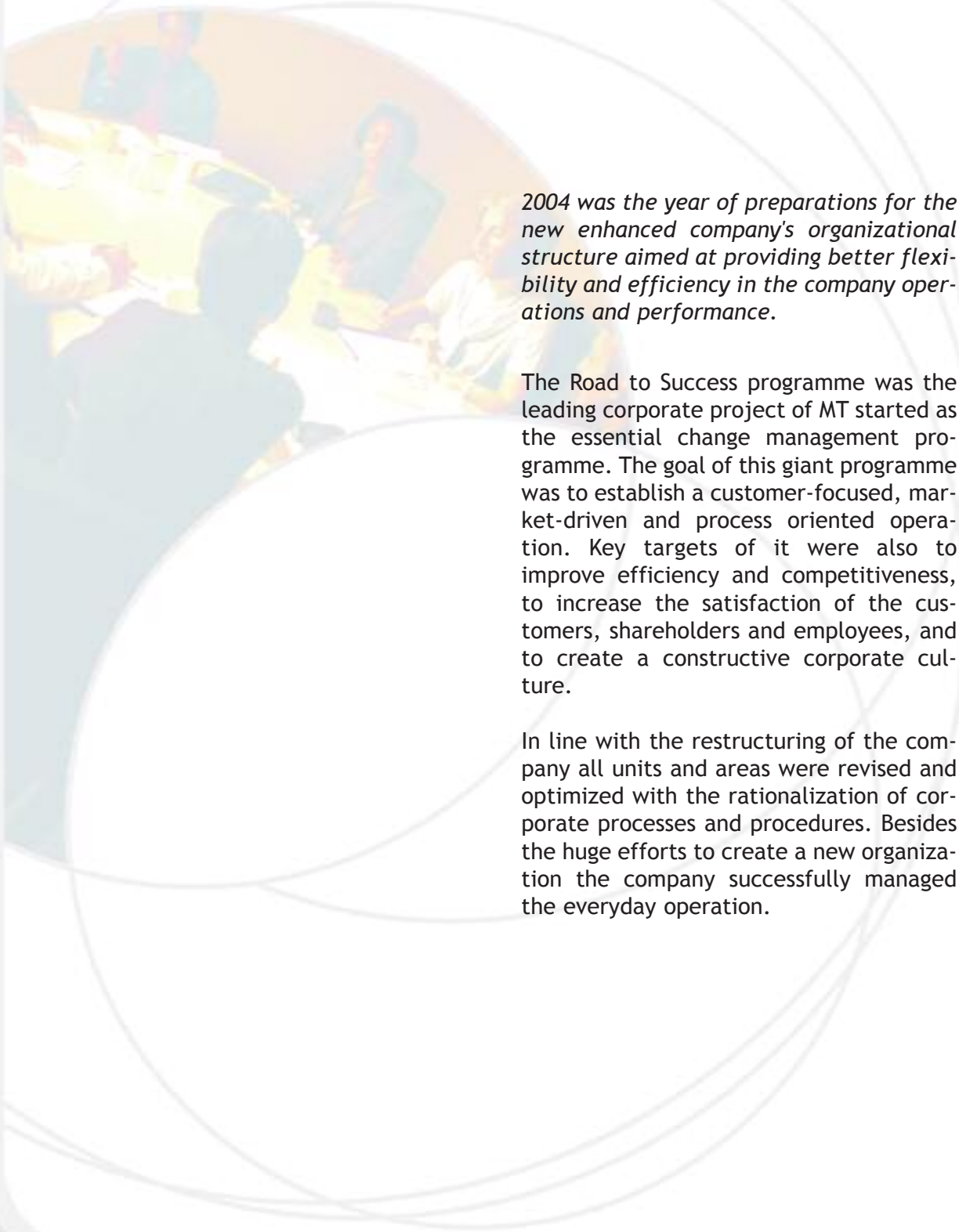




*Success.
We have determined goals.*

MT Organization Structure

Organization towards better flexibility and efficiency of the company

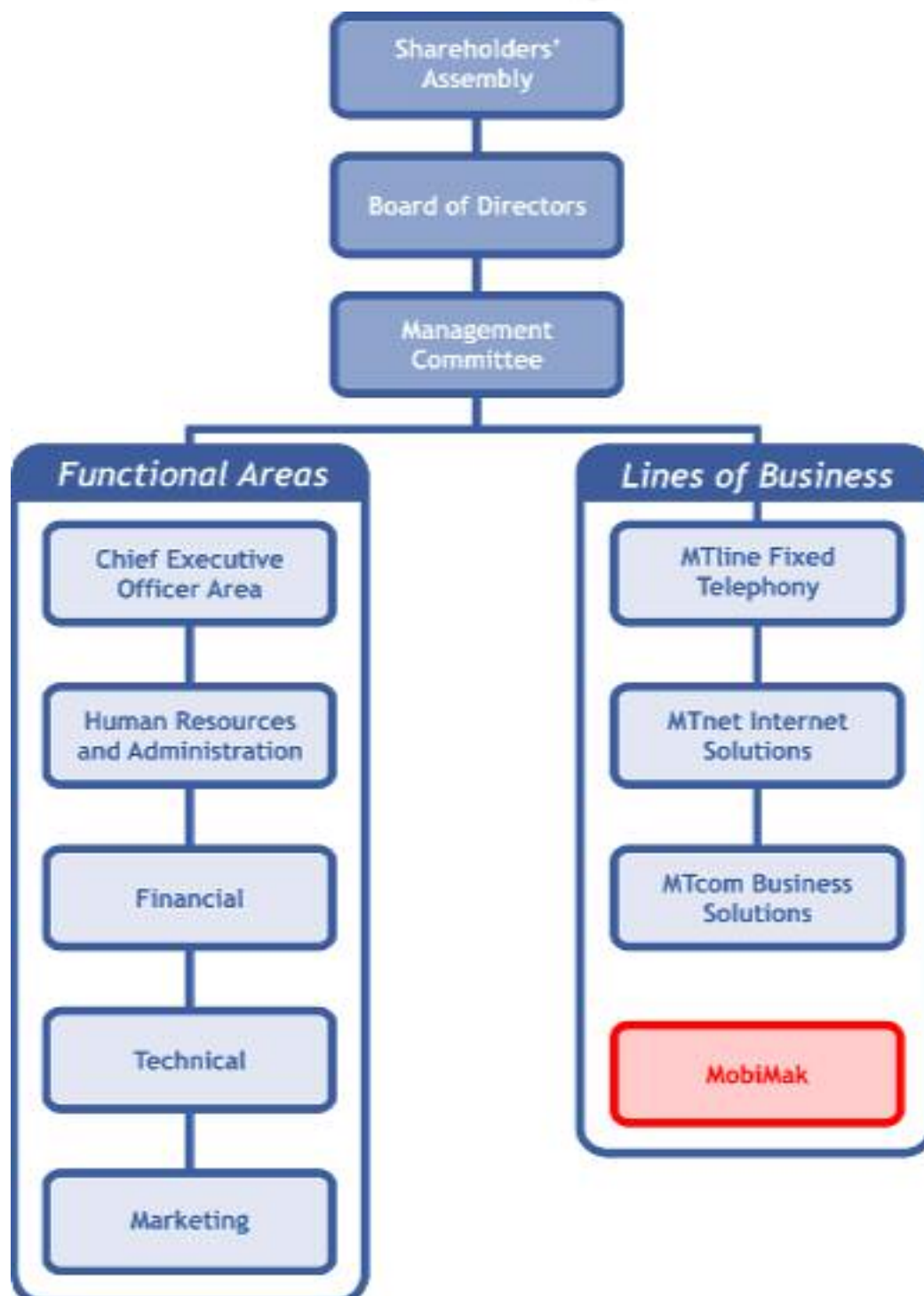


2004 was the year of preparations for the new enhanced company's organizational structure aimed at providing better flexibility and efficiency in the company operations and performance.

The Road to Success programme was the leading corporate project of MT started as the essential change management programme. The goal of this giant programme was to establish a customer-focused, market-driven and process oriented operation. Key targets of it were also to improve efficiency and competitiveness, to increase the satisfaction of the customers, shareholders and employees, and to create a constructive corporate culture.

In line with the restructuring of the company all units and areas were revised and optimized with the rationalization of corporate processes and procedures. Besides the huge efforts to create a new organization the company successfully managed the everyday operation.

At the end of 2004 MT was functioning according to the following organization:



From 17 January 2005, new organizational structure was implemented within MT.

Fixed Telephony





*Success.
Talking about it. Call for the future.
Satisfy through quality.*

Fixed Telephony

Fixed Telephony

MTline was responsible for the management of the residential and SME customers in the fixed line market. In 2004, in the year of restructuring of the organization the main intention was to create strong commitment for customer orientation, the Sales and Customer Care segment was strongly supported by International Carrier Relations, Controlling and Technical Support. In 2004 the Sales and Customer Care concentrated on improving the quality of services and the customer relations.

During 2004 MTline developed further the Direct Sales agent network. One-stop shops were created to make the customer's life easier with a full "one-stop" service.

In the Republic of Macedonia MT is the sole provider of basic telephony services in national, long-distance and international traffic, including ISDN services, additional services, and public payphones. MT permanently takes care of its customers providing them with the highest quality and up-to-date services. MT has implemented, amongst its new services, the pre-paid fixed telephony. In 2004 MTline connected about 12,000 new PSTN and 3,500 new ISDN subscribers.



MT undertook large preparatory activities in order to reach a level of higher adaptability to technological changes and to meet customers' needs. In this direction, MT becomes innovative in creating and offering new services in accordance with customers' needs, in order to fulfil the business plan of the company. During the year additional services were introduced such as the Voice Mail and the Tariff packages.

Customer care

The Call Centre enlarged its scope of servicing, functioning as the contact place for all customers, from where they can get all the required information by just calling one number - 971. Furthermore the Call Centre started new activities with promotions and direct sales via phone, and in such a way the area was involved as a support in many company actions and projects.

The Call Centre provided information about products and services, bills, handled complaints, promoted new products and services; executed market researches; gave notes and announcements to non-paying customers; collected subscribers' data.

The main goal for the Call Centre is to become a synonym for one contact point for all our customers. We are proud to announce that the field achieved great results and the customer feedback was very positive.

The service for registering faults in the network and services - 977 - has the main task of accepting complaints from the customers and giving them feedback

information. During 2004 this service was centralized within the Call Centre, too. The scope of the department for registering faults, was widened with providing calls to the customers with information for estimation about the solving of the fault; checking the customers' satisfaction of the repair of the fault; making appointments with the relevant department in case of an unavailable customer or disputable fault.

In 2004, the 988 operator enriched its services with new contents and a new way of serving the customers, and it became a positive example which could be measured with European operators.

International telephone traffic

International telephone traffic from Macedonia to the world is organized via direct links to 23 countries with more than 30 destinations.

Nine percent (9%) of the international telephone traffic is provided via satellite links, while the rest of the traffic is realized via optical fibres. With each neighbouring country, MT has achieved a large capacity of international trunks, providing links with telecommunication networks in Europe and with other countries of the world.

Major projects and programmes realized in 2004: Geneva IAA/IC Interconnect Billing started to work from September 2004; Xsense System for monitoring the international traffic started to work in January 2004.

The number of international operators with direct international capacities with MT at the end of 2004 was 29.

Internet





Success.
*See it. See the world at your fingertips.
Get connected ...*

Internet

Internet segment

Get connected ...

2004 was the year of fast Internet, the year of ADSL.

MT is making strong efforts to enhance the awareness of the importance of the Internet and its benefit to society, that users in the Republic of Macedonia may experience, as well as the Internet applications support, especially those that support the financial, cultural and social development of our society.

In 2004 the Internet service portfolio of MT was offered to the market by its business unit MTnet which was established in 1995. Since its founding MTnet is the biggest and best quality internet provider in the Macedonian market, following the latest trends in the field of Internet, and offers its customers the possibility to access via leased line, or dial-up access, WEB services (hosting and design), as well as software solutions for support of the operations in the health, insurance, education sectors.

Always ready to support and implement new technologies and bring to its customers an up-to-date service, at the end of 2003 MT introduced the fast internet service ADSL, and we can proudly say that 2004 was the year of ADSL, a service which has importance not only for the residents, but also for the benefit of modern business.

ADSL

ADSL - standing for Asymmetric Digital Subscriber Line - is a technology which provides high-speed broadband data access over an ordinary telephone line. The subscriber from now on can receive data faster than he can send them. Accordingly, it is perfect for Internet

access where typically small packets are sent into the Web in order to retrieve large amounts of information from the Web. Other services that can be provided with this technology are video on demand, voice over DSL, etc.

Three ADSL fast internet packages (Hobby, Office and Profi) were offered to the customers: one for residential users and two for business users. Stressing the benefits of ADSL we said on www.adsl.com.mk: 14 times Faster Internet access than Dial up, constant connection and flat rate charging.

During the summer period the special ADSL summer campaign was organized in order to promote the special summer offer, modified packages, discounts, and at the same time to develop public awareness for the ADSL service emphasizing the main benefits of it.

Dial-up

In post-paid dial-up access the campaign for the Surfer package was launched in order to emphasize that the latest price model changes did not affect the Surfer offer in any way, and to instil customers with confidence, as Surfer is the cheapest offer on the market - below the level of the local tariff - 1 den/min.

Regarding pre-paid internet, the new eCard concept showed the transition from pure pre-payment of MTnet's Internet service into pre-payment for any MTnet, or third party services/product. This means that with these new eCards the customers could buy not only Internet hours at the same price, but many other new and existing Internet value added services such as: Mail2SMS; Web2SMS; Web2MMS; InfoSMS; SMS packages for advertising third parties; Ordering via

Web, etc. The aim of this campaign launched in 2004 was not only to increase the basic number of customers and initiate new customers by improving customer satisfaction with this improved modern eCard (value added services), but also to generate interest in sales and purchasing of various goods/services on-line.

MTnet as the biggest and the best quality Internet provider in the Republic of Macedonia covers over 65% of the market, and is the solely provider of ADSL service.

Idividi

Regarding the web content solution, at the beginning of 2004, MTnet launched a new electronic newspaper - the redesigned daily internet news portal. The new, redesigned Portal www.idividi.com.mk has a fun and educational content in order to entertain the viewer. The redesigned Portal is a plurality (cluster) of information, 24 hours service for news, offering exclusive news, fun contents and interactivity, local info, daily calendar of events, pictures and much more, arranged with simple navigation. This redesigned Portal was introduced into the market in order to keep already existing and to attract new viewers. Do not wait for us to tell you what is it about, just 'go-and-see' - www.idividi.com.mk.

The Sales network of MTnet ensures direct sales of MTnet products and services - in MT shops, in MTnet corners, in 17 MobiMak shops, on the whole territory of the Republic of Macedonia or via indirect sales of eCards through dealer's networks.

IDIVIDI.COM.MK

-30%

Имаш ли свое hobby

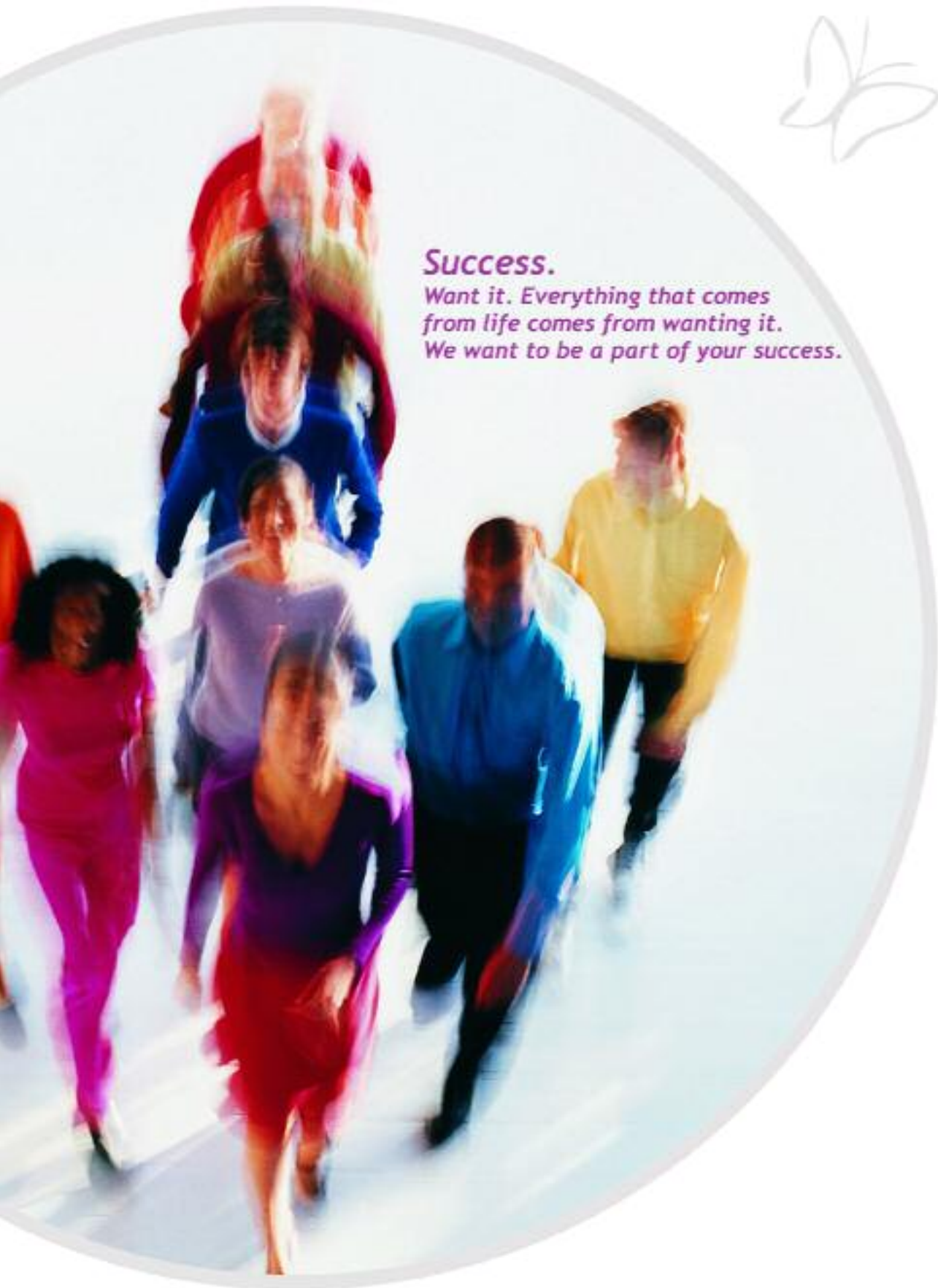
ADSL ЛЕТНА ПОНУДА !

line
почна цена
онет
... до 20.000 ден.

- БЕСПЛАТНО проба!
- Гратис Anti-Virus и Anti-Spam зашт
- Гратис e-mail адреса
- БЕЗ ТЕЛЕФОНСКИ ИМПУЛС

Business Segment





Success.

*Want it. Everything that comes
from life comes from wanting it.
We want to be a part of your success.*

Business Segment

Business segment

"We create the business solutions where technology, people and business converge"

Communication solutions are key factors for any business success in today's dynamic environment and circumstances of continuous technological development. Thereby, MTcom provides communication solutions suitable for satisfying the specific requirements of our customers. MTcom ensures our corporate clients keep pace with the most contemporary world trends in the field of telecommunications, Internet access, electronic commerce, while the applicability of the suitable convergent solutions enables maximum exploitation of the customer's regular resources and diminution of the necessity for new investments. Integrated services transformed into optimal communication solutions mean increased productivity.

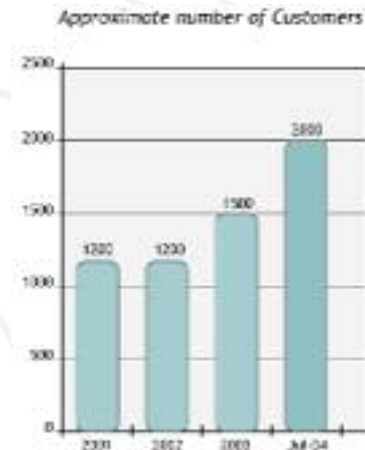
MTcom, the business unit of Makedonski Telekomunikacii was established at the beginning of 2001 with the aim and vision of becoming the leading system integrator in Macedonia, committed towards serving key business customers.

For this purpose MTcom, during 2004, continued to integrate the overall knowledge of the business processes with the leading IT and telecommunication standards, thereby founding the basis for development, implementation and management of the high performing business solutions tailored according the specific needs of our customers, and thus optimizing the everyday processes, decreasing costs, helping customers improve their work and increasing the quality of the services.

Since its first steps, MTcom has been working with large business customers and with state institutions. Still, the number of customers of MTcom differs from year to year.

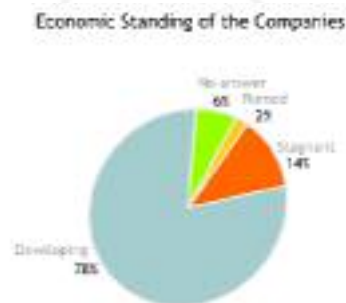
The number of the customers over the years is constantly increasing, as shown:

Chart 1. Number of MTcom's customers (large business and governmental).



Source: MTcom internal data

During the summer of 2004, the market potential was analysed, including the big enterprises and SOHO businesses. Based on the answers of the managers of the involved companies, as shown in Chart 2, MTcom projects the further development of this market segment.



Source: MT market analysis, June/July 2004

In 2004 MTcom introduced the offer for a new high speed data service - Metro Ethernet. This service provides the connection of several locations of the large companies within the Metro area.

Referring to the bundle offer of the Integrated Solutions at the beginning of 2004 two large conferences were held for the key customers, where the full portfolio of MTcom services was presented as well as the exhibition of the offered telecommunication and IT equipment. Also, within the programme for developing the

partnership relation with the key customers, MTcom has organized the visit of the biggest telecommunication trade fair Cebit in Hanover. Additionally at the Macedonian exhibition Infokom 2004 MTcom presented its solution for integrated services, IP VPN, Methrocom as well as wireless solutions and business applications for the business public. In 2004 MTcom offered its customers: IP Virtual Private Networks based on MPLS technology, solutions for security of the data flow within the networks, possibilities for using the Quality of Service mechanism, the possibilities for using Traffic Engineering mechanism, MPLS technology for the VPNs of second level of OSI model (emulation of Ethernet, FR, ATM).

MTcom has the advantage of using the telecommunications infrastructure as an asset to offer all the telecommunication services from MT's service portfolio to the corporate and public market sector. It also has the opportunity of using high level technical expertise to develop complex business solutions that integrate high speed data, voice and video. In addition, MTcom offered sophisticated communications equipment as well, whilst providing technical support and maintenance for the implemented projects. In order to increase MT's services and equipment sales, during 2004 MTcom launched the Special Offer, as the continuation and necessary improvement of the Integrated Solutions Campaign.

The main reason for introducing the discounts and instalment payment in the case of equipment and access sales is to provide new payment tool for customers, with the purpose of increase sales results and establish good business relations with more customers based on understanding of their needs. The offer of voice services consisted of PSTN, ISDN2 or ISDN30 lines, bundled with communication equipment.

Within the organizational changes, in 2004, MTcom started its restructuring into the Business Centre for Key Customers, which should represent one contact point for the

large customers and the state institutions, thus providing all services from MT portfolio targeting the business segment of the customers.

Within the plans for 2005, the Business Centre for Key Customers will be focused on the enlarging the MT participation in the system integration services market, by providing the "traditional" and "untraditional" telecommunication services and products. Via this Centre, MT will provide optimized solutions, tailored according to customers' needs, which integrate voice, data, Internet services, and the telecommunication and network equipment.

Furthermore, the part of the Business Centre for Key Customers is directed towards:

- Concentrating on larger and more complex solutions, which will show the customers the benefits of choosing MT as their partner - wide and various service and product portfolio, high quality and care for its customers.
- Developing the cooperation with other system integrators and subcontractors. The Business Centre for Key Customers will choose the most convenient partners for each project separately, and will also create strategic partnerships in order to increase MT's presence and participation in the Macedonian market.
- Developing MT's portfolio towards data and IT solutions. The importance of these services and solutions is increasing, and MT shall make its efforts to become recognizable also as IT solutions providers, in addition to the leadership in providing the communication solutions.

Mobile Telephony





*Success.
Take it wherever you go.*

Mobile Telephony

Mobile Telephony

Our modern age cannot be conceived without the need for prompt communications and accessibility. Mobile telecommunication is an essential part of human existence in today's modern society. MobiMak's philosophy remains the same - to meet the most dynamic communication needs of our modern customer.

We remember and develop the enriching experiences of our clients, our customer-oriented philosophy, and our commitment to continuously developing towards our goal: to create inspiring moments for our customers.

OPERATIONS REPORT

2004 was as the year before a year of extensive market challenges and important business achievements for the Managerial Team of MobiMak. MobiMak's results in the past year come from our continuous investment in the quality and the variety of the services the company offers, their fine-tuning in accordance with the needs of our users, our dedication to the wishes and tastes of the clients, our implementation of the highest operational standards, and the joint collaboration and concern for the employees.

Our motto 'Customer First' has successfully improved our customer trust and continued to expand our customer base. We have taken a step closer to our public, providing them with a more cost-effective, time effective and better quality service than ever before. Expansion of existing services such as increasing accessibility to over 87 countries in the world thanks to more than 193 roaming partner operators is another demonstration of our drive to provide an unbeatable service and maintain competitive advantage.

The achievements of last year are attributed to many factors. The constant implementation of modern technologies,

improvement of current services and development of modern managerial practices are our secrets to success. With last year's promoted GPRS and MMS service, the multi media possibilities are verifying MobiMak's rise to the level of renowned European mobile operator not only in terms of quality, but in terms of services offered. By implementing the latest world Information Technology solutions in the country, MobiMak is making a significant contribution towards the improvement of Macedonian market in general.

Our success is based on our ability to transform mobile telephony from a luxury to a need, and we can substantiate this statement by the fact that a quarter of the Macedonian population are our loyal customers. MobiMak covers 99% of the population and more than 95% of the territory of the Republic of Macedonia with a GSM signal. Even the most inaccessible locations are covered by our signal. The ever-increasing subscriber numbers and their demands drive an intensive growth and ever-increasing network capacity. Communication services are needed by everybody, so we strive to make them universally accessible.

With the desire to come even closer to our customers, MobiMak has opened new sales locations, we have built a system according to which the service of the telephones functions perfectly in the framework of the company and increases the number of the distributors MobiMak stores.

MobiMak is proud to own one of the most capable, largest, strongest, and most successful sales networks in Macedonia.

Possibly the accomplishment that we are especially proud of is our continuous success in a competitive market environment. We are proud and happy at the same time for our competitive results. We are proud of the fact that through the consistent



implementation of our long-term strategy, MobiMak has exceeded our targets for the acquisition of new customers and has proven to be the leading mobile operator in the country.

The MobiMak team, taking care of the communication and public relations consists of young, creative, dynamic people with a worldly view and a rich spectrum of knowledge. Our winning qualities are pro-activity, originality, creativity, dynamics, transparency, creative exchange, teamwork, 24 hour dedication and quality in each operational segment.

We directed the power of the company in a great variety of activities realized during 2004, at the same time introducing new contents in the citizens' every day life, paying special attention to aspects such as humanity and mass interest. The following projects were key milestones of 2004: the humanitarian Race on Wheels, the Mobi Day; The Skopje Zoo Project; M2 Project; New Year's celebration party for the Skopje citizens. 2004 saw the announcement of the results from the excavations at the archeological site - Vardarski Rid near Gevgelija, conducted since the beginning of MobiMak's patronage, again confirming the significance of this site for the identity and history of the Macedonian people. At the same time, we cooperated with Kaliopi and Avalon; the Skopje Film Festival, the Skopje Summer Festival and the Ohrid Summer Festival continued, and we supported numerous music, film, cultural, archeology and sport events.

The satisfied user is always a confirmation of success, our excellent quality and great dedication to our work. Last year MobiMak offered many new services, lower prices and new options to fit everyone's individual needs. We have implemented new services with incredible speed and outstanding quality. We continue to develop as a company that is a match for world trends, sending

messages that create more than moments to mark our common dreams with our customers.

This past year's focus on our 360 club initiative has been the extending and perfecting of contacts and cooperation with the public, media and employees and increasing brand awareness through increasing recognition of the MobiMak logo.

With these activities and many other we can proudly announce that the year behind us was fulfilled with success and joy for everyone. This past year has been dedicated to the customer, a year that makes us especially proud. The success that we achieved in 2004 stimulated us to be better, more effective and creative in the future. Our devotion to serving our customers drives us towards excellence in giving them our support. Through devotion we merge, we melt; together we aim towards harmony and happiness.

Customer Service does not come from a manual. It comes from the heart. When it comes to taking care of the customer, you can never do too much and there is no wrong way if it comes from the heart!

Our Customer Service Department is represented by overachievers dedicated to keeping customers happy, ensuring their loyalty and doing it from their heart - always aiming at the next level. In this Y2004 MobiMak's Customer Service continued raising its standards beyond customers' expectations, constantly exceeding it through the improvement of the existing forms of customer service and introduction of new ones. To our customers we provide reliable support with non-stop availability. We are everywhere and accessible through multiple channels: telephone, letter, e-mail, SMS and shops capable of providing richer, unique customer communications to private persons, small businesses and large companies and institutions. While making our

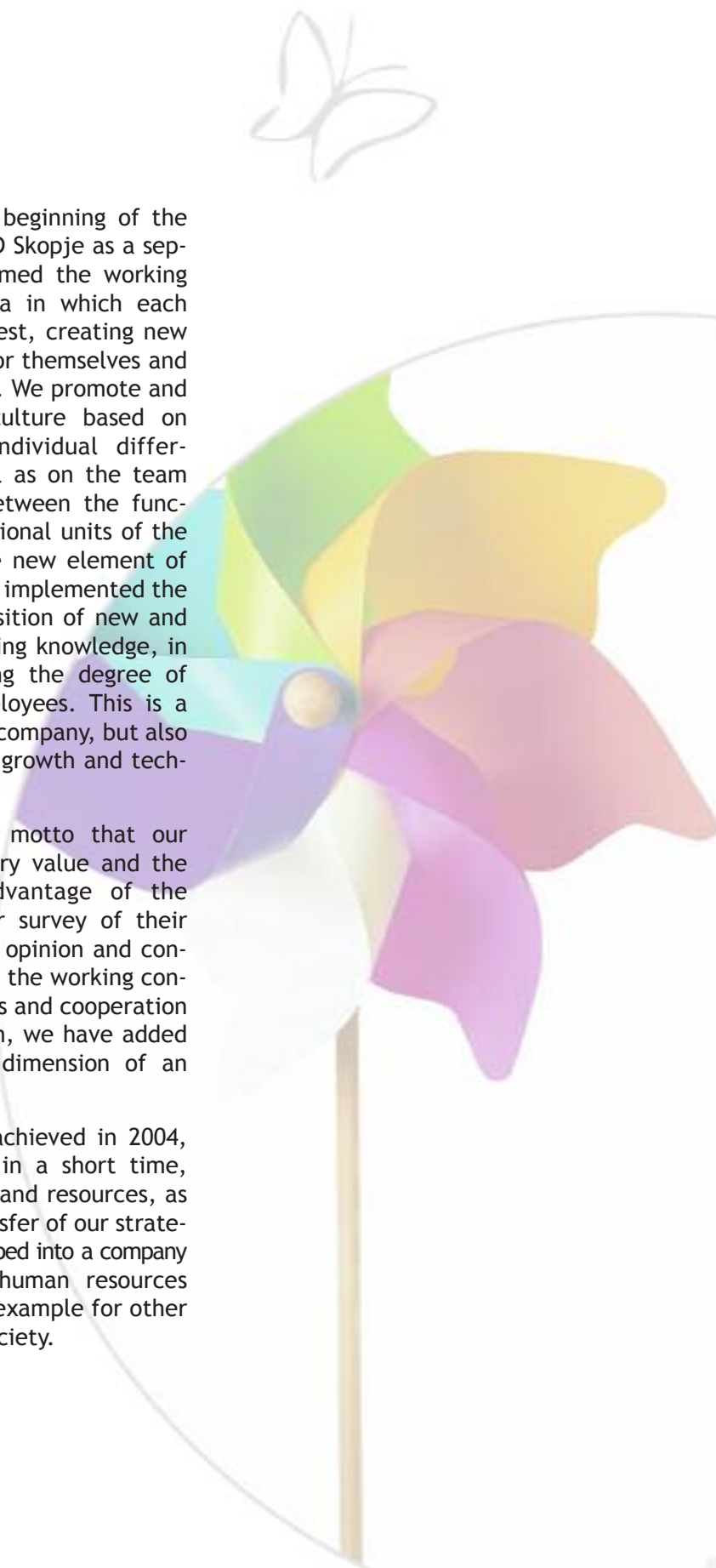
Customer Service Department an integral part of the business and its strategy, MobiMak has ensured that the focus and determination in this area will differentiate it from the competition, while continuously investing and enriching its relationship with the customers on the long run.

The systematic and cross-divisional development and innovative products and services safeguarded the sustained growth of the company, supporting smooth operation and development of Macedonian information society through continuous introduction of new product offers, maintaining competitive prices, and providing the highest quality of services. Internet and Office in your pocket: There are no hurdles now to access the wealth of information on Internet, to your company or office while on the road. The convenience of having all this in our pockets will have the same positive impact as when the telephoning becomes mobile. We provide secure, reliable and responsive IT infrastructure that avails a plethora of services and applicative solutions, thus supporting and satisfying business and personal communication needs of our complete customer base.

One of our strategic goals is the smooth operation and development of our information society. To achieve this objective, nothing is more important than making communication systems easy to operate and creating a solid strong maintenance system. Our teams try to prevent problems before they happen, and when glitches occur, we strive to promptly remedy the situation. MobiMak has built a nationwide service network built around its Technical Operations Centre. This centre provides true 24-hour, 365 days a year service availability, and can respond to any and all system malfunctions in real-time. The continuously growing number of subscribers and their demands requires intensive network growth and capacity. To meet those needs, installed

and put into operation the following equipment and services: Introduction of new Core Network Site in Bitola; Introduction of EDGE technology and service in parts of Skopje; 42 BTSs (base radio transceiver stations); 25 Repeaters; 21 Mini Link Hops (radio transmission links), resulting in a GSM network with 1.000.000 subscriber capacity; 483 base station on 337 locations; 2624 transceiver units and 90 Repeaters; Securing base station sites against power outages. Maintaining superior quality of service is one of our company's main strategic commitments. We see this as our competitive advantage and we successfully maintain it. The following QoS figures prove the statement above: Traffic congestion less than 1%, Drop call rate of 0.5%, Call Success Rate of 98.7%, Outage time of less than 1%, Territorial coverage of 92%, Population coverage of 99%. In addition to building and maintaining the network, our Department takes an active part in introducing new services across our diverse network infrastructure. We have successfully implemented the following services in 2004: GPRS roaming, Introduction of new Network Destination Code 071, Extension of FAF (Friends & Family) for Prepaid, Corporate GPRS, FixGSM with 4000 subscribers by the end of 2004. In line with our strategic determination to be technology leader in the region, we have successfully implemented the EDGE technology in parts of Skopje. This 2.5G technology provides high-speed GPRS services at data rates of up to 240 kbps, compared to 9.6 kbs with classic GSM system, and 40 kbps with classic GPRS. As a result, our subscribers can experience high speed GPRS services, such as internet browsing, file download, real multimedia streaming, e-mailing, etc. With EDGE, we are one step closer to our destination: 3G network with broadband access speed and services.

In 2004 as well, working on the planned projects in the area of human resources



management, set at the beginning of the functioning of Mobimak AD Skopje as a separate entity, we transformed the working environment into an area in which each employee gives his/her best, creating new values for the company, for themselves and for the society as a whole. We promote and support the corporate culture based on respecting employees' individual differences and needs, as well as on the team spirit and cooperation between the functional parts and organizational units of the company. As a qualitative new element of this corporate culture, we implemented the need of continuous acquisition of new and improvement of the existing knowledge, in the direction of achieving the degree of competences of the employees. This is a newly added value to the company, but also an impulse for its further growth and technological development.

To the already existent motto that our employees are the primary value and the greatest competitive advantage of the Company, via the regular survey of their satisfaction, valuing their opinion and continuous work by improving the working conditions, additional benefits and cooperation with the Employees' Union, we have added a new dimension - the dimension of an axiom.

Proud of what we have achieved in 2004, we can rightly say that in a short time, using our own knowledge and resources, as well as the know-how transfer of our strategic investor, we have developed into a company with the most modern human resources management and into an example for other business entities in our society.

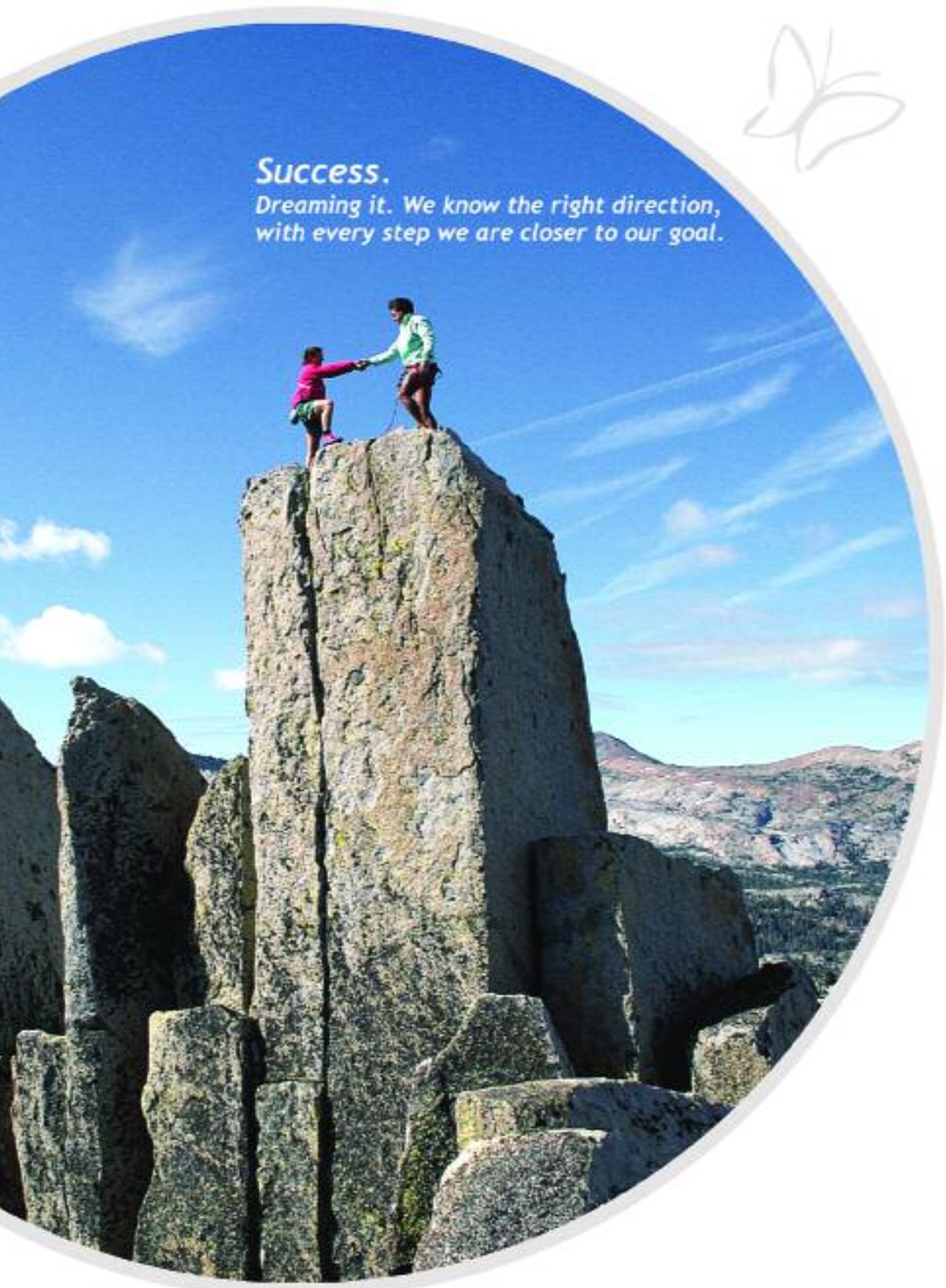
Marketing





Success.

*Dreaming it. We know the right direction,
with every step we are closer to our goal.*



Marketing

Marketing report

Focus on market and customers

The marketing activities in 2004 were concentrated on the company's transformation to being customer and market-oriented and steadily being prepared for the future competition. At the same time all actions were focused on the fulfilment of the company Business Plan.

All areas were committed to devoting the available resources to the further development of the Central Marketing Area during 2004:

- Product Management
- Marketing Communication
- Customer Relation Management Area
- Corporate Communication Area

Product Management

During 2004 as a result of intensive team work, our experts found new creative ways of formulating, harmonizing and sustaining bonds with our customers. As a result of that, several products were introduced based on customer research. These services were introduced via innovative communication programmes with the main purpose of deepening the relations with our customers. We are exploring the additional growth opportunities of our products, our product portfolio was enlarged in order to ensure long-term growth, and contribute to the overall performance of the company.

• Introduction of ADSL fast internet access in 2004

In accordance with the strategic goal for constant introduction of new services and technologies, AD Makedonski Telekomunikacii, among the first operators in the region, introduced the ADSL technology for fast internet access. In January 2004, MT through its Internet provider MTnet introduced three ADSL packages, offering a pos-

sibility for multiple times faster Internet access compared to the standard dial-up, with the aim of satisfying the advanced needs of the residential and business Internet users. The attractive prices of the ADSL fast Internet packages made this service affordable for many users thus contributing to the development of the Macedonian Internet society and improving the quality of the Internet communications in general.

The ADSL fast internet service was promoted with one residential (Hobby) and two business packages (Office and Profi).

During the year, modifications of the ADSL package portfolio were performed consisting of: increase of access speeds of the packages, introduction of long-term commitment discounts, re-branding ("ADSL Hobby" became "Max ADSL"), lowering of the Max ADSL monthly fee for two-year commitment contracts (Max ADSL for 1990MKD).

• Pre-paid telephony (PPT)

The PPT service offers customers the chance to pay in advance for their phone usage. The customer has his own pre-paid account which can be reloaded with value cards. All pre-paid credit is used for making calls, without receiving a monthly fee, nor paying a monthly fee.

• Pre-paid cards (PPC)

The Pre-Paid Card service allows customers to make calls, simply by buying the calling card. The whole credit amount is used for calls, and calls can be made from any active telephone line by dialling the service access code and card identification number. At the moment the pre-paid cards are valid only for international calls.

• Free-phone service (FPH) or Green Number service

The Free-phone service is a service provided on the IN platform enabling free-of-charge calls towards 0800 xxxxx numbers

for the calling subscribers. The called subscriber is charged for the realized traffic.

- **Split Charging service (SPL) or Blue Number service**

The Split Charging service is a service provided on the IN platform enabling calls towards 0890 xxxxx numbers with local charging for the calling subscribers. The called subscriber is charged for the difference.

- **Extended tele-voting service**

The Tele-voting service is a service provided on the IN platform enabling different voting scenarios. The charging of the calling subscriber depends of the particular case.

- **VOICE MAIL**

The Voice Mail is a service allowing the customer to be always reachable. The same applies to when the customer's line is busy or the customer does not want to receive calls. In such cases, if any call arrives, the call will be automatically forwarded to the customer's voice mailbox that acts as an answering machine and receives the message.

- **TARIFF PACKAGES**

Tariff packages in general offer different tariff schemes, suitable for specific customers' segments and customized for various customers' habits. Currently MT offers five tariff packages for residential subscribers that concern voice services.

Minimal package - basically offers low monthly fee combined with higher traffic charges.

Chatting package - offers an increasing discount the longer the phone call lasts.

Happy Hour - offers a discounted traffic tariff in certain (predefined) periods of day.

Favourite country - provides a discount on international tariffs. Customers are able to choose one of 12 offered foreign countries.

Package 5 (five) - offers a specific kind of

flat charging per call.

Competitive prices of telecommunication services

The pricing policy of the telecommunication services as an exclusive right of MT in 2004, had the aim of providing a cost-oriented tariff structure, reduction of misbalance between international and national telephony services; ensure cost efficiency and improvement of the operation of the company; create a price level reflecting the purchasing power of the population and affordability of the services.

In 2004 major changes occurred in the regulated prices. The prices changes in 2004 included changing of the tariff model from Impulse-Based Billing to Time-Based Billing. The price changes in 2004 was in line with the company's long-term tariff policy. To balance its effect and stay committed to customers' needs, five different tariff packages were introduced and offered on the market at the same time. With these packages, we gave the customers the possibility to choose the best personalized solution for themselves; realize discounts upon different bases; adapt the telephone usage according to their needs. By choosing from adequate packages elaborated according to their wishes, needs and capabilities, the customers got an excellent possibility to better control their phone expenses.

There were no significant changes in the field of the non-regulated prices: All "Barring on outgoing calls" - unconditional and coded, has become free of charge in 2004; Introducing Directory Assisted Dialling (Call Completion). It is a comfort service additional to the new centralized directory assistance ("988"), with which customers will have the opportunity to be connected directly to the requested number after receiving the telephone number information.

Marketing Communication

The strategy of the marketing communication activities in 2004 aimed to define the frame of the marketing communication activities in MT as a whole, and provide better efficiency in the processes of creating and performing the campaigns for MT services and products, as well as other forms of presentation.

It governed the activities which provide proper and adequate advertisements and other promotional activities for all MT services and products. The communication activities were firmly focused on promoting and stimulating usage of MT's products and services, and image building as a market-oriented company that cares for its customers. All the marketing communication activities were led in a manner that resulted in highly targeted marketing.

Communicating outside and even inside the company securely developed the company into a 'fast market-driven' company.

During 2004 the following marketing campaigns were launched:

- **Chatting package** ("Ti rekov, mi rece")
- **All around discount** (Popust do 100%)
- **Pre-paid fixed telephony + MT Planet**
- **Voice mail**
- Introduction of five **Tariff packages** for the residential customers: Five, Chatting package, Happy Minutes, Favourite Country and Minimal package
- **Happy minutes** - New PSTN & ISDN Access Offer
- **Good wishes are priceless**
- **How do you feel about the high speeds? ADSL**
- **eCards for pre-paid Internet access**
- **Do you have a hobby?** - ADSL summer offer
- **Day and Night** - Surfer campaign
- **www.idividi.com.mk** - a new electronic portal - the redesigned daily internet news magazine.
- **Happy Handset** - MT Loyalty Programme, prize winning game for residential customers who pay their monthly telephone bills regularly and on time.

- **For your business** - MTcom offered voice services

Customer Relation Management Area

Marketing researches activities

In accordance with the company's strategic plan and mission, developing into a customer-oriented company, the measurement of the quality of customer service, customer satisfaction, investigating the needs of the customers, are all seen as the essential elements in building the success of the company. During 2004, in order to provide the management of the company with relevant market and customer information, to increase the competitive position of the company, by being better attuned to customer needs the Market Information Department performed several researches. The customers' satisfaction researches during 2004, were conducted according to the TRI*M methodology in order to be able to compare itself with the other telecommunication operators.

All conducted researches are oriented towards the comprehensive exploration of the market demand, customer satisfaction and retention, competition behaviour and total telecommunication market development.

Loyalty Programme

In order to increase the customer loyalty for MT, we have created a special reward programme for loyal customers: the Happy Handset. The subscribers who have been the most diligent and persistent in their regular payments and showed loyalty towards AD Makedonski Telekomunikacii have been rewarded. Makedonski Telekomunikacii rewarded about 400 loyal customers during 2004.

Corporate Communication Area

During 2004 a new entity was created within the Central Marketing Area under the name of Corporate Communication Area. The aim to create a new unit was to give more focus on corporate reputation management and helping in strengthening the company's market position and the company's goodwill, improving the judgment of the company by the external and internal audiences.

The main target was to change the perception of MT being a monopolistic, old-fashioned company into a customer-focused, modern, good servicing one, which is implementing a serious change management programme to be ready for the coming competition. The targeted future perception of MT is an efficient and dynamic company, customer oriented, devoted to providing the best quality services for its customers, ready to be a key player in the Macedonian economy and to be a good citizen of society.

The messages of the corporate communication activities were supporting the main goals and targets of the company - growth, professionalism and sustainable market share.

Media and Press Management

The media and press management activities in 2004 were led by the principle of transparency. The pro-activity of the media relations has strengthened the positive perception of the company amongst the public. MT provided a wide range of information to the public referring to new company services and products, new tariff packages, key issues and other company novelties and events.

Internal Communication

The internal communication activities were concentrated on giving transparent information to all employees in order to have a motivated and well informed staff, to provide a positive working environment, to

ensure two-way communication via feedbacks. The renewal of the internal newspaper of MT, the introduction of the quick info leaflet, the new styled intranet communication, gave a direct contribution to the employees being promptly and properly informed. Communication activities were committed related to key company programmes such as the new company structure, Road to Success, HR programmes. The area with HR jointly organized open employee forums, managed open hot lines; organized different events for the employees, such as Best Employee of the Year, internal T-Spirit conference for the management, internal awarding of the employees with best sales results.

Image building activities

Image building activities in 2004 had the aim of ensuring place to present the company's stand points in key matters, and at the same time to support the perception about company with goodwill actions.

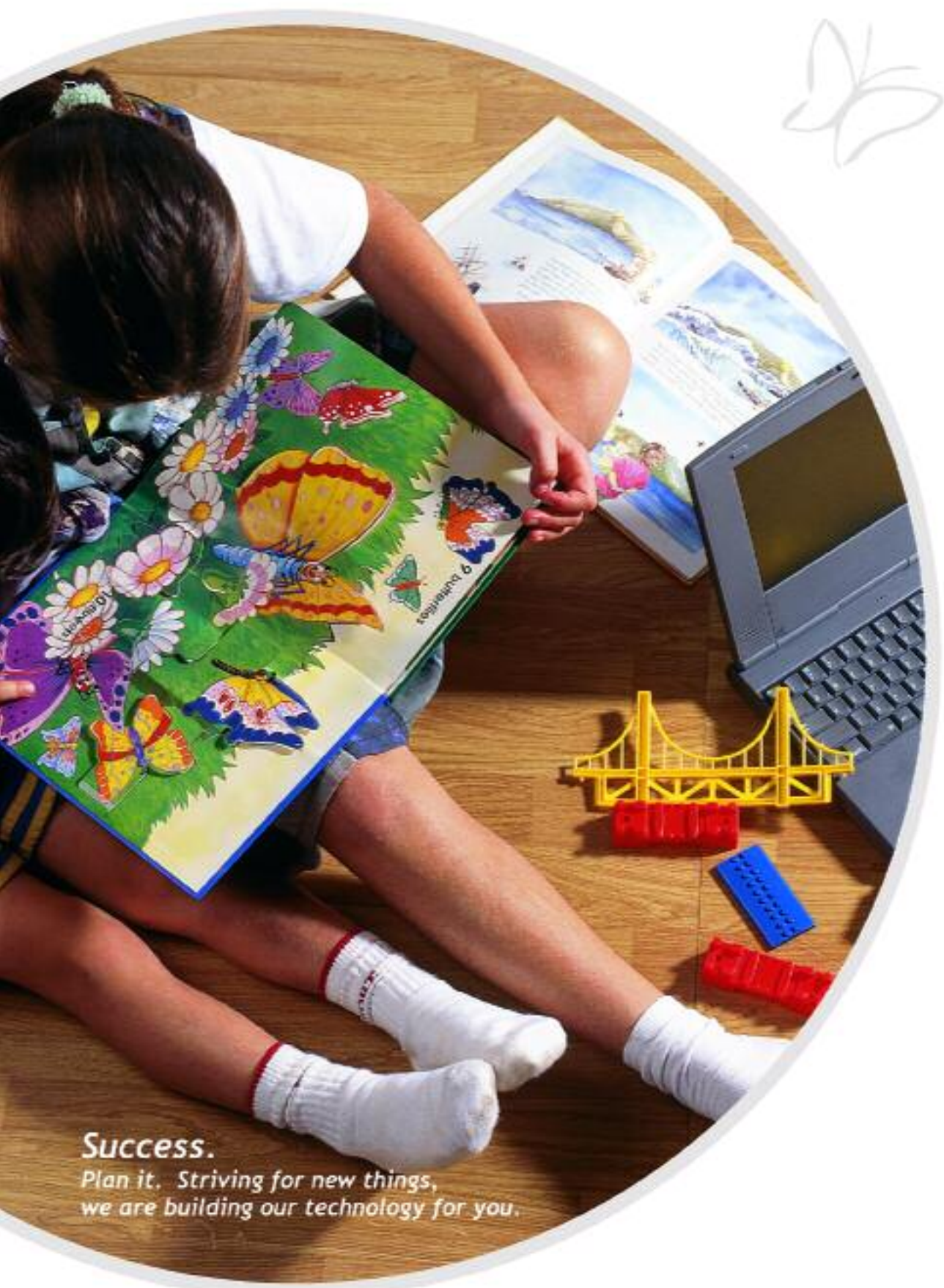
Good Corporate Citizenship

Committing ourselves to being a good corporate citizen we are focused on the social, economic, environmental and the well-being of the society we live and work in. Therefore, we are working on achieving our commitment through the sponsoring and charity activities in all segments of society.



Network, IT





Success.

*Plan it. Striving for new things,
we are building our technology for you.*

Network, IT

Network Infrastructure and IT

Further into the world of telecommunications

Information and communication technology is increasingly shaping both our private and professional life. We are following the latest telecommunication technological trends, to stay in line with the world standard services, to be the technological leader in our market. We are supporting the development of new services; we are continuously updating our network, to create a state of the art platform for best servicing of our customers.

AD Makedonski Telekomunikacii aims to maintain the network at a sufficiently high technological level in order to be able to ensure the basis of providing a wide range of products and services that will satisfy all customer demands.

All Concession Contract requirements for 2004, regarding network quality parameters and service provisioning, have been met.

The following network development and maintenance activities have been undertaken:

Access Network

Within the frame of the general network extension and modernization programme, the capacity of the access network has been extended by 30,110 new pairs. The number of newly connected subscribers are around:

- PSTN 14,000
- ISDN BRA 1,900
- ISDN PRA 40

Transferring telephone lines (ISDN and PSTN) to the new addresses of around 6,000 subscribers has been done.

Mainly in rural areas 1,440 new FGSM terminals were implemented. For fault location 70,000 demarcation devices were installed. The existing structure of the copper network is considered as a good base for implementation of xDSL technologies for introduction of broadband services.

During 2004, around 3,000 ADSL ports were installed and new subscribers were connected such a way. Ethernet technology was used to connect Digital Subscriber Line Access Multiplexers ("DSLAMs") to the IP core.

Optical cables in the access network have been used for connecting the key business customers. The implementation of Metro Ethernet has already been started with deployment of customized Metro Ethernet solution in Skopje.

Switching Systems

The network development programme also continued in switching systems.

In order to consolidate the network and increase the operational efficiency, the company is restructuring its switching architecture and decreasing the number of hosts.

The liberalization of the telecommunication market required AD Makedonski Telekomunikacii to perform a substantial upgrading of the PSTN/ISDN platform. During 2004, Voice Mail and IN platform were implemented, as a base for introduction of new services and enhancement of the product portfolio.

Monitoring the signalling network is the key to achieving significant improvement of the quality of service and decreasing the operational costs. In 2004 the system was extended to monitor the signalling network for an additional 60 links on the national level, Voice Mail and IN Platform.

Backbone Transmission Network

The development of the Backbone Transmission Network was focused on improvement of the transmission quality and establishment of new interconnection links. The main projects in this area were:

1. Implementation of a new optical cable on the Skopje-Kumanovo link which will increase quality of the traffic.
2. Implementation of two new interconnection links:

- Interconnection link with Albania
- Interconnection link with Bulgaria

In order to achieve rapid detection and location of faults, speed up the repair of the optical cables and get a higher service level, Automatic Fibre Monitoring System of the network was implemented in 2004.

IP Network

In the course of this year several activities were performed concerning the IP network. The IP network was redesigned and the network capacities were extended on eight existing Large PoP locations and two Small PoP locations that were considered as "critical" in terms of access and bandwidth utilization.

Some of the achieved benefits are: separation of the narrowband and broadband services, extension of the IP LL and VPN ports, implementation of QoS guarantees, traffic policy and scalability for future network extension.

During 2004, two wholesale projects were initiated and implemented, so the company is ready to offer Wholesale dial-up and Wholesale ADSL service.

Network quality - key figures

The network quality has been significantly improved over the past few years as a result of the investments made into the network's modernization. The percentage of faults per total number of subscribers in 2003 was 21.39% while the same parameter in 2004 was 17.16%. The cumulative value for call completion - local in 2003 was 99.36% and in 2004 was 99.71%. The cumulative value for call completion - international in 2003 was 99.26% and in 2004 was 99.96%.

Information Technologies

The information technologies implemented in our company have the main role of making the company faster and more reliable to serve the customers, and to make the work of our employees more efficient and more precise.

The main IT goals for 2004 were efficient provisioning of IT services to all organizational units in MT regarding SLAs, for the purpose of supporting business in development and provisioning of services and products with integration of IT solutions and optimization of the costs for operations. Projects realized in 2004 for:

Improving the process of customer handling:

- Geneva - Billing system

Old pulse based billing system was replaced with the CDR based billing system. The new system enables creation of various products and packages for the purpose of satisfaction of customers' requirements.

- IN Platform with five new services (Free phone, Split charging, Televoting, Pre-paid card and Pre-paid telephony) were successfully implemented in the Geneva Billing system
- Mass activation/deactivation.

System for monitoring and managing disconnection and reconnection processes, report deviations from the regular procedure. The errors will be minimized and full control of the debtors will be achieved.

High availability and reliability of MT services (making more reliable):

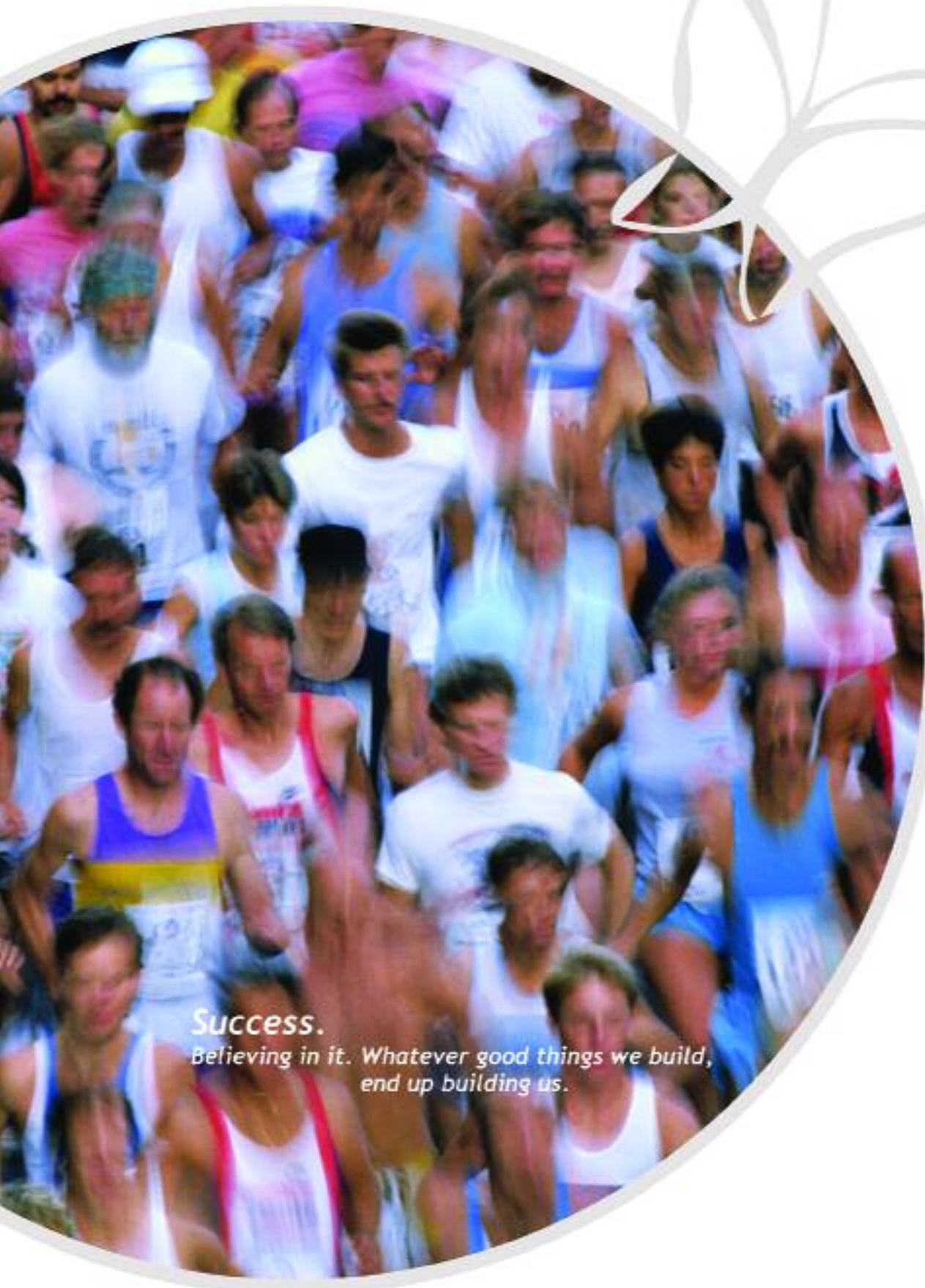
- Business Continuity and Disaster Recovery Project
- Enhancing IT security for IT Systems

Operational improvement (more efficient and more precise working of MT employees):

- Document and Workflow Management Project
 - Integrated system Personnel Record & Payroll
 - Simplified ABC and Accounting Based Profitability Analyses
- Implementing Microsoft Share Point Portal Server

Human Resources





Success.

*Believing in it. Whatever good things we build,
end up building us.*

Human Resources

Human Resources

Employees are our most valuable resource, they help us to keep our leading position in the industry.

Shaping Our Future

In 2003 in the frame of the organizational development project "Shaping Our Future" the middle and top management of the company formulated the new vision of Makedonski Telekomunikacii that we strive for in all of our actions. In 2004 this joint vision was cascaded in the whole organization to ensure aligned performance. We have involved more than 500 of our people from different hierarchical levels into group workshops. The main aim of this was to identify items in the vision that apply to the scope of duties of specific areas and to form concrete action plans and define tasks.

Our vision is built on the leading principles of the Deutsche Telekom and Matav Group named as "T Spirit":

"T Spirit" as point of reference:

Superior Value
Passion for our Customers
Innovation
Respect
Integrity
Top Excellence

We are proud to integrate these values in our life and practise them in our daily actions showing an unified corporate culture.

HR Strategy

Our HR Strategy supports the business initiatives and plans of the company by providing effective and efficient human resource solutions. We respect our diversity. We ensure a competent workforce - ready and able to perform. We offer fair

compensation for good performance and ensure development of our staff. In 2004 we have reorganized our departmental structure to better cater for the needs of other areas, our internal customers.

We assigned dedicated HR Managers to all areas to ensure a good communication within the company, create a common understanding of needs and expectations and offer opportunity for quick and flexible solution delivery. We strengthened our HR Systems function to allow to offer state-of-the-art HR solutions.

Lean Management

In 2004 we further proceeded with our human resource optimization programme in agreement with the Trade Union. We did not only strengthen our internal efficiency but also offered socially responsible solutions for the employees leaving our company. In cooperation with the Macedonian Government we organized a series of educational forums called "Invest In Your Future" in order to educate private entrepreneurship.

As a result of the Lean Management programme 757 people left the organization which significantly improved our line per employee ratio.

Staff Development

We find it utmostly important to continuously provide opportunities to improve the knowledge and enhance the skills of our employees, to ensure a motivated, competent and skill-driven staff.

Motivated staff means happy customers. Major focus was concentrated on improving our core competences in the area of sales and customer service. We have also organized management and leadership trainings for more than 120 top and middle managers.

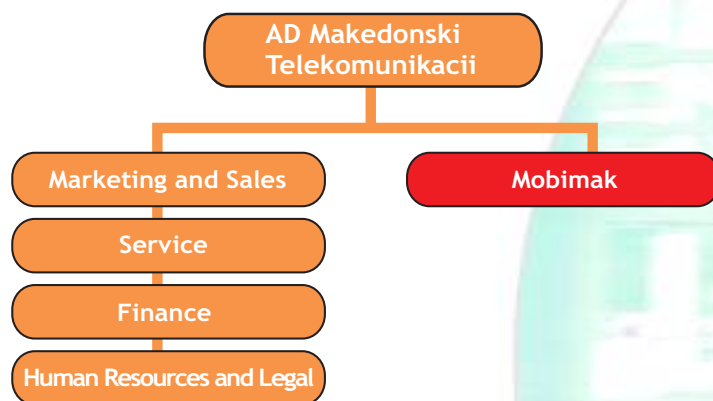
We also started the exchange programme "Macedonian local experts to Matav", which aims to secure international knowledge transfer and benchmarking within our parent company.

Compensation and Benefits

To further strengthen our sales activity we have introduced a performance based incentive system for our direct sales force.

Organizational Restructuring

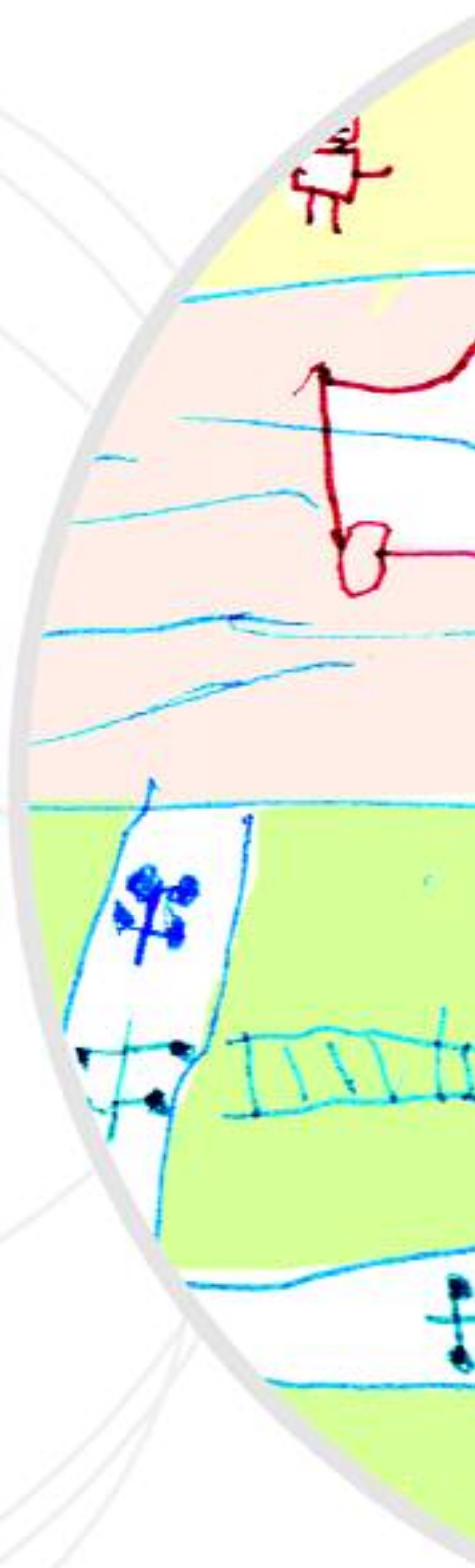
In the companywide operational improvement programme "Road to Success" HR was mandated with the task of restructuring the organization to better reflect the expectations and goals of the corporate long-term strategy. The new organization structure will be in effect as of January 2005.



Job Grading system

The restructuring programme of the organization brought forward the implementation of a new job grading system. As a result of a systematic and objective evaluation process we have elaborated a transparent and business-oriented system, which will be able to accommodate the introduction of a new, market conform, performance-oriented compensation framework.

Corporate Social Responsibility





Success.
*Enjoy it and share it with others.
Giving to society brings us joy.*

Corporate Social Responsibility

Social Responsibility

Makedonski Telekomunikacii as a leading business company in Macedonia is aware of its important role and place in the life of the Macedonian society. MT understands the environment around and responds to its needs and contributes to its development. The good corporate citizenship principle is the leading idea behind all support, sponsoring and charity activities. We also actively participate in the creation of a better environment with helping our local community. Based on this principle, we supported many projects in different areas, committing ourselves to being a good corporate citizen and active participant in the social life of our country.

As an integral part of the social and economic framework of the community in which it operates, Makedonski Telekomunikacii pursues the development that responds to the needs and expectations of society in general. MT continues to achieve significant success in its business and wishes to share this success with its customers and business partners and with the citizens of Macedonia.

The company is known for its regular undertaking of sponsorship activities. By such means, MT is attempting to assist in developing values in areas such as culture, sport, cultural heritage, education and charity.

We are proud to be close to Macedonian culture, sponsoring and supporting the biggest cultural events in the country - classical music, modern art, traditional events. The 44th edition of the Ohrid Summer Festival, member of the European Festivals Association, and full of events, eminent names in the fields of classical and contemporary music, ballet, theatre, is the central cultural event in the Republic of Macedonia and Balkans. MT traditionally supports this immense event.

Communications and music represent different, yet related worlds of possibilities and both are means of expression that enhance our lives regardless of the different music directions. In this sense, MT was also part of the

famous Macedonian ethno group Synthesis. Their music is well known and very popular in many countries. MT was general sponsor of their new CD establishing the cooperation for promotion of the ADSL service. A live broadcast, via ADSL, of the Synthesis concert from Ohrid in Skopje, Bitola and Strumica was organized and supported by MT.

In cooperation with the Musical Youth of Macedonia, under the logo 'MT presents' the international music competition "Musicians of the New Millennium" was organized. The competition took place in Skopje and it is the first competition of this kind in the capital of Macedonia, where 82 representatives from 12 different countries competed and presented their talents.

The Ohrid Swimming Marathon, the most important international sporting event in the country, gave MT an opportunity, along with the contestants and sports fans, to take pleasure in the excitement and entertainment that sport can offer. The Ohrid Marathon is in the FINA list of the world's most important sporting events. The marathon has already become the basis of the popularization of this sport and is recognized as a continuous affirmation of the Republic of Macedonia throughout the world. MT is a traditional supporter of this marathon.

Always willing to support Macedonia's national heritage, we contributed to the Galicka Wedding as one of the most famous summer events in Macedonia. It is a traditional wedding that takes place in the beautiful community of Galicnik. Old Macedonian traditions are presented there. Supporting the culture, tradition and the national heritage is one of the main goals in our sponsorship activities.

In line with our efforts to promote national culture for wider audiences, in cooperation with the weekly magazine *Tea*, MT supported the project to release four Macedonian films on DVD. It is an exclusive edition due to the fact that for the first time in Macedonia these four films have been released on DVD. The

project lasted for five weeks. During this period on a weekly basis the DVDs were distributed and also a special cover was designed where the MT message "A beautiful time for you and your family" was spread among the Macedonian public.

In 2004 MT supported entertainment and contributed to broadcasting of the world famous quiz show *Who Wants To Be A Millionaire* in Macedonia.



Through our donation programme we enhanced the life of the children in many municipalities in Macedonia with gifts of children's playgrounds. The MT children's playgrounds project started with official opening of the playground in Kumanovo,

while those in Ohrid, Skopje, Kocani and Veles followed. We have also given smiles to many children by helping with the children's singing "Zlatno Slavejce" festival.

We are also very pleased that through our donations we helped the people who are really in need. The action of Makedonski Telekomunikacii for collecting books, clothes, medicine and other things for the inhabitants of Mala Prespa - Albania, raised great interest, and was marked as one of the biggest donation actions within the country.

MT acknowledges its role of a corporate citizen and recognizes that sponsorship is beneficial for the community, with which MT builds good relations and remains to be ... truly close...

2004 special

In honour of President Trajkovski, MT established the e-Macedonia Foundation to support the development of the information society

In 2004 the "e-Macedonia" Foundation was established by AD Makedonski Telekomunikacii, to honour the tragic passing away of the late President of the Republic of Macedonia, Mr. Boris Trajkovski. This foundation has the goal to further develop the information society in the Republic of Macedonia.

The basic goals of the Foundation are initiation for usage of the information technology as a mainstream force of economic development; speeding up the development of e-business; development of e-trading; as well as overcoming the so-called "digital gap" in our country, and all in favour of enabling the higher quality of life and work of the citizens.

AD Makedonski Telekomunikacii through the "e-Macedonia" Foundation is going to finance a great number of programmes, such as: implementing information technologies in all important segments of the society, especially in the educational system (through computer workshops, educational centres, seminars, internet in schools...), further in the health institutions, legal institutions and e-trading (through increasing the awareness about Internet, information technologies...).

On the other hand, the "e-Macedonia" Foundation is being realized, supporting Mr. Trajkovski's idea for greater application and distribution of information, in order to contribute to the spreading of information technologies that will contribute to full transparency of all operations of the society.

The "e-Macedonia" Foundation has a budget amounting to €100,000 and it is open for cooperation, while initiating and supporting new investments. The Foundation is sincerely hoping that many civil organizations or associations and institutions, as well as individuals will join in the operations of the Foundation.

Financial Highlights

The background features several overlapping, light-colored circles. On the right side, a magnifying glass is positioned over a portion of a financial table. The table has a grid structure with several rows and columns, though the specific data is not legible. The overall design is clean and professional, typical of a corporate financial report.



*Success.
Work it out. Do it, right now!*



Financial Highlights

Financial Highlights

General overview

The MT Group's performance has been somewhat hindered by a worsening economy in 2004 - foreign direct investments were low, GDP growth was limited and the unemployment rate remained at a high level. Such conditions not only sustained the limited revenue growth potential but also produced some negative effects upon revenue. However, the EBITDA drop of 13% is to a large extent influenced by severance payments to employees leaving MakTel, as well as to intensified and full - year mobile competition activities in 2004. If the severance payments are excluded, the EBITDA margin shows only a two percentage point decrease from 2003. On the side of the expenses, the Group-round effort to decrease costs and have a stricter cost control was even more effective this year, thus compensating the above mentioned negative effects. It is fair to say that MakTel is still delivering an outstanding EBITDA margin of above 50% excluding redundancy related costs.

Revenues

The slight downward movement of total revenues in 2004 is in line with the similar movement of the Macedonian economy and the resultant decrease of the consumer purchasing power and the remaining high unemployment rate. Such conditions have to a large extent impacted on domestic traffic volume and resulted in an 8.1% decrease in domestic traffic revenues.

Revenues from subscription, connection and other charges have also suffered from the worsening of the economy. The increase of subscription fees and the decrease of connection fees have not been able to compensate such effects, which, aided by market saturation, led to a decrease in the number of revenue paying customers.

MakTel's revenue stream from international traffic in 2004 shows a decreasing trend when compared to 2003, reflecting unfavorable settlement rates (7.3% decrease) and lower SDR exchange rate (3.5% decrease).

On the other hand, we can note an 11.8% increase in mobile revenues owing mainly to an almost 50% larger subscriber base in 2004, resulting in a significant increase in traffic volume.

Data revenues have also increased following the successful introduction of ADSL services but still represent an insignificant portion of total revenues.

	2004	2003
Domestic fixed line telecommunication services		
-subscription, installation and other charges	2.6	2.8
-traffic revenues	5.2	5.6
International traffic revenues	1.6	1.8
Mobile telecommunication services	5.9	5.4
Leased line and data transmission	0.6	0.5
Other	0.9	0.8
Total operating revenues	16.7	16.9

Operating expenses

The movement in operating expenses in 2004 has been to the largest extent influenced by the expenses for severance payments to employees leaving MakTel, amounting to MKD 813 million, which accounted for 60% of the total increase. The remainder of the increase is equally attributable to three factors:

- higher depreciation expense caused by the shortening of the useful life of property, plant and equipment during 2003;
- higher Cosmofon interconnection costs owing to a longer period of market presence and larger volume of operations of Cosmofon in 2004; and
- higher volume of mobile handsets sold.

In contrast to these increases are the enhanced cost consciousness and cost saving campaigns in 2004. The positive effects on the results were seen in the significant decrease in maintenance costs, postal costs, consultancy fees, office supplies etc.

	2004	2003
Employee related expenses	2.8	2.0
Depreciation and amortization	3.5	3.3
Payments to other network operators	1.3	1.1
Cost of telecom. equipment sales	0.8	0.6
Other operating expenses	3.5	3.5
Total operating expenses	11.9	10.5

Net financing income

The fall of the US dollar and accordingly the SDR was smaller in 2004 than in 2003, but still produced negative FX differences. These were more than compensated, however, by interest received on cash deposits, the result being a net financing income in 2004.

Income tax

The income tax on annual profit comprises both current and deferred tax. The current income tax of 15% was calculated according to Macedonian law. The deferred tax was calculated to account for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The effective tax rate was 14% in 2004 and 12% in 2003.

Non-current assets

The revision and shortening of the useful life of property, plant and equipment in 2003 and the resultant increase of the depreciation expense continued to decrease their net book value in 2004. The investments during 2004, which were at a lower level than in 2003, did not succeed to compensate this decrease. Investments in intangible assets have continued intensely in 2004 - upgrades and improvements of the Geneva Billing System, IT security

and business continuity software, mail system licences - and were sufficient to exceed the large depreciation charge and slightly increase the net book value of intangible assets.

A smaller part of the decrease of the value of non-current assets, relates to deferred tax assets. Due to the significantly higher depreciation charge for tax purposes, which has decreased the tax base of property, plant and equipment and intangible assets beyond accounting base, the deferred tax assets were used up and a deferred tax liability was created.

Current assets

The retaining of cash flows and investing in short-term deposits continued in 2004, similarly as in 2003, and accounted for the significant increase of current assets in 2004. This increase was slightly offset by improved inventory management resulting in a decrease in the level of inventory, but also by improved collection of receivables, which in total further enhanced the already high liquidity of MakTel.

Liabilities

Within total liabilities, which have not significantly changed in total between the two years under review, trade payables have moderately decreased, reflecting the lower volume of purchases and MakTel's initiative to settle debt timely, while deferred tax liabilities have increased due to reasons explained above.

Equity

During 2004, apart from the dividend to the amount of MKD 2.5 bn that was paid out to shareholders in four arrears, there were no movements in the equity.

Cash flows

There have been effectively no significant changes between cash flows from various activities between the two years. Cash flows from operating activities have remained at MKD 8.3 bn, reflecting the offsetting of large severance payments and lower income tax paid in 2004. Despite the decreased level of investments in 2004, cash outflows from investing activities slightly increased, due to increased lodging of cash in short-term deposits with a maturity of over three months. Cash outflows from financing activities have remained limited to dividend payments, which increased by only MKD 0.1 bn in 2004. The net cash flows have accordingly remained nearly flat compared to 2003.

Makedonski telekomunikacii AD Skopje
Consolidated Financial Statements
For the years ended
31 December 2004 and 31 December 2003
With the Report of the Auditors Thereon



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Report of Independent Auditors

To the Board of Directors and Shareholders of
 Makedonski Telekomunikacii A.D. Skopje

We have audited the accompanying consolidated balance sheet of Makedonski Telekomunikacii A.D. Skopje (hereinafter the "Group") as of 31 December 2004 and 2003 and the related consolidated statements of income, cash flows and changes of shareholders equity for the years then ended. These financial statements set out on pages 1 to 24 are the responsibility of the Group's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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 provide a reasonable basis for our opinion.

In our opinion the accompanying consolidated financial statements present fairly in all material respects the financial position of the Group as of 31 December 2004 and 2003 and the results of its operations and cash flows for the years then ended in accordance with the International Financial Reporting Standards.

Application of accounting principles generally accepted in the United States of America would affect shareholders equity as of 31 December 2004 and net income of the year then ended to the extent summarized in Note 22 to the consolidated financial statements.

Skopje, Macedonia
 24 January 2005



Consolidated income statement

For the year ended 31 December 2004

In thousands of denars

	Note	2004	2003
Revenues	1	16,670,901	16,909,881
Depreciation and amortisation		(3,548,235)	(3,326,727)
Personnel expenses	2	(2,816,408)	(2,046,365)
Payments to other network operators		(1,346,027)	(1,141,917)
Other operating expenses	3	(4,316,115)	(4,171,649)
Profit from operations		4,644,116	6,223,223
Net financing revenues / (costs)	4	16,833	(104,046)
Profit before tax		4,660,949	6,119,177
Income tax expense	5	(651,508)	(734,213)
Net profit for the year		4,009,441	5,384,964

Consolidated balance sheet

As at 31 December 2004

In thousands of denars

	Note	2004	2003
Assets			
Property, plant and equipment	6	18,053,437	19,132,880
Advances for property, plant and equipment		3,458	10,274
Intangible assets	7	2,576,576	2,417,203
Available-for-sale financial assets	8	97,780	95,305
Non-current receivables	9	32,737	14,114
Deferred income tax assets	10	-	209,372
Total non-current assets		20,763,988	21,879,148
Inventories	11	460,237	548,320
Trade and other receivables	12	2,925,124	3,376,490
Current income tax receivable		242,615	343,383
Deposits with banks	13	910,840	-
Cash and cash equivalents	14	6,947,397	4,524,531
Total current assets		11,486,213	8,792,724
Total assets		32,250,201	30,671,872
Equity and liabilities			
Share capital		9,583,888	9,583,888
Share premium		540,659	540,659
Other reserves		879,489	879,489
Retained earnings		19,492,791	17,984,351
Total equity	15	30,496,827	28,988,387
Liabilities			
Deferred income tax liabilities	10	165,208	23,411
Total non-current liabilities		165,208	23,411
Trade and other payables	16	1,588,166	1,658,949
Current income tax liabilities		-	1,125
Total current liabilities		1,588,166	1,660,074
Total liabilities		1,753,374	1,683,485
Total equity and liabilities		32,250,201	30,671,872

The financial statements set out on pages 1 to 24 were approved by the Board of directors on 24 February 2005 and were signed on its behalf by:



Attila Szendrei
Chief Executive Officer




Rolf Plath
Chief Finance Officer

Consolidated statement of cash flows

For the year ended 31 December 2004

In thousands of denars

	Note	2004	2003
Operating activities			
Net profit before tax		4,660,949	6,119,177
Adjustments for:			
Depreciation and amortisation		3,542,283	3,325,387
Impairment losses of available-for-sale investments		-	8,320
(Reversal of)/ write down of inventories to net realisable value	3	32,131	(17,280)
Change in fair value of available -for-sale investment	4	(2,475)	8,997
Impairment losses on trade and other receivables	3	419,503	484,820
Extinguishment of liabilities		(15,197)	(156,178)
Gain on sale of equipment		(39,599)	(13,998)
Dividend income	4	(1,285)	(1,437)
Other non cash adjustments		196	11,557
Interest income	4	(202,262)	(115,870)
Interest expense	4	2	82
Impairment losses of assets under construction		645	1,340
Cash generated from operations before changes in working capital		8,394,891	9,654,917
Decrease in inventories		55,952	15,782
Decrease in receivables		32,408	588,279
Increase/(decrease) in payables		30,829	(1,197,085)
Cash generated from operations		8,514,080	9,061,893
Interest paid		(2)	(82)
Income taxes paid		(194,470)	(751,248)
Cash flows from operating activities		8,319,608	8,310,563
Investing activities			
Acquisition of property, plant and equipment		(1,877,550)	(2,136,506)
Acquisition of intangible assets		(837,181)	(1,148,689)
Loans (granted)/collected		(18,623)	25,520
Deposits with banks		(910,840)	-
Dividends received		1,285	1,423
Proceeds from sale of equipment		44,906	13,998
Interest received		202,262	115,870
Cash flows from investing activities		(3,395,741)	(3,128,384)
Financing activities			
Dividends paid		(2,501,001)	(2,400,000)
Cash flows from financing activities		(2,501,001)	(2,400,000)
Net increase in cash and cash equivalents		2,422,866	2,782,179
Cash and cash equivalents at 1 January		4,524,531	1,742,352
Cash and cash equivalents at 31 December	14	6,947,397	4,524,531

Consolidated statement of changes in equity

<i>In thousands of denars</i>	Note	Share capital	Share premium	Statutory reserve	Retained earnings	Total
Balance at 1 January 2003		9,583,888	540,659	524,062	15,354,814	26,003,423
Net profit for the year		-	-	-	5,384,964	5,384,964
Appropriation to statutory reserve		-	-	355,427	(355,427)	-
Dividends paid		-	-	-	(2,400,000)	(2,400,000)
Balance at 31 December 2003	15	9,583,888	540,659	879,489	17,984,351	28,988,387
Balance at 1 January 2004		9,583,888	540,659	879,489	17,984,351	28,988,387
Net profit for the year		-	-	-	4,009,441	4,009,441
Dividends paid		-	-	-	(2,501,001)	(2,501,001)
Balance at 31 December 2004	15	9,583,888	540,659	879,489	19,492,791	30,496,827



Notes to the consolidated financial statements

General information

These consolidated financial statements relate to the group of Makedonski telekomunikacii AD, which includes Makedonski telekomunikacii AD - Skopje and Mobimak AD - Skopje (hereinafter referred as to "the Group").

Makedonski telekomunikacii AD, Skopje (hereinafter "The Parent Company") is a joint stock company incorporated and domiciled in the Republic of Macedonia.

The Group's immediate parent company is Stonebridge Communications AD - Skopje solely owned by Magyar Tavkozlesi Rt. ("Matav") registered in Hungary. The ultimate parent company is Deutsche Telecom AG registered in Federal Republic of Germany.

Effective 1 July 2001, the operations and assets of the mobile phone division of Makedonski Telekomunikacii were transferred into a wholly owned subsidiary Mobimak AD (hereinafter "the Subsidiary").

Makedonski telekomunikacii AD is the sole fixed line service provider while Mobimak AD is the leading mobile service provider in Macedonia. Both companies have a Concession Contract to provide services until December 31, 2018. Further, Makedonski telekomunikacii AD has exclusive rights in (a) Fixed Voice Telephony Services, Leased Line Services and (b) to construct, lease, own, develop, maintain and operate Fixed Public Telecommunication Networks until December 31, 2004. These exclusive rights include local, national and international long distance public fixed voice services independently of the technology used, including voice over Internet Protocol services.

The pricing policy, which is part of the Concession Contract, entitles Makedonski telekomunikacii AD to re-balance its tariffs by the end of 2004. During the exclusivity period Makedonski telekomunikacii AD is obliged to provide universal services. The regulation of services for the period after December 2004 is currently in progress.

The Parent Company's registered address is "Orce Nikolov" Street bb, 1000, Skopje, Republic of Macedonia. The average number of employees during 2004 was 3,417 (2003: 3,652).

Significant accounting policies

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

(a) Basis of preparation

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS").

The financial statements are presented in Macedonian denars, rounded to the nearest thousand. The financial statements are prepared on the historical cost basis except the investments available-for-sale, which are stated at fair value. The preparation of the financial statements in line with IFRS requires management to make estimates and assumptions that affect the amounts reported in the financial statements and notes thereto. Actual results could differ from those estimates.

Notes to the consolidated financial statements continued

Significant accounting policies continued

(b) Basis of consolidation

(i) Subsidiaries

Subsidiaries are those enterprises controlled by the Parent Company. Control exists when the Parent Company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

(ii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

(c) Foreign currency transactions

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

The foreign currencies deals of The Group are predominantly United States Dollars (USD), EURO (EUR) and Swiss Francs (CHF) based. The exchange rates used for translation at 31 December 2004 and 31 December 2003 were as follows:

	2004	2003
	MKD	MKD
1 USD	45,07	49,05
1 EUR	61,31	61,29
1 CHF	39,71	39,31

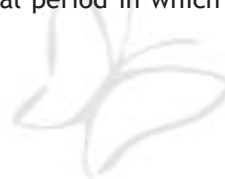
(d) Property, plant and equipment

(i) Owned assets

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

(ii) Subsequent expenditure

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.



Notes to the consolidated financial statements continued

Significant accounting policies continued

(d) Property, plant and equipment continued

(iii) Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of items of property, plant and equipment. Assets are not depreciated until they are brought into use. Land is not depreciated. During 2003, the management of the Group performed a regular revision of the useful lives of property, plant and equipment. The estimated useful lives are as follows:

	2004 years
Aerial and cable lines	25
Automatic telephone exchange	10
Base stations	7
Buildings	40
Computers	4
Electronic devices	6
Furniture and other office equipment	4-6
Truck vehicles	5

The assets useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

(e) Intangible assets

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

(i) Subsequent expenditure

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

(ii) Amortisation

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets. Intangible assets are amortised from the date they are available for use. The estimated useful lives are as follows:

	2004 years
Software and licences	5
Concession	5

(f) Investments

Investments held by the Group are classified as being available-for-sale and are stated at fair value, with any resultant gain or loss being recognised in the income statement.

Subsequent to initial recognition all available-for-sale assets are measured at fair value, except that any instrument that does not have a quoted market price in an active market and whose fair value cannot be reliably measured is stated at cost, including transaction costs, less impairment losses.

Available-for-sale investments are recognised/ derecognised by the Group on the date it commits to purchase/sell the investments.

Notes to the consolidated financial statements continued

Significant accounting policies continued

(g) Inventories

Inventories are stated at the lower of cost or net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated selling expenses. The cost of inventories is based on weighted average cost formula and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition.

(h) Trade and other receivables

Trade and other receivables are stated at their recoverable amounts. Recoverable amounts are estimated taking into account potential delays and defaults on payments.

(i) Cash and cash equivalents

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

(j) Impairment of assets

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

(k) Trade and other payables

Trade and other payables are stated at their cost.

(l) Share capital

Ordinary shares are classified as equity.

(m) Dividends

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

(n) Revenue recognition

Revenue is primarily derived from services provided to our customer subscribers and other third parties using our telecommunications network, and equipment sales. Revenues for all services and equipment sales are shown net of VAT, discounts and after eliminated sales within the Group, and are recognized when there is persuasive evidence of an arrangement that services have been delivered or equipment has been delivered, the price is fixed or determinable and collection is reasonably assured.

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

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

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

Notes to the consolidated financial statements continued

Significant accounting policies continued

(n) Revenue recognition continued

The IFRS revenue recognition policies for the different groups of services are below.

(i) Activation fees

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

(ii) Subscription fees (mobile and fixed line)

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

(iii) Outgoing traffic revenue

Outgoing traffic represents customer and third party use of our telecommunications network. Customers and third parties are charged for outgoing traffic based on their actual use of our network multiplied by a contractually agreed rate. The revenue from usage is recognized in the period in which service is provided to our customers or third parties.

Revenues from the sale of prepaid mobile cards are recognized when used by the customers or when the cards expired with unused units.

(iv) Incoming traffic revenue

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

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

(v) Leased lines and data transmission revenues

Leased line services are provided to customers on a monthly rental basis, while data transmission is charged on a unit basis. These revenues are recognized in the period of usage or availability of the service to the customer.

(vi) Equipment sales

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

In addition to the above described IFRS revenue recognition policies, the US GAAP reconciliation note will provide additional disclosures to the extent our revenue recognition policy differs between IFRS and US GAAP.

(o) Net financing revenues/expenses

Net financing revenues/expenses comprise interest receivable on funds invested, dividend income, foreign exchange gains and losses, and gains and losses on available-for-sale investments that are recognized in the income statement.

Interest income is recognized in the income statement as it accrues. Dividend income is recognized in the income statement when declared.

(p) Leases

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

Notes to the consolidated financial statements continued

Significant accounting policies continued

(q) Employees Benefits

(i) Pension and other obligations

The Group, in the normal course of business, makes payments on behalf of its employees for pensions, health care, employment and personnel tax which are calculated according to the statutory rates in force during the year, based on gross salaries and wages. Food allowances travel expenses and holiday allowances are also calculated according to the local legislation. The Group makes these contributions to the Government's health and retirement funds. The cost of these payments is charged to the income statement in the same period as the related salary cost. The Group does not operate any other pension scheme or post retirement benefits plan and consequently, has no obligation in respect of pensions. In addition, the Group is not obligated to provide further benefits to current and former employees.

(ii) Termination benefits

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

(r) Taxation

Income tax on the profit or loss comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly to equity, in which case it is recognised in equity.

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

Deferred income tax is provided in full, using the balance sheet liability method, on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred income tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted at the balance sheet date.

A deferred income tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred income tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(s) Comparative information

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

Notes to the consolidated financial statements continued

Financial risk management

Financial risk factors

Exposure to credit, interest rate and currency risk arises in the normal course of the Group's business.

(i) Foreign exchange risk

The Group incurs foreign currency risk on sales, purchases and financial instruments (deposits with banks) that are denominated in a currency other than MKD. The currencies giving rise to this risk are primarily USD, CHF and EUR. The Group uses cash deposits in foreign currency, predominantly in EUR and USD, and cash deposits in denars with foreign currency clause, to hedge its foreign currency risk.

(ii) Interest rate risk

The Group has no interest bearing liabilities, while it incurs interest rate risk on cash deposits with banks and loans to employees. No policy to hedge the interest rate risk is in place.

(iii) Credit risk

The Group does not require collateral in respect of financial assets.

At balance sheet date there was no significant concentration of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

Notes to the consolidated financial statements continued

1. Revenues

<i>In thousands of denars</i>	2004	2003
Domestic fixed line telecommunication services		
-subscription, installation and other charges	2,577,573	2,782,576
-traffic revenues	5,183,687	5,591,791
International traffic revenues	1,570,101	1,780,151
Mobile telecommunication services	5,875,329	5,443,193
Leased line and data transmission	554,650	540,963
Other	909,561	771,207
	16,670,901	16,909,881

2. Personnel expenses

<i>In thousands of denars</i>	2004	2003
Salaries	1,190,018	1,275,684
Contributions on salaries	538,161	540,872
Bonus payments	94,696	68,640
Other staff costs	1,067,432	282,689
Capitalised personnel costs	(73,899)	(121,520)
	2,816,408	2,046,365

Other staff costs mainly include termination benefits of MKD 812,245 thousands for 736 employees leaving the Group in the fourth quarter of 2004 (2003: nil).

3. Other operating expenses

<i>In thousands of denars</i>	2004	2003
Services	900,905	781,719
Cost of goods sold	844,620	630,778
Marketing and donations	505,843	504,242
Impairment losses on trade and other receivables	419,503	484,820
Materials and maintenance	414,419	503,477
Consultancy	401,883	462,423
Fees, levies and local taxes	290,793	215,554
Energy	163,993	173,269
Rental fees	138,192	165,929
Audio text services	119,178	162,784
Insurance	56,306	57,999
Write down/(reversal) of inventories to net realisable value	32,131	(17,280)
Other	28,349	45,935
	4,316,115	4,171,649

The remuneration of the members of the Parent Company's Board of Directors amounted to MKD 1,726 thousand (2003: MKD 1,673 thousand).

Notes to the consolidated financial statements continued

4. Net financing costs

<i>In thousands of denars</i>	2004	2003
Interest expense	2	82
Interest income	(202,262)	(115,870)
Bank charges and other commissions	18,051	19,374
Net foreign exchange loss	170,984	184,580
Change in fair value of available -for-sale investments	(2,475)	8,997
Dividend income	(1,285)	(1,437)
Impairment loss of available -for-sale investments	152	8,320
	(16,833)	104,046

5. Income tax expense

(a) Recognised in the income statement

<i>In thousands of denars</i>	2004	2003
Current tax expense		
Current year	300,339	473,489
Deferred tax expense		
Origination and reversal of timing differences	351,169	260,724
Total income tax in income statement	651,508	734,213

(b) Reconciliation of effective tax rate

<i>In thousands of denars</i>	2004	2003
Profit before tax	4,660,949	6,119,177
Income tax	15.0% 699,142	15.0% 917,876
Non-deductible expenses	2.8% 129,810	2.4% 144,645
Tax exempted revenues	(0.8%) (35,024)	(3.9%) (240,374)
Tax incentives not recognised in the income statement	(3.1%) (142,420)	(1.4%) (87,934)
	14.0% 651,508	12.0% 734,213

The tax authorities carried out a full-scope tax audit at the Group for 2003 and the first half of 2004. No issues have been identified in the performed tax audits.

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

Notes to the consolidated financial statements continued

6. Property, plant and equipment

<i>In thousands of denars</i>	Land	Buildings	Telecomm unication Equipment	Other	Assets under construction	Total
Cost						
At 1 January 2004	6,119	3,719,145	22,396,675	4,014,491	661,968	30,798,398
Additions		31,206	840,579	248,114	671,085	1,790,984
Transfer from assets under construction	219	22,636	461,109	37,742	(562,600)	(40,894)
Disposals	-	-	(266,074)	(217,802)	(645)	(484,521)
At 31 December 2004	6,338	3,772,987	23,432,289	4,082,545	769,808	32,063,967
Depreciation						
At 1 January 2004	-	901,631	8,478,729	2,285,158	-	11,665,518
Charge for the period	-	107,790	1,975,371	720,899	-	2,804,060
Disposals	-	-	(249,204)	(209,844)	-	(459,048)
At 31 December 2004	-	1,009,421	10,204,896	2,796,213	-	14,010,530
Carrying amount						
At 1 January 2004	6,119	2,817,514	13,917,946	1,729,333	661,968	19,132,880
At 31 December 2004	6,338	2,763,566	13,227,393	1,286,332	769,808	18,053,437

Operating lease rentals amounting to MKD 138,192 thousand (2003: MKD 165,928 thousand) relating to the lease of property and equipment are included in the income statement.



Notes to the consolidated financial statements continued

7. Intangible assets

<i>In thousands of denars</i>	Software	Concession	Other	Total
Cost				
At 1 January 2004	3,200,117	154,757	17,726	3,372,600
Additions	837,181	-	-	837,181
Transfer from assets under construction (See Note 6)	40,796	-	98	40,894
At 31 December 2004	4,078,094	154,757	17,824	4,250,675
Amortisation				
At 1 January 2004	857,141	92,855	5,401	955,397
Charge for the period	684,455	30,951	3,296	718,702
At 31 December 2004	1,541,596	123,806	8,697	1,674,099
Carrying amount				
At 1 January 2004	2,342,976	61,902	12,325	2,417,203
At 31 December 2004	2,536,498	30,951	9,127	2,576,576

8. Available-for-sale financial assets

<i>In thousands of denars</i>	2004	2003
Non-current investments		
Equity investments available -for-sale	136,851	134,376
Impairment losses	(39,071)	(39,071)
	97,780	95,305
Movement in impairment losses		
<i>In thousands of denars</i>	2004	2003
Impairment losses at 1 January	(39,071)	30,751
Impairment loss of available -for-sale investments	152	8,320
Write off	(152)	-
Impairment losses at 31 December	(39,071)	39,071

Out of MKD 97,780 thousand (2003: MKD 95,305 thousand) representing the total amount of investments, MKD 16,445 thousand (2003: MKD 16,440 thousand), for which active market does not exist, are stated at cost.

The remaining amount of MKD 81,335 thousand (2003: MKD 78,865 thousand) is stated at fair value of which MKD 64,926 thousand (2003: MKD 64,926 thousand) is calculated based on the independent valuation and MKD 16,409 thousand (2003: MKD 13,939 thousand) is calculated with reference to the Macedonian Stock Exchange quoted bid prices.

Notes to the consolidated financial statements continued

9. Non-current receivables

Non-current receivables represent loans granted to employees at an interest rate of 4.55% p.a. (2003: 4.55% p.a.).

10. Deferred tax income

Recognised deferred income tax assets/(liabilities)

Deferred income tax assets/(liabilities) are attributable to the following items:

<i>In thousands of denars</i>	Assets		Liabilities		Net	
	2004	2003	2004	2003	2004	2003
Property, plant and equipment	-	17,955	(425,714)	(51,255)	(425,714)	(33,300)
Intangible fixed assets	19,171	16,445	(104)	-	19,067	16,445
Receivables	234,318	181,963	-	(2,537)	234,318	179,426
Investments and deposits with banks	5,861	9,454	-	-	5,861	9,454
Trade and other payables	-	13,853	-	-	-	13,853
Inventory	1,260	83	-	-	1,260	83
Tax assets/(liabilities)	260,610	239,753	(425,818)	(53,792)	(165,208)	185,961
Set off of tax	(260,610)	(30,381)	260,610	30,381	-	-
Net tax assets/(liabilities)	-	209,372	(165,208)	(23,411)	(165,208)	185,961

Movement in temporary differences during the year

<i>In thousands of denars</i>	Balance 1 January 2004	Recognised in income	Balance 31 December 2004
Property, plant and equipment	(33,300)	(392,414)	(425,714)
Intangible fixed assets	16,445	2,622	19,067
Receivables	179,426	54,892	234,318
Available-for-sale financial assets and deposits with banks	9,454	(3,593)	5,861
Trade and other payables	13,853	(13,853)	-
Inventory	83	1,177	1,260
Net tax assets/(liabilities)	185,961	(351,169)	(165,208)

The main reasons for the timing difference relate to eliminated revaluation made in accordance with statutory requirements and differences between tax allowable and accounting depreciation charges. Also, the difference in the treatment of impairment losses for trade and other receivables for tax and accounting purposes contributed to the timing differences.

Notes to the consolidated financial statements continued

11. Inventories

<i>In thousands of denars</i>	2004	2003
Materials	118,587	207,942
Commodities	355,835	359,146
Write down of inventories to net realisable value	(14,185)	(18,768)
	460,237	548,320

Movement in allowance for inventories to net realizable value

<i>In thousands of denars</i>	2004	2003
Allowance at 1 January	18,768	37,985
Charged to expense	32,131	-
Write off of inventories	(36,714)	(1,937)
Reversal of write down of inventories	-	(17,280)
Allowance at 31 December	14,185	18,768

Allowance for inventory mainly relates to materials and petty inventory. The reversal of write down of inventories in 2003 relates to improved usage and ageing of inventories according to analyses performed at the year end.

12. Trade and other receivables

<i>In thousands of denars</i>	2004	2003
Trade debtors		
-Domestic	3,937,564	3,629,249
-Foreign	558,982	767,597
Less: allowance for uncollectibility	(1,718,739)	(1,375,197)
Trade debtors - net	2,777,807	3,021,649
Receivables from related parties	41,329	267,816
Advances given to suppliers	43,416	20,036
Less: allowance for uncollectibility	-	(1,427)
Advances given to suppliers - net	43,416	18,609
Loans given	22,000	25,907
Less: allowance for uncollectibility	(22,000)	(23,953)
Loans given - net	-	1,954
Prepayments and accrued income	54,042	58,214
Other	10,256	10,048
Less: allowance for uncollectibility	(1,726)	(1,800)
Other - net	8,530	8,248
	2,925,124	3,376,490

Receivables to related parties represent receivables from Deutsche Telekom AG Group.

Notes to the consolidated financial statements continued

12. Trade and other receivables continued

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

<i>In thousands of denars</i>	2004	2003
Trade debtors	2,777,807	3,021,649
Receivables from related parties	41,329	267,816
Advances given to suppliers	43,416	18,609
Loans given	-	1,954
Prepayments and accrued income	54,042	58,214
Other	8,530	8,248
	2,925,124	3,376,490

Movement in allowance for uncollectibility

<i>In thousands of denars</i>	2004	2003
Impairment losses at 1 January	1,402,377	891,477
Charged to expense	419,503	484,820
(Write off)/write back	(79,415)	26,080
Impairment losses at 31 December	1,742,465	1,402,377

13. Deposits with banks

Deposits with banks represent cash deposits with interest rates from 2.49% p.a. to 4.80% p.a. (2003: nil) with maturity of 6 months.

14. Cash and cash equivalents

<i>In thousands of denars</i>	2004	2003
Call deposits	6,940,134	4,518,016
Cash on hand	238	398
Cash equivalents	7,025	6,117
	6,947,397	4,524,531

The interest rate on short-term bank deposits ranged from 1.00% p.a. to 9.10% p.a. (2003: 1.30% p.a. to 13.50% p.a.); these deposits have maturities of 4 to 93 days (2003: 7 to 90 days).

15. Capital and reserves

Share capital consists of the following:

Share capital

<i>In thousands of denars</i>	2004	2003
Ordinary shares	9,583,878	9,583,878
Golden share	10	10
	9,583,888	9,583,888

Notes to the consolidated financial statements continued

15. Capital and reserves continued

Share capital consists of one golden share with a nominal value of MKD 9,733 and 95,838,780 ordinary shares with a nominal value of MKD 100 each.

As of 31 December 2004, the ordinary shares of the Parent company were held as follows:

Government of the Republic of Macedonia	4,516,412	47.12%
Stonebridge A.D.	4,887,778	51.00%
IFC	179,698	1.88%
	<u>9,583,888</u>	

The golden share with a nominal value of MKD 9,733 is held by the Government of the Republic of Macedonia. In accordance with Article 21 of the Statute, the golden shareholder has additional rights not vested in the holders of ordinary shares.

Statutory reserve

Under local statutory legislation, the Group is required to set aside 15 percent of its net statutory profit for the year in a statutory reserve until the level of the reserve reaches 1/5 of the share capital. These reserves are used to cover losses and are not distributed to shareholders except in the case of bankruptcy of the Company. Statutory reserves can be distributed at the approval of the shareholders meeting.

Dividends

Dividend of MKD 2,501,000 thousand was paid during 2004 based on the resolution of the shareholders dated 20 February 2004. Accordingly, dividend per share amounted to MKD 26.1. After the balance sheet date no dividend has been declared.

16. Trade and other payables

In thousands of denars

	2004	2003
Trade payable		
-Domestic	365,202	495,398
-Foreign	389,368	314,804
Liabilities to related parties	146,797	280,345
VAT and social security payable	110,714	70,739
Accrued expenses	394,402	297,619
Advances received	20,988	11,905
Deferred revenue	97,243	43,802
Salaries payable	4,961	25,400
Other	58,491	118,937
	<u>1,588,166</u>	<u>1,658,949</u>

Liabilities to related parties represent liabilities to Deutsche Telekom AG Group.

Notes to the consolidated financial statements continued

17. Commitments

Capital commitments

The amount authorized for capital expenditure as at 31 December 2004 was MKD 76,331 thousand (2003: MKD 262,823 thousand).

Operating lease commitments - where a group company is the lessee

Operating lease commitments were mainly in respect in the lease of buildings, business premises, locations for base telecommunication stations and other telecommunications facilities. The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2004	2003
Not later than 1 year	87,298	144,470
Later than 1 year and not later than 5 years	211,386	288,894
Later than 5 years	71,818	147,170
	370,502	580,534

18. Contingencies

A subsidiary is defending an action brought by Newsphone S DOO - Skopje with regards to lost future profits as a result of termination of contract by the subsidiary. While liability is not admitted, if defence against the action is unsuccessful, damage compensation would amount to MKD 983,083 thousand. Based on legal advice, the management does not expect the outcome of the action to have a material effect on the Group's financial position.

19. Related party transactions

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

Transactions with related parties

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



Notes to the consolidated financial statements continued

19. Related party transactions continued

Transactions with related parties continued

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

<i>In thousands of denars</i>	2004		2003	
	Revenues	Expenses	Revenues	Expenses
Deutsche Telekom AG, Bonn	251,377	151,280	441,592	163,619
Matav Magyar Tavkozlesi Rt, Budapest	66,354	77,503	57,090	65,486
Telemakedonija	252	355,760	201	355,558
Stonebridge AD	-	-	1,541	-
Communications	-	-	3,297	1,337
T-Mobile Hungary	2,715	1,624	-	-

20. Group enterprises

Subsidiaries

	Country of incorporation	Ownership interest	Ownership interest
		2004	2003
Mobimak	Macedonia	100	100
Mont Mak	Montenegro	100	100
C&C	Macedonia	-	100
E-Macedonia	Macedonia	100	-

Mont Mak AD Podgorica operates a hotel resort in Montenegro, State Union of Serbia and Montenegro. The management of the Parent Company has decided to dispose this subsidiary in a near future and appropriate actions have been initiated. For this reason, Mont Mak is excluded from consolidation in these financial statements and classified as investment available-for-sale.

C&C, which was a non-operating subsidiary was closed during 2004.

During 2004, the Group established the E-Macedonia foundation with the main purpose support of information technology development in the Republic of Macedonia. E-Macedonia foundation was consolidated within the Group's financial statements.

21. Subsequent events

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

Notes to the consolidated financial statements continued

22. US GAAP reconciliation

Group consolidated financial statements are prepared in accordance with International Financial Reporting Standards, which differ in certain respects from U.S. GAAP. The principal differences between IFRS and U.S. GAAP are presented below, together with explanations of the adjustments that affect consolidated net income and total equity as of and for the years ended 31 December 2004 and 2003.

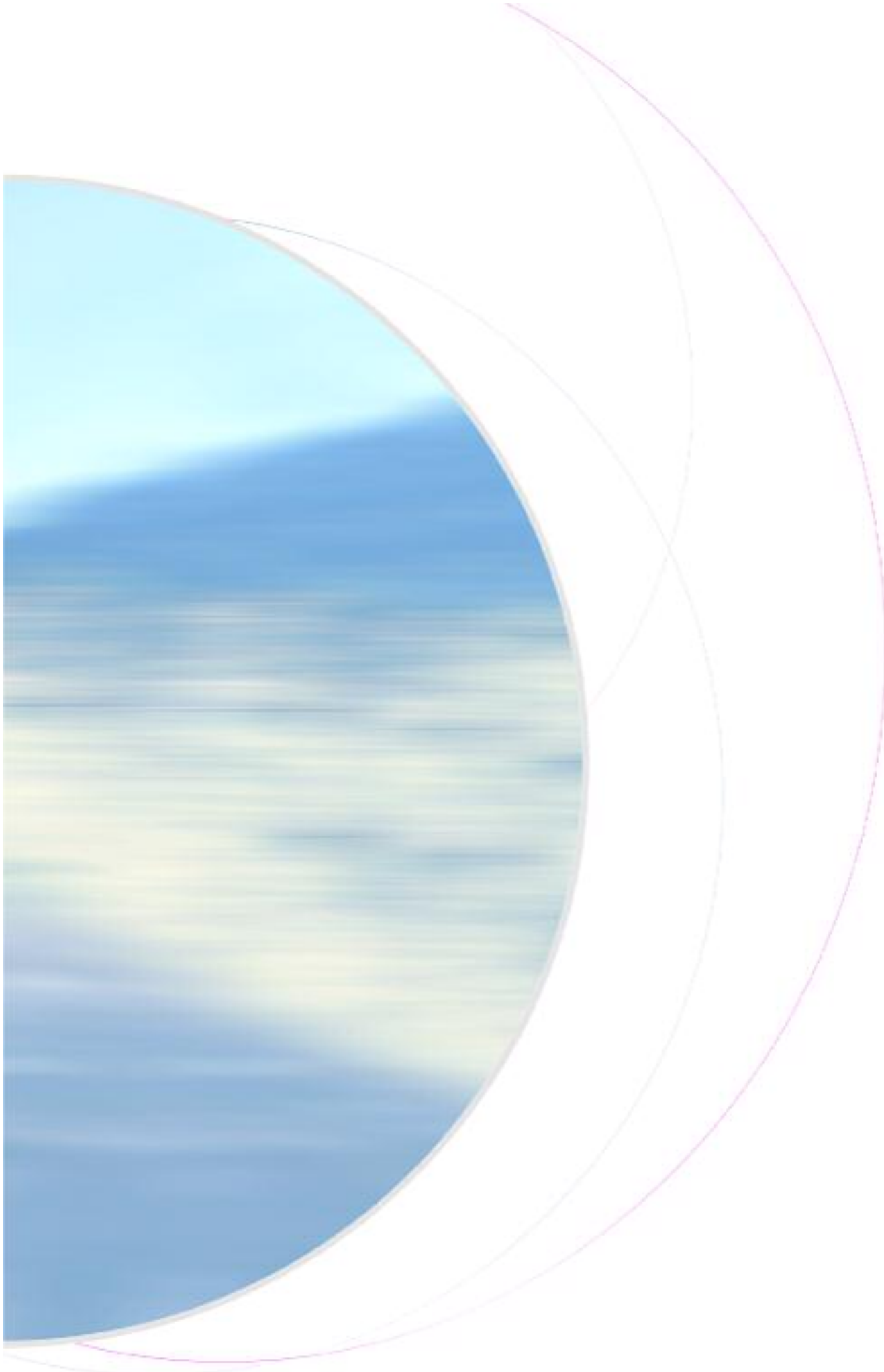
<i>In thousands of denars</i>	2004	2003
Net income		
Net deferred revenue recognized on connection fees paid - deferred at initiation and recognized over average customer life	310,942	159,248
Depreciation on capitalized interest on assets under construction in accordance with statement of financial accounting Standard 34	(335)	(335)
Total increase in net income	310,607	158,913
Equity		
Opening balance adjustment to retained earnings for cumulative effect of change in deferred revenue recognition policy	(1,345,307)	(1,504,220)
Adjustment to retained earnings in current period	310,607	158,913
Net decrease in retained earnings	(1,034,700)	(1,345,307)



MT shops

MT shop	Address	Telephone number	
Skopje			
Business Centre	Lermontova 2	02/329 9472	02/329 6602
Cair	Dzon Kenedi bb	02/263 0060	
Novo Lisice	Video Smilevski-Bato bb	02/245 9930	
Karpos	Nikola Rusinski bb	02/306 5388	
Cento	Madzari bb	02/252 9200	
Dracevo	Janko Misic bb	02/279 1112	
Bit-pazar	Krste Misirkov 7	02/329 6873	
Biser	Jane Sandanski 82 lok.3	02/240 3702	
Vinica	Bel kamen bb	033/362 112	
Veles	Blagoj Gorev 1	043/231 358	
Valandovo	Mosa Pijade 9	034/382 777	
Tetovo	Ilindenska bb	044/334 004	044/334 008
Strumica	Marsal Tito bb	034/334 130	
Struga	JNA 25	046/784 135	
Sveti Nikole	Plostad ILINDEN	032/440 900	
Resen	Tase Milosevski 8	047/456 419	
Radovis	MARSAL TITO bb	032/633 180	
Probistip	Jordan Stojanov bb	032/481 550	
Prilep	Gorce Petrov bb	048/401 390	
Ohrid	Makedonski prosvetiteli 4	046/200 228	
Kumanovo	Marsal Tito bb	031/438 666	
Kriva Palanka	Marsal Tito bb	031/375 905	
Kocani	Marsal Tito bb	033/273 109	
Kicevo	Marsal Tito bb	045/223 280	
Kavadarci	Ilindenska 20	043/420 000	
Gostivar	Ilindenska 35	042/218 012	
Gevgelija	Marsal Tito bb	034/216 216	
Delcevo	Metodija Mitevski-Brico 3	033/414 205	
Debar	Velko Vlahovic 2	047/228 112	
Bitola	Ruzveltova bb	047/228 112	
Berovo	Marsal Tito 64	033/472 808	
Stip	Josif Kovacev bb	032/381 121	





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