

annual report 03



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Company Profile



Shareholders Structure



51% KAMENIMOST
(Matáv, Kosmotelco, SEEF)

47.125% REPUBLIC OF MACEDONIA

1.875% IFC

Steps further into the world of telecommunications, steps closer to our customers...

As the leading national telecom operator providing public telecommunication services in Republic of Macedonia, we always look forward and continuously strive for ongoing improvement of our operation.

We are a modern company with state of the art technology, we are constantly looking toward implementing the latest technological achievements to make more comfortable and easier the life of our customers.

Being user-oriented we follow the needs of citizens and provide a wide range of telecommunication services – telephony, telegraph and telex services, phone box, rented lines, mobile telephony, internet services, data transmission services, VSAT, and many others.

For the purpose of more efficient functioning and better services provided for users there are special units differentiated within the frames of MT, they are as follows:

- **MTline**, center of fixed telephony
- **MTnet**, center of internet and IT
- **MTcom**, center of business users
- **MobiMak**, center of mobile telephony, which from June 1, 2001 functiones as a separate legal entity in the form of a daughter company.

We make continuous efforts for improvement, show flexibility, react quick to the needs of the market, take care of the relations with our users, employees and business partners. The confidence MT has acquired so far is a result of hard work of our devoted team.

The center of MT universe is the customer, the focus of all activities. Our goal is to build a professional and friendly relationship with our customers, satisfying all their needs for communication and foreseeing their future requirements. We respect the needs of our partners and therefore we systematically measure the quality of the services we provide.

Each step achieved helps us to realize our mission – to stay truly close to our customers. We are taking considerable steps towards facing forthcoming competition in the telecommunication market by making the company more competitive and market-focused. We are always ready to support the community, because in this way we invest in something that we are part of, and that is of highest importance to us – the future of the Macedonian people.

Placed for further active expansion, with a combination of critical mass and elasticity, a worldwide view and the commitment to the needs of our primal goal – satisfied customers, we move forward.

We will continue to be open and available to them, we will continue to give and offer quick, efficient, and uncompromising quality of service. We will continue to offer opportunity and choice to everyone, always trying to be up-to-date with the wishes and needs of our top priority – Our Customers.

We are happy and proud that with all our achievements of 2003 we mark one dynamic and fruitful year.

Development of the company

Up to January 1, 1997, the predecessor of the company provided telecommunication, post, banking and other services in the Republic of Macedonia, under the name of PTT Makedonija.

Upon the decision of the Government of the Republic of Macedonia, coming into effect as from January 1, 1997, PTT Makedonia was divided into two legal entities – A.D. Makedonski Telekomunikacii and A.D. Makedonski posti. Thus, the post works were separated from the telecommunications and telegraphy, as were the respective resources and responsibilities.

In order to prepare for the privatization process, in March 1998, the company was registered as a shar holding stated-owned company.

On January 15, 2001, the Government of the Republic of Macedonia and the consortium led by the Hungarian telecommunication operator Matáv signed the Agreement on sale of the shares of MT, and thus Matáv entered in the shareholder register

Structure

Structure of MT shareholders

- **Kamenimost** (Matáv, Kosmotelco, SEEF) with 51% of shares;
- **IFC** with 1.875% of shares; and
- **The Republic of Macedonia** with 47.125% of shares, including the golden share.

CEO statement

We have a great vision.

We have a great mission.

We have great goals.

Connecting a valued past with future possibilities we are moving forward.



*Dear Shareholders, Customers,
Partners and Employees,*

I have always thought MT to be an extraordinary company and I believe it even more after this year of real and great success.

2003 was a very good year for us. We worked hard by building upon our solid foundations with dedication towards accomplishing a successful company operation-focused on shareholders, customer and employee's satisfaction-stable financial condition and company transition.

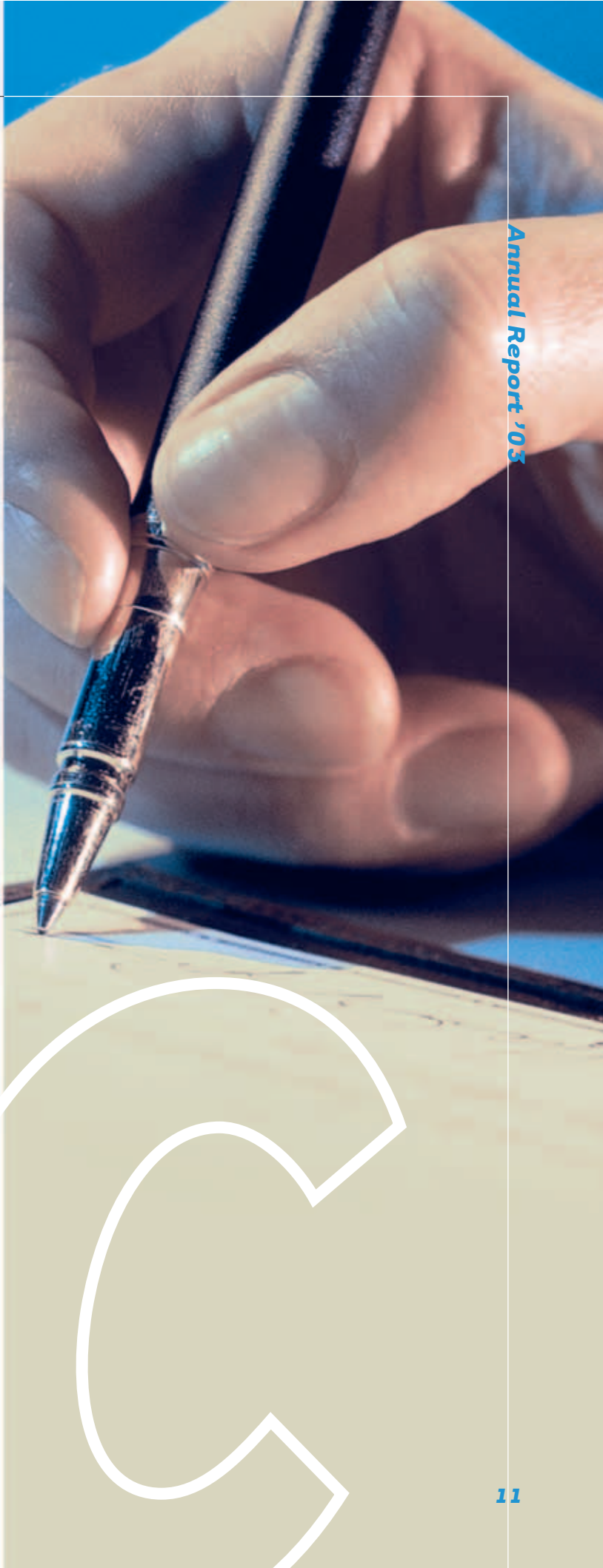
We have clearly defined where we want to take our company, and we continue to act decisively to improve our efficiency, reduce our costs, raise our revenues and increase our margins. These were and continue to be our priorities.

2003 also brought with it many changes. We carefully planned each of our steps both externally and internally. Each of these changes moved us closer to achieving our vision, mission and goals.

We remain committed to our strategy and are confident in our ability to meet our goals. We are also aware that none of this could have happened without the loyalty and support of our shareholders, customers, business partners and employees. Our people are and continue to be the basis of MT's strength and success.

The company's growth can be attributed to the hard work and determination of its employees. Each and every member of the team contributes to make MT a powerful market player.

In 2003 the company surpassed the previous year's targets. We have started with the reorganization of the company and the Board of Directors



approved the new changed management programme for the company – *Road to Success*. Our entire year was dedicated to the preparation of the *Road to Success* programme, and by the end of the year we officially started its implementation.

With strong effort and outstanding leadership we have created the future vision of the company. Thanks to all 1,000 of our dedicated employees who took part in creating and finalizing the vision, we have formulated the most important characteristics of our future company and we are continuously evaluating our achievements towards it.

We have also started the re-organization of the company in perfect harmony with the concept of the *Road to Success* programme; a customer-focused company utilizing the latest technical advances.

Our priority for 2003 was to increase the company value through enlarging our consumer base with the introduction of new services by constantly analysing market needs and demands.

There were further achievements towards the continual improvement of our ASAP system as we introduced new models and implemented the new billing system. Aside from being a huge technological achievement, the new billing system is able to provide detailed bills to our customers, based on their own requests. This gives us the opportunity to provide detailed bills not only for fixed line but also for the Internet and all other relevant services offered by the company. The total network of our company is state-of-the-art technology.

From a financial point of view our company is in good shape. We have the financial resources to invest in other businesses and to find and develop other opportunities outside of our existing activities.

In 2003 we paid a dividend to our shareholders, we are now absolutely debt free and the performance ratio was above 50%, which is a great result for the industry.

One of our main goals is, and will be, the stable financial position of the company, providing profit not only as a part of the shareholders' business plan, but also as a contribution to the citizens of the Republic of Macedonia with investment in all MT business activities and infrastructure.

With this and many other achievements we can state that our company performed well in 2003 and we delivered strong results for the year. In the face of a difficult global economic condition, and rapid market changes, we have taken steps to assess and develop our business portfolio. We are stronger and better positioned to serve our customers, our employees, our business partners and shareholders than ever before.

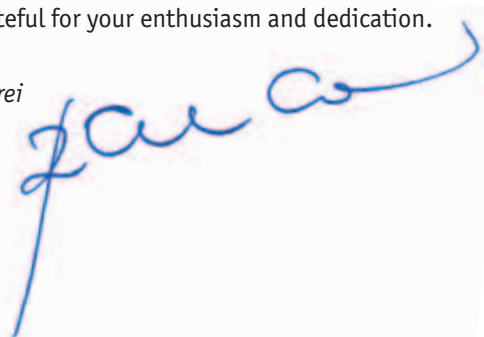
We have to work on reaching our goals every day, connecting our vision and strategies with our people and our operations. This means that each and every one of us is part of our *Road to Success*.

Our objective is to create a world-class organization with a world-class workforce. By being open to ideas, continuously learning and applying new knowledge and skills, making decisions on time, being creative risk-takers, and holding ourselves accountable for the results we are committed to achieving, we are achieving our goals.

Dear employees, I want to reassure you all that we do notice, we do appreciate what you do, we do value it and we are extremely grateful. Thank you for your dedication, thank you for your imagination and thank you for achieving the goals of another year.

Dear business partners and shareholders: You have made a huge contribution to this year's success and I am very grateful for your enthusiasm and dedication.

Attila Szendrei





***Forward
looking
statements***

Our Vision

To become the best telecommunications operator in the region and to expand our activities into other markets.

Our Mission

To satisfy the telecommunication needs of the people, businesses, and institutions in Macedonia and, thereby to enhance the quality of life.

To develop MT into a customer-oriented company, measuring our success in terms of the quality of services we provide, the satisfaction level of our customers, the rate of new customer acquisition, and the overall profitability of our company.

To promote and participate in the construction of an information society in the Republic of Macedonia, and to promote this, as a regional model for the "networked economy".

Chairmen and Board of Directors



Success is our goal

MT always invests in its key strategy - to have satisfied customers. Together, we are building a world where all our customers are satisfied; we build a world where we look towards new possibilities, where we strive for constant improvement and creation of an optimal system in the telecommunication world.

The Board of Directors of MT takes an active participation in the company management. Through their dedication, MT is constantly focused on the progressive flow of technology, increasing the company's efficiency and above all, customer satisfaction.

Pursuant to the Shareholders' Agreement and the Statute of MT, the Board of Directors of MT has a governing leadership function; it consists of nine non-executives and one executive member.



Borce Davitkovski
President

Representative of the Republic of Macedonia. He has been a non – executive member and President of MT’s Board of Directors since December, 2002.



Stavros Nikos Stavridis
member

Representative of Stonebridge AD. He has been a non – executive member of MT’s Board of Directors since its constitution, in January 2001.



Gavriilo Dzikovski
member

Representative of the Republic of Macedonia. He has been a non – executive member of MT’s Board of Directors since December, 2002.



Siegfried Pleiner
member

Representative of Stonebridge AD. He has been a non – executive member of MT’s Board of Directors since September 2001.



Asan Jakupi
member

Representative of the Republic of Macedonia. He has been a non – executive member of MT’s Board of Directors since December, 2002.



Ronald O. Drake
member

Representative of Stonebridge AD. He was elected non – executive member of MT’s Board of Directors in March 2001.



Simo Gruevski
member

Representative of the Republic of Macedonia. He has been a non – executive member of MT’s Board of Directors since December, 2002.



Bence Várady - Szabó
member

Representative of Stonebridge AD. He was elected non – executive member of MT’s Board of Directors in September 2002.



Horst Hermann
member

Representative of Stonebridge AD. He has been a non – executive member of MT’s Board of Directors since its constitution, in January 2001.



Attila Szendrei
executive member

He was appointed Chief Executive Officer of MT and elected executive member of MT’s Board of Directors in September 2002.

Management Committee



**Responsible,
persistent and
with a clear vision**

Behind the success of the company, stands the core team consisting of the MT leadership. With their unreserved commitment and constant effort to exceed the planned programmes and expectations, Makedonski Telekomunikacii has risen to become the top telecommunication operator in the region.

With a team of highly flexible, talented and innovative professionals; they work everyday to ensure efficiency and safety in the company operation as they continually strive for perfection.

2003 will be seen as a year in which we made a huge step towards fulfilling our mutual goals, namely positioning and defining a customer and market-oriented company, with a clear economically charged expenditure, a company with improved efficiency and productivity which builds a successful corporate culture and finally, a company with a clear vision – truly close.

The Management Committee of MT consists of: Chief Executive Officer, Chief Officers of the functional departments and the Executive Officers of the lines of business of MT.



Management Committee



"MT is a company that cares for its customers constantly improves and strives towards better telecommunication environment for all of us. I am proud to be a part of such a successful company"

With a bachelor's degree in technical and economical engineering and extensive experience in large companies such as Videoton and Zwack Unicum, Mr. Szendrei joins the Matáv Group as CEO of Matávkábel TV. Since September 2002, as CEO of MT and executive member of the Board of Directors of MT, he has been successfully running the company, following the vision: *Makedonski Telekomunikacii - the leading operator in the region.*



"Focused on positive results we create our operation strategies"

Bence Várady-Szabó has a bachelor's degree in economy from the Budapest University of Economic Science and specialized in Economic Franchise at ELTE, Budapest. After five years work experience as the Deputy Director in Matáv's financial sector, as part of the Investments Portfolio and the Strategy Department, he arrives in MT as the Chief Executive Officer of TeleMacedonia. In March 2002, he was appointed as the Chief Financial Officer of MT.



"Constantly moving forward, developing network infrastructure, implementing latest technological achievements and keep on being a modern company is what we strive towards everyday"

Siljan Roglev is an electrical engineer with a vast experience in telecommunication. Since 1984 he has been working in J.S.C. "Makedonski Telekomunikacii" in several responsible positions. Siljan Roglev was the Director of the Total Quality Control Sector in MobiMak and today is the Chief Technical Officer of MT, caring for the enormous responsibilities taken with the Concession Agreement for advanced technical development in the company.



Ildikó Magyar

Chief Marketing Officer

"Customer oriented, committed to their needs and demands we have worked, we work and we will work to keep our products and services truly close"

Ildikó Magyar has a bachelor degree in electro technical and economy engineering with certificates for ISO revisionist, technical controller and changes management. She worked as a researcher and main co-operative for wireless networks in the Hungarian Post and as representative of several French companies (TRT, Philips, LUCENT, Thomson, Dassault). Before joining MT she was the Director and owner of a company for wireless installation (NMT, GSM, Micro). In March 2002, Ildikó Magyar became the Chief Marketing Officer of MT.

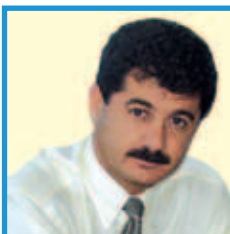


Márton Halasi

Chief Human Resources & Administration officer

"Our employees are our capital and investing in them is investing in our future"

Márton Halasi has a bachelor degree in telecommunication engineering and master's in wireless telecommunications, technical education and sociology. His talent for successful moderation and human relations has allowed him the opportunity to gain even greater experience with the Samsung Electronics Company, the ING and Kereskedelmi és Hitelbank banks, where he worked for more than 13 years. Márton Halasi came to MT in 2003 as Chief Human Resources & Administration Officer.



Kiril Trendafilov

Chief Executive of MTline

"Constant care for our customers is our everyday task. The demands and needs of the customers create our new products and services that we offer on the market"

Kiril Trendafilov has a bachelors degree in electro and IT engineering, with several IBM certificates (database administration, system engineering, CICS). With an extensive working experience behind him, he joined the MT family in 1999 as Regional Center Director in Ohrid. In March 2000, he was promoted to Chief Operating Officer at MT and from 2002 he was appointed as Executive Officer of MTline – the fixed telephony line of business of MT.



**Ognen
Firfov**

Executive
Officer
of MTnet

"We go forward towards opening the world of Internet to our customers"

Ognen Firfov has a bachelors degree in Electronic engineering and a master's degree in computer sciences. He has worked in the telecommunications field for many years. With a wide experience as assistant programmer and system engineer in the telecommunications sector, he was appointed as Director of the line of business MTnet in July 1998 and with the new organizational structure, Ognen Firfov was appointed as Executive Officer of MTnet, Internet and IT Centre of MT.



**Toni
Rusomarovski**

Executive
Officer
of MTcom

"We constantly strive to expand the spectrum of our integrated solutions and new services for the needs of our business customers"

Toni Rusomarovski has a bachelors degree in engineering and telecommunications with work experience in system design and microcontrollers programming and has been working in MT for eight years. During his career with MT he has written a number of scholarly papers and led seminars at international conferences. From different engineering positions related to network planning and the position of Director of Sales Sector, in April 2001, Toni Rusomarovski was appointed as Executive Officer of MTcom, the business customer's line of business of MT.

***Functional
areas and
lines of
business***

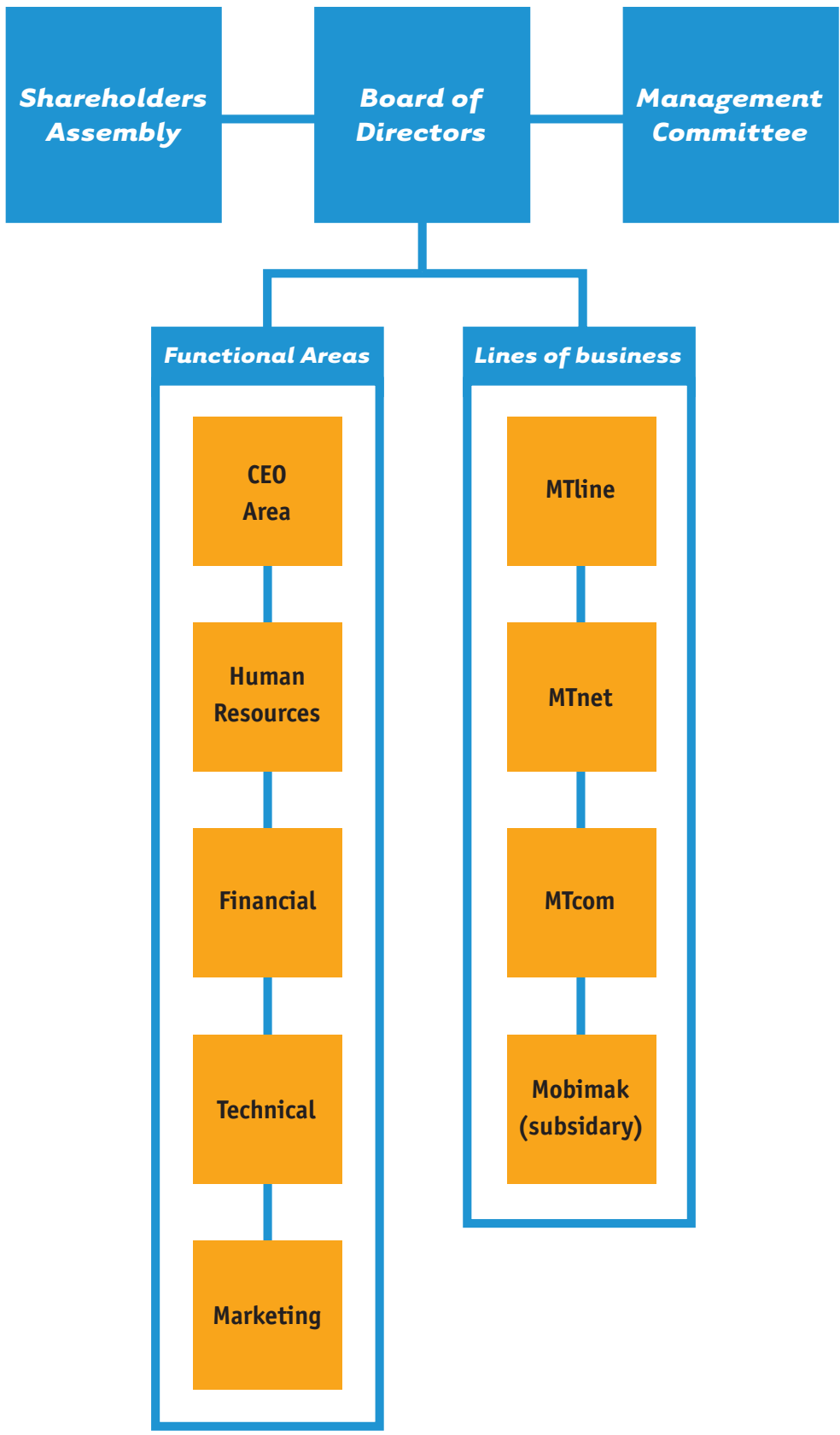


Good organization and coordinated goals

MT has clearly defined, easily understandable processes and procedures which allow efficient implementation of the same. All organizational units of the company cooperate amongst themselves, supporting each other in mutual activities.

The good sector operations are based on efficient intercommunication and timely, accurate information. For that purpose, information technology systems have been implemented to support general processes and activities. Each sector develops its own programme and strategy and works on implementing the same. With constant market analysis and customer responses each sector develops a working strategy fully adapted to the customer needs.

The latest results show that MT has a constant customer increase and wider services exploitation. Motivated by the success so far, we will continue to work on the improvement of our organizational system with greater élan and at the same time we will dedicate to each sector productivity and efficiency.



Fixed telephony

Following our vision to improve quality of service and to improve customer relations, we can proudly state that we have successfully achieved our main year targets.

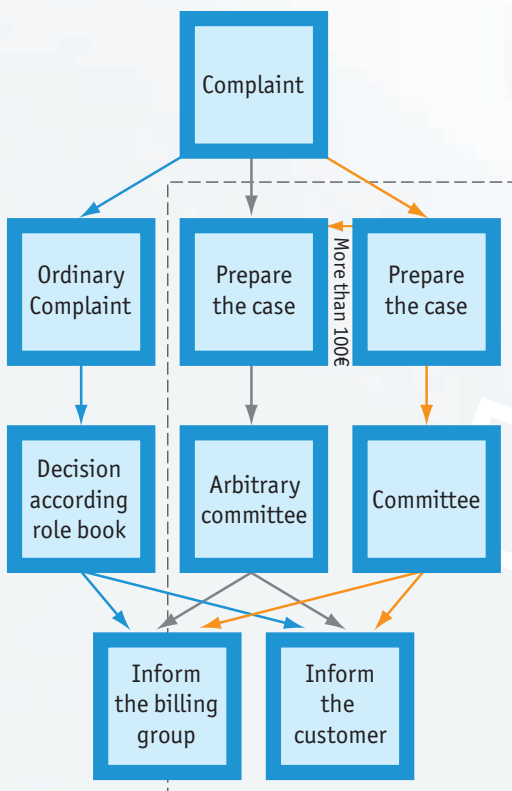
To be more accessible to the customers, to offer them services according to their needs and to maintain good communication - are our main goals



Customer Care Management

One of the most important tasks of this area is to manage customer complaint handling. For this purpose there are specialized functions in 14 regions and the arbitrary committee is the highest body in the company for handling complaints. The task of this management is to follow the work of committees, to prepare all necessary reports, to prepare all customer's complaints for the arbitrary committee, to inform the customers about the results of complaints, to make adjustments if needed and to handle the complaints that do not needed to be resolved by a committee.

The process of solving customer complaints is the following:



Customer Care Management

A further task of this department is to organize customer reminders for their debt by the Call Centre or by automatic calls.



Directory Assistance Department

This service gives information to the customers regarding telephone number, name and address. The department covers 13 regions and Skopje. The working time is: for regions from Monday to Saturday, in two shifts, in Skopje seven days a week in three shifts (24 hours). From the regions after 20:00 hrs and Sunday the calls are automatically transferred to Skopje.

This service will be centralized with migration process into the central Call Centre until the end of 2004, which means in two locations, Skopje and Veles.

Another service of this department is international connection with operator (semi-automatic traffic), to provide a better quality of service, this service is provided with new technical equipment. Also the wake-up call service belongs here. The last two services are only provided by Skopje, 24 hours, 7 days a week. These service functions will also move to the Call Centre.

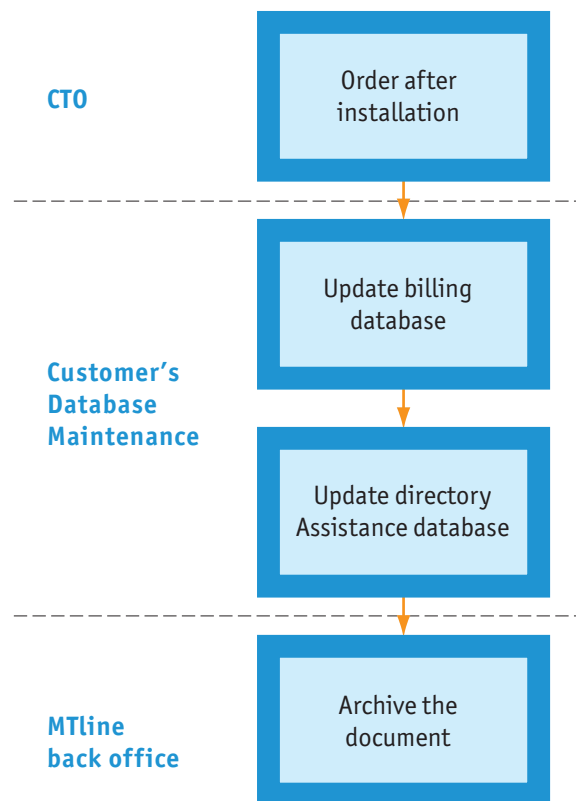
The first phase of implementation of the Call Centre is finished. The employees are chosen and trained. The information provided will be the most frequently asked questions such as MT products, price of services, campaign information, billing information, debt collection, active participation on sales campaign and recollection campaign, reminding the customers for non-paid bills, gauging customer satisfaction.

Fault Reporting Department

The main task of this department is to receive the calls from the customers when they have a fault on their telephone line, to forward the order to the CTO responsible area and to give relevant information to the customer about the reasons and way of correcting the fault. This service will move to the Call Centre.

Customer's Database Maintenance

The main task of this department is to provide updating of the billing database and the customer database used for directory assistance. In this department will be include and a *White Pages* department, which is presently responsible for data clearance for the customer's database. The department is organized in 13 regions and in Skopje.



Business solutions

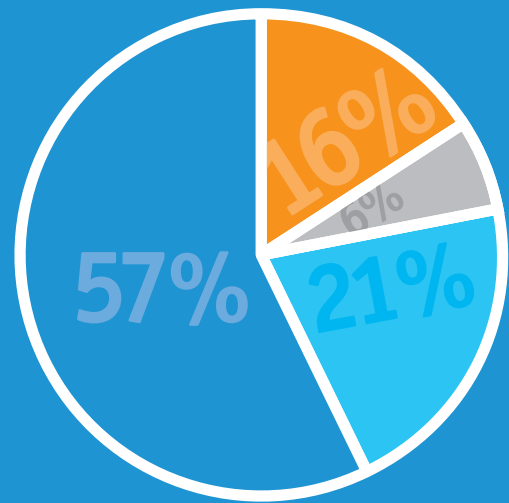
This year we have taken a step further to improve in quality from our customer's point of view.

In today's modern world our dynamic team is shearing its knowledge and professionalism with clients, and is constantly in creation of services which meet the latest business requirements.

We are aware that the development of a solid business plan of our customers relies extensively on effective communication services. MTcom is committed to provide all its business partners with tailor-made services according to their needs. This year MTcom has continued to provide cutting edge integrated communication solutions that empower its business customers in Macedonia.



Revenues Structure



- 57% VOICE SERVICES
- 21% DATA SERVICES
- 16% INTERCONNECTION
- 6% INTEGRATED SOLUTIONS

For successful business

MTcom, MakTel's business unit, was established at the beginning of 2001 with the vision of becoming the leading system integrator in Macedonia devoted to servicing the key business organizations. During 2003 MTcom continued to gather a complete knowledge of the business processes of its customers while simultaneously implementing the latest IT and telecommunication standards. With the development, implementation and managing high performance business solutions created to cover the specific needs of our customers, they could optimize the internal processes, decrease the expenses and improve their own performance. By our solutions and services the business units could become more competitive in the market and the public institutions and became more able to the quickly adapt to the new working conditions.

During 2003 MTcom continued to work applying the principle of Key Account Management, overcoming the traditional way of communication with business users. In the realization of the communication needs and demands, our users have a dedicated contact point - the account manager from MTcom. This way of working improved our relation and care for our customers and provided much easier communication. Due to the fact that one of the major factors for customer satisfaction is the customer care, MTcom at the end of the year started internal organizational improvements especially in this area. This organizational improvement will continue in 2004 in the direction of improving the customer contact and care activities.

Following the latest world trends in telecommunication and information technology, MTcom offers modern communication services and equipment. The basic platform for these solutions is the port-

folio of services from Makedonski Telekomunikacii: voice (PSTN, ISDN BRI, ISDN PRI, and analogue leased lines), data (digital leased lines, FR, X.25, IP VPN) as well as telecommunication equipment from eminent producers.

Total revenues for 2003 are 2,450 million denars out of which the greatest portion have the revenues from voice services with amount of 1,400 million denars. The trend of greater usage of the data services started in 2002, becoming even stronger in 2003. Furthermore, the revenues of data services are 520 million denars, which represents an increase of 19% compared to year 2002. As a result of reposition of these services the greatest increase of 162% compared to the previous year is booked in the IP VPN service, out of which revenue of 23 million denars is realized.

We have also developed partnership relation with our customers and created cooperation such as LOTO Online with Macedonian Lottery and Visa informative center – service established for the Embassies.

Regarding the marketing activities during 2003, MTcom organized many presentations of services in cities throughout Macedonia, as well as promotional conferences of IP VPN service. These types of events are of great importance due to the fact that direct contact with the users is realized, presentation of solutions is made and customer needs are stated. Also, representatives from MTcom participated at the most important conferences as speaker experts, presenting the new communication solutions for different business segments.

According to the plans for 2004, MTcom will continue to work on new innovations and improvement of the quality of already existing services. Special accent is put on the development of broadband services, such as promotion of Metro Ethernet service for data transfer with gigabits speed and ADSL for business users. MTcom will also promote the offer for data services with more quality levels and the customers will be able to choose the most appropriate solution for their businesses.

Internet

Following the global IT development of recent years, MTnet continues to constantly implement new software solutions and web services, offering its customers to provide them with various bundles, services and Internet solutions.

MTnet aims to provide the fastest, reliable and most user friendly access to the Internet for all its customers.

The success achieved by MTnet in 2003 shows that even the most ambitious plan can be implemented through effective team dynamics.

Excellence in service, business integrity and long-term commitment to our customers are the guidelines in our everyday work.



Revenues Structure



62.01% TRAFFIC (Hours)

4.07% OTHER

32.48% IDA

1.44% POST PAID

Get Connected...

MTnet is the biggest Internet service provider in the Republic of Macedonia that follows the development trends in the area of Internet and it provides possibility for Internet access to its users through a leased or telephone line, web services (hosting and design) as well as software for operation support in banking, insurance, education etc.

MTnet as part of the organizational structure of Makedonski Telekomunikacii, commercially started offering its services on December the 7th 1995, based on the need for development of new communication technologies in a modern, flexible and competitive way. Since then the number of users has been continuously increasing as well as the number of different services and the technological equipment.

The operative processes within MTnet are organized in four functional areas with total number of employees – 100 (73 permanently engaged and 37 temporary engaged).

The total revenues for 2003 are 363.2 million denars and the greatest portion is from the revenues realized through the Internet traffic (with 62,01%).

Following the latest international development trends in the telecommunication area and Internet, MTnet is continually improving the Internet service towards the users and develops new services and products. MTnet is ready to respond on time and with an adequate solution constantly proving its marketing orientation towards the customers regardless the capacity, technology and the need of quality Internet connection.



During 2003 MTnet offered the following services that are of great importance for the common citizen as well as for efficient operation of the modern business:



- **ADSL** – introduced for the first time from MTnet on 17 December, provides fast access on the Internet with a speed up to 8Mbps for download and up to 1Mbps for upload, 24 hours Internet with a flat low monthly rate, without any limits on the time spent on the Internet, always on-line without necessity for connecting or disconnecting whenever the user wants to open or close the Internet session. The introduced ADSL creates base for development of IP broad band services.

- **Different types of dial up access** regarding the post paid packages offered and the user according to its needs chooses *Surfer+* package (from 5, 10, 20 or 30 hours).

- **The pre-paid packages** are for users that want to have complete control over the Internet expenses or have time-limited need of Internet access.

- **IDHC** – system offers possibility for leasing “only yours” professional server configuration or setting of your server and its connection directly on BackBone internet network.

- **IDA - Internet Direct Access** is MTnet service handling business users that need service with high performances, level of security and dedicated connection on the Internet.

MTnet in 2003 supported the following projects: *Schools on line* – providing free internet access for 51 (elementary and high) schools, number of concerts of famous groups and singers interesting for internet target group, *White Bear skiing school* of MobiMak and MTnet.

MTnet portfolio of services is additionally offering a wide range of web and content services. The informative content, SMS info, WAP service as well as other content services are available trough MTnet portal. The marketing communication of MTnet is directed towards constant improvements of the relation with the customers and their education for usage of the services based on the Internet as a base for improvement of the main business.

MTnet has 33 sales agents and 28 indirect sales channels. Strategic goal of MTnet is to stay as the leading Macedonian (regional) Internet authority, a name that will be connected with the e-commerce and e-banking.

By developing the CA platform in 2003, MTnet created the base for implementation of projects of digital economy and development of B2B and B2C communication, MTnet is in the best position to overtake the leading role in providing Internet services and web contents, with main goal, increasing the level of Internet presence and usage in Macedonia.





Our modern age can not 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-orientated philosophy, and our commitment to continuously developing toward our goal: to create inspiring moments for our customers.

Operations report

2003 was a year of extensive market challenges and important business achievements for the Managerial Team of MobiMak. MobiMak's exceptional 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.

Last year, 2003, MobiMak expanded its customer base to 500.000 satisfied customers in a competitive market environment. This only goes to show that our motto 'Customer First' has successfully improved our customer trust and continued to expand our customer base. In addition this year MobiMak also devoted much of its time to improve current service quality, as well as implement new and modern mobile technology. 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 70 countries in the world thanks to more than 165 roaming partner operators is another demonstration of our drive to provide an unbeatable service and maintain competitive advantage.

Among this year's achievements we saw MobiMak being awarded an ISO 14001 certificate as a result of the successful implementation of the Environment Protection Management System. The implementation was based on the existence of an environmental policy, fully backed by MobiMak's top management and which defines company policy not only towards users, but also towards the environment within which it operates.





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. This year we promoted the GPRS service, then the MMS possibility, the multi media possibilities 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 in 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 populations 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 users, 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.

Completing the circle by opening new and re-branding all old MobiMak shops with the new company image and at the same time opening new joint shops with Macedonian Telecommunications was a moment to cherish for all of us. We finished the process of investments in our own sales facilities; during 2003 we rounded our own sales network and reached all the inhabited places in Macedonia. Today 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 been to exceed 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 2003, 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 2003: The humanitarian Race on Wheels, the Mobi Day; Several Forest planting activities throughout Macedonia; The Skopje Zoo Project; Family Days; M2 Project; New Year's celebration party for the Skopje citizens. 2003 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, our cooperation with Kaliopi and Avalon; the Skopje Jazz Festival, 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, new tariff models, 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 moments to mark our common dreams with our customers.

At the beginning of the year we introduced Mobi Marathon. Also on the first of January we offered 50 % discount for all our customers and launch new campagne for tandem2 and GPS tariff Model. We are very proud of our actions in April and May through our promotion of Absolute Genius – service with which our customers received 100 denars free, we also reduced the prices for the roaming calls, we promote new tariff model Mobi + Tri and reduced the prices for Mobi Pro.

During the summer we reduced the prices for the pre-paid roaming, we announced the changes for VIP tariff models and we promote new services GPRS and MMS.

Throughout 2003 we continued to introduce additional discount offers such as Special Day Ilinden-50%discount, and introduction of Mobi Green. We are also very proud with our Loyalty package for Mobi Pro 2, SMS bill control, introduction of free call charges for emergency calls for foreign roamers and IVR Kiosk Services.

Call hold and Call wait, conference call for pre paid customers, Modified CUG discount, Mobi Chat and Mobi Contact Changes and many other activities, successfully marked year 2003.

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 announced 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 2003 stimulated us to be better, more effective and creative in the future.

In this 2003 MobiMak Customer Service continued raising its standards beyond customer expectations, constantly improving the existing forms of customer service and introducing new ones. Knowing that the key to success lies in complete understanding and insight in the needs, wishes and expectations of the customer, we continue to be proactive. We constantly offer services and advices helping our customers identify and fulfill their corresponding requirements. In line with this endeavor, one of the special successes last year was the implementation of the Handset Upgrade Program.

Although good customer service is priceless for the recipient, MobiMak offered it for free; the Interactive Voice Responding is now freely available to every MobiMak customer. It even offers the option to use the language the customer prefers. Improving the practices and following the philosophy of the company we consistently work on reaching the perfection and improvement of the quality of our services. In accordance with



the dynamics of everyday life our priorities are to always operate quickly, in the moment: 24 hours per day.

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 maintenance system. Our teams try to prevent problems before they happen, and when glitches occur, we strive to quickly remedy the situation. MobiMak has built a nation-wide 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, we installed and put into operation the following equipment: Capacity extension of most of the Network Nodes; Installation and implementation of GPRS system platform; 70 BTSs (base radio transceiver stations); 30 Repeaters; 19 Mini Link Hops (radio transmission links), resulting in a GSM network with 500.000 subscribers capacity,; and 441 BTSs, 302 BTS sites, 2416 TRUs and 65 Repeaters.

Maintaining superior quality of service is one of our company's main strategic commitments. In an effort to achieve and maintain this continuous goal, we have managed to achieve the following QoS figures: Traffic congestion less than 1%, Drop call rate of 0.7%, Call Success Rate of 98.3%, 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 2003: MMS, WAP, Mobile Internet, based on the GPRS platform, CAMEL based Roaming, Mobi Green, location based discount charging, CUG (Closed User Group), FAF (Friends & Family) for PrePaid, Absolutely

Genius, FixGSM with 2800 subscribers by the end of 2003.

Following the latest technological trends, with Ericsson as our strategic partner, and always growing market demands, TO will continue to plan and develop the network toward its final destination – full 3G (Third Generation) network, a base upon which high speed multimedia, integrated services will be built.

In 2003 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 2003, we can rightly say that for 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 most modern human resources management and into an example for other business entities in our society.

Marketing Report


Our slogan is: Truly close to our customers.

With introduction and promotion of new products and services we have come again one step closer to our customers.

Our communication is based on quality, individuality and integrity.

The marketing team is always ready to inform and educate the public.





The key goal of the marketing area in 2003 was to transform the company into a more customer and market-oriented organization which is professionally prepared for the future competition and to focus on the fulfilment of Corporate Business Plan.

Our commitment to devote all our human and technological resources to the further development of the Company's operation was realized through the involvement of all areas, which are part of the Central Marketing Area:

- *Product management*
- *Customer relation management*
- *Marketing communication*
- *PR Office*

Product management and promotions

We elaborated *business cases* for each newly developed product as well as for the modification or further development of the existing product portfolio of MT.

As a result of intensive team work, our experts found new creative ways of formulating, harmonizing and sustaining the bonds with our customers. Consequently, a number of products were introduced supported by relevant research and a variety of financial and technical analyses followed by innovative communication programmes, with the main purpose of deepening the existing relations with our customers. We were looking by each case for additional growth opportunities of our products in particular, therefore our product portfolio was enlarged in order to ensure long-term growth.

Brief overview of some of our products introduced in 2003:

- **Offers with new PSTN/ISDN2 telephone lines**
- **Special offers for various occasions** (fairs, events, etc.)
- **Tariff packages**
- **Bundled offers** (telephone lines bundled with telecommunication equipment)
- **Introducing pilot projects** (Televoting, etc.)
- **New products** ("055", Value Added Services, new MTnet Dial-up product, etc)
- **New service platforms** (Voice Mail, Intelligent Network, etc.)

Each new product was launched with a promotional campaign to support the sales force of MTline, MTcom and MTnet in their fulfilment of targeted sales results. Higher effectiveness, increased cost-efficiency, and coordinated approach to our customers between the Lines-of-Business and customer care force were the outcome of the new concept implemented in 2003. The following MT campaigns were successfully launched in 2003:

MTline

- **PSTN campaign** New Line – New Possibilities
- **ISDN2** One, better than two
- **Image Campaign** – For really important conversations you need a fixed-line telephone
- **New Billing System**
 - More detailed, more descriptive, closer
- **MT Call Centre**
 - One number – answer to all questions
- **Minimal Package**
- **Seven Digit Numbering**
- **Loyalty programme**
- **Image Campaign** – However you calculated, conversation via fixed telephone is the cheapest
- **PSTN/ISDN regional campaign** – Summer offer
- **VAS package** – Do not miss the nice things
- **All-round discount offers** - Discount up to 100%
- **Chatting package** – Ti rekov, mi rece

MTcom

- **Bundle offer** – Create solution according your needs
- **IP IntraConnect** – Let the information flow

MTnet

- **MTnet@MobiMak**
(a pre-paid prize winning game with Mobimak)
- **Connect, Surf and Win**
(a post-paid prize winning game)
- **MInternet** (buying Internet via mobile)
- **Surfer +** (Post-paid Internet)
- **Internet Data Hosting Centre**
– Treasury for your data

Fair Presentation

MT's presence at the Infokom 2003, the fair for information technology and telecommunications, was a great success. We could effectively manage to demonstrate MT's transformation from technical orientation towards market and customer orientation. This process started with the implementation of the Road to Success company project, which affects the internal organization of the company, the processes redefinition, the effectiveness measurement in operation, all together to achieve a better customer service. This year the MT presents on Infokom 2003 transferred the message towards the customers and visitors of the fair RELATED TO:

- Company transformation in all segments of its own activities, with the main focus on customers and customers satisfaction
- Direct benefit for the customers as an outcome of the "Road to Success" company project,
- implementation of the MT Call Centre
- and the new Billing System introduction

MT's presence on Infokom fair with the slogan "Customer in the focus" was great opportunity to promote the direct customers' benefit emphasizing the customer orientation of MT via:

- Focusing on the retail network – To be close to you
- Focusing on innovations – To stay close to your needs
- MT Call Centre - One call / answer to all questions
- New telephone bill that brings privileges and bigger privacy

MTcom

- Focused on making convergent business solutions, Solutions with adjusted packages – To stay close to all of the companies.

MTnet

- Focused on different Internet solutions - To stay close to everybody, the youngest, the real surfers, business people.
- During Infokom 2003, from 15 to 19 April, the lines of business organized many presentations, promotions, sales offers, winning games.

Competitive Prices of Telecommunication Services

The general pricing policy of the telecommunication services, which is presently an exclusive right of Makedonski Telekomunikacii, is determined by the price cap mechanism and the long-term rebalancing approach.

At the end of the exclusivity period, in 2005, as a result of rebalancing steps performed, this long-term pricing strategy will result in:

- cost-oriented tariff structure,
- reduction of misbalance between international and national telephony prices
- cost efficiency and improvement of the operation
- price level reflecting the purchasing power of the population and affordability of the services

The rebalancing taken in 2003 was in line with the company's long-term tariff policy, and it was implemented in a modest way, in line with overall economical situation in the country and purchasing power of the popu-

lation. Namely in order to protect the low-end and low-income customers mostly affected by the rebalancing a new “Minimal Package” was introduced. This package gives opportunity to the customers to satisfy their basic telecommunication needs without any extra effect on their budget expenditure.

BSS and Call Centre Project

The Billing System is of crucial importance to the company in accomplishing the strategic goals. On one hand, it increases the overall efficiency of the company in collecting the revenue and in reducing the possibility of fraud, and, on the other hand, it is seen as a means of communication with the customers resulting in trust, loyalty, and a friendlier relationship.

The introduction of the new *Billing System* for all MT customers will provide for the company a powerful tool for comprehensive analysis, with the necessary flexibility in offering different product packages, tariff models, and discount opportunities.

Direct benefits of introducing the new Billing System of MT to the customers:

- Managing of single or multiple Accounts (Bills): (SOHO/SME/Large Business)
 - The customer who has more products is able to select which products he wants to pay on one bill and which other he wants to pay on separate bill(s)
 - The customer who has more bills can select different delivery addresses for different bills
 - The customer with many products can have all products on one bill but can get reports on costs on different products grouped by *Budget Centres*
- Different actions depending on regular payments of customers/customer types;
 - Customers who pay bills regularly (good payers) will have more privileged terms on debt-chasing actions compared to bad payers. For these, more

relaxed terms will be applied in case by any circumstances are late with payment

- Also, specific customer types will be distinguished in order to avoid disconnections of public important organizations due to unpaid bills

- More information on the bill:

- To make the understanding of their cost easier we help customers with detailed information on the bill:

a) Local Calls; **b)** National Calls; **c)** International Calls **d)** Internet; **e)** Premium Rate Services; **f)** Mobile; **g)** Additional services that are subscribed to monthly (call waiting, CLIP etc.); **h)** Additional services that are charged per activation by subscriber (wake-up call, call diversion etc.); **i)** Thus allowing the customer to have a better overview of his expenses and avoid possible misunderstandings.

- The above detailed description of services used means enough information for the majority of our customers. However, for customers who would like to have even more information, it will be possible to subscribe for a monthly, itemized bill, which will contain all calls made during the month.

- Privacy respect:

- New bills are sealed in a proper envelope in order to maintain subscriber’s privacy.

The **Call Centre** is a very modern system that can meet the requirements of the existing and potential customers in a better and more flexible way. Customers will be given the opportunity for reaching the company by telephone as well as for obtaining information about MT services from the operators or the automatic answering machines.

Direct benefits of introducing our *Call Centre* services to customers:

- The customer doesn't need to go personally to the shop, which can be far away from the home of the customer

- The long waiting line in front of the shops will be eliminated from the operation of MT
- 24-hour information support via the automatic information system
- Information support in three languages (Macedonian, Albanian, English)
- To check the actual offers of MT and save money on it will take one minute of customers
- Possibility for customers for self-servicing activity through the automatic information system
- Possibility for 24-hour fax banking service through the automatic information system
- Customers can manage their requests through Internet by online connection with our agents (chat, e-mail, online collaboration)

Customer Relation Management Area (CRMA)

Marketing Research activities

In order to increase the competitive position by being better attuned to customer needs and demands for telecommunication services and products CRMA performed researches using qualitative and quantitative methodologies.

Marketing research for 2003 showed the following:

- Customer satisfaction measurement research
- The needs and demands for telecommunication services and Internet of the residential users in the fixed telephony in the households in the Republic of Macedonia.
- Needs and demands of business customers for telecommunication services and products in fixed telephony and Internet in the Republic of Macedonia

Internal marketing researches were also prepared by request of the end users (LoBs and PM).

The telephone directory

Part of the strategy for satisfying the customer needs and increasing their satisfaction was publishing of the Telephone directory. The directory contains information about:


- Information at one place for all residential and business subscribers on the territory of the Republic of Macedonia
- Information for important telephone numbers (industries and business activities, tourism, traffic, health institutions, university, etc);
- Information for all area codes in the country and international countries.
- Information about MT services

Loyalty programme

In order to increase the customer loyalty for MakTel we offered a special reward programme, which was a one time action during the Reconnection campaign. Customers, who are regular payers, get free pulses according the traffic that they have made in the previous month. CRMA continues monitoring and awarding the regular payers through new loyalty programs.

General conditions for entering into subscriber's relationship and using of services of AD Makedonski Telekomunikacii. The main purpose for adopting the General Conditions for Entering into Subscriber's Relationship and Using of Services of AD Makedonski Telekomunikacii was the lack of regulation in certain aspects of the subscriber's relationship. Therefore, the General Conditions have been prepared in order to regulate the general conditions of the Subscriber's Contract for use of public telecommunications services as well as the aspects of the subscriber's relationship. The General Conditions have been prepared in accordance with the Telecommunications Act, Concession Contract and the relevant rules of law in the Republic of Macedonia concerning the legal position of telecommunication services. The content of this document describes general information of the level of the telecommunication service that the subscribers can expect.

Network infrastructure



MT has state-of-the-art technology and a country-wide network. MT's main goal is the highest level service for customers with the best quality of service. Due to that, our team makes constant efforts for improvement and development of the network system that is proved by the successfully finished process of complete network digitalization. In addition to network building and development this sector is actively involved in introducing a new services through the entire network infrastructure. The service quality is constantly supervised and improved with usage of highly sophisticated hardware and software equipment and tools, and we are especially proud of our first alternative PS system run on solar energy. The maintenance of service quality will remain our future priority.

Further into the world of telecommunications

All requirements regarding network quality parameters and service provisioning of the Concession Agreement were satisfied in 2003. The following network development and maintenance activities were undertaken:

Access network

In the frame of general network extension programme we extended the capacity in the access network by 45,000 new pairs. The distribution network for connection of new subscribers developed by more than 30,000 lines. We reached the full digitalization of the network with the replacement of old 23,000 old party lines and the company repaired the damaged network in the former conflict regions with 4,800 lines in total. We connected new subscribers:

- PSTN 24,600
- ISDN BRA 4,900
- ISDN PRA 90

We met the need for the transferred telephone line to the new address of (ISDN and PSTN) 6,200 subscribers.

The big success of 2003 is that the average time for fault clearance was decreased to less than 16 hours, which helps to our customers to enjoy good availability of telecommunication services.

Switching Systems

We continued the network extension programme in switching systems too. The implemented Signaling Monitoring System allows more sophisticated control and management of operating the telecommunication network. Subscriber equipments were reconfigured in many different locations satisfying customers request for ISDN/PSTN services.

Plan SDH backbone network in the Republic of Macedonia



Transmission Systems

Many new sites were connected with different technical solutions such as:

- Connected with SDH equipment
- PDH equipment connection provided for
- Implemented Radio MW links
- Implemented HDSL equipment
- TDM – MUX equipment installed in
- SDH MicroWave link providing higher reliability and capacity installed between Ohrid, Debar

We reached a number of 2150 payphones in operation in the network. MT improved its power supply systems in the most critical sites providing a higher reliability of telecommunication network and in Lazaropole our com-

pany installed the first alternative PS system using solar energy.

In December MT started its ADSL fast Internet services, which offers clients of Macedonia a telecommunication service of a worldwide level. The company signed contracts for IN platform to implement new, IN (Intelligent network) based services, like:

- Tele-voting
- Free numbers
- Pre-paid telephony (PPC and PPT)

The network area started a new project for Voice-mail platform, its implementation is planned for the first half of 2004.

Information Technologies

MT is a customer oriented company, constantly in touch with customer demands and needs. In order to satisfy the customer needs, MT is not just focused on system and services modernization but as well on promotion of the best and the most accessible offers. One of the main company goals is creating a security operative environment. We introduced 12 minor regional centers in the corporate computer network. A new variety of services and packages allows open approach to more market segments allowing the customer to choose the best beneficial possibilities. The implemented new Call Center system which surveys ongoing customer satisfaction shows that we are moving in the right direction.



Towards future technologies

The IT department developed its new strategic goals, which should be reached in the process of Corporate Strategy and Business Plan implementation.

One of the key steps was the start of the IT standardization process. A standardization team was established and the official IT Standards in all IT areas were defined in line with Matav IT Standards. One of the core activities completed in regard to the process of Corporate Strategy and Business Plan implementation is the:

- Implementation of Windows 2000 Active Directory and Exchange 2000 Services Project

Central Administration of users and groups Central storage of users and departmental documents

- Easy backup
- Easy migration of user from one PC to another

Automatic Installation of software

Microsoft Exchange 2000 collaboration services

- Task Assignment
- Public Folders
- Video Conferencing

- Another project with great importance for the overall IT operations within the MT environment is the implementation of the IT security project. It is a key objective of the company to create a secure operating environment with a clear definition of corporate security objectives and with increased security awareness within our organization.

To support these goals the following projects were started and implemented:



Check Point FW-1 Firewall

- Implementing Check Point Firewall as a second firewall to the outside network
- Increased security for a breakthrough to MT internal network from outside
- Implement second Antivirus solution for the MT

Intrusion Detection System

- Network IDS: Protect and alert from external and internal network attacks
- Host base IDS: Protects and alert mission and business critical servers

HP Open View

- Implementing HP Open View as a global management software platform

- MAKTEL enterprise computer network was another activity performed by the IT department. Integrating 12 small sub-regional centres into corporate computer network (Radovis, Negotino, Valdovo, Debar, Resen, Struga, Sveti Nikole, Probistip, Kratovo, Kriva Palanka, Delcevo and Berovo). Various activities such as computer network cabling, installing passive equipment, installing active equipment, connecting into network were conducted for successful completion of the activity.

- BSS Phase I transition from old billing system to new CDR-based Geneva billing systems brought the following benefits:

The aim of this programme was to create a market oriented and competitive billing system and establish a new style of approach and working within company. The companies intend to turn from technical dominant view to business and marketing oriented one. The new variety of products and packages enables the conquering different market segments, and through the company reaching other people and making it easier for them to find for themselves for real and beneficial possibilities.

The Geneva billing system establish new processes that lead to customer needs and that are focused on fulfilling and discovering revealed needs.

- Implementation of SAP Treasury (TR) module and SAP Workflow (WF) solution that consists of:

- MM extension
- MTNet separation

are part of SAP R / 3 phase III. The Personal evidence system for MakTel employees and the upgrade of the existing payroll system with the latest technologies integrated with personal evidence system was another activity towards the improvement of the operating environment of MakTel during 2003.

- The technical inventory as a new solution the integrated IDTKS system (with CC&NP system for evidence of installed and utilized telecommunication systems) is to provide successful maintenance, fault repair analysis and support in managerial decisions.

- Debt management system is a new IT system developed to support the debt management process and its able to provide dynamic analysis, statistics and reports.

- New retail trade and bill payments system was implemented. Automatic reconciliation in the Geneva system is provided.

- The Call Centre was introduced in order to improve our relations with the customers. Based on the customer focus approach new IT solutions were introduced to check customer satisfaction and complaint management. (Agent login test, score card, call reason code, support for MakTel campaigns is provided with this IT solution).

- Based on tender evaluation and best offer selection the GIS software platform ArcGIS was realized.

- To create an effective archiving system the selection of IXOS document management system was made and its implementation reached the first phase.

- Internal Service Level Agreements were closed for IT services and to ensure a smooth everyday operation traffic statistics are being developed with the purpose of supporting managerial decisions.

Human resources

The creativity, professionalism and commitment of our employees are a moving force of the company.

We constantly invest in our employees in order to improve and update their professional knowledge and to keep them in line with the world's latest trends and technologies.

We believe that our team will make true our vision.



Our people, our future

The human resources strategy which was developed in 2003 incorporates five main areas of focus that will determine the direction of all our personnel related activities.

The five strategic focuses are:

- **Managing Diversity**
- **Rightsizing, Recruitment and Retention**
- **Total Compensation**
- **Managing Skills and Competencies**
- **Quality and electronic HRM**

The goal of the company is to provide the best possible service to its customers by concentrating its forces on the core activities. The year 2003 also marked the beginning of the process of outsourcing the non-core activities in the company which is in accordance with international tendencies and local market expectations. The outsourcing of hygiene activity, as one of the non-core activities, was a successful example. The whole process was planned and executed in cooperation with the Trade Union of MT, and with an expert Company has been chosen with an already existing good reputation in this area.

In 2003, through continuing our already on-going work from 2002, we directed large part of our attention and available capacities towards the perfection of the process of selection and recruitment of our personnel.

Towards the middle of the year, we successfully started using our internal data base with persons who already applied for our job announcements, who possess professional and personal characteristics. Due to this we were provided with a successful choice of employees to satisfy the needs of the Functional areas in AD MT.

Organizational setting

Areas	Status 31.12.2002	Status 31.12.2003	Percentage of MAKTEL Company TOTAL
1. CEO	102	90	2.89 %
2. CMO	32	39	1.25 %
3. CFO	783	656	21.05 %
4. CTO	1,460	1,417	45.46 %
5. CHR & AO	29	66	2.12 %
6. MTline	686	661	21.21 %
7. MTnet	74	88	2.82 %
8. MTcom	97	98	3.14 %
9. Not assigned	3	2	0.06 %
MAKTEL COMPANY TOTAL	3,226	3,117	100 %
10. MobiMak	378	399	
MAKTEL GROUP TOTAL	3,644	3,516	

Finding quality personnel is always and everywhere a difficult task, but maybe even a more difficult one is keeping the key people in the company. Therefore we elaborated programs for retention of the employees, like to offer managerial contracts, which is the key program of retention of the valuable employees.

2003 was marked by the trainings of the employees in the Technical Area, as well as the trainings in the Lines of Business in AD MT (MTline, MTcom, MTnet).

To show AD MT's customer orientation, as a primary goal in its functioning, the accent in the Training Plan was customers' care training, quality and efficient service provisioning to all our customers, marketing, market research training courses.

The advancement of sales as a generator of revenues is one of our constant goal. A sales compensation package enables us to focus sales activities towards desired results, and rewards these outcomes with compensation tied directly to the level of achievement. Several activities have been undertaken in this direction, with the main goal of introduction and wider engagement not only of the employees in the sales, but also of all the employees in sales as an activity. We introduced sales incentive systems – based on individual performance evaluation and commission - for our employees in sales, which offered harmonized solution for the sales

channels, but took the different business priorities and opportunities of the LOB's and channels into consideration.

With the launching of the "Tip Finder" program we introduced a new, additional channel for increasing the sales. The best propaganda channel for a company's products are always its employees and so we motivate the employees to generate demand for Maktel's products in their circle of friends and family.

The incentive system, especially the "Tip Finder" program showed positive results.

During 2003 the Vision of the company was prepared. Directed toward the employees, the Vision foresees changes in the culture of behavior. It is to transform the employees from passive observers into drivers and bearers of changes, from administration-oriented employees into decision makers. The result of it will be a customer oriented Company for telecommunications, which is proud of its professionals, devoted and efficient employees and this company will efficiently face the up-coming competition.

The new HR Vision of the company underlines "Professional and committed employees, who are able to act on their own initiative, are the most important success factor of the business effectiveness of MakTel".

Social Responsibility

Social commitment has always played an important role in our Company.

We are proud to highlight our constant involvement in the society of Macedonia.

We believe that we can make a difference, together we can create a better world.





Cherishing our cultural heritage

Makedonski Telekomunikacii is a leading company in Macedonia and as such has responsibilities in society. As a good corporate citizen in Macedonia we have designed major programmes to improve the quality of life and well being of the communities in which we operate. In line with the business we are in, the central theme of our activities is improved communications and thus we try to meet the needs and expectations of the society in general.

The company is known for its activities of a sponsorship nature to which it keeps contributing financially on a regular basis, by keeping it as a tradition. Here MT is attempting to assist in developing values in areas as, culture, sport, heritage, education or activities oriented on charity. MT as one of the great Sponsors in the Macedonian society pays special attention to all in needs and works on the principle to be truly close...

Makedonski Telekomunikacii supports culture

MT is proud to assist the rich Macedonian cultural scene. Our sponsoring activities target different areas of culture: classical music, jazz, pop music, theatre, or in a word the areas of culture in which society has shown most interest in.

Once again we were truly close to the Ohrid Summer Festival - the biggest festival held at the peak of Ohrid's tourist season where artists from around the world who perform outstanding classical music and theatre performances are warmly welcomed.

Jazz music was the other field of interest we were glad to support to the delight of jazz fans. Over the years the “Skopje Jazz Festival” has maintained its reputation as the most attractive of festivals in the country, offering to the Macedonian public internationally famous jazz artists.

The “Kumanovo Jazz Festival” is the second biggest festival in the country which is climbing its own road to success each year and brings in famous artists. This year Macedonia was glad to host the legendary Dutch musician Jan Akkerman.

In Sport - Makedonski Telekomunikacii keeps up the sporting spirit

Committed to the development of the sporting spirit in society, Makedonski Telekomunikacii considered it as an excellent opportunity together with the contestants and sports fans to take pleasure in the excitement and entertainment that sport spreads around.

In basketball we supported an excellent team from the first league which has performed excellently in domestic championships.

In handball we were partners of the national women’s junior team and welcomed the handball teams to Macedonia in the International Women’s Junior Handball Championship. Women’s handball is one of the most successful sporting branches in the country.



In swimming we were the host of the traditional Ohrid Swimming Marathon. The marathon is always impatiently awaited at the end of the summer season of Ohrid. It gathers thousands of people from around the country.

Supporting CD releases - Makedonski Telekomunikacii is proud to present the latest achievements of...



In 2003 appeared as a Named Sponsor in the area of music, mainly in supporting famous artists and divine musical performances. MT presented the

Vladimir Cetkar Quartet live in Ohrid, as part of the summer festival to the great enthusiasm of the jazz fans MT was glad to support the Berkeley Music College artists led by the Macedonian jazz artists Cetkar. MT initiated and presented Macedonian Jeunesses Musicales playing works of Astor Piazzola – a project which was tremendously well received in the country as it was for the first time ever that this kind of music was performed in Macedonia.



Makedonski Telekomunikacii for the Education

MT launched the project ‘Schools on line’ three years ago and since then is regularly contributing to its development. It is an important project supported in cooperation with the Ministry of Education and some non-governmental organizations. It communicates MT i.e. its Internet line of business MTnet as the exclusive Internet provider in the area of education of Macedonia.

And the story does not end here. MT will continue contributing to society where it is dwelling and it will remain to stay truly close...

Financial Review

In the past year we have once again confirmed our trust in Company strategy.

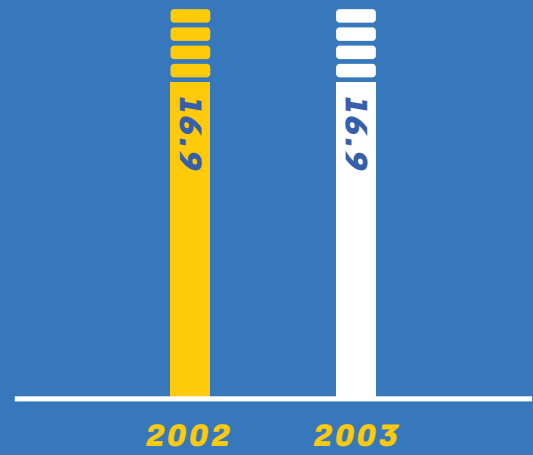
Our vision was achieved and we can proudly mark the year as successful, challenging and dynamic.

In a challenging environment we have succeeded in achieving our core targets and we have proved that we are truly successful company.

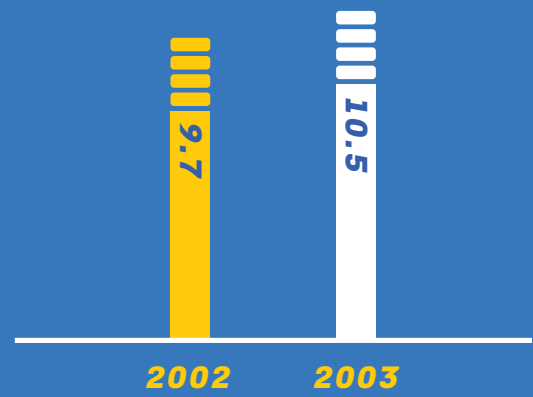
We will continue to give our best for the benefit of all.



Revenues



Operating expenses



Focused on positive results

General overview

MT Group's performance in 2003 exceeds that in 2002, a fair indicator of which is the EBITDA growth of 3.4%. The decrease in operating profit has been largely influenced by the change of the useful life of property, plant and equipment performed in line with the IFRS requirements for regular revision of the useful lives of property, plant and equipment. In compensation to that and the flat total revenue, operating expenses have been decreased thanks to the strict cost control and increased cost conscientiousness.

Revenues

While the total operating revenue has remained stable in comparison to 2002, there have been movements between certain categories of revenue between the two years under review.

The growth in revenue from subscription, connection and other charges mainly results from the tariff rebalancing in 2003. International traffic revenues have decreased in line with the decrease of the SDR exchange rate of 9%, but also due to a 4% decrease in incoming traffic.

Mobile revenues have remained nearly flat as a result of a mixed change in the volume of domestic traffic, roaming and revenue from enhanced services.

Revenues

<i>In MKD bn</i>	2003	2002
Subscription, connection and other charges	2.8	2.5
Domestic traffic revenues	5.6	5.5
International traffic revenues	1.8	2.0
Mobile revenues	5.4	5.6
Data transmission and leased lines	0.5	0.5
Other revenues	0.8	0.8
Total operating revenues	16.9	16.9

Operating expenses

As already mentioned, operating expenses have in total significantly increased, due to the shortening of the useful life of property, plant and equipment, which resulted in a MKD 1,3 bn., or 66%, higher depreciation charge in 2003. A smaller contribution to this increase has made, despite the decreased headcount, the increase in employee related expenses. The average headcount for 2003 was 3,652, a 1.3% decrease from the 3,699 in 2002.

On the other hand, all other operating expenses mark a decrease, thus improving the already high EBITDA. Payments to other network operators have decreased as a result of 5% fewer international outgoing minutes and the 9% fall of the SDR exchange rate. The start of operations of the second mobile operator has had a negative, but not significant impact on the level of operating expenses.

The lower sales volume of fixed telephony equipment, decreased average cost of mobile phones sold, as well as the cessation of the tax on financial transactions have contributed to the decrease in operating expenses.

Operating expenses

<i>In MKD bn</i>	2003	2002
Employee related expenses	2.0	1.9
Depreciation and amortization	3.3	2.0
Payments to other network operators	1.1	1.3
Cost of telecommunication equipment sales	0.6	0.8
Other operating expenses	3.5	3.7
Total operating expenses	10.5	9.7

Financial expense

Financial expenses have decreased significantly in 2003 both due to the premature payment of the EBRD and IFC loans in 2002, and the smaller fall of the USD exchange rate in 2003.

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 decrease of current tax expense mainly relates to the increase in statutorily tax-allowable depreciation rates beginning from 2003. The effective tax rate was 12% in 2003 and 13% in 2002.

Non-current assets

Non-current assets have in total remained at the same level as in 2002. However, when viewed separately, separate items within non-current assets have significantly changed. The change of the estimated useful life of property, plant and equipment has significantly decreased its net book value.

With regards to intangible assets, the estimated useful life has remained the same after the revision. Also, this has been a year of major software investment projects. Intangible assets have significantly grown in value due to the introduction of the new *Geneva billing system*, and the implementation of new information system modules.

Current assets

Current assets mark a significant increase in 2003, mainly due to fact that during 2003 cash inflows have been retained and lodged in short-term deposits, opposed to 2002, when a large portion of the cash was used to prematurely pay off the long-term loans from EBRD and IFC.

The decrease in trade and other receivables relates mainly to the application of the Group policy of netting receivables and payables from foreign operators in 2003 (refer to liabilities section).

Liabilities

Other than the effect of the application of Group's netting policy, which significantly decreased payables from foreign operators, (refer to **current assets** section) there have been no significant movements in trade and other payables balances.

Equity

During 2003, a dividend to the amount of MKD 2.4 bn. was paid out to shareholders in three arrears. There have been no other movements in capital and reserves, apart from appropriation of retained earnings to statutory reserves.

Cash flows

Cash flows from operating activities have only slightly decreased compared to 2002, from MKD 8.5 bn. to MKD 8.3 bn. On the other hand, cash outflows from investing activities have decreased, reflecting the lower level of investments in 2003. Following the large cash outflow resulting from the premature payment of the long-term loans in 2002, cash outflows from financing activities have also decreased significantly in 2003. The net cash flows have accordingly grown for over MKD 2 bn.

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

Report of the auditors

To the Board of Directors 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 2003 and the related consolidated income statement, statement of changes in equity and cash flow statement for the year then ended. These consolidated financial statements set out on pages 1 to 23 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 US Generally Accepted Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated 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 consolidated financial statements present fairly in all material respects the financial position of the Group as of 31 December 2003 and the results of its operations, changes in the equity and its cash flows for the year 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 2003 and net income of the year then ended to the extent summarized in Note 20 to the consolidated financial statements.

PriceWaterhouseCoopers,

Skopje
19 January 2004

Consolidated income statement

For the year ended 31 December 2003

<i>In thousands of denars</i>	Note	2003	2002
Revenues	1	16,909,881	16,928,320
Depreciation and amortisation		(3,326,727)	(2,007,793)
Personnel expenses	2	(2,046,365)	(1,898,138)
Payments to other network operators		(1,141,917)	(1,308,116)
Other operating expenses	3	(4,171,649)	(4,489,440)
Profit from operations		6,223,223	7,224,833
Net financing costs	4	(104,046)	(131,214)
Profit before tax		6,119,177	7,093,619
Income tax expense	5	(734,213)	(916,342)
Net profit for the year	14	5,384,964	6,177,277

Consolidated balance sheet

As at 31 December 2003

<i>In thousands of denars</i>	Note	2003	2002
Assets			
Property, plant and equipment	6	19,132,880	19,808,155
Advances for property, plant and equipment		10,274	15,976
Intangible assets	7	2,417,203	1,546,667
Investments	8	95,305	112,608
Long term loans	9	14,114	39,634
Deferred tax assets	10	209,372	446,683
Total non-current assets		21,879,148	21,969,723
Inventories	11	548,320	546,822
Trade and other receivables	12	3,376,490	4,449,485
Income tax receivable		343,383	142,356
Cash and cash equivalents	13	4,524,531	1,742,352
Total current assets		8,792,724	6,881,015
Total assets		30,671,872	28,850,738
Equity and liabilities			
Share capital		9,583,888	9,583,888
Share premium		540,659	540,659
Reserves		879,489	524,062
Retained earnings		17,984,351	15,354,814
Total capital and reserves	14	28,988,387	26,003,423
Liabilities			
Deferred tax liabilities	10	23,411	-
Total non-current liabilities		23,411	-
Income tax payable		1,125	66,298
Trade and other payables	15	1,658,949	2,781,017
Total current liabilities		1,660,074	2,847,315
Total equity and liabilities		30,671,872	28,850,738

The financial statements set out on pages 1 to 23 were approved by the Board of directors on 18 February 2004 and were signed on its behalf by:

Attila Szendrei
Chief Executive Officer

Bence Varady Szabo
Chief Finance Officer

Consolidated statement of cash flows

For the year ended 31 December 2003

<i>In thousands of denars</i>	Note	2003	2002
Operating activities			
Net profit before tax		6,119,177	7,093,619
Adjustments for:			
Depreciation and amortisation		3,325,387	2,007,793
Shortages		-	203
(Reversal of)/impairment losses of available-for-sale investments	4	8,320	(70,530)
Reversal of write down of inventories to net realisable value	3	(17,280)	(58,543)
Change in fair value of available-for-sale investment	4	8,997	7,631
Amortisation of deferred revenues		(42,122)	32,170
Impairment losses on trade and other receivables	3	484,820	421,355
Write off of liabilities		(156,178)	-
Capital gain on sale of equipment		(13,998)	-
Dividend income	4	(1,437)	-
Other non cash adjustments		11,557	-
Interest income	4	(115,870)	(66,695)
Interest expense	4	82	187,405
(Reversal of)/impairment losses of assets under construction		1,340	(9,145)
Operating profit before changes in working capital		9,612,795	9,545,263
Decrease in inventories		15,782	60,113
(Increase)/decrease in receivables		588,279	(1,206,553)
Increase/(decrease) in payables		(1,154,963)	882,412
Cash generated from operations		9,061,893	9,281,235
Interest paid		(82)	(187,405)
Income taxes paid		(751,248)	(583,948)
Cash flows from operating activities		8,310,563	8,509,882
Investing activities			
Acquisition of property, plant and equipment		(2,136,506)	(4,068,689)
Acquisition of intangible assets		(1,148,689)	(713,462)
Loans (granted)/collected		25,520	(27,445)
Dividends received		1,423	-
Proceeds from sale of equipment		13,998	-
Interest received		115,870	66,695
Cash flows from investing activities		(3,128,384)	(4,742,901)
Financing activities			
Dividends paid		(2,400,000)	-
Repayment of borrowings		-	(3,190,603)
Cash flows from financing activities		(2,400,000)	(3,190,603)
Net increase in cash and cash equivalents		2,782,179	576,378
Cash and cash equivalents at 1 January		1,742,352	1,165,974
Cash and cash equivalents at 31 December	13	4,524,531	1,742,352

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 2002	14	9,583,888	540,659	321,198	9,380,401	19,826,146
Net profit for the year		-	-	-	6,177,277	6,177,277
Appropriation to statutory reserve		-	-	202,864	(202,864)	-
Balance at 31 December 2002	14	9,583,888	540,659	524,062	15,354,814	26,003,423
Balance at 1 January 2003	14	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	14	9,583,888	540,659	879,489	17,984,351	28,988,387

Notes to the consolidated financial statements

Significant accounting policies

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below.

Principal activities

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 that provides telecommunication services in the Republic of Macedonia.

The Group’s immediate parent company is 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 2003 was 3,652 (2002: 3,699).

(a) Statement of compliance

The financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) promulgated by the International Accounting Standards Board (IASB).

(b) Basis of preparation

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. They are drawn up from financial statements prepared in conformity with Macedonian Regulations, but where needed adjustments and reclassifications were made in order to be in conformity with IFRS. 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.

The accounting policies are consistent with those used in the previous year.

(c) 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.

(d) Foreign currency transactions

Transactions in foreign currencies are converted into denars on 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 upon conversion are recognised in the income statement. Non-monetary assets and liabilities denominated in foreign currency are converted 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 conversion on 31 December 2003 and 31 December 2002 were as follows:

	2003	2002
	MKD	MKD
1 USD	49,05	58.60
1 EUR	61,29	61.07
1 CHF	39,31	41.98

(e) 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 k). The cost of self-constructed assets includes the cost of materials and direct labour.

(ii) Subsequent expenditure

Subsequent expenditures are capitalised only when they increase the future economic benefits embodied in the item of property, plant and equipment. All other expenditures are recognised in the income statement as an expense as incurred.

(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 and changed them as follows:

	2003	2002
	years	years
Aerial and cable TT lines	25	20
Automatic telephone exchanges	10	12
Base stations	7	12
Buildings	14-40	14-100
Computers	4	5
Electronic devices	6	6
Furniture and other office equipment	4-6	6-10
High frequency and radio devices	8-10	12
Mechanical devices	4	9
Passenger and other vehicles	4-6	5-8

(f) 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 k).

(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:

	2003	2002
	years	years
Software and licences	5	5
Concession	5	5

(g) 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 recognized/derecognized by the Group on the date it commits to purchase/sell the investments.

(h) 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.

(i) 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.

(j) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and call deposits with an original maturity of three months or less.

(k) Impairment

The carrying amounts of the Group's assets, other than inventories (refer accounting policy h), and deferred tax assets (refer accounting policy q) are reviewed at each balance sheet date to determine whether there is any indication of impairment.

If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

(i) Calculation of recoverable amount

The recoverable amount of assets is the greater of their net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

(ii) Reversals of impairment

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognised.

(l) Trade and other payables

Trade and other payables are stated at their cost.

(m) Share capital

(i) Dividends

Dividends are recognised as a liability in the period in which they are declared.

(n) Revenue recognition

(i) Goods sold and services rendered

Revenue from goods sold is recognised in the income statement when the significant risks and rewards have been transferred to the buyer. No revenue is recognised if there are significant uncertainties regarding recovery of consideration due or possible return of goods.

Revenues from telecommunication services comprise the invoiced and accrued value of telecommunication services. Domestic revenues consist primarily of business and residential line rentals, charges for telephone calls made within the country, and revenues on international calls originating within the country. International revenues and expenses for calls from abroad to the Republic of Macedonia and the costs of services provided by international telecommunication carriers on calls originating in the Republic of Macedonia to countries abroad are presented gross.

Billings for telephone services are made on a monthly basis. Fixed monthly charges are billed in the month in which they arise.

Installation fees paid by subscribers for installation of new telephone lines and new mobile connections are recognised as income at the time the connection is made.

Revenue from prepaid telephone services is deferred for future period when the services are actually provided.

(o) Expenses

Net financing expense

Net financing expense comprises interest payable on borrowings, interest receivable on funds invested, dividend income, foreign exchange gains and losses, and gains and losses on available-for-sale investments that are recognised in the income statement.

Interest income is recognised in the income statement as it accrues. Dividend income is recognised in the income statement when received.

All interest and other costs incurred in connection with borrowings are expensed as incurred as part of the net financing costs.

(p) Employees Benefits

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.

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

Deferred tax is provided using the balance sheet liability method, providing for 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 tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

A deferred 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 tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(r) 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.

(s) Financial instruments

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

(i) 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.

(ii) Interest rate risk

The Group does not have a policy to hedge its interest rate risk.

(iii) Foreign currency risk

The Group incurs foreign currency risk on sales, purchase and borrowings that are denominated in a currency other than MKD. The currencies giving rise to this risk are primarily USD, CHF and EUR. The Group does not use any instruments to hedge its foreign currency risk.

[1] Revenues

<i>In thousands of denars</i>	2003	2002
Domestic fixed line telecommunication services		
- subscription, connection and other charges	2,782,576	2,512,088
- traffic revenues	5,591,791	5,520,193
International traffic revenues	1,780,151	1,983,797
Mobile telecommunication services	5,443,193	5,589,758
Leased line and data transmission	540,963	495,090
Other	771,207	827,394
	16,909,881	16,928,320

[2] Personnel expenses

<i>In thousands of denars</i>	2003	2002
Salaries	1,275,684	1,137,587
Contributions on salaries	540,872	536,130
Bonus payments	68,640	48,519
Other staff costs	282,689	270,575
Capitalised personnel costs	(121,520)	(94,673)
	2,046,365	1,898,138

[3] Other operating expenses

<i>In thousands of denars</i>	2003	2002
Materials and maintenance	503,477	587,865
Services	781,719	679,699
Consultancy	462,423	468,585
Impairment losses on trade and other receivables	484,820	421,355
Fees, levies and local taxes	215,554	462,516
Marketing and donations	504,242	524,509
Reversal of impairment loss on assets under construction	-	(9,145)
Reversal of write down of inventories to net realisable value	(17,280)	(58,543)
Energy	173,269	139,538
Audio text services	162,784	118,896
Rental fees	165,929	151,121
Insurance	57,999	51,908
Cost of goods sold	630,778	767,115
Other	45,935	184,021
	4,171,649	4,489,440

The remuneration of the members of the Parent Company's Board of Directors amounted to MKD 1,673 thousand (2002: MKD 1,603 thousand).

[4] Net financing costs

<i>In thousands of denars</i>	2003	2002
Interest expense	82	187,405
Interest income	(115,870)	(66,695)
Bank charges and other commissions	19,374	44,568
Net foreign exchange loss	184,580	28,835
Change in fair value of available-for-sale investments	8,997	7,631
Dividend income	(1,437)	-
(Reversal of)/impairment loss of available-for-sale investments	8,320	(70,530)
	104,046	131,214

[5] Income tax expense**(a) Recognised in the income statement**

<i>In thousands of denars</i>	2003	2002
Current tax expense		
Current year	473,489	759,442
Deferred tax expense		
Origination and reversal of timing differences	260,724	156,900
Total income tax in income statement	734,213	916,342

(b) Reconciliation of effective tax rate

<i>In thousands of denars</i>	2003		2002	
Profit before tax		6,119,177		7,093,619
Income tax	15%	917,876	15%	1,064,042
Non-deductible expenses	2.4%	144,645	4.1%	295,813
Tax exempted revenues	(1.9%)	(118,555)	(2.6%)	(189,024)
Tax incentives not recognised in the income statement	(3.4%)	(209,753)	(3.5%)	(254,489)
	12.0%	734,213	13.0%	916,342

The tax authorities carried out a full-scope tax audit at the Group for the years 2001 and 2002. 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 Company's management is not aware of any circumstances, which may give rise to a potential material liability in this respect.

[6] Property, plant and equipment

<i>In thousands of denars</i>	Land	Building	Telecom- munication equipment	Other	Assets under construction	Total
Cost						
On 1 January 2003	5,878	3,628,316	21,501,403	3,327,373	814,681	29,277,651
Acquisitions	-	84,269	1,088,938	638,835	561,257	2,373,299
Transfer from assets under construction	241	6,560	325,067	153,217	(712,630)	(227,545)
Disposals	-	-	(518,733)	(104,934)	(1,340)	(625,007)
On 31 December 2003	6,119	3,719,145	22,396,675	4,014,491	661,968	30,798,398
Depreciation						
On 1 January 2003	-	832,168	7,003,956	1,633,372	-	9,469,496
Charge for the year	-	91,831	1,928,130	759,451	-	2,779,412
Transfers	-	(22,368)	39,344	(16,976)	-	-
Disposals	-	-	(492,701)	(90,689)	-	(583,390)
On 31 December 2003	-	901,631	8,478,729	2,285,158	-	11,665,518
Carrying amount						
On 1 January 2003	5,878	2,796,148	14,497,447	1,694,001	814,681	19,808,155
On 31 December 2003	6,119	2,817,514	13,917,946	1,729,333	661,968	19,132,880

During 2003, the management of the Group performed a regular revision of the useful lives of property, plant and equipment, which resulted in increase of the annual depreciation charge of MKD 762,000 thousand.

[7] Intangible assets

<i>In thousands of denars</i>	Software	Concession	Other	Total
Cost				
On 1 January 2003	1,829,302	154,757	12,307	1,996,366
Acquisitions	1,143,270	-	5,419	1,148,689
Transfer from assets under construction (see Note 6)	227,545	-	-	227,545
On 31 December 2003	3,200,117	154,757	17,726	3,372,600
Amortisation				
On 1 January 2003	384,832	61,903	2,964	449,699
Charge for the year	472,309	30,952	2,437	505,698
On 31 December 2003	857,141	92,855	5,401	955,397
Carrying amount				
On 1 January 2003	1,444,470	92,854	9,343	1,546,667
On 31 December 2003	2,342,976	61,902	12,325	2,417,203

[8] Investments

<i>In thousands of denars</i>	2003	2002
Non-current investments		
Equity investments available-for-sale	134,376	143,359
Impairment losses	(39,071)	(30,751)
	95,305	112,608

Movement in impairment losses

<i>In thousands of denars</i>	2003	2002
Impairment losses on 1 January	30,751	168,716
(Reversal of)/ impairment loss of available-for-sale investments	8,320	(70,530)
Write off	-	(67,435)
Impairment losses on 31 December	39,071	30,751

Out of MKD 95,305 thousand representing the total amount of investments, MKD 16,440 thousand (2002: MKD 16,440 thousand), for which active market does not exist, are stated at cost.

The remaining amount of MKD 78,865 thousand (2002: MKD 96,168 thousand) is stated at fair value of which MKD 64,926 thousand (2002: MKD 73,246 thousand) is calculated based on the independent valuation and MKD 13,939 thousand (2002: MKD 22,922 thousand) is calculated with reference to the Macedonian Stock exchange quoted bid prices.

[9] Long term loans

Long-term loans represent loans granted to employees (2002: nil). The balance of long term loans as of 31 December 2002 relates to loan granted to Stonebridge AD, which has been fully collected during 2003.

[10] Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following items:

<i>In thousands of denars</i>	Assets		Liabilities		Net	
	2003	2002	2003	2002	2003	2002
Property, plant and equipment	17,955	293,876	(51,255)	-	(33,300)	293,876
Intangible fixed assets	16,445	-	-	-	16,445	-
Receivables	181,963	123,299	(2,537)	-	179,426	123,299
Investments and deposits with banks	9,454	9,754	-	-	9,454	9,754
Trade and other payables	13,853	14,058	-	-	13,853	14,058
Inventory	83	5,698	-	-	83	5,698
Tax assets/(liabilities)	239,753	446,685	(53,792)	-	185,961	446,685
Set off of tax	(30,381)	-	30,381	-	-	-
Net tax assets	209,372	446,685	(23,411)	-	185,961	446,685

Movement in temporary differences during the year

<i>In thousands of denars</i>	Balance 1 January 2003	Recognised in income	Balance 31 December 2003
Property, plant and equipment	293,876	(327,176)	(33,300)
Intangible fixed assets	-	16,445	16,445
Receivables	123,299	56,127	179,426
Investments and deposits with banks	9,754	(300)	9,454
Trade and other payables	14,058	(205)	13,853
Inventory	5,698	(5,615)	83
Net tax assets	446,685	(260,724)	185,961

[11] Inventories

<i>In thousands of denars</i>	2003	2002
Materials	207,942	314,707
Commodities	359,146	270,100
Write down of inventories to net realisable value	(18,768)	(37,985)
	548,320	546,822

Movement in allowance for inventories to net realizable value

<i>In thousands of denars</i>	2003	2002
Allowance on 1 January	37,985	96,528
Reversal of write down of inventories	(19,217)	(58,543)
Allowance on 31 December	18,768	37,985

Allowance for inventory mainly relates to materials, spare parts and petty inventory.

[12] Trade and other receivables

<i>In thousands of denars</i>	2003	2002
Trade debtors		
- Foreign	767,597	1,584,252
- Domestic	3,629,249	3,175,279
Receivables from related parties	267,816	335,874
Advances given to suppliers	20,036	17,977
Deposits with banks	25,907	71,591
Prepayments and accrued income	58,214	54,021
Other	10,048	101,968
Allowance for uncollectibility	(1,402,377)	(891,477)
	3,376,490	4,449,485

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

Movement in allowance for uncollectibility

<i>In thousands of denars</i>	2003	2002
Impairment losses on 1 January	891,477	1,189,359
Charged to expense	484,820	421,355
Write-off	(7,919)	(719,237)
Collected written off receivables	33,999	-
Impairment losses on 31 December	1,402,377	891,477

[13] Cash and cash equivalents

<i>In thousands of denars</i>	2003	2002
Call deposits	4,518,016	1,734,034
Cash on hand	398	338
Cash equivalents	6,117	7,980
	4,524,531	1,742,352

[14] Capital and reserves

Share capital consists of the following:

Share capital

<i>In thousands of denars</i>	2003	2002
Ordinary shares	9,583,878	9,583,878
Golden shares	10	10
	9,583,888	9,583,888

Share capital consists of one golden share with a nominal value of 9,733 MKD and 95,838,888 ordinary shares with a nominal value of 100 MKD each.

As of 31 December 2003, 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%
	9,583,888	

During the year 2003, there was no change in the share capital structure.

The golden share with a nominal value of 9,733 MKD 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

After the balance sheet date, the following dividend has been declared by the Management, and approved by the shareholders.

<i>In thousands of denars</i>	2003	2002
2003: nil per ordinary share (2002: MKD 250.42)	-	2,400,000
	-	2,400,000

[15] Trade and other payables

<i>In thousands of denars</i>	2003	2002
Trade payable		
-Domestic	495,398	467,518
-Foreign	314,804	1,466,774
Liabilities to related parties	280,345	181,918
VAT and social security payable	70,739	185,544
Accrued expenses	297,619	192,774
Advances received	11,905	10,096
Deferred revenue	43,802	85,924
Salaries payable	25,400	24,347
Other	118,937	166,122
	1,658,949	2,781,017

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

[16] Commitments and contingencies**Commitments**

The amount authorized for capital expenditure as at 31 December 2003 was MKD 262,823 thousand (2002: MKD 359,556 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:

	2003	2002
Not later than 1 year	144,470	66,772
Later than 1 year and not later than 5 years	288,894	243,867
Later than 5 years	147,170	131,976
	580,534	442,615

Contingencies

A subsidiary is defending an action brought by Newsphone S D00 – 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.

[17] 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 comprise: provision and supply of telecommunication services, loans granted and supply of consultancy services. The amounts receivable and payable are disclosed in the appropriate notes.

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

<i>In thousands of denars</i>	2003		2002	
	Revenues	Expenses	Revenues	Expenses
Deutsche Telekom AG, Bonn	440,982	148,427	455,836	91,618
Matav Magyar Tavkozlesi Rt, Budapest	57,090	65,486	54,650	46,731
T-system Nova Gmbh	610	15,192	-	4,994
Telemakedonija	201	355,558	168	354,328
Stonebridge	1,541	-	2,956	-
Westel 900	3,297	1,337	3,488	1,464

[18] Group enterprises

Subsidiaries

	Country of incorporation	Ownership interest 2003	Ownership interest 2002
Mobimak	Macedonia	100	100
Montmak	Montenegro	100	90
C&C	Macedonia	100	100

Montmak 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 therefore it is excluded from consolidation for the purposes of these financial statements and classified as investment available-for-sale.

During the year, the Parent Company has obtained full ownership over Montmak.

C&C was set up by the parent entity in total amount of MKD 152 thousand and until the balance sheet date has no operations.

[19] Subsequent events

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

[20] US GAAP reconciliation

Group consolidated financial statements are prepared in accordance with International Accounting 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 2003 and 2002.

<i>In thousands of denars</i>	2003	2002
Net income		
Net deferred revenue recognized on connection fees paid –deferred at initiation and recognized over average customer life	159,248	156,600
Capitalization of interest on assets under construction in accordance with statement of financial accounting Standard 34	(335)	8,100
Reversal of impairment losses	-	(62,260)
Total increase in net income	158,913	102,440
Equity		
Opening balance adjustment to retained earnings for cumulative effect of change in deferred revenue recognition policy	(1,504,220)	(1,606,660)
Adjustment to retained earnings in current period	158,913	102,440
Net decrease in retained earnings	(1,345,307)	(1,504,220)

MT Shops

Bunjakovec	02/3121-260	centar@mt.com.mk
Karpos	02/3065-388	karpos@mt.com.mk
Porta Vlae	02/2050-117	gorcepetrov@mt.com.mk
Cair	02/2630-060	cair@mt.com.mk
N. Lisice	02/2459-941	novolisice@mt.com.mk
Biser	02/2400-214	biser@mt.com.mk
Cento	02/2521-814	cento@mt.com.mk
Dracevo	02/2791-112	dracevo@mt.com.mk
Bit Pazar	02/3296-873	mtline-bitpazar@mt.com.mk
GTC	02/3223-616	gtc1@mt.com.mk
Deloven Centar	02/3299-474	almako@mt.com.mk
Stip	032/381-121	mtline-stip@mt.com.mk
Sv. Nikole	032/440-900	mtline-s.nikole@mt.com.mk
Probistip	032/481-550	mtline-probistip@mt.com.mk
Ohrid	046/200-228	mtline-ohrid@mt.com.mk
Struga	046/784-135	mtline-struga@mt.com.mk
Debar	046/834-600	mtline-debar@mt.com.mk
Veles	043/231-358	mtline-veles@mt.com.mk
Negotino	043/361-057	mtline-negotino@mt.com.mk
Kicevo	045/223-280	mtline-kicevo@mt.com.mk
Kocani	033/273-109	mtline-kocani@mt.com.mk
Vinica	033/362-112	mtline-vinica@mt.com.mk
Berovo	033/472-808	mtline-berovo@mt.com.mk
Delcevo	033/414-205	mtline-delcevo@mt.com.mk
Prilep	048/401-390	mtline-prilep@mt.com.mk
Bitola	047/228-112	mtline-bitola@mt.com.mk
Resen	047/456-419	mtline-resen@mt.com.mk
Strumica	034/334-120	mtline-strumica@mt.com.mk
Radovis	032/633-180	mtline-radovis@mt.com.mk
Valandovo	034/382-777	mtline-valandovo@mt.com.mk
Kavadarci	043/420-000	mtline-kavadarci@mt.com.mk
Gevgelija	034/216-216	mtline-gevgelija@mt.com.mk
Tetovo	044/334-004	mtline-tetovo@mt.com.mk
Gostivar	042/218-012	mtline-gostivar@mt.com.mk
Kumanovo	031/417-127	mtline-kumanovo@mt.com.mk
Kratovo	031/488-171	mtline-kratovo@mt.com.mk
K. Palanka	031/375-905	mtline-k.palanka@mt.com.mk



**MAKEDONSKI
TELEKOMUNIKACII**

Ul. Orce Nikolov bb
1000 Skopje, Macedonia
T. +389 2 314 1279
F. +389 2 312 6244
www.mt.com.mk