Makedonski telekomunikacii AD Skopje

Consolidated Financial Statements

For the year ended 31 December 2002 and 31 December 2001

With the Report of the Auditors Thereon

Audit Report

Independent auditors' report to the
Board of Directors of
Makedonski telekomunikacii AD, Skopje

We have jointly audited the accompanying consolidated balance sheet of Makedonski Telekomunikacii AD, Skopje (hereinafter the "Group") as of 31 December 2002 and the related consolidated statements of income, changes in equity and cash flow for the year then ended on pages 1 to 22. These consolidated financial statements are the responsibility of the management of the Group. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The consolidated financial statements of the Group as of and for the year ended 31 December 2001 were audited solely by Deloitte & Touche whose report dated 23 January 2002, expressed an unqualified opinion on those statements.

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 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 accompanying consolidated financial statements, present fairly, in all material respects, the financial position of the Group as of 31 December 2002 and the results of its operations, changes in the equity and its cash flow for the year then ended, in accordance with the International Accounting Standards.

Application of accounting principles generally accepted in the United States of America would affect shareholders equity as of 31 December 2002 and net income of the years then ended to the extent summarized in Note 22 to the consolidated financial statements.

Deloitte & Touche DOOEL
Skopje, 20 January 2003

27 Mart 5/3
1000, Skopje
Republic of Macedonia

PricewaterhouseCoopers DOOEL
Skopje, 20 January 2003

Marshal Tito 12
Palata Makedonija IV-th floor
1000, Skopje
Republic of Macedonia

Consolidated income statement

For the year ended 31 December 2002

In thousands of denars	Note	2002	2001
Revenues	1	16,928,320	15,017,209
Depreciation and amortisation		(2,007,793)	(1,940,276)
Personnal expenses	2	(1,898,138)	(1,521,211)
Payments to other network operators		(1,308,116)	(1,351,256)
Other operating expenses	3	(4,489,440)	(3,583,977)
Profit from operations		7,224,833	6,620,489
Net financing costs	4	(131,214)	(694,532)
Profit before tax		7,093,619	5,925,957
Income tax expense	5	(916,342)	(676,952)
Net profit for the year	14	6,177,277	5,249,005

Consolidated balance sheet

As at 31 December 2002

In thousands of denars	Note	2002	2001
Assets			
Property, plant and equipment	6	19,808,155	17,668,676
Advances for property, plant and equipment		15,976	39,151
Intangible assets	7	1,546,667	902,532
Investments	8	112,608	49,399
Long term loans	9	39,634	12,189
Deferred tax assets	10	446,683	569,424
Total non-current assets		21,969,723	19,241,371
Inventories	11	546,822	548,392
Trade and other receivables	12	4,449,485	3,641,736
Income tax receivable		142,356	294,973
Cash and cash equivalents	13	1,742,352	1,165,974
Total current assets		6,881,015	5,651,075
Total assets		28,850,738	24,892,446
Equity and liabilities			
Share capital		9,583,888	9,583,888
Share premium		540,659	540,659
Reserves		524,062	321,198
Retained earnings		15,354,814	9,380,401
Total capital and reserves	14	26,003,423	19,826,146
Liabilities			
Interest-bearing borrowings and loans	15	-	1,645,988
Trade and other payables		-	22,426
Total non-current liabilities		-	1,668,414
Interest-bearing borrowings and loans	15	-	1,544,615
Income tax payable		66,298	9,262
Trade and other payables	16	2,781,017	1,844,009
Total current liabilities		2,847,315	3,397,886
Total equity and liabilities		28,850,738	24,892,446

The financial statements set out on pages 1 to 22 were approved by the Board of directors on 11 February 2003 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 2002

In thousands of denars	Note	2002	2001
Operating activities			
Net profit before tax		7,093,619	5,925,957
Adjustments for:			
Depreciation and amortisation		2,007,793	2,011,464
Shortages		203	-
Reversal of impairment losses of available for sale investment	4	(70,530)	-
(Reversal)/write down of inventories to net realisable value	3	(58,543)	135,074
Change in fair value of available for sale investment	4	7,631	-
Amortisation of deferred revenues		32,170	10,918
Impairment losses on trade and other receivables	3	421,355	342,096
Interest income	4	(66,695)	(181,558)
Interest expense	4	187,405	427,821
Reversal of impairment losses of assets under construction		(9,145)	-
Operating profit before changes in working capita		9,545,263	8,671,772
(Increase)/decrease in inventories		60,113	(535,858)
Increase in receivables		(1,206,553)	(1,545,461)
Increase in payables		882,412	564,410
Cash generated from operations		9,281,235	7,154,863
Interest paid		(187,405)	(465,702)
Income taxes paid		(583,948)	(882,716)
Cash flows from operating activities		8,509,882	5,806,445
Investing activities			
Acquisition of property, plant and equipment		(4,068,689)	(3,414,408)
Acquisition of intangible assets		(713,462)	(1,027,749)
Loans granted		(27,445)	(13,678)
Interest received		66,695	181,558
Cash flows from investing activities		(4,742,901)	(4,274,277)
Financing activities			
Repayment of borrowings		(3,190,603)	(1,320,312)
Cash flows from financing activities		(3,190,603)	(1,320,312)
Net increase in cash and cash equivalents		576,378	211,856
Cash and cash equivalents at 1 January			
Cash and cash equivalents at 31December	13	1,742,352	1,165,974

Consolidated statement of changes in equity

In thousands of denars	Share capital	Share premium	Statutory reserve	Retained earnings	Total
Balance at 1 January 2001	9,404,190	-	321,198	4,131,396	13,856,784
Net profit for the year	-	-	-	5,249,005	5,249,005
New share issued	179,698	540,659	-	-	720,357
Balance at 31 December 2001	9,583,888	540,659	321,198	9,380,401	19,826,146
Balance at 1 January 2002	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	9,583,888	540,659	524,062	15,354,814	26,003,423

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 telecomunication 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 company Mobimak AD (hereinafter “the Subsidiary”).

The Parent Company’s registered address is “Orce Nikolov” Street bb, 1000, Skopje, Republic of Macedonia.

The average number of employees during 2002 was 4,074 (2001: 3,714).

(a) Statement of compliance

The financial statements have been prepared in accordance with the International Accounting Standards (IAS) adopted by the International Accounting Standards Board (IASB), and interpretations issued by the Standing Interpretations Committee of the 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 that 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 IAS. The preparation of the financial statements in line with IAS requires management to make the 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.

The Group adopted IAS 39 Financial Instruments: Recognition and Measurement in 2001. The financial effects of adopting this standard were reported in the previous year's consolidated financial statements.

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

The foreign currencies deals of the Company are predominantly United States Dollars (USD), EURO (EUR) and Swiss Francs (CHF) based. The exchange rates used for translation at 31 December 2002 and 31 December 2001 were as follows:

	2002 MKD	2001 MKD
1 USD	58.60	69.17
1 DEM	-	31.17
1 EUR	61.07	60.96
1 CHF	41.98	41.11

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. The estimated annual rates of depreciation are as follows:

	2002	2001
	%	%
Aerial and cable TT lines	5	5
Automatic telephone central	8	8
Base stations	8	8
Buildings	1-2	1-2
Computers	20	20
Electronic devices	16	16
Furniture and other office equipment	10-15	10-15
High frequency and radio devices	8	8
Mechanical devices	11-14	11-14
Passenger and other vehicles	16	16
Truck vehicles	20	20

(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 annual rates of amortisation are as follows:

	2002	2001
	%	%
Software and licences	20	20
Concession	20	20

(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 recognised by the Group on the date it commits to purchase 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 cost less impairment losses (refer accounting policy k).

(j) Cash and cash equivalents

Cash and cash equivalents comprise call deposits and cash on hand 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) 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 recognized whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognized in the income statement.

(i) Calculation of recoverable amount

The recoverable amount of other 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 indepenent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

(ii) Reversals of impairment

In respect of other assets, 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 recognized.

(l) Interest bearing borrowings and loans

Interest-bearing borrowings are initially recorded at the net proceeds received less attributable transaction costs. Subsequent to the initial recognition, interest bear-borrowings are stated at amortised cost. If debt is settled before maturity, any difference between the amount repaid and the carrying amount is recognised in the income statement for the period.

(m) Trade and other payables

Trade and other payables are stated at their cost.

(n) Share capital

(i) Dividends

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

(o) 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. Estimates are included to provide for that portion of revenues, which have not been reported to the Group at the end of the period.

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.

(ii) Net financing costs

Net financing costs comprises interest payable on borrowings, interest receivable on funds invested, dividend income, foreign exchange gains and losses.

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.

(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.

1. Revenues

In thousands of denars	2002	2001
Domestic fixed line telecommunication services		
-subscription, connection and other charges	2,512,088	2,009,573
-traffic revenues	5,520,193	4,719,373
International traffic revenues	1,983,797	2,850,405
Mobile telecommunication services	5,589,758	4,257,175
Leased line and data transmission	495,090	187,189
Other	827,394	993,494
	16,928,320	15,017,209

2. Personnel expenses

In thousands of denars	2002	2001
Salaries	1,137,587	1,022,849
Contributions on salaries	536,130	462,039
Bonus payments	48,519	17,260
Other staff costs	270,575	177,588
Capitalised personnel costs	(94,673)	(158,525)
	1,898,138	1,521,211

3. Other operating expenses

In thousands of denars	2002	2001
Materials and maintenance	587,865	536,742
Services	679,699	537,816
Consultancy	468,585	459,614
Impairment losses on trade and other receivables	421,355	342,096
Fees, levies, and local taxes	462,516	287,749
Marketing and donations	524,509	355,993
Reversal of impairment loss on assets under construction	(9,145)	-
Provision/(reversal) of write down of inventory to net realisable value	{58,543)	685
Energy	139,538	117,520
Audio text services	118,896	120,999
Rental fees	151,121	100,932
Insurance	51,908	40,453
Cost of goods sold	767,115	618,278
Other	184,021	65,095
	4,489,440	3,583,977

4. Net financing costs

In thousands of denars	2002	2001
Interest expense	187,405	356,163
Interest income	679,699	(24,844)
Bank changes and other commissions	44,568	43,896
Net foreign exchange loss	28,835	319,317
Change in fair value of available for sale investments	7,631	-
Reversal of impairment loss of available for sale investments	(70,530)	-
	131,214	694,532

5. Income tax expense

(a) Recognised in the income statement

In thousands of denars	2002	2001
Current tax expense		
Current year	759,442	665,958
Deferred tax expense		
Origination and reversal of timing differences	156,900	10,994
Total income tax in income statement	916,342	676,952

(b) Reconciliation of effective tax rate

In thousands of denars		2002		2001
Profit before tax		7,093,619		5,925,957
Income tax	15%	1,064,042	15%	888,893
Non-deductible expenses	4.1%	295,813	1.1%	66,354
Tax exempted revenues	(2.6%)	(189,024)	-	-
Tax benefit of 7.5% rate of tax on MobiMak profits	-	-	(1.6%)	(96,670)
Tax incentives not recognised in the income statement	(3.5%)	(254,489)	(3.0%)	(181,625)
	13.0%	916,342	(11.5%)	676,952

6. Property, plant and equipment

In thousands of denars	Land	Building	TC equipment	Other	Assets under construction	Total
Cost						
At 1 January 2002	5,236	3,221,092	20,132,180	2,831,260	832,565	27,022,333
Acquisitions	63	93,082	823,262	573,128	2,579,154	4068,689
Transfer from assets under construction	579	315,169	2,024,555	-	2,571,546	(231,243)
Disposals	-	(1,027)	(1,478,594)	(77,015)	(25,492)	(1,582,128)
At 31 December 2002	5,878	3,628,316	21,501,403	3,327,373	814,681	29,277,651
Depreciation						
At 1 January 2002	-	761,280	7,166,871	1,425,506	-	9,353,657
Charge for the year	-	71,196	1,190,421	268,334	-	1,529,951
Disposals	-	(308)	(1,353,336)	(60,468)	-	(1,414,112)
At 31 December 2002	-	832,168	7,003,956	1,633,372	-	9,469,496
Carrying amount						
At 1 January 2002	5,236	2,459,812	12,956,309	1,405,754	832,565	17,668,676
At 31 December 2002	5,878	2,796,148	14,497,447	1,694,001	814,681	19,808,155

7. *Intangible assets*

In thousands of denars	Software	Concession	Other	Total
Cost				
At 1 January 2002	895,645	154,757	5,184	1,055,586
Acquisitions	704,266	-	9,196	713,462
Transfer from assets under construction	229,391	-	1,852	231,243
Disposals	-	-	(3,925)	(3,925)
At 31 December 2002	1,829,302	154,757	12,307	1,996,366
Amortisation				
At 1 January 2002	118,349	30,951	3,754	153,954
Charge for the year	267,614	30,952	1,388	299,954
Disposals	(1,131)	-	(2,178)	(3,309)
At 31 December 2002	384,832	61,903	2,964	449,699
Carrying amount				
At 1 January 2002	777,296	123,806	1,430	902,532
At 31 December 2002	1,444,470	92,854	9,343	1,546,667

8. *Investments*

In thousands of denars	2002	2001
Non-current investments		
Equity investments available for-sale	143,359	218,115
Impairment losses	(30,751)	(168,716)
	112,608	49,399

In thousands of denars	2002	2001
Impairment losses at 1 January	168,716	168,716
Reversal of impairment loss of available for sale investments	(70,530)	-
Write offs	(67,435)	-
Impairment losses at 31 December	30,751	168,716

9. Long term loans

Long term loans represent loan granted to Stonebridge AD, which is a related party.

10. Deferred tax assets

Recognised deferred tax assets

Deferred tax assets are attributable to the following items:

In thousands of denars	2002	2001
Property, plant and equipment	307,931	332,947
Receivables	128,998	160,833
Investments and deposits with banks	9,754	75,644
Tax assets	446,683	569,424
Net tax assets	446,683	569,424

11. Inventories

In thousands of denars	2002	2001
Materials	501,155	601,580
Commodities	447,237	327,209
Write down of inventories to net realisable value	(401,570)	(380,397)
	546,822	548,392

Movement in write down of inventories to net realizable value

In thousands of denars	2002	2001
Allowance at 1 January	380,397	245,323
Charged to expense	21,173	135,074
Allowance at 31 December	401,570	380,397

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

12. *Trade and other receivables*

In thousands of denars	2002	2001
Trade debtors		
-Foreign	1,584,252	1,247,203
-Domestic	3,175,279	2,818,054
Receivables from related parties	335,874	211,704
Advances given to suppliers	17,977	116,605
Deposits with banks	71,591	296,589
Prepayments and accrued income	54,021	47,813
Other	101,968	93,127
Allowance for uncollectibility	(891,477)	1,189,359
	4,449,485	3,641,736

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

In thousands of denars	2002	2001
Impairment losses at 1 January	1,189,359	1,200,340
Changed to expense	421,355	342,096
Write offs	(719,237)	(353,077)
Impairment losses at 31 December	891,477	1,189,359

13. *Cash and cash equivalents*

In thousands of denars	2002	2001
Call deposits	1,742,014	1,165,776
Cash on hand	338	198
	1,742,352	1,165,974

14. Capital and reserves

Share capital consists of the following:

Share capital

In thousands of denars	2002	2001
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 95,838,880 ordinary shares with a nominal value of 100 MKD each.

As of 31 December 2002, the ordinary shares of the Parent company were held as follows:

Goverment 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	

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 of the Company, the golden shareholder has additional rights not vested in the holders of ordinary shares.

Statutory reserve

Under local statutory legislation, the Company is required to set aside 15 percent of its net profit for the year in a statutory reserve until the level of the reserve reaches 1/5 of the share capital.

Dividends

As of the date of these financial statements there are no proposed dividends by the management.

15. *Interest bearing borrowings and loans*

In thousands of denars	2002	2001
Non-current liabilities		
Unsecured bank loans	-	1,645,988
	-	1,645,988
Current liabilities		
Current portion of unsecured bank loans	-	1,544,615
	-	1,544,615

In 2002, the Parent company has prematurely repaid the outstanding balance of interest bearing borrowings in relation to IFC credit facility of USD 6,845 thousands and EBRD credit facilities of USD 13,253 thousands and EUR 9,792 thousand respectively.

16. *Trade and other payables*

In thousands of denars	2002	2001
Trade payable		
-Domestic	467,518	281,984
-Foreign	1,466,774	870,362
Liabilities to related parties	181,918	217,241
VAT and social security payable	185,544	69,455
Accured expenses	192,774	129,978
Advances received	10,096	69,860
Deferred revenue	85,924	53,754
Salaries payable	24,347	36,221
Other	166,122	115,154
	2,781,017	1,844,009

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

17. Commitments and contingencies

Commitments

The amount authorized for capital expenditure as at 31 December 2002 was MKD 359,556 thousands.

Contingencies

There is a procedure undertaken by the Constitutional Court of Republic of Macedonia for legality of the imposition of fees for fixed telephony. With regards to this, the Parent Company has made changes in the internal acts in accordance with the Law and Concession agreement in which the right of imposing such fees is clearly prescribed. Having in mind the above, and based on the legal advice received, the eventual Constitutional Court Decision would not have negative financial implications on the operations of the Parent Company and up to the best available knowledge of the Management no provisions are deemed necessary for such implications as of 31 December 2002.

18. 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

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 for the year ended 31 December 2002 with the Group's related parties are as follows:

In thousands of denars	Revenues	Expenses
Deutsche Telecom AG, Bonn	455,836	91,618
Matav Magyar Tavkozlesi Rt, Budapest	54,650	46,731
T-system Nova Gmbh	-	4,994
Telemakedonija	168	354,328
Stone Bridge	2,956	-
Westel 900	3,488	1,464

19. Group enterprises

Control of the Group
Three subsidiaries are owned by the Parent Company:

Subsidiaries

	Country of incorporation	Ownership interest 2002	Ownership interest 2001
MobiMak	Macedonia	100	100
Montmak	Montenegro	90	90
C&C	Macedonia	100	-

Mont Mak AD Podgorica operates a hotel resort in Montenegro, Federal Republic of Yugoslavia. 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.

20. 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 assets in the balance sheet.

(ii) Interest rate risk

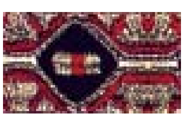
The Group does not have a policy to hedge its interest rate risk.

(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.

21. Subsequent events

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



Detail from Embrodery work on the sleeve of a bride'shirt - Poretche

22. 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 IAS 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 2002 and 2001.

In thousands of denars	2002	2001
Net income		
Net deferred revenue recogtnized on connection fees paid-deferred at initiation and recognized over average customer life	156,600	293,000
Capitalization of interest on assets under construction in accordance with statement of financial accounting Standard 34	8,100	17,340
Reversal of impairment losses	(62,260)	-
Total increase in net income	102,440	310,340
Equity		
Opening balance adjustment to retained earnings for cumulative effect of change in deferred revenue recognition policy	(1,606,660)	(1,917,000)
Adjustment to retained earnings in current period	102,440	310,340
Net decrease in retained earnings	(1,504,220)	(1,606,660)