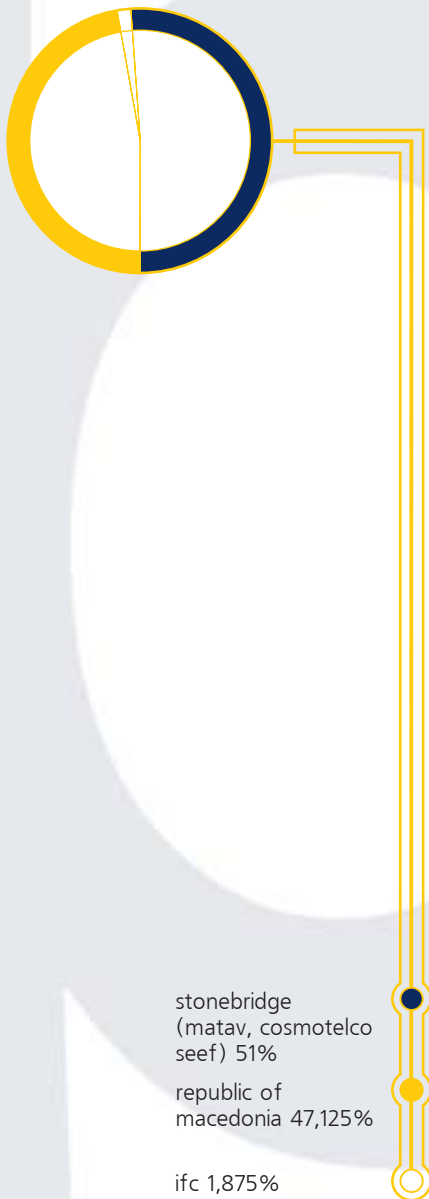


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Company Profile

Shareholders structure



"Makedonski Telekomunikacii" AD is a national telecom operator providing public telecommunication services in the Republic of Macedonia. As a modern company it continuously follows the latest worldwide trends offering to its customers a comprehensive scope of telecommunication services - telephony services, telegraph and telex services, public pay-phone services, leased lines services, mobile telephony services, data transmission services, value added services, directory services, VSAT and other satellite services and other services.

Since 1997, "Makedonski Telekomunikacii" AD, separated from the existing company PTT Makedonija and became a telecom provider. In 1998 the company was registered as a joint-stock company in state ownership in order to prepare itself for the forthcoming privatization. In 2000 the Consortium led by the Hungarian Telecommunications MATAV purchased 51% of the MT's shares, thus becoming a dominant owner of the Company. The shareholders structure at the moment is as follows: Stonebridge (Matav, Cosmotelco, SEEF) with 51%, IFC with 1,875%, and 47,125 % from the shares plus the golden share are owned by the Republic of Macedonia.

Providing services suited to each customer for getting solutions for all communication needs and requirements is our major commitment that leads to the development of MT into a Company truly close to its customers.

Mission – Vision

Our vision

To become the best telecom provider in the region and to expand our activities into other markets.

Our mission

To satisfy 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, that measures its success by the quality of offered services, customer satisfaction, number of new customers and profit.

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

Introduction by Chief Executive Officer of MT



John Munnery
CEO of Makedonski telekomunikacii

Dear Customers, Employees, Shareholders, Friends

The challenges facing MT in 2001 have been immense. It is of the greatest credit to the staff that so much has been accomplished in such a short time. The new organisation has been implemented according to the DT "four pillar" structure of Fixed, Mobile, Internet and Business Solutions. MobiMak has been diverged in line with Concession requirements with operational autonomy and its own Board of Directors, and is now ready to face competition from a new entrant.

Financial results have been very encouraging, despite a crisis situation which has isolated a substantial segment of the market and prevented access to customers in the troubled areas. Although the crisis was a source of additional revenue for us, we suffered equipment damages of more than 2 million Euro for which there is no compensation. Our results are even more laudable when it is understood that there has been a drop in GDP in 2001.

We reached some 75% of our proposed Capex target, the shortfall being due to an inability to undertake installations in the crisis zone, substantial cost savings produced as a result of Deutsche Telecom bargaining power, and a rephasing of some substantial items across year end and into 2002. Line demand was not as high as expected - due to the economic conditions - and certain expansion plans proved to be unnecessary, and would have been a waste of resources which would have driven up the cost base of the Company. Major achievements have included ISDN roll-out, the phasing out of a substantial number of party lines, and digitalisation. Whilst Capex was lower than anticipated, all operational requirements were met in full, and planning and tendering processes were carried out for this year's even more substantial programme. We anticipate that 2002 will see the last of analogue lines in Macedonia - a regional First.

In the area of Internet Business we have doubled our customer base (from 9.854 EOY 2000 to 21.857 EOY 2001). Additionally our Business Solutions line is maturing into a highly professional organisation, and is winning useful contracts.

We are benefiting substantially from synergies in the Matav and Deutsche Telecom Groups, which are driving down costs and transferring know-how. In particular a new accounting system (from SAP with Deutsche Telecom support) is now accepted, and the company is well on the way to developing the new financial skills and reporting systems demanded by the 21st Century

We were in particular pleased to negotiate a reduction in interest rate on our EBRD loans of 1.75% with the prospect of another 0.25% reduction later in 2002, thus removing a penalty interest rate which had been inherited by the privatised Company. This results from an increased level of confidence in the new management.

From the HR point of view there has been an evaluation of key staff, restructuring into a leaner management organisation. Substantial training has been undertaken for both technical and managerial skills, but we still have a lot of work to do in this area. Attitudes and cultures are slow to change, but this must be achieved for the long-term good of the Company.

Our employees have responded to what has been a very challenging year both operationally and environmentally in an outstanding manner. They remain our most valuable resource and have my unreserved praise.



John Munnery

MT's Board of Directors

The bodies of MT are the Shareholders Assembly and the Board of Directors. After successful completion of the privatization, the Assembly of MT adopted a new Statute and elected a new Board of Directors. In accordance with the provisions of the Shareholders' Agreement and Statutes of MT, the Board of Directors has the managerial, leading function, and is composed of 9 non-executive members and one executive member, the Chief Executive Officer (CEO).

Danilo Gligorovski, President
 Representative of the Republic of Macedonia. He has been non-executive member and President of MT's Board of Directors since its constitution, in January 2001.



Slobodan Danevski, Member
 Representative of the Republic of Macedonia. He has been non-executive member of MT's Board of Directors since its constitution, in January 2001.



Krале Spancevski, Member
 Representative of the Republic of Macedonia. He has been non-executive member of MT's Board of Directors since its constitution, in January 2001.



Zamir Dika, Vice President
 Representative of the Republic of Macedonia. He has been non-executive member and Vice President of MT's Board of Directors since its constitution, in January 2001.



Ronald O Drake, Member
 Representative of "Stonebridge"AD. He was elected non-executive member of MT's Board of Directors in March 2001.

**Istvan Szabo,
Member**

Representative of "Stonebridge"AD. He has been non-executive member of MT's Board of Directors since its constitution, in January 2001.

**Horst Hermann,
Member**

Representative of "Stonebridge"AD. He has been non-executive member of MT's Board of Directors since its constitution, in January 2001.

**John Munnery,
Member**

He has been appointed Chief Executive Officer of MT and elected executive member of MT's Board of Directors in October 2001.



Hanno Hausman was non-executive member until March 2001.

Fridbert Gerlach

was non-executive member until September 2001.

Daniel Doncev

was CEO and executive member until October 2001.

**Stavros Nikos
Stavridis,
Member**

Representative of "Stonebridge"AD. He has been non-executive member of MT's Board of Directors since its constitution, in January 2001.

**Ziegfried Pleiner,
Member**

Representative of "Stonebridge"AD. He was elected non-executive member of MT's Board of Directors in September 2001.

MT's Management Committee 2001

Following the changes in MT, the Board of Directors of MT established Management Committee, having the authority delegated by the Board of Directors, as well as authority regarding everyday activities of MT's functioning, in order to commit accuracy and efficiency of Company's functioning. The members of the management Committee are the Chief Executive Officer, Chief Functional Officers and Executive Directors of MT's Lines of Business.

John Munnery
Chief Executive Officer



Erika Mesterhazy
Chief Marketing Officer



Istvan Szabo
Chief Financial Officer



Bela Kozma
Chief Technical Officer



Kiril Trendafilov
Executive Director of
MTline



Toni Rusomarovski
Executive Director of
MTcom



Ognen Firfov
Executive Director of
MTnet

Organization structure of MT in 2001

The organization structure of AD "Makedonski Telekomunikacii" consists of the following segments:

- Corporate bodies - Shareholders Assembly, Board of Directors, Management Committee
- Functional areas - Human Resources, Technique, Financial, Marketing
- Lines of Business - MTline, MobiMak, MTnet, MTcom.

In order to provide better approach to its customers and satisfy their needs more effectively, MT was reorganized in 2001 into functional areas to support the activities of Line of Business - MTline, MTnet and MTcom. Since 1st of June 2001 MobiMak is functioning as a separate legal entity - a daughter company, 100% owned by MT.

The Operation and Organization of MT was developed very deep during the year 2001 in order to achieve a professional, efficiency operation, like a modern telecommunication company.

Almost all activities were centralized (i.e. financial, technical, procurement etc.) avoiding the parallel work and any duplication.

The sales and customer care activities related to the customers were organized into so called Lines of Business (MTline, MTcom, MTnet).

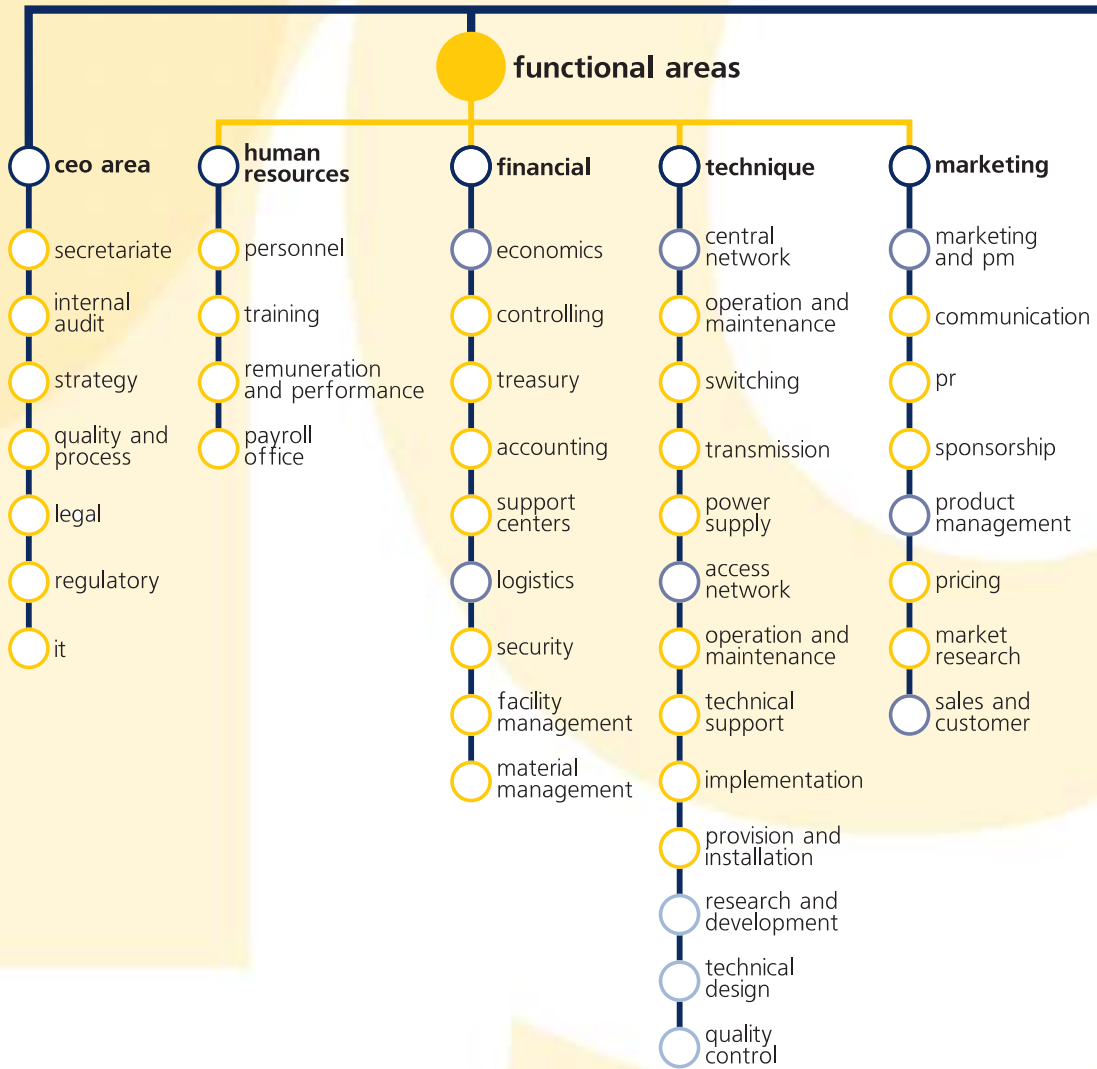
It shortenes the way to the customers, and accelerates the customer management process.

The main goal of the reorganization was to achieve

- a market driven,
- customer focussed
- cost efficient operation /organization based on western telecom standards.

The improved organization structure was implemented gradually replacing the previous structure, which had 14 Regional Centers.

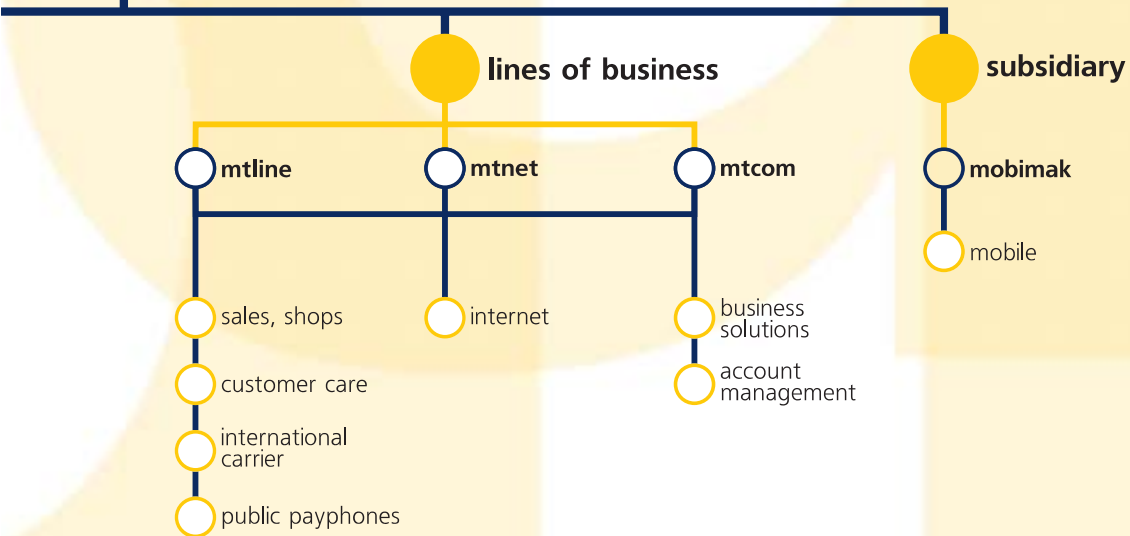
Organization structure of MT in 2001



○ shareholders assembly

○ board of directors

○ management committee



Fixed Line Segment

MT is solely provider in the Republic of Macedonia of the basic telephony services in national, long-distance and international traffic, including the ISDN services, additional services, public payphones.

As a result of the company restructuring in 2001, MTline was established as a separate business unit, including the part of the market which refers the residential customers and a part SME fixed telephony customers. One of the most important segments within organization was to meet the strategy of the company towards the customer orientation, emphasizing the Sales and Customer Care segment, supported by the International Carrier relations, Controlling and Technical Support, as well as Public Payphones.

In 2001 the positioning of the new Sales and Customer care concept was essential in order to improve the service quality and relations with the customers. Thereby, in 2001 the project of implementation of new image of the shops and training the sales persons started in order to better serve the customers. Within sales activities, in 2001, MTline started to sale telecommunication equipment, as well as services of other lines of business in MTshops. The aim is to provide the customers full service in one door customer care and sales point with standard procedures, in unified familiar shops, on the whole territory of the Republic of Macedonia, trying to reach better and more direct communication with the customers.

MT is solely provider in the Republic of Macedonia of the basic telephony services in national, long-distance and international traffic, including the ISDN services, additional services and public payphones. MTline permanently takes care of its customers providing them with the highest quality and up-to-date services. In 2001 was reached 91% of the active capacity digitalization rate, and the penetration was 26%. In 2001 MTline conducted 31.191 net new subscribers.

In 2001 MTline undertook large preparatory activities in order to reach higher adaptability towards the technological changes and completely meet the customers' needs. In this direction, MTline becomes innovative in creating and packaging new services in accordance with the customer needs, and in order to fulfill the business plan of the company. In 2001 were targeted the additional services (priority line, abbreviated dialing, barring of outgoing calls, CENTREX, direct dialing in PABX exchanges, "do not disturb", call hold, call divert, call barring, conference call, calling line identification, barring of incoming calls, "the subscriber is absent", registered call, automatic redial), in order to improve their usage. At the end of 2001 was commenced a campaign for packet sales of ISDN 2, which increased the number of ISDN subscribers.

MTline

The International telephone traffic from Macedonia towards the world is organized via direct links with 22 countries, with more than 30 destinations. In total, MT has about 3000 international circuits. MT's international terrestrial links are based on SDH transmission technology. These include a 155 Mbit/s links with Bulgaria via Kriva Palanka-Kustendil and Novo Selo-Petrich, two 622 Mbit/s links with Greece via Bitola-Lerin and Gevgelija-Kukus, a 622 Mbit/s link with Yugoslavia via Kumanovo-Vranje and radio transmission system link with Albania.

The links with Albania and Bulgaria are part of the Trans-Balkan Line (TBL), a project linking Turkey, Bulgaria, Macedonia, Albania and via submarine cable, Italy. The total length of the system is 1.580 kilometres and the main connection points are Istanbul-Turkey, Sofia-Bulgaria, Skopje-Macedonia, Tirana-Albania and Bari-Italy. Other international links include TEL/TET, ITUR and ADRIA. International capacity via cables exceeds 1870 circuits.

Regarding the satellite communication, MT has four-antenna system. Two antennas use INTELSAT (AOR and IOR) for connection with Australia and United States. The third antenna uses EUTELSAT for connection with Europe, and the fourth antenna is used for transmission of TV broadcast signals. The center capacity is 860 international circuits.

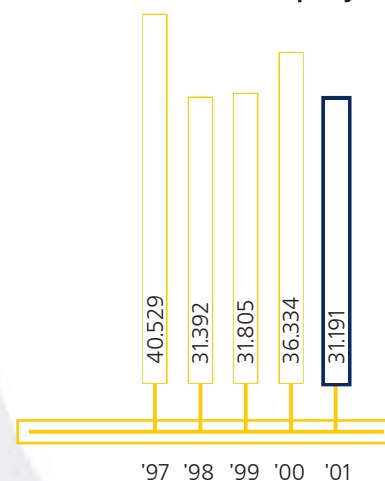
Twenty percents (20%) of the international telephony traffic are provided via satellite links, while the remaining part is via optical fibers. With each neighboring country, the Republic of Macedonia has reached a large capacity of international trunks, providing links with the telecommunication networks in Europe and the whole world.

The Center for Public payphones, within MTline, is first and sole operator with public payphones with smart cards on the territory of the Republic of Macedonia.

In 2001 were functioning 1183 public payphones installed on the whole territory of Republic of Macedonia, most of them in the urban areas, and 10% in rural areas. The public payphones are product of "Nortel" and the supervision computer is from "Tandem" company. In order to better serve the customers with this kind of service in 2001 started the activities for upgrading of the network and replacement of the public payphones with new system of payphones planed in first quarter in 2003.

In 2002 MTline plans are to overtake activities towards creating new packets increasing the number of subscribers, focusing on taking care for the customers through mentioned point-of sales by which enhanced flexibility in satisfying customers' needs will be obtained.

Net new subscribers per year



Business Solutions

Value of the market served by MTcom is around 51 million Euros which is about 40% of the total MT market.

Committed to provide better services for business customers, in June 2001, MT established new business unit, MTcom whose primary goal is to provide system integration and business tailored solutions. This new way of interaction was implemented by key, named and regional account managers including the "one source for all communication needs" business model. Considering sales, MTcom introduced a system of so called "key" account managers, who provide one contact point to be used by corporate users to meet their requirements. Not only the communication of the corporate users with MTcom is more comfortable, but also the attitude and care towards our client is improved. With this approach MT went beyond traditional selling to tackle today's customers' issues. MTcom tends to build its offer and messages to the large customers, part of SME market as well as carriers and service providers. MTcom customers are about 5% of total MT business customers with around 30% of total business subscriber lines.

Value of the market served by MTcom is around 51 million Euros which is about 40% of the total MT market.

For only five months of operations in 2001, MTcom recruited people, defined business processes and started with providing complete telecommunication solutions to its customers. MTcom is equipped with numerous resources and great number of experts in the field of telecommunications and computer engineering. The services, equipment and solutions of MTcom are available at the whole territory of the Republic of Macedonia. In this way a quick interaction between corporate customers and AD "Makedonski Telekomunikacii", is established, and simple solutions to complex issues inevitable for successful business performance are given. During this starting period MTcom realized revenue of 500,000 Euros providing system integration where advanced customized Telco and Internet solutions were offered.

MTcom

MTcom solutions include services and products concerning voice traffic, leased lines, LAN and WAN networks, data transfer, Internet access, IP VPN, IP VPDN and other solutions related to system integration, as well as service management. IP VPN and IP VPDN were introduced for the first time in October and till the end of 2001 MTcom already had contracts for 52 connection points.

Regarding the communication equipment MTcom provides and lease sophisticated network systems and equipment made by recognized world suppliers whose configuration is in accordance with the specific requirements of the client.

MTcom provides a complete IT solutions including planning, then performing and maintenance of the local area network; it also offers optimal WAN solutions to particular information applications.

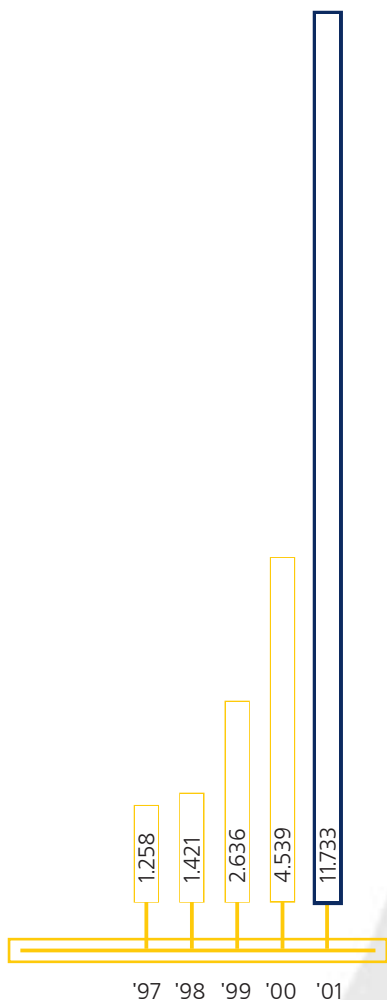
Beside the sales of communication equipment, MTcom introduced a new service on our market, that is leasing the same equipment at acceptable terms. Due to a rapid development of computer engineering and communication, equipment leasing may be an optimal solution, which can offer a maximal exploitation of the communication resources with diminution of expensive investments.

In 2002, MTcom orientation continues to be towards system integration, information technology, network economy and convergent solutions. MTcom continues to act as customized Telco, introducing new telecommunication services to the market and offering business solutions and service support to its customers.

MTcom provides a complete IT solutions including planning, performing and maintenance of the local area network.

Internet

MTnet new Dial-up subscribers



MTnet is the biggest and the most quality Internet provider in Republic of Macedonia having the Internet market share of 49%.

During 2001 MTnet commenced the reorganization of the work process defining the basic principles of the reorganization project: development of flexible units which are suited to meet the demands of the customers, monitoring and implementing the technological advances especially from the aspect of 'stable and secure internet communications'; developing business planning and defining the process of 'project realization' within the line of business; modeling the Technical Department as a background of all sales activities with special attention to the Customer Care, as a unit within the department itself.

To be closer to the customers, MTnet increased the number of Internet Cafes and opened new sales points in major cities in Macedonia.

MTnet has developed operating activities for its services, customer support activity and from the recent time has group for development of application software, WEB content activity and own award winning WEB portal. MTnet's portal (www.mt.net.mk) which was awarded on the Plugin 2001 Contest as best portal by expert council and by general public is the most visited WEB page in Macedonia.

Technical activities

- Upgrading Internet link
- 4 Mbps satellite link with Unitel (UUnet)
- 8+4 Mbps terrestrial with Deutsche Telecom / Global One
- 34 Mbps terrestrial with MATAV
- Network Core is distributed on three main locations and is consisted of three GSR 12008 routers.

Structure of customers

Distribution of business and residential dial-up customers:

- Business (SOHO, SME) - 16%
- Residential - 84%

MTnet

Services

Dial - up services: The plan for new dial-up users for 2001 was exceeded by 121%. The total number of dial-up users by the end of year 2001 was 21.587, while the expected result according to the 2001 Business Plan for 2001 was 19.800. In June, with the campaign "Internet solution for everyone", MTnet offered new packages for Internet access: CLICK, SURFER and BUSINESS.

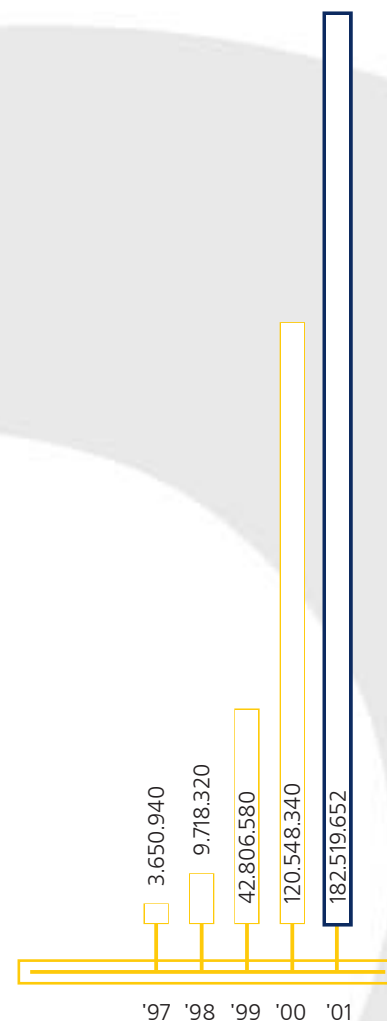
At the end of 2001 MTnet started the campaign "PC+Internet". This was a unique offer that stimulated PCs to be sold on 24 installments. Each package included 10 hours per month surfing time via MTnet for a period of 24 months. The main objective was to increase the PC penetration in the ordinary households, while stimulating the potential users to try the MTnet's Internet services. The total number of sold "PC+Internet" packages reached 350. This campaign significantly increased the post-paid Internet base from SOHO market.

At the end of 2001, MTnet introduced a new pre-paid service called "eCard". So far this service includes two types of cards: 5 and 10 hours.

WEB services: Planning and development of WEB pages WEB hosting services on MTnet Web servers (In 2001 MTnet hosted 192 new WEB sites, while the total number reached 370 web pages), Promotion and advertisement through MTnet's Web portal (www.mt.net.mk).

Internet Leased Lines Services: With the "Internet Leased Line Action Plan", which was conducted from September 1st to December 31st 2001, 50 leased lines were activated, out of which 37 were new, and 13 were upgrades to greater speed. This action plan helped in reaching the objective of 90 Internet Leased Lines defined in the Business Plan for 2001. Significant fact to be mentioned is the acquisition of the first international Internet customer "Post & Telecom Kosova" with Internet access of 4 Mbit/sec. The agreement was signed at the end of 2001.

MTnet developed new sales channels through dealers, which were involved in the sales of the dial-up packages. Total number of dealers is 14. In November 2001 MTnet joined the MTL line "ISDN Express" campaign by offering free MTnet Surfer packages. The interest was bigger than expected, which steadily increased the number of the new MTnet customers.

MTnet traffic in minutes

Mobile Segment

While we are all very proud of the success of 2001, we are geared ahead towards the challenges of the competitive environment and relish the opportunity to continue implementing our "Customer First" philosophy.

As part of the subsequent strategic reorganization, the new independent company was spun off in June 2001 becoming The Company for Cellular Communications MobiMak AD, with a new multinational management team, representing the principle shareholders, Matav, Cosmotelco and the Republic of Macedonia.

MobiMak's evolution into a dynamic 'Customer First', independent company, working on free market principles was the main focus for 2001. We committed ourselves to reinvent MobiMak, to build a clear and focused company, based on international standards of corporate governance and move it into the top tier of companies in Macedonia.

Network and infrastructure

The new MobiMak entered into a frame contract with the main network and infrastructure vendors, fixing the prices of different services and products, reaching significant discounts. Based upon the completed agreements Mobimak started a fast network development activity in the period of September-December. The company changed all the existing site rental contracts and made them exclusive, signed new contracts for the new base stations to be built in 2001 and 2002 and built 72 base stations in the last 4 months of 2001. This way Mobimak reached the original targets for 2001 (98% population and 85% territorial coverage, network congestion less than 4%, total dropout less than 4%, handover dropout less than 4%, cell downtime less than 1%). Simultaneously the company carried out a total HW and SW upgrade in the prepaid system, installed a new switching center (MSC 3 -BSC 3) with additional capacity of 100.000 customers.

The impressive growth of the company mirrors the introduction of key new systems: the billing system for postpaid customers, highly sophisticated SMS and voicemail systems handling more than 12 million SMS messages per month, an innovative Content Development System.

Marketing and Customer Relations

While we are all very proud of the success of 2001, we are geared ahead towards the challenges of the competitive environment and relish the opportunity to continue implementing our "Customer First" philosophy.

We are committed to continuous improvement and the application of best practices across our business. MobiMak revolutionized the way it served its customers with the dynamic new retail concept and streamlined supply chain. Perhaps most crucial of all is the fact that we have completely redefined our brand which is built on the slogan "Connecting Your Worlds".

The company has put a high emphasis on marketing activities, by introduction of new services, new tariff packages, but also a series of attractive sales promotions with good brand handsets.

Mobimak has learnt the lessons of its larger peers in the mature markets of Europe. Our "Customer First" program focuses on the need to continually

MobiMak

renew our relationship with our existing customers, not only through new service and tariff offerings but also through a focused customer retention program.

"360 Degrees of loyalty brings 360 Degrees of rewards" - is the core brand proposition of our loyalty program. Club 360 is a significant commitment to reward our customers for their commitment and loyalty to Mobimak

By the end of the year Mobimak reconstructed or built 14 own shops (with the new design) in which customers are served in a high quality environment. Throughout this sales and distribution network the company sold a total of 140.000 new subscriptions. With this outstanding sales result the number of RPC increased by the end of 2001 from 101.179 by almost 120% to more than 220.000 (which is reflecting 11% market penetration). Mobimak paid the highest attention to the Major Account customers by elaborating the Major Account discount system and contractual conditions. By the end of the year 70% of the potential Major Account customers signed a long term Major Account cooperation contract with Mobimak. The sales of prepaid vouchers increased from the value of 30 million denars in July up to 84 million denars in December. The number of sent SMS messages showed a dramatic increase from a monthly average of 300.000 pcs to 3.97 million pcs by December.

The company developed the Customer Service activity also. In the call center with new employees, new procedures, quality control and training the service level rapidly increased, the ratio of answered calls increased from 40% to more than 70% by the end of 2001. To improve the other very important activity of the customer service the company established a separate group within the customer service to manage the collection of debts. By the end of 2001 the collection group achieved a very ambitious goal: to increase the monthly collection ratio from the earlier less than 90% to more than 94%.

In Society

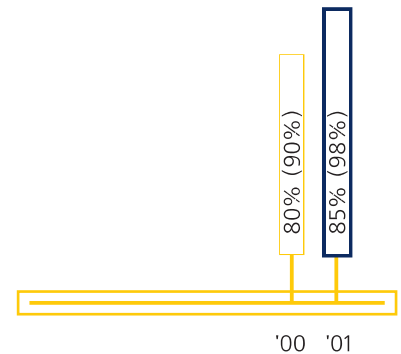
As Macedonia's flagship operator, MobiMak recognizes and welcomes our moral and social obligation to play an active and positive role in society.

In 2001 MobiMak made a string of high profile investments across the fields of culture, sport and varying aspects of society. This support of different activities touches all spheres of human life, with one goal, enrichment of the quality of life for all.

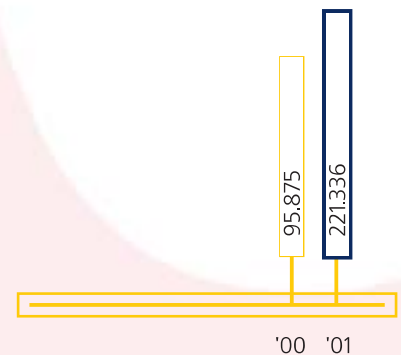
The most significant activity was our general sponsorship of the archeological excavation at Vardarski Rid. This sponsorship, above all, reflects MobiMak's recognition of its roots and the inextricable link that the Macedonia of today has with its ancestors.

MobiMak will continue to invest in our country, in recognition that the seeds of tomorrow are sown by our actions today.

MobiMak coverage territory (population)



Revenue producing customers



Marketing

To change the image of MT to an open, customer oriented and market driven company is seen as a high priority medium-term objective. It is a process and a lot of things have to be done.

New concept of the four pillar structure of the company affected significantly the Marketing Area. Central Marketing as a new function was established with the aim to be the main driver towards market and customer transformation of the company.

In order to achieve the company goals centralized function within the area was established as follows:

- Product management
- Market research
- Marketing communication and PR
- Sales and customer care coordination
- Donation and sponsorship

Cost efficiency, effectiveness and harmonized approach towards customer through the LoB's sales and customer care force came as an outcome of the new concept established and implemented in the year 2001.

Competitive prices of the telecommunication services

Pricing policy of the exclusive telecommunication services is determined by the rebalancing methodology and allowed Controlling Percentage a part of the Concession Agreement. Management view of the rebalancing process and steps have been performed is the following:

- To eliminate the huge unbalance between international telephony prices and national as a heritage from the past
- To reach the comparable level of the prices of telecommunication services with benchmarked ones, having in mind the affordability, purchasing power of the population in Macedonia and economic growth of the country
- To prepare the company for the competition at the beginning of the year 2005

Rebalancing step performed in 2001 led to an average price drop of international calls for 9% and increase of long distance and local calls. Having in mind the pulse based billing system free pulses for residential - customers are included in the monthly fee in order to protect low uses and low income customers mostly affected by the rebalancing. This approach is used as a substitution of the special packages which are going to be tailored for these customers with implementation of the new billing system.

Campaign Performed

The main activities of Central Marketing Area were directed towards improvement of the quality and scope of services, offered to the customers by the Lines of Business (MTline, MTnet and MTcom, - after separation, MobiMak undertakes its marketing functions).

New procedure of building a business case for each product supported with financial analysis as well as new communication approach towards targeted customers with help of the marketing agencies involved led company towards qualitative campaign based promotion of the services. As a result of the efforts made in 2001 the following campaigns with great success were launched:

- MobiMak campaign SIM+Ericsson
- MTnet campaign "Real Value for Your Money"
- ISDN-express campaign of MTline
- Implementation of new Internet packages - Click, Surfer and Business
- PC + Internet
- Internet pre-paid cards
- IP VPN - IP Intraconnect

Fair Presentation

Infokom 2001 fair for information technology and telecommunications was great opportunity to present the company, as its new concept of organization have been started emphasizing the sales and customer care function trough services offered by the Lines of Businesses namely MTline, MTnet, MTcom and MobiMak.

BSS and Call Center Project

Introduction of the Business Support System started with implementation in the year 2001. International tender was organized and the supplier company was chosen. Billing system as a part of the BSS is for crucial importance for the company for realization of the strategic goals. From one hand it will increase the overall efficiency of the company in collecting the revenue and diminishing the fraud possibility, but on the other hand it is seen as a communication tool with the customers leading towards trustful, loyal and friendlier relationship.

Introducing the new Billing system for all MT's customers will provide MT with powerful tool for comprehensive analysis with required flexibility in offering different product packages, tariff models, discounts possibilities. This will lead to an overall growth of the company based on customer satisfaction.

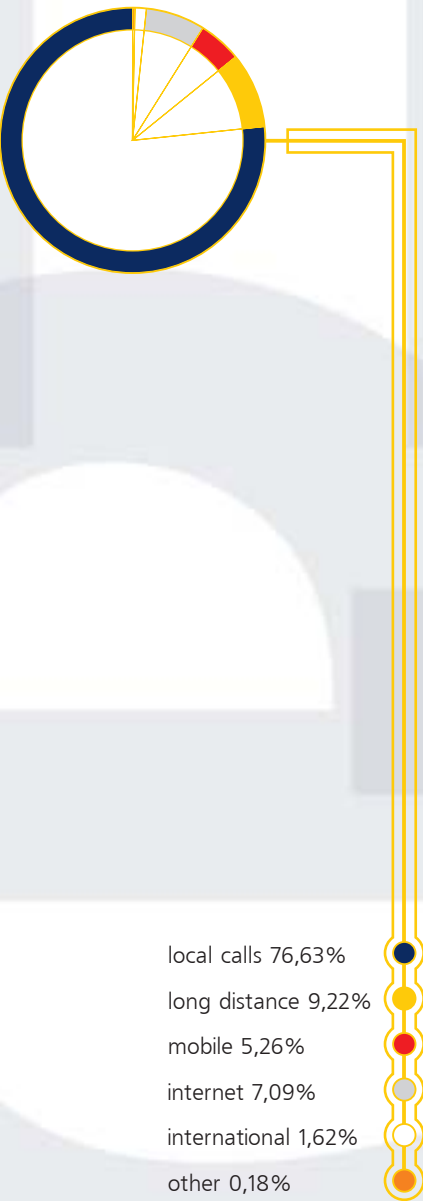
Call Center Project started with initial phase in the year of 2001, and it is foreseen as a modern system meeting the requirements of the existing and potential customers better and more flexibly. The customers will be provided with the possibility of reaching the Company by phone, as well as obtain information about MT services from the operators or the automatic voice machines.

Total calls in 2001



Marketing

Total minutes in 2001



All the projects gave and keep giving a significant contribution to the offer extension and quality increase of the services offered by MT to the customers' benefit. Making the new products and packages and improving of the existing ones, in accordance with the customers' needs, is the main task that Marketing aims to fulfil in order to get the MT's services closer to the customers, on mutual satisfaction.

Sales and Customer Care Coordination Function

To change the image of MT to an open, customer oriented and market driven company is seen as a high priority medium-term objective. It is a process and a lot of things have to be done. In order to achieve this the main activities of the new established function within Central Marketing in 2001 was oriented towards tracing the path of: Development of Corporate sales and customer care strategy, Harmonize sales activities of LoBs, Development of Code of practice, Customer satisfaction measurement - Implementation and measuring procedures, Handling of extra customer cases, Manage Marketing researches. Initial steps were committed towards development of sales channels and modern sales strategies; improvement of customers care and loyalty; establishment of corporate image; providing quality of service and customer satisfaction.

ДОБРИ ВЕСТИ ОД МТнет



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Персонален компјутер

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НЕ БИДИ БЕЗ ВРСКА...

Network Infrastructure

Network infrastructure was extended and upgraded for providing better Internet services (new servers and router were installed and number of Ethernet switch port were extended).

In 2001 the enhancing the network infrastructure of MT was not only to provide the latest voice and data transmission, but also to enlarge the capacities and quality of MT's services.

The development of the telecommunication networks of the company is under supervision of technical area, which is also responsible for:

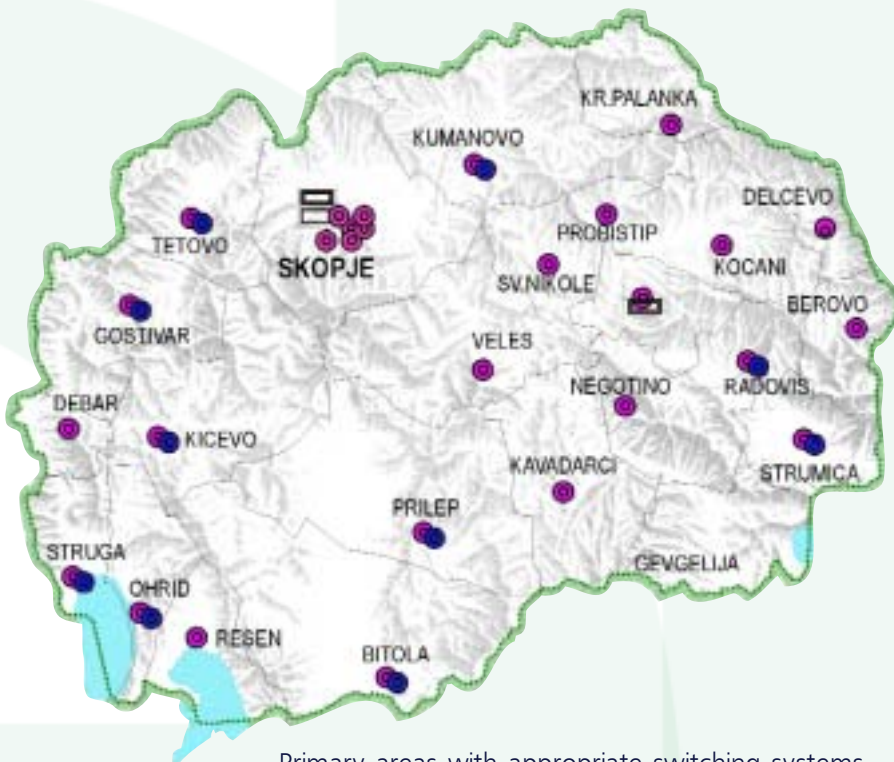
- Technical product development,
- CAPEX planning and controlling,
- CAPEX implementation planning and implementation controlling,
- Operation and Maintenance of the telecommunications network,
- Technical support for the Line of Businesses (MTLine, MTCom, MTNet)

In 2001 the following projects and achievements in this area were committed:

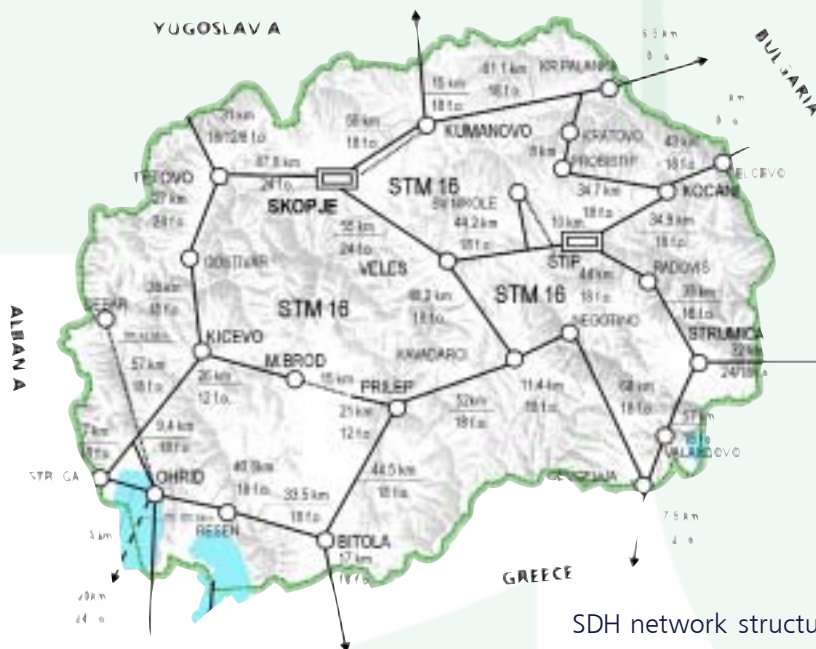
- Implementation of new network capabilities, functions (new settlement system, new SDH management system) and increasing the capacities (International, transit and local switches, transmission backbone network)
- IP network is in operation,
- Set-up of a new data network and an organization for an SLA (Service Level Agreement)-based service provisioning,
- Preparation of the network and the organization for the new GSM operator,
- Successful transfer of the **Regional-based** organization into a **Functional-based** organization,
- New CAPEX planning and controlling procedure is in operation,
- New processes and procedures in Operations and Maintenance areas,
- Conceptual Telecommunications Network Development Plan for the period 2002-2004,
- Start-up of Quality improvement programs.

Upgrading of the Fixed Network

Regarding the fixed network in 2001 was committed extension of the local network by putting into ground 168.000 km pairs copper cables which means extension of local loop network by about 110.000 lines. Also 34 new switches were installed on 34 different locations and 58 extended switches with total capacity of about 84.000 PSTN and 3000 ISDN lines, and 85 km optic cables put into ground. Beside previous mentioned capacities started implementation of exchanges' extension for more than 30.000 lines, so as 30.000 pairs will be finished in the beginning of 2002. The extension and upgrade of IE and TE exchanges was committed in order to handle extension of the capacities of the Primary exchanges, as 650.000 subscribers are planned by the end of 2002. It also have to meet the planned software upgrade of Primary EWSD exchanges (from V9 and V11 to V15) by December 2002, as well as to provide the connection for new mobile operator and to provide implementation of BSS Project.



Primary areas with appropriate switching systems



SDH network structure

Regarding the fixed network in 2001 was committed extension of the local network by putting into ground 168.000 km pairs copper cables which means extension of local loop network by about 110.000 lines.

Network Infrastructure

Extension and Upgrade of International and Transit Exchanges was committed in order to handle Extension of the capacities of the Primary exchanges; to meet the planned software upgrade of Primary EWSD exchanges (from V9 and V11 to V15) by December 2002; to provide the connection for new mobile operator; as well as to provide more detailed data for the interconnection settlement system.

The main goals of SDH network extension were to extend the capacities of the backbone and Skopje network with implementing the new SDH generation of Alcatel OPTINEX equipment 1660 SM and 1650 SMC and upgrading of the software for network management system and installing the new server stations

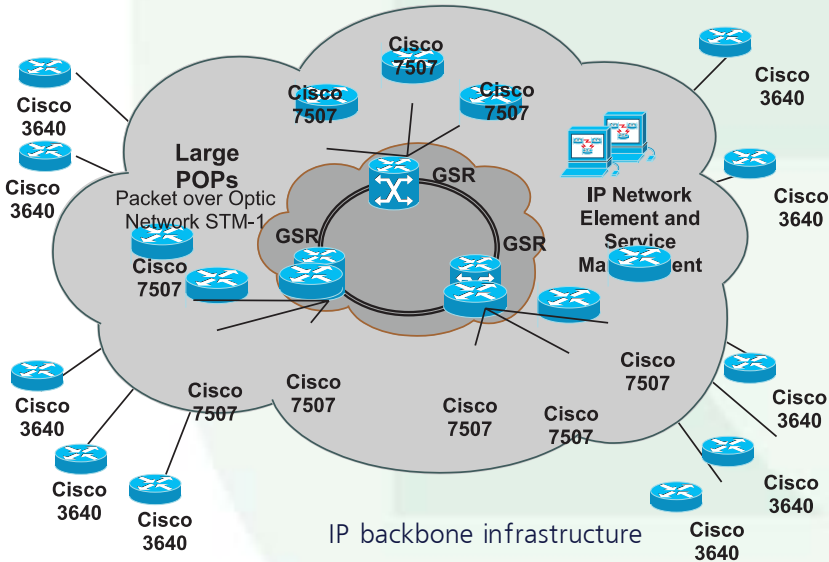
In 2001 were adopted the centralized OAM of EWSD exchanges. The enhancing of TDM network would enlarge the service portfolio of MT, as it is flexible and reliable network that can provide managed leased lines, Frame relay services, services for international traffic, internet providers and other customers.

Data transmission network

IP Backbone was implemented providing the following services country wide:

1. Internet access via leased line
2. Internet access via dial-up
3. Access private networks via leased lines (VPN)
4. Access private networks via dial-up (VPDN)

Network infrastructure was extended and upgraded for providing better Internet services (new servers and router were installed and number of Ethernet switch port were extended).



To increase the level of interest of the Macedonian population for the Internet and to provide more places for its massive use, 4 Internet cafes were build with total space of 790 m².

Within activities of CAPEX implementation planning and implementation controlling, in 2001 AD "Makedonski Telekomunikacii" invested mainly in the core fields. Several development programs were started in the non-core field as well. The main goals were:

- To implement some important SAP modules;
- To rationalize the accommodation of the employees (Business Center building);
- To increase the PC penetration to improve the efficiency;
- To improve the security;
- To improve the quality and efficiency of the car-park;
- To provide some centralized function for IT operations (e.g. EMC storage, Data center).

The implemented SAP system consists of three modules:

- CO module (Controlling);
- FI- AA module (Financial Accounting, Asset Accounting);
- MM module (Materials Management);

More than 150 users use system.

Enterprise Storage System Consolidation had the task to provide:

- Integrated storage solution
- Better use of the resources
- Decreasing the cost
- Avoiding risk
- Saving Time
- Business expansion

The new Business Center building for Line of Businesses and Marketing was almost finished with total space of 3.000 m²

Information Technologies

The successful implementation of IT projects supports MT's efforts to provide successful business operations within the Company, in order to reach better service performance to the customers. With regards to the Strategic Plan for year 2001, IT realized or started the realization of the following projects: Implementation of the following SAP R/3 modules: FI (GL, AR, AP and AA), MM and CO and the data migration from the old applications to the SAP.

The accomplished activities in the phase 1 from BSS project are as following: preparation of request for proposal, technical architecture (main and backup HW, disaster solution), formulation of evaluation team and technical evaluation of tender documents. In 2001, IT has developed several in house applications for the purpose of:

- Statistics for the digital switches
- Detailed billing for the digital switches
- Human resources
- Application for prosecution and contracts
- Application for financial work and compensations
- Application - Line Leasing
- Application for the vehicles in possession
- Program for registration and edition of invoices for advanced paying of phone bills
- Finance in MAKPAK/MTnet Center
- X25 Rating and Invoicing
- 0500 Services Analysis Tools
- Calculation & Invoicing of 0500 operators
- Help Desk

The accomplishment of activities concerning implementation of the Enterprise storage consolidation project were defining initial storage solution according MT requirements, preparation of technical architecture overview, planning enterprise storage network layout and determination of project team.

Installation and activation of structured, standardized, multi functional enterprise computer network of MT.

For consolidation of computer equipment and in order to install and support business and mission critical applications, as well as centralized devices for data storage and protection in accordance with DT standards were completed Main data center in Skopje and Disaster & Recovery Data Center in Strumica.

Carried out activities in the first phase of the installation of structured, standardized, multi functional enterprise computer network in MT Business Center building, Data Center Skopje and Data Center Strumica, were as following: preparation of request for proposal, technical architecture, project preparation for installation and implementation and formulation of project team.

Human Resources

Total number of employees in MT at the end of the year 2001:

Area	2000	2001	growth %
1 Headquarters	523	545	4,21
2 Collections	286	250	-12,59
3 International and backbone communications	165	153	-7,27
4 City telephone	647	579	-10,51
5 Installation & servicing	224	215	-4,02
6 13 regional centers for telecommunications	1660	1546	-6,87
7 Center for public payphones	13	13	0,00
8 Center for Internet and IP	26	63	142,31
9 MTcom	-	73	
10 Mobimak	163	339	107,98

Function	2000	2001	growth %
1 Employees with special responsibilities	175	171	-2,29
2 Technical personnel and maintenance	1893	1845	-2,54
3 Telephone and telegraph	157	146	-7,01
4 Legal, hr and educational affairs	159	145	-8,81
5 Accounting and financial affairs	270	272	0,74
6 Catering and rest-houses	99	92	-7,07
7 Security	153	161	5,23
8 Marketing and information	26	24	-7,69
9 Servicing & repairing	187	153	-18,18
10 Billing	127	132	3,94
11 Utility	152	148	-2,63
12 Hygienists	146	148	1,37
13 Mobimak	163	339	107,98
Grand total	3707	3776	1,86

The training for professional development in 2001 has proceeded to focus on the technical and marketing area with emphasis on the sales and marketing development, as well as on the digital equipment and networks. In 2002 we shall focus on appropriate training for skills development, i.e. acquiring theoretical and practical working skills in the field of marketing and customer care in order to prepare the employees which shall lead to improvement and modernization of services intended for the customers.

In this way the company would increase the profit having an opportunity to plan and realize the new telecommunication systems and to become a modern European company.

Social Commitment

MT was the general sponsor of the most important international sport event in Macedonia - the Ohrid marathon, which is ranked within the world marathon championship.

Through its successful operation, MT improves its customers' and business partners' quality of life. It also actively participates in creation of a better environment by helping our community. Through its sponsorships in 2001, MT supported sports, culture and healthy life, committing itself to being a good corporate citizen.

MT was the general sponsor of the most important international sport event in Macedonia - the Ohrid marathon, which is ranked within the world marathon championship.

MT supported the most important cultural events of international character in the Republic of Macedonia, such as the Skopje Jazz Festival, Ohrid Summer Festival, Balkan philharmonic orchestra.

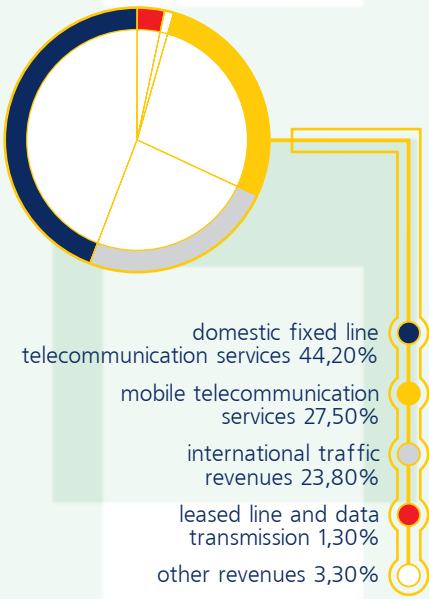
A friend to children and to everyone who needs help - MT supported the projects of the Association of people with special needs "Polioplus", the special health institution for curing addicts "St. Elisaveta" in Strumica. In 2001 MT also sponsored the renowned festival of children's song "Golden Nightingale", as well as the project "One school - one monument" to contribute to the development of cultural awareness among youngsters. AD "Makedonski Telekomunikacii" and the American NPO Schools Online worked together on a project called "Schools Online". Within the first phase of providing Internet services, 12 schools in Macedonia have obtained access. Namely, the equipment was purchased by the NPO while the Internet access is provided by MTnet.

MT will continue supporting all significant events in the country and get closer to sports, culture, education, healthy environment, ...truly close...



Financial Highlights

Structure of revenues



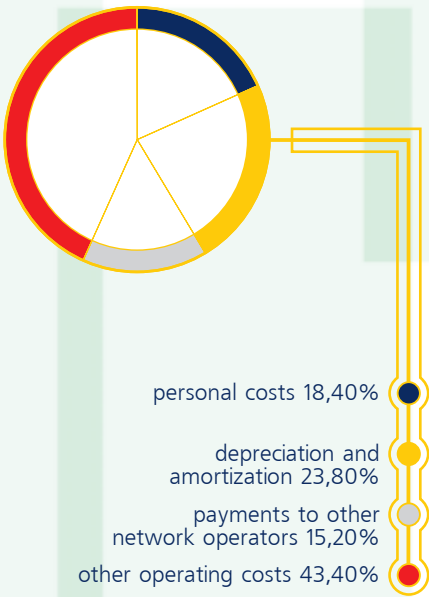
Structure of revenues

Operating revenues has increased compared to 2000 as a result of the activating new subscribers, introducing new services, as well as, changes in the tariffs policy and increased traffic in fixed and mobile telephony.

Revenues	2000	2001
Domestic fixed line telecommunication services	5,6	6,6
International traffic revenues	2,9	3,5
Mobile telecommunication services	3,2	4,1
leased line and data transmission	0,2	0,2
Other revenues	0,3	0,5
Total	12,2	14,9

* Revenue structure in billion Denars

Structure of operating costs



Expenses

The operating costs have been maintained on the same level as in 2000 resulting from the following:

- Personal costs have increased due to the increase of the retail price index and increase in the number of employees;
- Depreciation and amortization expense has increased in line with the increase in the capital expenditures.
- Payments to other network operators have been maintained on the same level as in 2000, in line with the realized international traffic;
- Other operating costs comprise of maintenance expenses, energy, services, consultant services, sponsorships, donations, provisions and etc. The lower operating costs compared to 2001 results from the significantly decreased maintenance expenses due to the achieved high level of network digitalization, as well as, from the improved warehouse management, write offs and provision for inventories and receivables.

Operating Costs	2000	2001
Personal costs	1,4	1,5
Depreciation and amortization	1,2	1,9
Payments to other network operators	1,4	1,3
Other operating costs	4,3	3,6
Total	8,4	8,4

* Structure of Operating Costs in billion Denars

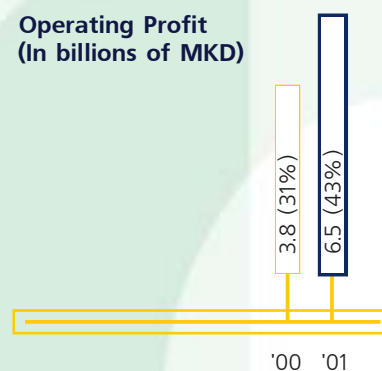
Operating profit

The operating profit in 2001 has increased for 70% compared to 2000 amounting to MKD 6.5 billion.

The operating profit margin has increased to 43% compared to 31% in 2000.

Year	Operating Profit	Operating Revenue	Operating margin
2000	3.8	12.2	31%
2001	6.5	14.9	43%

* in billion Denars

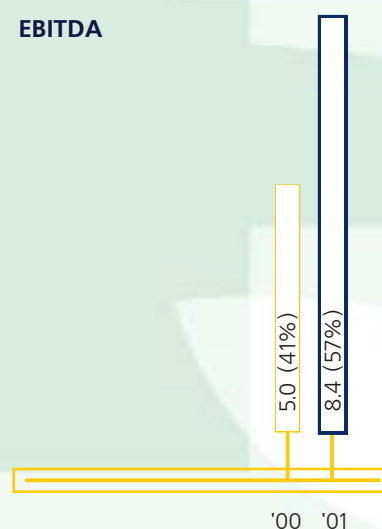


EBITDA

The EBITDA for 2001 amounted to MKD 8.4 billion resulting in the EBITDA margin of 57% compared to 41% in 2000.

Year	EBITDA	Operating revenue	Operating margin
2000	5.0	12.2	41%
2001	8.4	14.9	57%

* in billion Denars

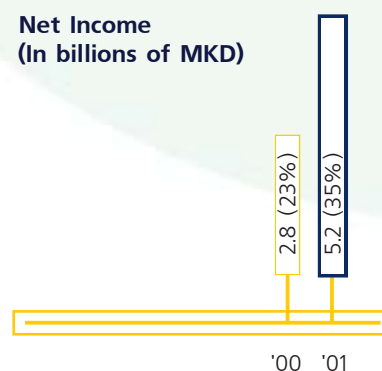


Net income

Net income amounted to MKD 5.2 billion and is 85% higher than 2000. The net income margin has increased from 23% in 2000 to 35% in 2001.

Year	Net Income	Operating revenue	Operating margin
2000	2.8	12.2	23%
2001	5.2	14.9	35%

* in billion Denars



Income tax

Income tax on the profit for the year consists of current and deferred tax. Current income tax of 15% was calculated according to the Macedonian Law. The deferred tax was calculated for the temporary differences between the profit reported under Macedonian Law and the profit reported under the International Accounting Standards (IAS). The effective tax rate was 11.4% in 2001 and 11.6% in 2000.

Balance sheet

Total assets on 31 December 2001 have increased 22% compared to 2000 amounting to MKD 24.9 billion.

The increase of 14% in fixed assets was generally due to the purchased software in MobiMak, the completion and activation of large number of investment objects (Buildings for ATC switches, subscriber networks and optical cables) and the purchase of telecommunication equipment.

Financial Highlights

The current assets have increased by 58.9% as a result of the increased trade receivables and inventories.

Current ratio for 2001 is 1.66 compared to 1.19 for 2000 and the quick ratio is 1.5 in 2001 compared to 1.14 in 2000.

Capital

The total capital in 2001 amounted MKD 19.8 billion and is 43% higher resulting from the net profit for 2001 of MKD 5.2 billion and new share issue of MKD 0.7 billion.

The debt to equity ratio has decreased from 0.38 in 2000 to 0.16 in 2001.

Liabilities

Long-term borrowings in 2001 comprise of EBRD and IFC loans. The borrowed funds have decreased as a result of repayment of installments according to the amortization schedule. The current portion of the long-term debts on 31 December 2001 amounted to MKD 1.5 billion.

The current liabilities have increased for 42% compared to 2000 and resulted from the increased trade payable affected by the increased investment activities.

Cash flows

The cash flow generated from the operating activities in 2001 amounted to MKD 5 billion. The increase of the cash inflow from the operating activities compared to 2000 resulted from the increased cash inflows from customers.

The net cash used in investing activities in 2001 amounting MKD 3.5 billion resulted mainly from the purchased fixed assets and partly from the collected interest on bank deposits and loan receivables.

The net cash outflow from financial activities resulted from the repayments of the long-term debts.

Audit report

MAKEDONSKI TELEKOMUNIKACII AD SKOPJE

Audit report

**Consolidated Financial Statements
for the years ended 31 December 2001 and 2000
prepared in accordance with International
Accounting Standards**

Audit report

INDEPENDENT AUDITORS REPORT TO THE MANAGEMENT OF MAKEDONSKI TELEKOMUNIKACII AD SKOPJE

We have audited the accompanying consolidated balance sheets of Makedonski Telekomunikacii AD, Skopje (hereinafter the "Group") as of 31 December 2001 and 31 December 2000 and the related consolidated statements of income, changes in equity and cash flows for the years then ended on pages 2 to 24. 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 audits.

We conducted our audits in accordance with US Generally Accepted Auditing Standards for the financial statements as of, and for the year ended, December 31, 2001, and International Standards on Auditing for the financial statements as of, and for the year ended, December 31, 2000. Those standards require that we plan and perform the audits 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 audits 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 2001 and 31 December 2000, and the results of its operations, changes in the equity and its cash flows for the years 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 2001 and 2000 and net income of the year ended 2001 to the extent summarised in Note 21 to the consolidated financial statements.

The signature of Deloitte & Touche is written in a blue, cursive script.

Deloitte & Touche
Skopje, 23 January 2002

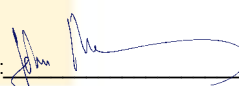
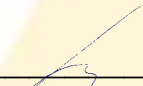
Audit report

CONSOLIDATED BALANCE SHEETS

As of 31 December 2001 and 31 December 2000
(In thousands of MKD)

	Notes	31 Dec 2001	31 Dec 2000
Current Assets			
Inventories	5	548,392	147,608
Receivables	6	3,934,208	2,326,654
Loans and short term deposits with banks	7	2,501	128,081
Cash and cash equivalents		1,165,974	954,118
Total Current Assets		5,651,075	3,556,461
Non current Assets			
Intangible assets	3.2	900,253	12,896
Property, plant and equipment	3.1	17,710,106	16,219,359
Investments available for sale and long term loans	4	61,588	47,910
Deferred tax	16	569,424	580,418
Total Non current Assets		19,241,371	16,860,583
Total Assets		24,892,446	20,417,044
Current Liabilities			
Loans and other borrowings	8	1,544,615	1,684,988
Other current liabilities	10	1,853,271	1,304,111
Total Current Liabilities		3,397,886	2,989,099
Non-Current Liabilities			
Loans and other borrowings	8	1,645,988	3,546,284
Other non-current liabilities	9	22,426	24,877
Total Non-Current Liabilities		1,668,414	3,571,161
Equity			
Share capital	11	9,583,888	9,404,190
Retained earnings		4,131,396	1,292,467
Profit for the year		5,249,005	2,838,929
Share premium		540,659	-
Statutory reserve	12	321,198	321,198
Total Equity		19,826,146	13,856,784
TOTAL EQUITY AND LIABILITIES		24,892,446	20,417,044

The accompanying notes are an integral part of these consolidated financial statements.

Date: _____ Signed:  /CEO  /CFO

Audit report

CONSOLIDATED STATEMENTS OF INCOME

For the years ended 31 December 2001 and 31 December 2000
(In thousands of MKD)

	Notes	31 Dec 2001	31 Dec 2000
Operating revenues	13	14,860,497	2,202,956
Operating costs	14	(8,396, 245)	(8,395,897)
Operating Profit		6,464,252	3,807,059
Interest income		181,558	283,220
Net foreign exchange loss		(319,317)	(210,145)
Interest expense		(356,163)	(640,075)
Bank commissions and other charges		(44,373)	(27,232)
Total Net Financial Expenses		(538,295)	(594,232)
Profit On Ordinary Activities Before Taxation		5,925,957	3,212,827
Income taxes	15	(676,952)	(373,898)
NET PROFIT FOR THE YEAR		5,249,005	2,838,929

The accompanying notes are an integral part of these consolidated financial statements.

Audit report

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the years ended 31 December 2001 and 31 December 2000
(In thousands of MKD)

Year ended 31 December 2001	Shareholders Equity	Share premium	Retained Earnings	Statutory Reserve	Total Equity
Balance as at 1 January 2001	9,404,190	-	4,131,396	321,198	13,856,784
Net Profit for the year	-	-	5,249,005	-	5,249,005
New share issue	179,698	540,659	-	-	720,357
Balance as at 31 December 2001	9,583,888	540,659	9,380,401	321,198	19,826,146

Year ended 31 December 2001	Shareholders Equity	Retained Earnings	Statutory Reserve	Total Equity
Balance as at 1 January 2000	9,404,190	3,525,657	321,198	13,251,045
Net Profit for the year	-	2,838,929	-	2,838,929
Dividends Paid (See Note 12)	-	(2,233,190)	-	(2,233,190)
Balance as at 31 December 2000	9,404,190	4,131,396	321,198	13,856,784

The accompanying notes are an integral part of these consolidated financial statements.

Audit report

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended 31 December 2001 and 31 December 2000
(In thousands of MKD)

	Year Ended 31 Dec. 2001	Year Ended 31 Dec. 2000
Cash flows from operating activities		
Operating profit	6,464,252	3,807,059
Depreciation and amortization	1,940,275	1,217,674
Changes in payables	538,242	107,221
Changes in inventory	(668,680)	36,824
Changes in receivables	(1,765,079)	(93,629)
Amortization of deferred revenue	10,918	(164,976)
Commission and bank charges	(44,373)	(27,232)
Interest Paid	(356,163)	(605,215)
Income Tax Paid	(882,716)	(877,562)
Other cash flow from operations	(221,913)	251,186
Net cash from operating activities	5,014,763	3,651,350
Cash flows from investing activities		
Purchases of Property, Plant and Equipment	(3,727,484)	(3,685,250)
Payments for Investments and Deposits with banks	(13,678)	(370,000)
Interest Received	132,987	78,470
Collection of loans receivables	125,580	1,307,659
Net cash used in investing activities	(3,482,595)	(2,669,121)
Cash flows from financing activities		
Dividends Paid	-	(2,233,190)
Repayment of Borrowings	(2,040,669)	(126,427)
Net cash used in financing activities	(2,040,669)	(2,359,617)
Non-cash transactions		
Conversion of term debt to equity	720,357	-
	720,357	-
Net (decrease)increase in cash and cash equivalents	211,856	(1,377,388)
Cash and cash equivalents at beginning of period	954,118	2,331,506
Cash and cash equivalents at end of period	1,165,974	954,118

The accompanying notes are an integral part of these consolidated financial statements.

Audit report

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 31 DECEMBER 2001 AND 31 DECEMBER 2000

1 GENERAL INFORMATION ABOUT THE GROUP

Makedonski Telekomunikacii AD, Skopje (hereinafter the "The Parent Company") is a joint stock company that provides primarily telecommunication services in the Republic of Macedonia.

On 15 January 2001, the Company was privatised when Magyar Távközlési Részvénytársaság and other minority shareholders (hereinafter "MATAV") via Stonebridge A.D. (a Macedonian Company used as an investment vehicle) acquired 51% of the ordinary shares of the Parent Company (see note 11).

The ultimate parent company of the Group is Deutsche Telecom AG, registered in 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 A.D.

The principal activities of the Group for the year ended 31 December 2001 have been the provision of a fixed line and mobile telephone service in Macedonia.

The Parent Company's registered address is "Orce Nikolov" str. bb 1000 Skopje.

2 ACCOUNTING POLICIES

The significant accounting policies adopted by the Group are as follows:

2.1. General

The Group maintains its accounting records and prepares its statutory accounts in accordance with fiscal regulations prevailing in the Republic of Macedonia. Where these regulations differ from International Accounting Standards ("IAS"), certain accounts have been reclassified, combined, and in some cases recomputed, in order to comply with IAS. As a result, in the conversion of the

Audit report

accounts from Macedonian statutory requirements to IAS, certain adjustments have been made to the Group statements of operations, assets, liabilities and shareholders' equity for the purposes of these financial statements.

The Group functional currency is the Macedonian Denar (hereinafter "MKD"). All amounts in the financial statements and the related notes are reported in thousands of MKD, unless otherwise stated.

Certain reclassifications have been made to the prior year amounts to conform with current year presentation.

2.2. Basis of accounting

These financial statements have been prepared in accordance with IAS under the historical cost basis of accounting. In the current year the Company has adopted IAS 39 Financial Instruments: Recognition and Measurement (IAS 39). The effect from the first time application of IAS 39 on the Company's assets, liabilities, income, expense and retained earnings is assessed as immaterial.

2.3. Basis of consolidation

The financial statements as of December 31, 2001 incorporated the assets, liabilities and operating results of the Parent Company and Mobimak. Inter company balances and transactions have been eliminated in the consolidation. The Parent Company owns the following two subsidiaries, comprising Makedonski Telekomunikacii AD, Skopje Group:

Subsidiaries	The parent Companys Ownership
Mobimak AD, Skopje	100%
Mont Mak A.D., Podgorica	90%

Mobimak AD, Skopje was established on 4 June 2001 and with effect from 1 July 2001 took over the mobile phone operations and assets and liabilities of the mobile telephone division of Makedonski Telekomunikacii.

Mont Mak AD Podgorica operates a hotel resort in Montenegro, Federal Republic of Yugoslavia. Although the Parent Company legally owns 90% of the shares of Mont Mak it is unable to influence appointment of the management and consequently to exer-

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cise control over its activities. Therefore, Mont Mak is excluded from consolidation for the purpose of these financial statements. Additionally, the carrying amount of the investment was written down to recognise impairment loss, which occurred as a result of the Parent Company's deemed inability to recover its cost.

2.4. Foreign currencies

Transactions denominated in foreign currencies are converted into MKD at the middle exchange rate prevailing on the date of the transaction. Assets and liabilities denominated in foreign currencies are translated into MKD at the National Bank of Macedonia middle exchange rate prevailing on the balance sheet date. All gains and losses resulting from foreign currency translation or exchange are included in the Statement of Income as financial income or expenses for the year.

2.5. Intangible Assets

Intangible assets consist of computer software, patents, licences, concessions and other similar assets. The initial cost of acquiring the intangible asset is recognised as an asset and amortised on a straight-line basis over their estimated useful lives, which is, on average, 5 years.

2.6. Property, Plant and Equipment

Property, plant and equipment are recorded at cost upon their acquisition. The cost of additions to property, plant, and equipment constructed by the Group consists of all appropriate costs of development, construction (comprising material, labour, direct overheads and transport costs) and installation. The cost of maintenance and repairs is charged to operating costs as incurred. Depreciation is charged on a straight-line basis at prescribed rates to allocate the cost of property, buildings and equipment over their estimated useful lives. Constructed tangible property, plant and equipment are depreciated from the time they are put into use. No depreciation is provided on land and construction in progress.

The following are approximations of the annual depreciation rates applied to significant items of property, plant and equipment:

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

When depreciable assets are retired or otherwise disposed of, the related cost and accumulated depreciation is removed from the respective accounts. Any gains or losses on disposal are recognised in operating revenues or operating costs respectively.

Included in construction in progress are engineering stores, used in the construction of telecommunication networks and the remainder for maintenance. When issued, these stores are charged to the cost of the self-constructed network asset or operating costs, as appropriate. Engineering stores are valued on a weighted average cost basis less a provision for excess and obsolete items.

2.7. Investments available for sale

Investments available for sale include equity investments in other companies and are valued at cost. The carrying amount of such investments is reduced down to the recoverable amount to recognise any impairment loss in the value of individual investments.

The value of the investment in Mont Mak has been written down in full.

2.8. Inventories

Inventories are stated at the lower of cost or net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads costs that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price less all estimated costs to completion and costs to be incurred in marketing, selling and distribution.

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2.9. Provision for bad and doubtful receivables

The provision for bad and doubtful receivables is based on a year end evaluation of any uncollectable amount related to trade receivables, interest receivables, including penalty interest and fees, and other receivables. Management determines the adequacy of the provision based upon reviews of individual receivable balances, ageing of the amounts from the date of invoice and other pertinent factors.

2.10. Loans and short term deposits with banks

Loans and deposits with financial institutions and banks are originated by the Group and have maturity between 3 months and 1 year as of the reporting date. Such assets are valued at amortised cost. Any impairment loss (provisions) for uncollectability is based on the year end evaluation of loans, interest receivables, including penalty interest and fees, and other receivables. Management determines the adequacy of the provision based upon reviews of individual borrowers and other pertinent factors.

2.11. Cash and cash equivalents

Cash and cash equivalents include cash on hand, giro accounts and other highly liquid investments convertible to known amounts of cash, with a maturity of 3 months or less from the balance sheet date.

2.13. Loans received and other borrowings

The major sources of term debt are loans from banks and loans from other entities abroad. All loans denominated in foreign currencies have been translated into MKD equivalents at the National Bank of Macedonia middle exchange rate at the balance sheet dates. All amounts which are payable within twelve months from the balance sheet date are classified as current liabilities.

2.14. Taxation

Taxes currently due are calculated in accordance with Macedonian legislation. Income tax is computed on the basis of taxable profit, calculated by adjusting the statutory financial result for certain income and expenditure items as required under Macedonian taxation law.

Deferred tax is accounted for using the balance sheet liability method, for all temporary differences arising between the tax val-

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ues of assets and liabilities and their carrying value for IAS reporting purposes. Currently enacted tax rates are used to determine deferred income tax.

2.15. Revenues from telecommunication services

Revenues from telecommunication services comprise the invoiced and accrued value of telecommunication services provided excluding value-added taxation. 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 net of international expenses reflect the net settlement for revenues earned internationally 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. 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. Unbilled revenues from the billing cycle date to the end of the fiscal year are recognised as revenue during the year the service is provided. Fixed monthly charges are billed in the month in which they arise.

Connection 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.

2.16. Financial instruments

Financial assets

The Group's principal financial assets are bank balances and cash, trade receivables, loans and equity investments. Trade receivables and loans are stated at their nominal value or amortised cost as reduced by any impairment loss to write the carrying amount down to its estimated irrecoverable amounts. Equity investments are valued at cost less any loss for impairment.

Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. Significant financial liabilities include interest-bearing bank loans and

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overdrafts, trade and other payables. Interest-bearing bank loans and overdrafts are recorded at amortised cost. Trade and other payables are stated at their nominal value.

Fair value of financial instruments

The fair value of cash and cash equivalents, deposits and loans, trade receivables, other receivables, current loans receivable, current trade payables and other current liabilities approximates the carrying value given that they will mature shortly. The fair value of available for sale investments and non-current debt, is in the opinion of management, comparable to the carrying value.

3 TANGIBLE AND INTANGIBLE FIXED ASSETS

3.1. Property plant and equipment (in thousands of MKD)

	31 Dec 2001	31 Dec 2000
Prepayments for property, plant and equipment (net)	41,430	94,019
Property, plant and equipment	17,668,676	16,125,340
Total Property Plant and Equipment	17,710,106	16,219,359

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The movements of property, plant and equipment for the years ended 31 December 2001 and 31 December 2000 are as follows (in MKD thousands):

2001	Land	Buildings	Telecom Equipment	Other Equipment	Construction in Progress	Total Property Plant and Equipment
Gross Book Value						
Balance as at 1 January 2001	5,878	3,124,582	16,814,542	1,798,856	2,357,341	4,101,199
Additions	169	66,474	1,060,870	1,409,900	2,525,406	5,062,819
Transfer from C.I.P.	-	39,669	2,536,064	328,686	(2,904,419)	-
Disposals	(810)	(9,633)	(279,296)	(706,182)	(1,145,763)	(2,141,684)
Balance as at 31 December 2001	5,237	3,221,092	20,132,180	2,831,260	832,565	27,022,334
Accumulated Depreciation						
Balance as at 1 January 2001	-	633,629	6,051,583	1,061,113	-	7,746,325
Depreciation charge for the year	-	127,842	1,255,569	416,472	-	1,799,883
Disposals	-	(190)	(140,281)	(52,079)	-	(192,550)
Balance as at 31 December 2001	-	761,281	7,166,871	1,425,506	-	9,353,658
Net Book Value 31 December 2001	5,237	2,459,811	12,965,309	1,405,754	832,565	17,668,676
2000						
	Land	Buildings	Telecom Equipment	Other Equipment	Construction in Progress	Total Property Plant and Equipment
Gross Book Value						
Balance as at 1 January 2000	5,651	2,949,208	15,039,389	1,312,781	808,920	20,115,949
Additions	227	242,763	383,028	69,854	3,715,761	4,411,633
Transfer from C.I.P.	-	82,751	1,570,645	497,482	(2,150,878)	-
Disposals	-	(150,140)	(178,520)	(81,261)	(16,462)	(426,383)
Balance as at 31 December 2000	5,878	3,124,582	16,814,542	1,798,856	2,357,341	24,101,199
Accumulated Depreciation						
Balance as at 1 January 2000	-	583,499	5,385,026	788,242	-	6,756,767
Depreciation charge for the year	-	62,550	841,582	311,327	-	1,215,459
Disposals	-	(12,420)	(175,025)	(38,456)	-	(225,901)
Balance as at 31 December 2000	-	633,629	6,051,583	1,061,113	-	7,746,325
Net Book Value 31 December 2000 (before provision)	5,878	2,490,953	10,762,959	737,743	2,357,341	16,354,874
Provision as at 31 December 2000	-	(33)	(65,451)	-	(164,050)	(229,534)
Net Book Value (after provision) as at 31 December 2000	5,878	2,490,920	10,697,508	737,743	2,193,291	16,125,340

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3.2. Intangible assets

2001	Software	License	Concession	Other	Total Intangible Assets
Gross Book Value					
Balance as at 1 January 2001	19,285	-	-	-	19,285
Additions	927,601	110,901	154,757	5,184	1,198,443
Disposals	(179,066)	-	-	-	(179,066)
Balance as at 31 December 2001	767,820	110,901	154,757	5,184	1,038,662
Accumulated Amortisation					
Balance as at 1 January 2001	4,664	-	-	-	4,664
Charge for the year	105,687	-	30,951	3,754	140,392
Amortisation for disposals	(6,647)	-	-	-	(6,647)
Balance as at 31 December 2001	103,704	-	30,951	3,754	138,409
Net Book Value 31 Dec. 2001	664,116	110,901	123,806	1,430	900,253

4 INVESTMENTS AVAILABLE FOR SALE AND LONG TERM LOANS

	31 Dec 2001	31 Dec 2000
Non-consolidated investment in Mont Mak	103,999	103,999
Less impairment loss to write down to recoverable amount (103,999)		(103,999)
Net book value	-	-
Other equity investments	113,632	112,143
Other	484	484
Less: Impairment loss	(64,717)	(64,717)
Loan to Stonebridge	12,189	-
	61,588	47,910

Movements in the balance of impairment loss related to the investments available for sale, are shown below:

	For the year ended 31 Dec 2001	For the year ended 31 Dec 2000
Balance as at the beginning of the year	168,716	63,038
Impairment loss charge for the year	-	105,678
Balance as at the end of the year	168,716	168,716

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5 INVENTORIES

Inventories consist of the following (in thousand of MKD):

	31 Dec 2001	31 Dec 2000
Cables, wires and other inventory	601,580	334,696
Inventory for resale	327,209	58,235
Subtotal	928,789	392,931
Write down to net realizable value of inventories	(380,397)	(245,323)
	548,392	147,608

Goods for resale comprise primarily phone and phone accessories.

Movements in write downs to net realizable value of inventories are shown below:

	For the year ended 31 Dec 2001	For the year ended 31 Dec 2000
Balance as at the beginning of the year	245,323	150,025
Write down to net realizable value of inventory	135,074	95,298
Balance as at the end of the year	380,397	245,323

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6 RECEIVABLES

Receivables consist of the following (in thousands of MKD):

	31 Dec 2001	31 Dec 2000
Trade Receivables:		
Foreign	816,736	594,664
Domestic	3,460,225	2,182,270
Other receivable	388,100	48,103
Advances for inventory	116,605	143,937
Prepayments and deferred income	47,813	95,426
	4,829,479	3,064,400
Less: Provision for uncollectability	(895,271)	(737,746)
	<u>3,934,208</u>	<u>2,326,654</u>

Foreign trade receivables are primarily amounts due from foreign telecommunication operators as a result of international telephone calls made to, and from, the Republic of Macedonia.

Domestic trade receivables are primarily amounts due from domestic customers for telecommunication services.

Movements in the provision for uncollectability are shown below:

	For the year ended 31 Dec 2001	For the year ended 31 Dec 2000
Balance as at the beginning of the year	737,746	599,047
Provision charge for the year	401,670	138,699
Write-offs for the year	(244,145)	-
Balance as at the end of the year	<u>895,271</u>	<u>737,746</u>

7 LOANS AND SHORT TERM DEPOSITS IN BANKS

Loans and short term deposits with banks consist of the following (in thousands of MKD):

	31 Dec 2001	31 Dec 2000
Deposits with financial institutions	128,081	590,675
	128,081	590,675
Less: Impairment loss (provision) for uncollectability	(128,081)	(462,594)
Other deposits	2,501	-
	2,501	128,081

The movements in the impairment loss (provisions) for uncollectability are shown below:

	For the year ended 31 Dec 2001	For the year ended 31 Dec 2000
Balance as at the beginning of the year	462,594	211,628
Impairment loss (provision) charge for the year	-	250,966
Deposits written off	(334,513)	-
Balance as at the end of the year	128,081	462,594

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8 LOANS AND OTHER BORROWINGS

Loans and other borrowings comprises the following (in thousands of MKD):

	31 Dec 2001	31 Dec 2000
<p>Credit facility of 42,550,000 USD from the European Bank for Reconstruction and Development (the EBRD). The balance of the loan as at 31 December 2001 was 15,903,411 (2000: 21,204,544 USD). Interest is charged at variable rates based on LIBOR, until such time as the Company gives the bank notice of conversion, whereby the interest rate becomes fixed. The loan is repayable in 16 semi-annual instalments of 2,650,568 USD that commenced in June 1997. The Republic of Macedonia has guaranteed the repayment of this loan to the EBRD.</p>	1,100,063	1,385,253
<p>Credit facility of 18,700,000 EURO from the EBRD bearing interest at LIBOR plus 4.5%. The balance of the loan as at 31 December 2001 was 12,589,683 EURO (2000: 13,988,536 EURO). The loan is repayable in 10 semi-annual instalments of 1,870,000 EURO plus interest that is scheduled to commence on 19 August 2001. In addition, the Company is liable for a commitment fee of 0.5% per annum for any unused portion of the credit facility.</p>	767,479	850,295
<p>Bank loan of 9,000,000 DEM bearing interest at LIBOR plus 2.67%, with a maturity of April 2001. The balance of the loan at 31 December 2001 was repaid (2,000: 1,800,000 DEM). The loan was repayable in 5 semi-annual instalments of 1,800,000 DEM that commenced in October 1998. The loan was guaranteed by Komercijalna Banka.</p>	-	55,945
<p>International Finance Corporation (IFC) credit facility of 50,000,000 USD. The Company issued two convertible, non-negotiable bonds, with a par value of 25,000,000 USD each, registered in the name of IFC. The bonds are payable in six equal semi-annual instalments of 4,166,666 USD, commencing 15 June 2001. The bonds bear interest based on LIBOR.</p>	1,323,046	2,939,764
Other Bank Loans	15	15
Total Term Debt	3,190,603	5,231,272
Less Current Portion of Term Debt	(1,544,615)	(1,684,988)
Non-Current Portion of Term Debt	1,645,988	3,546,284

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The future required principal repayments of the Company's term debt are as follows:

	USDLoans*	EURLoans*	Thousands MKD Loans	Total payable in thousands of MKD
Payable within 1 year	1,374,064	170,551	-	1,544,615
Payable within 1 - 2 years	682,351	170,551	-	852,902
Payable within 2 - 3 years	366,688	170,551	-	537,239
Payable within 3 - 4 years	-	170,551	-	170,551
Payable after 4 years	-	85,277	-	85,277
Other loans	4	-	15	19
TOTAL	2,423,107	767,481	15	3,190,603

*Note: Foreign currency denominated loans expressed in thousands MKD.

On 8 May 1998, the Company signed an Investment Agreement with the International Finance Corporation (hereinafter the "IFC"). The IFC agreed to loan the Company an aggregate principal amount of 50,000,000 USD in two disbursements of 25,000,000 USD. Proceeds of the Loan were being used for modernisation and expansion of the Company's fixed wireline and cellular networks.

Upon receipt of the IFC loan disbursements, the Company issued two convertible, non-negotiable bonds, with a par value of 25,000,000 USD each, registered in the name of the IFC as evidence of the Loan. Upon completion of the intended privatisation of the Company, the IFC had the right to convert all, or a portion of, the bonds into fully paid shares of the Company under the terms stated in the Investment Agreement.

On 15 January 2001, the IFC exercised its option on one of the two convertible, non-negotiable bonds issued in its name. As a result the IFC converted 1,306,562 thousand MKD of long-term debt into 178,698 ordinary shares of 1 thousand MKD each (see note 12).

In addition, the Company has been granted a 18,700,000 EURO credit facility for the purpose of developing the GSM network and implementing a customer billing system. The EBRD has held 224,400 EUR as provision for the credit given on 25 October 1999.

The loans granted by the EBRD and IFC have been obtained with specific investment purposes, and are attached with covenants, including obligation for partial and full reimbursement of capital amounts depending on compliance to financial ratios and restrictions related to dividend payments.

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9 OTHER NON-CURRENT LIABILITIES

Other non-current liabilities comprise the following (in thousands of MKD):

	31 Dec 2001	31 Dec 2000
Other non-current liabilities	22,426	24,877
	<u>22,426</u>	<u>24,877</u>

All other non-current liabilities have no defined maturity.

10 OTHER CURRENT LIABILITIES

Other current liabilities consist of the following (in thousands of MKD):

	31 Dec 2001	31 Dec 2000
Domestic trade payables	406,407	193,447
Foreign trade payables	833,001	714,110
Tax and social security	78,717	98,812
Accrued expenses	260,157	95,657
Advances received	69,860	23,351
Deferred revenue	53,754	42,836
Salaries and wages	36,221	2,404
Other payables	115,154	133,494
	<u>1,853,271</u>	<u>1,304,111</u>

11 SHARE CAPITAL

Share capital consists of the following (in thousands of MKD):

	31 Dec 2001	31 Dec 2000
Ordinary shares	9,583,878	9,404,180
Golden share	10	10
	9,583,888	9,404,190

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. All shares were held by the Government of the Republic of Macedonia on 31 December 2000.

On 15 January 2001, the Government of the Republic of Macedonia sold a majority shareholding in the Company to Stonebridge A.D. In addition, the share capital of the Company was increased by 179,698 thousand MKD, representing 1,796,980 ordinary shares of 100 MKD each. The additional share capital was taken up by the International Finance Corporation (hereinafter the "IFC") as part of the conversion of long-term debt to equity (See note 8).

As of 15 January 2001, the ordinary shares of the 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	

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.

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12 EQUITY

The Group statutory profit after tax for the year ended 31 December 2000 4,010,720 thousand MKD. Of this amount, the Company paid out in cash to various governmental bodies including Ministries, a total of 2,233,190 thousand MKD, as an interim dividend (See note 22).

Statutory Reserve:

The statutory reserve balance shown in the statutory financial statements as at 31 December 2001 is 321,198 thousand MKD (2000 is 321,198 thousand MKD). In accordance with Macedonian legislation, all companies transfer 15% of their profit after tax for the year to the statutory reserve.

13 OPERATING REVENUES

Operating revenues consist of the following (in thousands of MKD):

	Year ended 31 Dec 2001	Year ended 31 Dec 2000
Domestic fixed line telecommunication services		
Subscription, connections and other charges	1,845,044	1,675,775
Domestic traffic revenue	4,719,373	3,939,658
International traffic revenues	3,530,628	2,935,787
Mobile telecommunication services	4,091,724	3,155,753
Leased line and data transmission	189,260	171,081
Other revenues	484,468	324,902
	14,860,497	12,202,956

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14 OPERATING COSTS

Operating costs consist of the following (in thousands of MKD):

	Year ended 31 Dec 2001	Year ended 31 Dec 2000
Materials and maintenance	502,121	522,410
Payments to foreign telecom operators	1,272,402	1,446,960
Wages and salaries	1,543,097	1,447,054
Marketing	217,123	110,356
Depreciation and amortisation	1,940,275	1,217,674
Impairment loss on long term investments	-	105,678
Impairment loss on loans and short deposits in banks	-	250,966
Bad debt provisions for receivables	401,670	138,699
Provision on inventories	135,074	95,298
Energy	117,520	129,254
Consultancy	465,253	91,791
Donations	138,727	584,258
Audio text service	102,039	186,903
Service costs	476,868	466,094
Rental fees	179,786	188,957
Fees, levies and local taxes	177,340	94,559
Insurance	40,453	36,628
Other operating costs	686,497	1,282,358
	8,396,245	8,395,897

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15 INCOME TAXES

Income taxes consist of the following (in thousands of MKD):

	Year ended 31 Dec 2001	Year ended 31 Dec 2000
Current tax	665,958	683,708
Deferred tax	10,994	(309,810)
	<u>676,952</u>	<u>373,898</u>

Current income tax expense is accounted for as prescribed by Macedonian Law. Statutory income taxes are calculated by applying a 15% tax rate to taxable income in 2001 as well as for the taxable income in 2000.

The Company's effective tax rate differs from the statutory tax rate because of various differences between the net profit before taxation reported in these financial statements prepared under IAS and the taxable base calculated under Macedonian Tax regulations. These differences are primarily of a temporary nature and mainly relate to additional expenses recorded for IAS, such as additional provisions for doubtful accounts receivable, investments, inventories and differences in the calculation of depreciation of fixed assets for tax purposes.

The tax charge for the year can be reconciled to the profit per the statement of income as follows:

	Year ended 31 Dec 2001	Year ended 31 Dec 2000
Profit before tax	5,925,957	3,212,827
Tax at the domestic income tax rate of 15 %	888,893	481,924
Tax effect of income and expenses that are not taxable in determining taxable profit	66,354	(108,026)
Tax benefit of investment	(96,670)	-
Tax benefit of 7.5% rate of tax on Mobimak profit	(181,625)	-
Tax expense for the year	<u>676,952</u>	<u>373,898</u>

Mobimak profit for 2001 is taxed at a concessional rate of 7.5 %. In 2002 profits will be taxed at 15 %.

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16 DEFERRED TAX

Deferred tax has been calculated on temporary differences, which have a tax effect that may reasonably be expected to reverse in future periods (In thousands of MKD)

	31 Dec 2001	31 Dec 2000
Deferred tax assets	(569,424)	(580,418)
Net position	(569,424)	(580,418)

The movement for the period in the Group's deferred tax position was as follows:

	Year ended 31 Dec 2001	Year ended 31 Dec 2000
Balance as at the beginning of the year	(580,418)	(270,608)
Net charge to income for the year	10,994	(309,810)
Balance as at the end of the year	(569,424)	(580,418)

The following are the major deferred tax assets recognised by the Group and movements thereon during the year:

Deferred tax assets	Provision for short-term deposits and investments	Diff between tax and accounting basis of property plant and equipment	Provision for doubtful debts and other	Total Deferred tax assets
As at 1 January 2001	(94,697)	(453,091)	(32,630)	(580,418)
Net charge to income for the year	19,053	120,144	(128,203)	10,994
As at 31 December 2001	(75,644)	(332,947)	(160,833)	(569,424)

Deferred tax assets	Provision for short-term deposits and investments	Diff between tax and accounting basis of property plant and equipment	Provision for doubtful debts and other	Total Deferred tax assets
As at 1 January 2000	(46,144)	(289,598)	(46,016)	(381,758)
Net charge to income for the year	(48,553)	(163,493)	13,386	(198,660)
As at 31 December 2000	(94,697)	(453,091)	(32,630)	(580,418)

During 2001 the Parent Company changed its method of calculating the deferred tax asset to include the tax benefit relating to the provision for doubtful debts. The effect of this change was to increase the deferred tax asset and reduce the tax expense for the year by 126 million Denars.

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17 EXCHANGE RATES

The currencies exchange rates used to convert balance sheet items were the following:

	31 Dec 2001	31 Dec 2000
1 USD	69.1716 MKD	65.3281 MKD
1 DEM	31.1688 MKD	31.0803 MKD
1 CHF	41.1092 MKD	39.9079 MKD
1 SEK	6.5540 MKD	6.8832 MKD
1 EUR	60.9610 MKD	60.7878 MKD

18 NET FOREIGN CURRENCY POSITION AND FOREIGN CURRENCY RISK

The Group enters into international transactions related to the purchase of equipment and the settlement of telecommunication revenues and expenses. Therefore the Group is exposed to market risk related to possible foreign currency fluctuations. The Group does not enter into financial instruments to reduce these risks.

The foreign currency position of the Group as at 31 December 2001 and 31 December 2000 is shown below:
(In thousands of MKD)

	31 Dec 2001	31 Dec 2000
Assets	1,932,892	996,304
Liabilities	(4,170,465)	(6,083,489)
Net Foreign currency position	(2,237,573)	(5,087,185)

At year end 31 December 2001, the foreign currency mismatch mainly relates to US dollar and DEM.

19 INTEREST RATE RISK

The exposure to Interest rate risk is the risk that the value of the Group's term debt will fluctuate due to changes in market interest rates. Current year denominated loans is approximately 3,190,605 thousands of MKD of the Company's DEM, EURO and USD denominated loans, which represents 62% of Group total liabilities, which are based on variable rates and thus exposes the Group to possible interest rate risk.

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20 CREDIT RISK

The Group is exposed to credit risk in the event where its customers from the sale of telephone and other services fail to perform their obligations.

The Group's exposure to credit risk is limited to the carrying value of trade receivables, other receivables, and loans receivable. The trade receivables are owed from a large number of customers on normal credit terms and therefore there is minimal concentration of credit risk.

21 RECONCILIATION TO US GAAP

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 year ended 31 December 2001. (In thousands of MKD)

31 Dec 2001

Net Income

Net deferred revenue recognized on connection fees paid - deferred at initiation and recognized over average customer life	293,000
Capitalization of Interest on Assets Under Construction in accordance with Statement of Financial Accounting Standard 34	17,340
Total increase in Net Income	310,340

Equity

Opening balance adjustment to Retained Earnings for cumulative effect of change in deferred revenue recognition policy	(1,917,000)
Adjustment to Retained Earnings in current period	310,340
Net decrease in Retained Earnings	(1,606,660)

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22 DISPUTE WITH PREVIOUS MAJOR SHAREHOLDER

As disclosed in note 13 an interim dividend of Denar 2,233,190 thousand was paid out of the statutory profit for the year ended 31 December 2000 of Denar 4,010,720 thousand. In accordance with article 286 from the Law on trade companies, the Company's Board of Directors (representatives of the Macedonian Government, acting as the representative of the sole shareholder) could pay an interim dividend if interim statements of income show a profit.

However, the maximum amount that could have been paid as an interim dividend is half of the amount that remains after transferring the amount that according to law or statute must be set aside as reserves. Based on this calculation the maximum allowed interim dividend was MKD 1,704,556 thousand. The strategic shareholder is negotiating with the Government to try and obtain a refund of the overpayment of Denar 528,634 thousand.

Because of this dispute the Meeting of the General Assembly of the Company held on 28 March 2001 did not approve the Annual Financial Statements for the year ended 31 December 2000.

23 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.

International Settlement with other operators from Deutsche Telecom Group

	Revenues MKD'000	Expenses MKD'000
Matav	14,158	34,999
Telemakedonija	-	348,899
Utel	3,209	2,708
DT AG	255,197	129,311
Dete Mobile	34,669	3,871
Max Mobile	3,568	865
	310,801	520,653
	Assets MKD'000	Liabilities MKD'000
Telemakedonija	-	124,423
Stonebridge	12,189	-
	12,189	124,423

www.mt.com.mk

ad makedonski telekomunikaci
ul. orce nikolov bb
1000 skopje, macedonia
tel: +389 2 14 12 79
fax: +389 2 12 62 44

mt line
orce nikolov bb,
1000 skopje, macedonia
tel. +389 2 14 12 40
fax +389 2 14 13 97
e-mail: mtline@mt.com.mk

mt net
orce nikolov bb,
1000 skopje, macedonia
tel. +389 2 13 10 99
fax +389 2 11 57 51
web www.mt.net.mk
e-mail: info@mt.net.mk

mt com
orce nikolov bb,
1000 skopje, macedonia
tel. +389 2 28 62 86
fax +389 2 28 62 87
e-mail: prodazba@mt.com.mk