

ТОПЛИФИКАЦИЈА АД Скопје
JOINT STOCK COMPANY FOR PRODUCTION AND DISTRIBUTION OF HEAT ENERGY



ANNUAL REPORT 2007

Skopje, March 2008

TABLE OF CONTENTS

1.	GENERAL INFORMATION	3
2.	BASIC DATA	3
2.1	Establishment of the company	3
2.3	Technical and financial performance of the company	5
2.4	Number of employees and personnel structure	5
3	REGULATED ACTIVITY – PRODUCTION OF HEAT ENERGY	6
3.1	Technological performance	6
3.2	Financial performance	8
4	REGULATED ACTIVITY – DISTRIBUTION OF HEAT ENERGY	9
4.1	Technological performance	9
4.2	Financial performance	13
5	REGULATED ACTIVITY – HEAT ENERGY SUPPLY	14
5.1	Technological performance	14
5.2	Financial performance	18
6	FINANCIAL RESULTS OF THE OPERATION OF TOPLIFIKACIJA AD SKOPJE	19
6.1	Price of the fuels	19
6.2	Heat energy price	21
6.3	Financial performance	21
7.	CORPORATE GOVERNANCE	24
7.1	Report on the compliance with the Book of regulations of the Macedonian Stock Exchange	24
7.2	Company's shareholding capital	26
7.3	Ownership structure	26
7.4	Stock broking of the shares of Toplifikacija AD Skopje	27
7.5	Governance and management bodies	28
7.6	Report on the Board's operation	31
7.7	Report on the Supervisory committee's operation	31
7.8	Business deals and deals with the interested parties	32
7.9	Managing the risks in the company's functioning	32
7.9.1	Liquidity risk	32
7.9.2	System risk	32
7.10	Policies and strategic objectives of the company in the coming period	33

1. GENERAL INFORMATION

The aim of the annual report is to present in a documentary based way, the results achieved in the work of Toplifikacija AD Skopje in 2007 on the basis of the annual financial statements, energy and technological statements, as well as the reports of the company's separate department units.



2. BASIC DATA

2.1 Establishment of the company

Toplifikacija AD Skopje is a joint stock company for production and distribution of heating energy in private ownership. The company was founded in 1965 by the Council of the City of Skopje in accordance with the existing programme for central supply of the city of Skopje.

2.2 Organizational structure

The organizational structure of the company consists of:

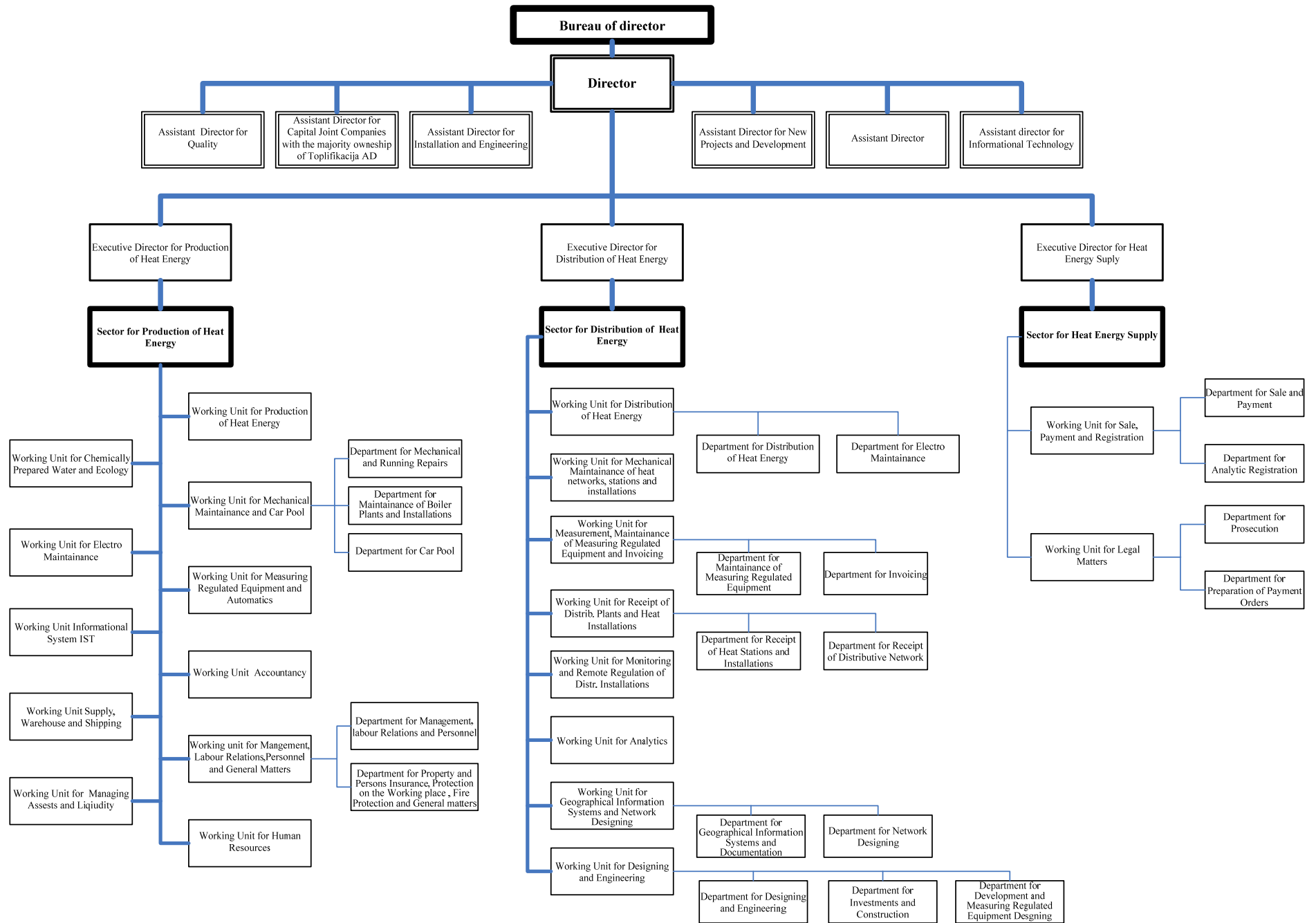
- Board of directors;
- Department for production of heating energy;
- Department for distribution of heating energy;
- Department for heating energy supply.

The structure has been adjusted to the efficient performing of the three regulated energetic activities:

- Production of heating energy
- Distribution of heating energy
- Heat energy supply of the consumers

Toplifikacija AD Skopje has received the licences for performing all three regulated energetic activities:

- Licence for production of heating energy with the validity until 30.06.2041
- Licence for distribution of heating energy with the validity until 30.06.2041
- Licence for supply with heating energy with the validity until 30.06.2016



2.3 Technical and financial performance of the company

Table 1 - Technical and financial performance of the company

No.	Technical and financial performance of the company	Unit	Price
1	Connected heat consumers' capacity	MW	567,706
2	Number of consumers		55,373
3	Installed hot water heat capacity	MW	491.131
4	Produced heat energy	MWh	645,742
5	Delivered heat energy to a consumer	MWh	567,930
6	Fuel consumption (equivalent fuel oil)	tones	63,841
7	Electricity consumption	MWh	16,798
8	Length of the heating distribution network (main, secondary and connection pipes)	km	185
9	Number of employees at the end of the year		348
10	Net profit	MKD	117,703,398

2.4 Number of employees and personnel structure

Table 2 -Structure of qualifications and number of employees

Degree and qualification structure	Bureau of directors	Production sector	Distribution sector	Supply sector	Total	%
VII – Univ. level education	6	18	19	5	48	13,8
VI – Higher education	/	5	1	/	6	1,7
IV – Secondary education	1	105	49	62	217	62,4
III – Qualified	/	35	28	/	63	18,1
I – Unskilled	/	14	/	/	14	4,0
Total 2007	7	177	97	67	348	100

Table 3 - Average monthly salary per employee

Year - 2006 MKD	Year - 2007 MKD
19.162	19.481

3 REGULATED ACTIVITY – PRODUCTION OF HEAT ENERGY

3.1 Technological performance

The heating sources for production of energy in the ownership of the company are located in:

- Plant Istok
- Plant Zapad
- Plant 11 Oktomvri

Table 4 -Hot water boilers

Type of boiler	Unit capacity (MW)	Number of boilers	Location (heating plant)	Total capacity (MW)
VKSM - 60	69.780	2	Istok	139.560
VKSM - 40	46.520	3	Istok	139.560
Total	/	5	TO Istok	279.120
VKSM -20	23.260	2	Zapad	46.520
VKSM -50	58.150	2	Zapad	116.300
BKG-100/a	8.150	1	Zapad	8.150
Total	/	5	TO Zapad	170.970
BKG - 80	5.965	2	11 Oktomvri	11.930
BKG - 200	16.280	1	11 Oktomvri	16.280
Total	/	3	11 Oktomvri	28.210
Total active		13		478.300

Table 5 - Steam boilers

Type of steam boiler	Unit capacity (MW)	Number of boilers	Location (heating plant)	Total capacity (MW)
BKG - 100	7.405	2	Istok	14.810
Total	/	2	TO Istok	14.810
BKG - 80	5.970	2	Zapad	11.940
Total	/	2	TO Zapad	11.940
Total active		4		26.750

Table 6 - Average outside temperatures in 2007 (per months)

Month	Plan	Actual
January	0.9	5.2
February	2.7	6.4
March	6.5	9.7
April	11.0	13.4
October	11.0	9.9
November	7.3	4.3
December	3.0	1.0
Average:	5.29	6.4

Table 7 - Heating days of the heating season in 2007

Month	January	February	March	April	October	November	December	Total
Actual	31	28	31	15	17	30	31	183
Plan	31	28	31	15	17	30	31	183

Table 8-Fuel consumption in the last 10 years

Total consumption	1998 (ton)	1999 (ton)	2000 (ton)	2001 (ton)	2002 (ton)	2003 (ton)	2004 (ton)	2005 (ton)	2006 (ton)	2007 (ton)
Istok	34.720	35.879	27.507	27.727	27.712	40.287	43.061	46.247	41.067	20.891
Zapad	20.355	20.202	19.406	21.019	20.907	22.727	21.222	22.278	21.374	18.296
11 Oktomvri	3.791	3.694	3.584	3535.5	3.645	3.922	2.804	3.100	2.732	1.438
Park	1.123	1.019	1.050	88	/	/	/	/	/	/
Fuel oil total	59.989	60.845	51.546	52.370	52.263	66.936	67.087	71.624	65.173	40.625
Equivalent (gas)	11.159	10.443	17.634	16.592	15.812	8.625	1.714	1.303	5.058	23.216
Total	71.148	71.237	69.181	68.962	68.075	75.561	68.801	72.927	70.230	63.841

Table 9- Produced heat energy in 2007

Heating plant	Istok (MWh)	Zapad (MWh)	11 Oktomvri (MWh)	Total (MWh)
Total	423,502	184,900	37,339	645,742

Table 10 - Consumption of active electrical power during the heating season in the last few years

Year	2001	2002	2003	2004	2005	2006	2007
(kWh)	18,713,418	18,371,727	18,948,112	16,985,806	17,749,551	17,606,519	16,798,488

Table 11 - Consumption of chemically prepared water in the last few years

Heating plant	1999 (000m ³)	2000 (000m ³)	2001 (000m ³)	2002 (000m ³)	2003 (000m ³)	2004 (000m ³)	2005 (000m ³)	2006 (000m ³)	2007 (000m ³)
Istok	184.362	152.773	128.119	167.628	217.482	232.657	226.130	230.831	222.015
Zapad	94.047	102.413	83.785	124.960	167.890	95.513	143.882	133.801	103.253
11 Oktom.	7.815	10.462	8.687	14.959	12.838	13.629	15.090	8.884	7.322
TOTAL	286.224	265.648	220.591	307.547	398.210	341.799	385.102	373.516	332.590

Table 12- Consumption of kitchen salt in the last few years

Heating plant	1999 (kg)	2000 (kg)	2001 (kg)	2002 (kg)	2003 (kg)	2004 (kg)	2005 (kg)	2006 (kg)	2007 (kg)
Istok	150000	125400	112970	139150	153450	161150	140800	136950	150700
Zapad	87830	92000	69700	108900	157150	83000	123875	119450	98325
11 Okt.	10950	13920	11960	19575	15175	16400	17800	11525	8650
Total	248780	231320	194630	267625	325775	260550	282475	267925	257675

Table 13 - Specific consumption of fuel 'S' (kg/ MW *Sd)

Year	Equivalent fuel (ton)	T.nsr (C)	Capacity (MW)	Heating days	S(20)
2006	70,230	5.17	557.347	184	46.18
2007	63,841	6.4	565.706	183	45.34

3.2 Financial performance

The regulated business area of Toplifikacija AD Skopje, Production, in 2007 realized positive earning before interest, taxes and depreciation in the amount of 31.821.741 MKD.

The amount is not sufficient to cover the estimated depreciation which led to negative operating profit.

The main reason is the inappropriately approved expenses by the Energy Regulatory Committee of R. Macedonia especially the expenses for other services in the field of Production approved by the Energy Regulatory Committee of R. Macedonia in the amount of 2.128.522 MKD for 2007.

An additional reason is the total approved amount of profit which was not sufficient. The amount was given as a result of incorrectly determined profit surplus in the preceding period.

Table 14 - Profit and loss account as on 31.12.2007

	000 den
Revenues from sales of heat energy	1,307,231
Fuel oil	673,415
Gas	435,192
Electricity	15,870
Gross margin	182,754
Other operating revenues from the company's primary activity	0
Costs for materials and etc.	11,292
Services for current and investment maintenance	6,537
Buildings and equipment insurance costs	3,429
Gross wages	70,397
Managers' wages and bonuses	766
Other services	24,721
Other expenses	27,451
Employees contributions costs, undertaken obligations and taxes	6,340
Earning before interest, taxes and depreciation	31,822
Depreciation	46,788
Consumers liabilities write off	170
Operating profit	-15,137
Financial and other revenues (net)	11,681
Profit from the regular functioning	-3,456
Extraordinary revenues (net)	1,841
Profit before taxation	-1,615

4 REGULATED ACTIVITY – DISTRIBUTION OF HEAT ENERGY

4.1 Technological performance

Table 15 - Connected and delivered heat energy to consumers

Connected heat energy to heat sources (MWh)	Delivered heat energy to consumers (MWh)	Heat loss (%)
645,742	567,930	12.05

Table 16 –Distribution of specific consumption per years

Year	Number of objects with < 55 (wh/m2 Sd)	Number of objects with > 55 (wh/m2 Sd)	Number of objects with > 60 (wh/m2 Sd)	Number of objects with > 70 (wh/m2 Sd)	Number of objects with > 80 (wh/m2 Sd)
2001	620	657	470	170	75
2002	751	526	325	123	41
2003	711	566	342	135	39
2004	672	605	394	151	63
2005	789	488	307	114	47
2006	1,008	271	157	58	20
2007	1,030	97	46	6	1

Graphical display 1- Realized diagram change in the analyzed objects

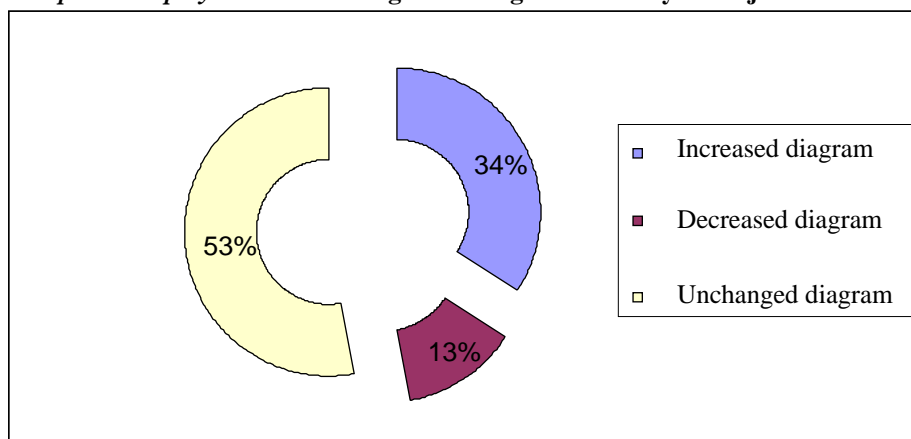
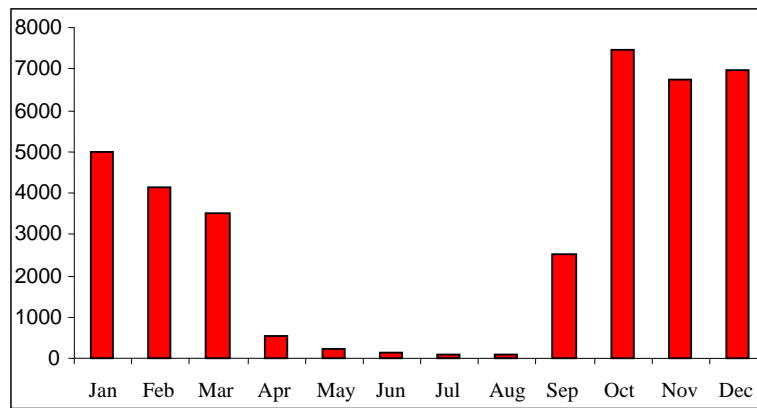


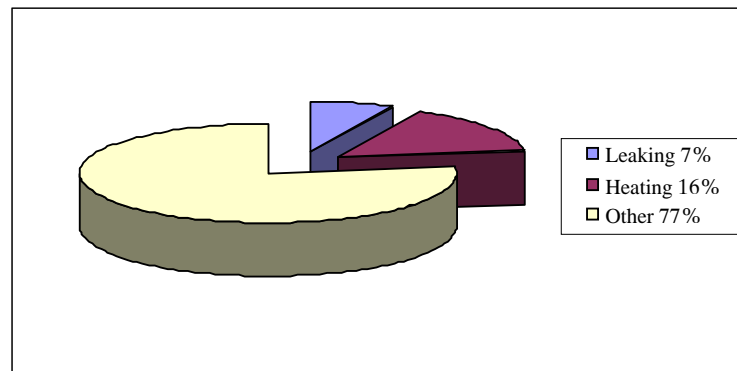
Table 17 - Recorded complaints

	2005	2006	2007	In comparison to 2006
Total recorded complaints	38403	33567	37452	Increase 11.6%
Leaking	3022	3280	2675	Decrease 18.4%
Heating	9962	7698	5909	Decrease 23.2%
Other reasons	25419	22589	28868	Increase 27.8%

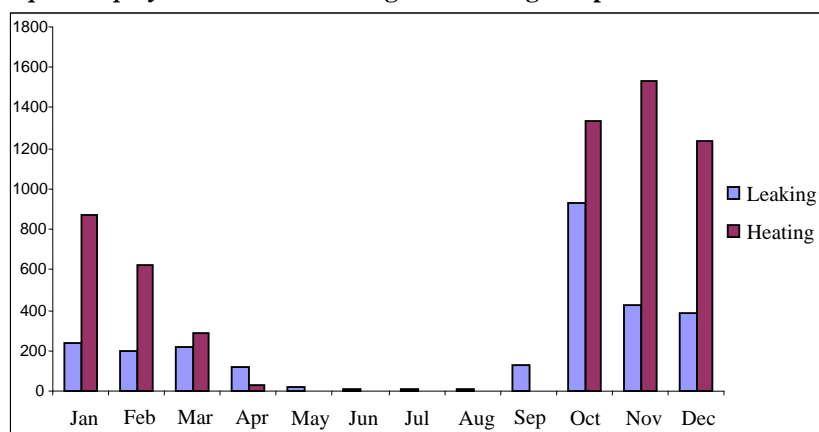
Graphic display 2- Recorded monthly complaints



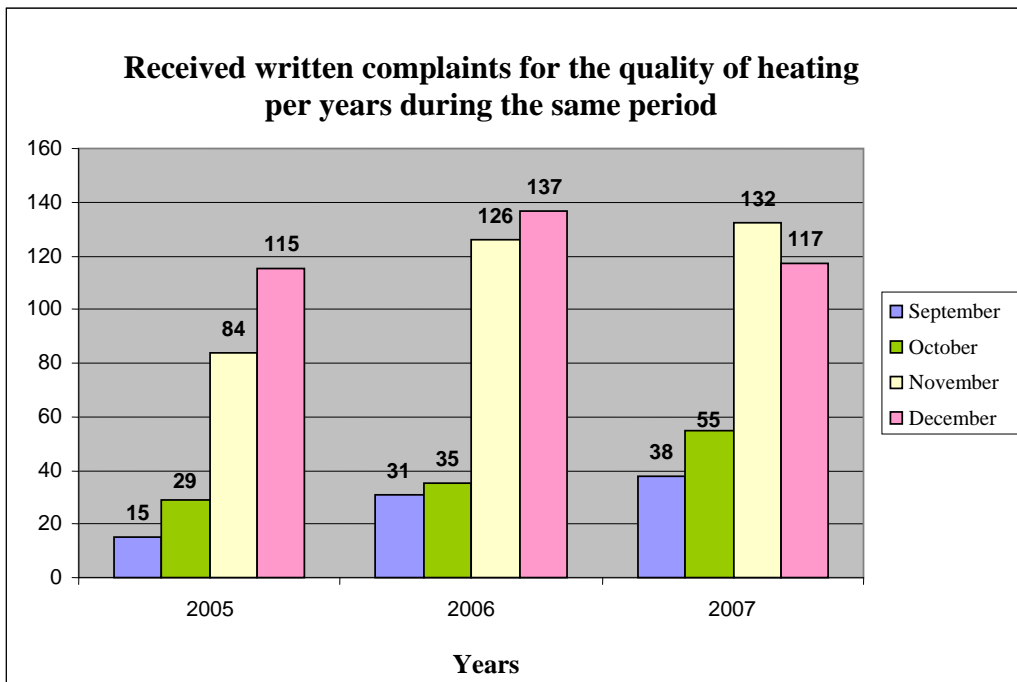
Graphic display 3- Percentages of leaking, heating and other complaints



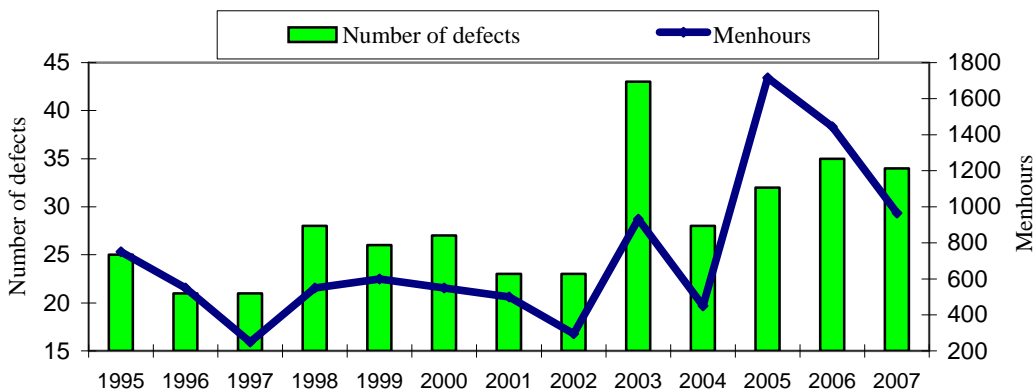
Graphic display 4- Recorded leaking and heating complaints



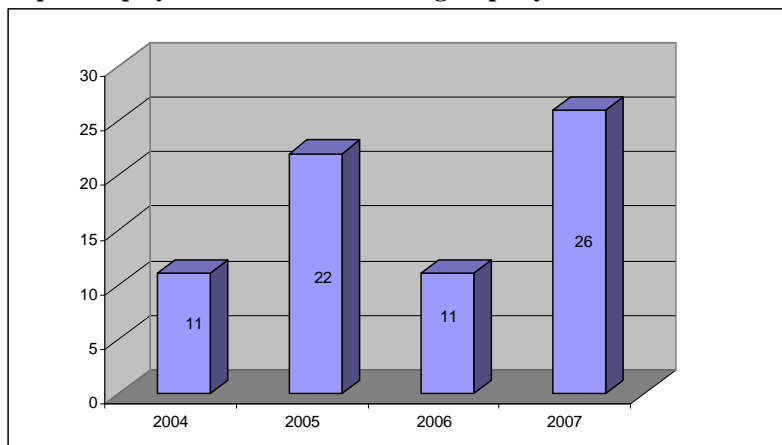
Graphic display 5 –Received written complaints for the quality of heating per years during the same period



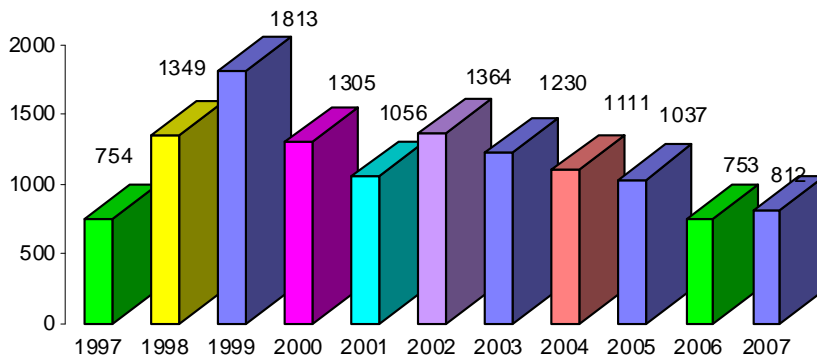
Graphic display 6 - Comparison of the network defects per years



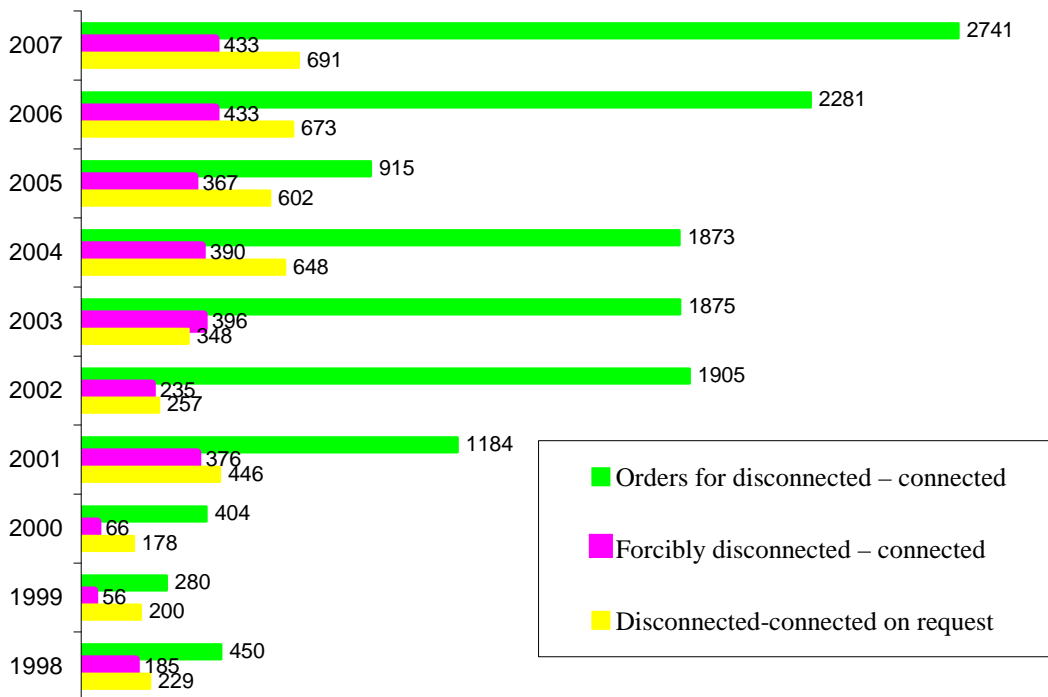
Graphic display 7 -Built in heat exchangers per years



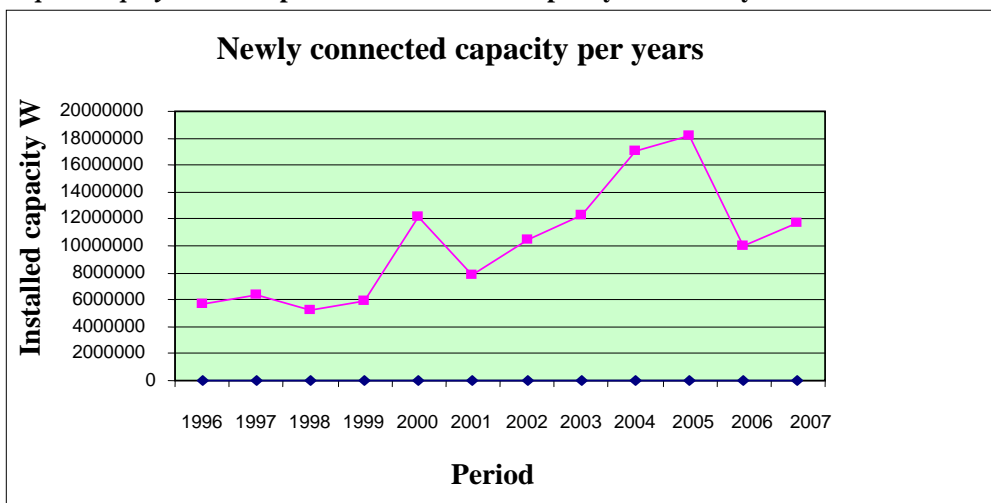
Graphic display 8 – Comparison of the interventions of the interior installation per years



Graphic display 9 - Disconnection and connection presented by years



Graphic display 10 - Comparison of connected capacity in the last years



4.2 Financial performance

The positive financial result before taxation in the field of distribution is due to the revenue from the investments in the distributive network.

Actually the activity Distribution of heat energy in 2007 showed loss in the operating work in the amount of 21.089,017 MKD.

The operating loss, to greatest extent, is a result of not realizing the revenues approved by the Energy Regulatory Commission and due to the fixed costs in this field of work.

The activity distribution of heating energy realized a smaller profit than the approved one for 2007 by the Energy Regulatory Commission in the amount of approximately 13.000,000 MKD. This difference in the not realized profit is expected to be compensated with the next control of the price of the heating energy in 2008.

Table 18 - Profit and loss account as on 31.12.2007

	000 den
Revenues from heat energy sales	138,619
Spent electricity	37,548
Spent water	8,461
Concession for using the network	46,410
Gross margin	46,199
Operating revenues	3,653
Costs for materials and etc.	5,623
Services for current and investment maintenance	3,036
Buildings and equipment insurance costs	585
Gross wages	31,719
Managers' wages and bonuses	261
Other services	5,631
Other expenses	9,296
Employees contributions costs, undertaken obligations and taxes	328
Earning before interest, taxes and depreciation	-6,627
Depreciation	14,462
Operating profit	-21,089
Financial and other revenues (net)	42,256
Profit from the regular operation	21,167
Extraordinary revenues (net)	142
Profit before taxation	21,309

5 REGULATED ACTIVITY – HEAT ENERGY SUPPLY

5.1 Technological performance

Table 19 – Connected consumers' heat capacity per categories as on 31.12.2007

No.	Description	Fix rate payment		Payment by measurement				Total
		Residential space	Business space	Individual residential objects	Business standard objects	Business objects (Institutions)	Elementary schools	
1	Number of users	49,084	924	2,696	2,406	214	49	55,373
2	Total area (m ²)	2,785,622	85,971	415,362	789,364	111,136	110,729	4,298,184
3	Connected capacity (MW)	345.640	12.036	66.458	110.511	15.559	15.502	565.706

Table 20 - Report on the recorded requests with the situation on 31.12.2007

No.	REGISTERED REQUESTS	Total	%
1.1	Consumer change	1108	25.91
1.2	Type of payment – cash payment	106	2.48
1.2.1	Type of payment- current account	20	0.47
1.3	Change of the type of payment 6 months	72	1.68
1.3.1	Change of the type of payment 12 months	52	1.22
1.4	Registered twice paid bills	0	0.00
2.1	Check of the net heating space	54	1.26
2.2	Check of the net installed capacity	35	0.82
2.3	Assessment of the heating quality	274	6.41
2.4	Check of a disconnected apartment	66	1.54
3.1	Change of a cylinder/ padlock in a heating station	68	1.59
3.2	Connection	316	7.39
3.3	Regular disconnection	481	11.25
3.3.1	Forcible disconnection	1194	27.92
3.4	Leaking	430	10.06
		4276	100.00

Table 21-Delivered energy for connected heat capacity as on 31.12.2007

Elements	January	February	March	April	October	November	December	Total
1.TOTAL (MW)	558.858	557.864	558.161	556.885	555.648	560.877	565.706	
2. Residential space-fixed rate payment								
Active m ²								
Capacity MW	371.980	372.816	372.167	375.132	332.069	345.068	345.640	
Invoiced heat energy MWh	75,130	60,258	43,570	15,698	23,013	64,255	75,456	357,380
3. Residential space – payment by measuring								
Capacity MW	31.757	33.751	33.201	33.051	63.388	63.260	66.458	
Invoiced heat energy MWh	6,307	5,425	3,547	1,138	5,404	11,752	19,024	52,597
4. Business space - payment by measuring								
Capacity MW	109.985	108.466	107.967	105.237	117.040	109.288	110.511	
Invoiced heat energy MWh	23,981	17,992	10,821	1,489	7,439	20,713	29,805	112,240
5. Business space-fixed rate payment								
Capacity MW	15.050	13.796	14.562	13.768	11.964	11.963	12.036	
Invoiced heat energy MWh	2,723	2,278	1,965	338	808	2,904	3,810	14,826
6. Elementary schools								
Capacity MW	15.101	14.923	15.638	15.071	16.785	16.008	15.502	
Invoiced heat energy MWh	2,902	2,560	1,482	642	1,157	3,256	4,341	16,340
7. Institutions								
Capacity MW	14.985	14.112	14.626	14.626	14.402	15.290	15.559	
Invoiced heat energy MWh	2,843	2,192	1,557	74	931	2,817	4,133	14,547
Total delivered energy to users (MWh)								567,930

Table 22-Cash inflow per months in 2007

Period	Invoiced	Period	Payment	Divergence (+ / -)	Cumulative (+ / -)	%
inv.12/06	213,285,846.00	paym.01/07	165,011,348.00	-48,274,498.00	-48,274,498.00	77.37
inv.01/07	231,243,867.00	paym.02/07	224,056,026.00	-7,187,841.00	-55,462,339.00	96.89
inv.02/07	235,923,304.00	paym.03/07	248,198,386.00	12,275,082.00	-43,187,257.00	105.20
inv.03/07	172,741,513.00	paym.04/07	178,109,937.00	5,368,424.00	-37,818,833.00	103.11
inv.04/07	126,902,191.00	paym.05/07	160,751,617.00	33,849,426.00	-3,969,407.00	126.67
inv.05/07	83,833,153.00	paym.06/07	120,838,244.00	37,005,091.00	33,035,684.00	144.14
inv.06/07	83,833,153.00	paym.07/07	112,653,651.00	28,820,498.00	61,856,182.00	134.38
inv.07/07	83,938,612.00	paym.08/07	104,488,485.00	20,549,873.00	82,406,055.00	124.48
inv.08/07	83,243,194.00	paym.09/07	182,752,781.00	99,509,587.00	181,915,642.00	219.54
inv.09/07	83,180,202.00	paym.10/07	125,510,832.00	42,330,630.00	224,246,272.00	150.89
inv.10/07	123,568,146.00	paym.11/07	139,150,109.00	15,581,963.00	239,828,235.00	112.61
inv.11/07	198,774,675.00	paym.12/07	211,726,817.00	12,952,142.00	252,780,377.00	106.52
TOTAL	1,720,467,856.00		1,973,248,233.00	252,780,377.00		114.69

Table 23- Report on the business consumers' payment in the period 01.01.-31.12.2007

	Description	Liability for payment	Balance on 31.12.2007	Charged	% of payment
	Total liabilities from business consumers	642,426,489	72,017,810	570,408,679	88.79
A	Total business consumers and budget	524,386,740	48,743,948	475,642,792	90.70
1	Budget	344,028,286	16,785,326	327,242,960	95.12
2	Other big business consumers	180,358,454	31,958,623	148,399,832	82.28
B	Other big business consumers (business space)	118,039,749	23,273,862	94,765,888	80.28
C	Liabilities from connected subjects	80,449,053	35,778,222	44,670,832	55.53
	TOTAL	722,875,542	107,796,031	615,079,511	85.09

Table 24 –Report on the individual consumers' payment in the period 01.-12.2007

Month	Liability for payment	Charged (Payment)	Balance	% of payment
January	114,941,323.00	106,389,688.57	8,551,634.43	92.56
February	113,923,457.00	104,524,771.80	9,398,685.20	91.75
March	95,584,155.00	87,383,034.50	8,201,120.50	91.42
April	89,029,946.00	81,052,862.84	7,977,083.16	91.04
May	84,222,679.00	74,873,961.63	9,348,717.37	88.90
June	83,942,414.00	74,456,921.22	9,485,492.78	88.70
July	83,882,802.00	73,145,803.34	10,736,998.66	87.20
August	83,899,866.00	72,967,713.46	10,932,152.54	86.97
September	83,840,896.00	71,273,145.69	12,567,750.31	85.01
October	85,263,534.00	70,035,466.83	15,228,067.17	82.14
November	95,571,039.00	71,448,908.76	24,122,130.24	74.76
December	101,821,136.00	54,464,125.65	47,357,010.35	53.49
TOTAL:	1,115,923,247.00	942,016,404.28	173,906,842.72	84.42

Table 25- Report on correspondence from the consumers of heat energy in 2007

RECORDED CORRESPONDENCE		858	%Participation
REQUESTS (CLAIMS)		569	66.32
I	Directed to the Board	20	2.33
II	To change the installed capacity	14	1.63
III	To correct bills and invoices	110	12.82
IV	To check the quadrature	18	2.10
V	To check the quality of heating	130	15.15
VI	During the time of delivery of heating	1	0.12
VII	For disconnection and breach of contract	43	5.01
VIII	For connection and concluding an agreement	6	0.70
IX	For 50 % payment exemption	55	6.41
X	Social class	3	0.35
XI	Other claims	169	19.70
NOTICES		289	35.77
XII	Change of users	126	14.11
XIII	Address change	8	1.46
XIV	Report on irregularly connected users	5	0.49
XV	Returned invoices	96	15.57
XVI	Other notices	54	4.14

Table 26 – Report on disconnection and connection of consumers in 2007

DISCONNECTION		
	Given orders in 2006	Given orders in 2007
Regularly disconnected	479	481
Forcibly disconnected	558	1194
Connected	262	316

Table 27- Report on the payment of lawsuits in the period from 1999 until 2007

Year	Total lawsuits per years		Status of lawsuits as on 31.12.2006		Charged lawsuits in 2007		% of charged lawsuits			
	Number of lawsuits	Main debt and expenses	Number of lawsuits	Main debt and expenses	Number of lawsuits	Main debt and expenses	6/2	7/3	6/4	7/5
1	2	3	4	5	6	7	8	9	10	11
93-'99	15,744	78,623,127	4,620	54,170,397	1,130	4,380,313	7.18	5.57	24.46	8.09
2000	7,527	37,147,686	2,264	11,699,103	217	750,188	2.88	2.02	9.58	6.41
2001	13,442	77,645,387	4,975	30,701,799	557	2,078,006	4.14	2.68	11.20	6.77
2002	16,843	105,139,260	5,987	45,927,882	665	2,812,199	3.95	2.67	11.11	6.12
2003	12,870	86,451,062	5,969	43,380,752	748	3,193,406	5.81	3.69	12.53	7.36
2004	13,217	111,522,320	8,031	66,309,656	1,250	5,916,438	9.46	5.31	15.56	8.92
2005	13,910	117,394,571	9,639	84,404,805	1,759	8,045,385	12.65	6.85	18.25	9.53
2006	14,472	118,853,359	11,421	97,242,479	2,867	14,094,253	19.81	11.86	25.10	14.49
2007	12,752	91,456,849	0	0	3,966	16,867,888	31.10	18.44	0.00	0.00
	120,777	824,233,621	52,906	433,836,873	13,159	58,138,076	10.90	7.05	24.87	13.40

5.2 Financial performance

The sector supply in 2007 has realized negative profit before taxation from the regulated activity in the amount of 201.593.632.00 MKD.

The negative financial result is due to the write off cumulated consumers' liabilities for a certain longer period in the amount of 169.445.208 MKD, the negative net effect of financial revenues / expenditures in the amount of – 26.780.934 MKD as well as due to non recognizing the real value of other service that according to methodology are restricted to 100 % of the materials and not in the real value which for this activity is an illogical solution in methodology.

In accordance with the methodology's regulations consequently a smaller recognized amount resulted in the position other extraordinary expenditures and all this led to the previously stated negative result in the activity supply.

This together with the non approved price of the requested amount for the whole company for the heating season 2007/2008 led to the registered negative financial result before taxation in the Supply sector as it is presented in the following table – Profit and loss account

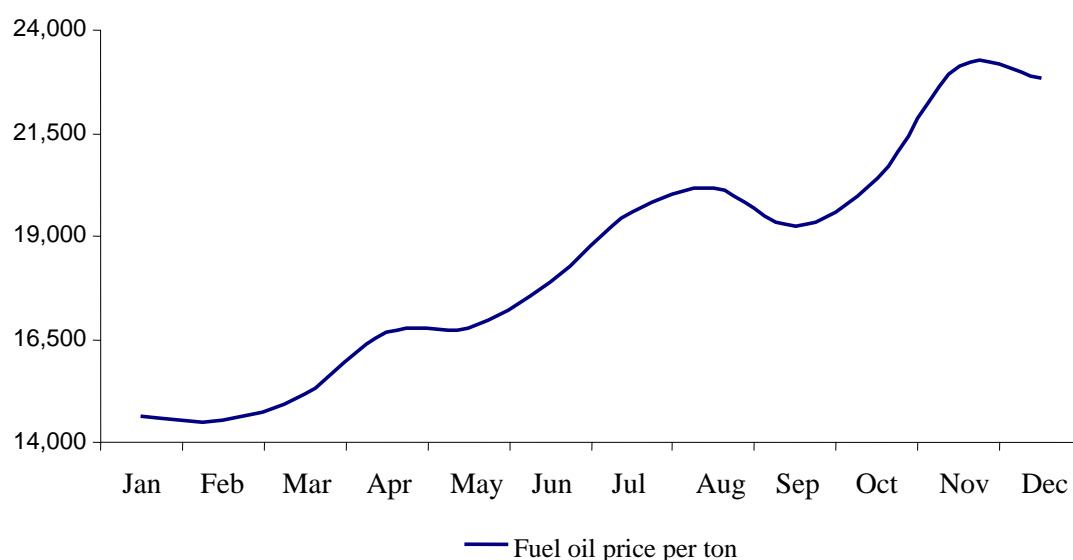
Table 27 - Profit and loss account as on 31.12.2007

Revenues from heat energy sales	49,495,953
Provision for payment of bills	6,918,622
Costs for materials and etc.	2,617,416
Current and investment maintenance	191,989
Services for the activity	3,827,916
Gross margin	35,940,011
Other operating revenues from the company's primary activity	3,024,120
Other expenses for materials, hygienic technical protection and inventory write off	374,344
Gross wages	26,371,773
Managers' wages and bonuses	109,093
Other services	645,187
Other expenses	9,066,758
Employees contributions costs, undertaken obligations and taxes	265,145
Earning before interest, taxes and depreciation	2,131,831
Depreciation	7,661,744
Consumers liabilities write off	169,445,208
Operating profit	-174,975,121
Financial and other revenues/ expenditures (net)	-26,780,934
Profit from the regular operation	-201,756,055
Extraordinary revenues (net)	162,423
Profit/loss before taxation	-201,593,632

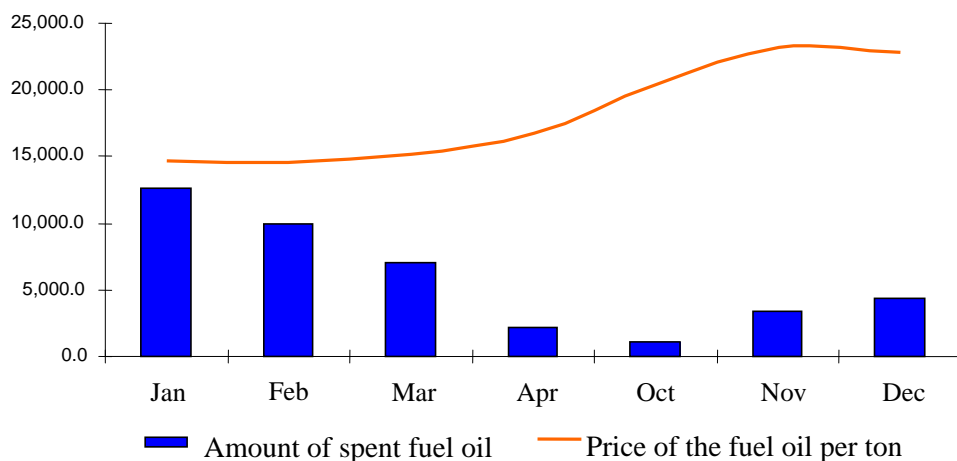
6 FINANCIAL RESULTS OF THE OPERATION OF TOPLIFIKACIJA AD SKOPJE

6.1 Price of the fuels

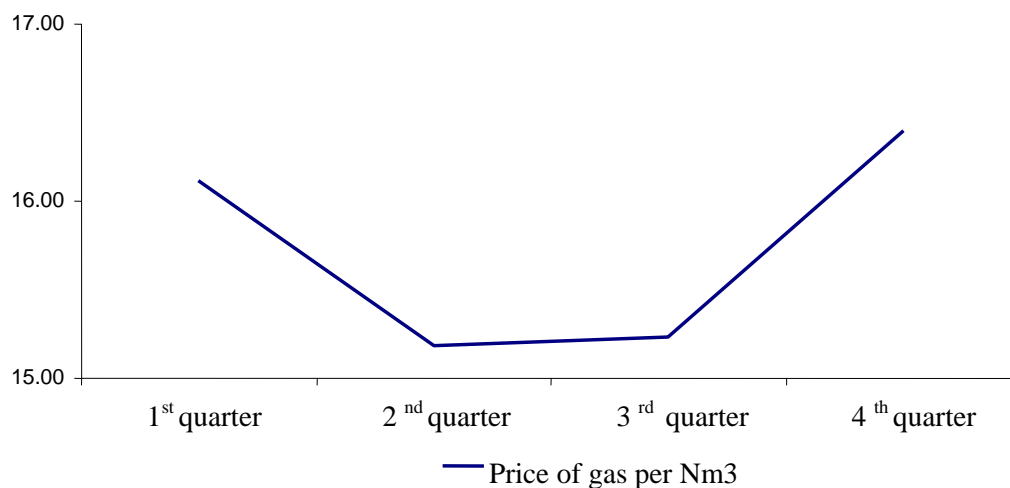
Graphic display 11- Variation of the fuel oil price in 2007



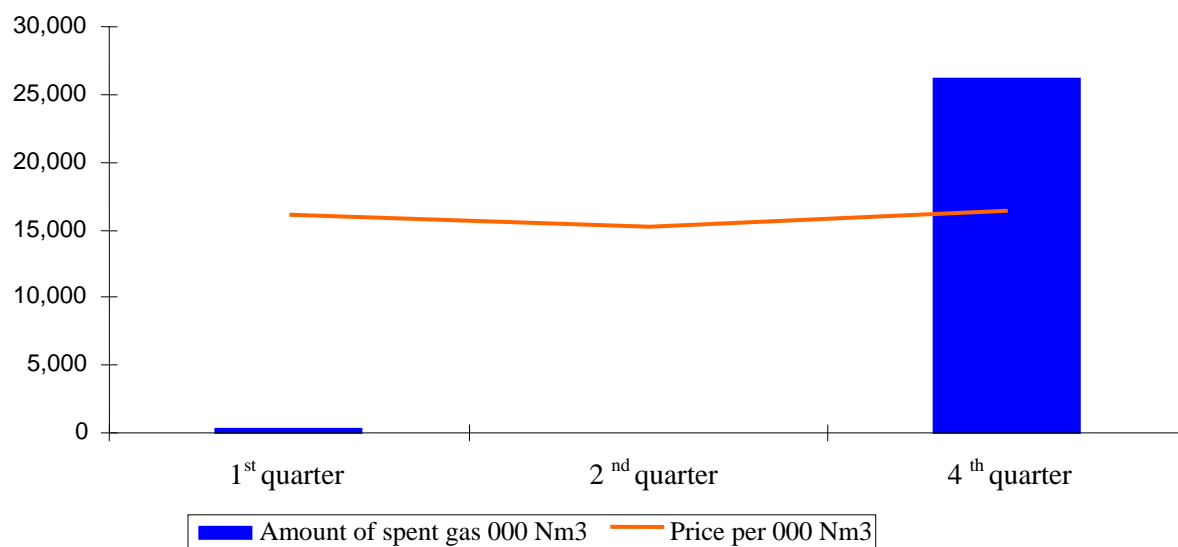
Graphic display 12- - Variation of the fuel oil price in the period of consumption



Graphic display 13- Variation of the natural gas price in 2007



Graphic display 14 - Variation of the natural gas price in the period of consumption



6.2 Heat energy price

The price of the heat energy is determined by the Energy Regulatory Committee of R. Macedonia. The price is determined on the basis of the Book of regulation on the manner and conditions for regulation of the prices of the heat energy.

The price of the heat energy of Toplifikacija AD Skopje was twice altered in accordance with the decisions of the Energy Regulatory Committee of R. Macedonia.

The Energy Regulatory Committee of R. Macedonia with the decision number 02-401/1 on **09.03.2007 reduced the average price** of the heat energy of Toplifikacija AD Skopje for **12.63 %**. The reducing of the price was on the basis of the realized savings in fuel expenses for the first months of the year.

The Energy Regulatory Committee of R. Macedonia with the decision number 02-1606/1 on **18.10.2007 reduced the average price** of the heat energy of Toplifikacija AD Skopje for **6.06 %**. The price was reduced due to the made profit as the analysis of 2006 showed and the accumulated savings in fuel expenses for the period until the decision was brought.

Toplifikacija AD Skopje **lodged a complaint** against the decision to the **Higher committee for resolving appeals in the field of energetics**.

Toplifikacija Ad Skopje did not approve the decision and lodged a complaint which was based on the following facts:

- The Energy Regulatory Committee incorrectly calculates the income of Toplifikacija AD Skopje made in the regulated activities, production, distribution and supply of heat energy.
- The Energy Regulatory Committee makes a methodological mistake in determining the surplus of realized income.
- The Energy Regulatory Committee uses an incorrect percentage to calculate the normalized category: other services.
- The Energy Regulatory Committee uses an incorrect figure of WASS to calculate the approved income from regulated assets for the regulated activities distribution and supply of heat energy.
- The Energy Regulatory Committee incorrectly calculates the regulated assets income for 2007 and 2008 of the regulated period
- The Energy Regulatory Committee acts inaccurately by not including the expenses for court taxes in the amount of actual expenses in the category of taxes, employees' contributions and other fees and charges.

The Committee for resolving appeals brought a decision number 27-10/1 (dated 21.12.2007) and dismissed the appeal of Toplifikacija AD Skopje on 21.12.2007 and thus confirmed the decision of the Energy Regulatory Committee of R. Macedonia.

6.3 Financial performance

Toplifikacija AD Skopje made a net profit in the amount of 117.703.398 MKD for 2007.

The positive result is due to the realized capital profit from shares sale of Komercijalna Banka AD Skopje.

In 2007 an operating loss was realized as a result of the operating loss in the activities Distribution and Supply.

Table 28- Profit and loss account as on 31.12.2007

Profit and loss account	2007	2006	Change
	000 den.	000 den.	%
Revenues from heat energy sales	1,495,346	1,484,730	0.72%
Fuel oil	673,415	1,134,470	-40.64%
Gas	435,192	95,861	353.98%
Electricity	53,419	52,566	1.62%
Water	8,461	5,067	66.98%
Concession for use of the network	46,410	46,416	-0.01%
Commission for payment of bills	6,919	3,610	91.67%
Gross margin	271,530	146,740	85.04%
Other operating revenues from the company's primary activity	6,677	5,756	15.99%
Costs for materials and etc.	19,969	21,101	-5.37%
Services for current and investing maintenance	9,829	15,276	-35.66%
Property, plant and equipment insurance costs	4,287	4,133	3.73%
Gross wages	131,979	136,541	-3.34%
Managers' wages and bonuses	1,136	1,242	-8.53%
Other services	33,518	35,813	-6.41%
Other expenses	47,571	41,887	13.57%
Employees contributions costs, undertaken obligations and taxes	6,960	5,762	20.81%
Earning before interest, taxes and depreciation	22,957	-109,259	-121.01%
Depreciation	68,994	67,915	1.59%
Consumers' liabilities write off	176,715	104	
Operating profit	-222,752	-177,278	25.65%
Financial and other revenues	117,306	168,246	-30.28%
Financial and other expenditures	84,902	83,690	1.45%
Profit from the regular operation	-190,347	-92,722	105.29%
Extraordinary revenues	3,919	15,671	-74.99%
Extraordinary expenditures	1,774	2,113	-16.02%
Profit from the primary activity before taxation	-188,202	-79,164	137.74%
Revenues from projects and planning	3,696	11,610	-68.17%
Direct expenses for projects	2,503	9,338	-73.20%
Financial results from projects and planning	1,193	2,272	-47.50%
Trade revenues	77,946	97,820	-20.32%
Acquisition value of sold goods	72,380	90,327	-19.87%
Financial results of goods trade	5,566	7,492	-25.71%
Revenues from services	5,930	8,113	-26.90%
Direct expenditures for the performed services	225	0	
Financial result of the performed services	5,706	8,113	-29.67%
Investment revenues	7,720	9,937	-22.30%
Capital profit from sale of investments	304,707	92,932	227.88%
Profit before taxation	136,690	41,582	228.72%

Table 29 - Balance sheet as on 31.12.2007

BALANCE SHEET	2007	2006	Change
	den.000	den.000	%
Assets			
Cash	4,857	20,456	-76.3%
Accounts receivables	689,289	859,989	-19.8%
Receivables for advances	2,802	6,493	-56.9%
Other receivables	372,106	289,342	28.6%
Reserves	107,297	100,927	6.3%
Over paid expenses (AVR)	3,209	5,639	-43.1%
Over paid taxes	0	23,931	-100.0%
Short-term financial investments	79,895	190	41949.8%
Current assets	1,259,455	1,306,967	-3.64%
Investments in affiliates and associate companies	203,697	233,055	-12.6%
Property, plant and equipment	987,280	983,078	0.4%
Current investments	79,344	36,548	117.1%
Financial investments	276,832	265,279	4.4%
Long- term assets	1,547,153	1,517,960	1.9%
TOTAL ASSETS	2,806,608	2,824,927	-0.6%
Liabilities			
Liabilities			
Accounts payable	504,305	470,009	7.3%
Accrued liabilities	305,091	340,970	-10.5%
Short –term liabilities	51,691	205,949	-74.9%
Payables for advances and PVR	1,889	1,780	6.2%
Taxes payable	16,786	167	9959.6%
Current liabilities	879,762	1,018,874	-13.7%
Long – term debt	259,532	540	47931.6%
Long –term liabilities	259,532	540	47931.6%
Total liabilities	1,139,293	1,019,414	11.8%
Capital			
Share capital	1,394,100	1,394,100	0.0%
Purchased own shares	-1,258	-1,258	0.0%
Accumulated income	7,492	16,955	-55.8%
(Loss)/Gain	117,703	40,885	187.9%
Reserves	80,231	80,231	0.0%
Fair value and other reserves	69,045	274,599	-74.9%
Total capital	1,667,315	1,805,512	-7.7%
TOTAL LIABILITIES	2,806,608	2,824,927	-0.6%

7. CORPORATE GOVERNANCE

7.1 Report on the compliance with the Book of regulations of the Macedonian Stock Exchange

Toplifikacija AD Skopje, company listed among the top gainers at the Macedonian Stock Exchange since 06.02.2007 undertook the obligation to comply its work and governance in accordance with the Book of regulations for corporate governance of joint stock companies listed at the Macedonian Stock Exchange.

Namely:

1. In the frame of the annual report for 2007 the company prepared a report with all the necessary information regarding the company's functioning and governance in compliance with the Book of rules for corporate governance of joint stock companies listed at the Macedonian Stock Exchange. The annual report for 2007 is published on the company's web page and the web page of the Macedonian Stock Exchange.
2. The company's Statute was not published on the web page in 2007 yet at the beginning of March 2008 it was published on the company's web page and on the Macedonian Stock Exchange web page.
3. The company held one ordinary annual Shareholders' Assembly and the principle not to assign legal representatives of the shareholder persons close to him was respected as stated in the Book of rules. Neither a representative of a Board member nor a member of the Supervisory committee was assigned as a legal representative of a shareholder. During last year no contracts were signed between the shareholders to restrict the transferability of shares or other rights of the shareholders.
4. When calling a Shareholders' Assembly last year the procedure was followed: the regulated procedure for announcing the Assembly, availability of the place where the meeting was held, announcing the information related to the agenda, announcing the presence and the manner of governing the Assembly.
5. There were no major decisions brought in 2007 that would affect the identity or character of the company
6. The company brought a Book of rules for business relationship on 28.11.2006 in order to regulate the employees' relations towards each other, the treatment of the consumers and company's business partners as well as the manner to establish open communication with the governing and supervisory bodies. The Book of rules has been fully implemented.
7. The company respects the transparency principles and the principle of publishing on time all the essential information and issues regarding the company's functioning. In 2007 22 announcements were made to the Macedonian Stock Exchange, 16 sensitive and 6 financial in accordance with the acts and regulation for listing on the Macedonian Stock Exchange. In 2008 the company brought a special internal act for the procedure of announcing the presence of the shareholders at the assembly as well as for the appropriate information exchange with all the shareholders and the public.
8. During 2007 the company established and realized an efficient control system in all the spheres of the company's functioning and there was neither interest of conflict nor misuse of the company's property. There was no misuse of the large business deals and deals with the interested parties in 2007.
9. The Board held 32 meeting during the year and all the significant segments of the company's functioning were reviewed such as the company's strategy and the risk factors and are stated in the report on the Board's operation. The Supervisory Committee held 9 meetings and all the significant segments of the company's functioning were reviewed and stated in the report on the Supervisory Committee's operation.
10. The Board and the Supervisory committee respected the transparency principle in the procedure of nominating and electing Board members and members of the Supervisory committee. In the following period and during the present members' mandate in governance and management a specific internal act will define the necessary characteristics and criteria for election of new members in the governance and management bodies. There is not a finance expert in the supervisory committee yet during the reviewing of all the financial reports and controls company's experts in this field are always involved;
11. During 2007 the president of the Supervisory committee took the responsibility for the appropriate functioning of the committee in accordance with his competence as defined in the internal act for Supervisory committee members operation.

12. The manager of the Sector for governance, working relations, personnel took the function internal legal consultant of the company;
13. The company does not have an audit committee, committee for benefits and bonuses and a committee for election and appointment. The tasks that these committees should carry out are undertaken by employees in the corresponding company's sectors and services of external collaborators, external experts, are used when needed.
14. The Board operated in 2007 taking into account the company's and shareholders' best interest taking as well as the interest of the involved parties.
15. The company's Board on several occasions discussed the risks for the company's functioning and during 2008 it was planned to bring a specific internal act to regulate this problems.
16. During 2008 in the work plan of the Board and the Supervisory committee the procedure for regulation of the conflict of interests between the company and the company and the Supervisory committee members was regulated even though this was already regulated by the Book of rules on the employees' conduct.

Four great deals were realized during 2007 in the company's functioning. The Board with the approval of the Supervisory committee approved the decision of undertaking the deals

7.2 Company's shareholding capital

In accordance with the Register of securities based in The Central Securities Depository, the shareholder's capital has the following features and structure, dated 31.12.2007:

➤ ISIN (International Securities Identifying Number) code:	TPLF
➤ Type of securities:	shares/ordinary
➤ Nominal value per share- EUR:	51.13
➤ Nominal value per share-MKD:	3.098
➤ Total amount of issued shares:	450.000
➤ Total value of the nominal capital-EUR:	23.008.500
➤ Total value of the nominal capital-MKD:	1.394.099.000
➤ Number of votes:	450.000
➤ Number of shareholders:	2.352

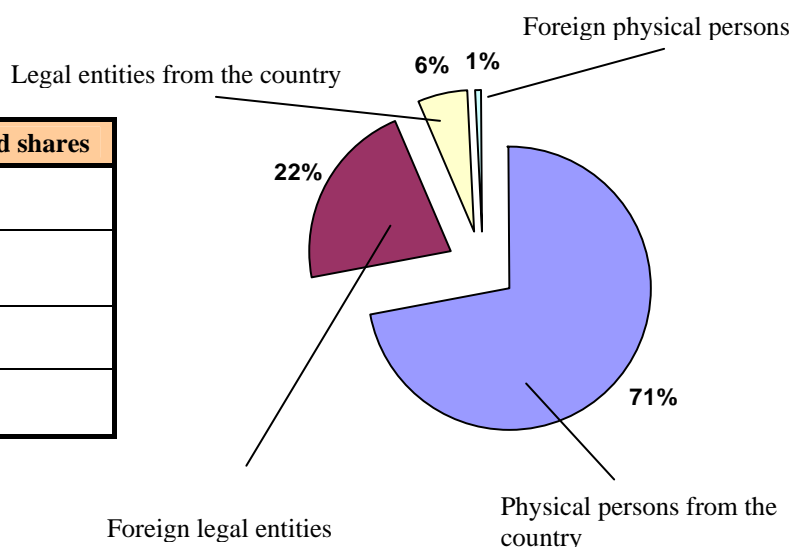
Toplifikacija A.D.Skopje participates in the value of the Macedonian Stock Exchange Index MBI-10 consisting of the shares of 10 (ten) Macedonian companies listed on the Macedonian Stock Exchange. The shares of these companies are among the most liquid and most traded shares

7.3 Ownership structure

Ownership's structure according to the number of possessed shares (31.12.2007)

Table 30

Category	Number of possessed shares
Physical persons from the country	324261
Foreign legal entities	97037
Legal entities from the country	25761
Foreign physical persons	2941



There were no significant changes of the ownership structure in 2007. The structure has changed in favour of the national shareholders with the increase of 1.7 %.

The only shareholder that possesses more than 5 % of the shareholding capital of Toplifikacija AD- Skopje is POTEZA, brokerage house with 17.83 % of the shareholding capital.

There was a change in favour of the physical persons as shareholders. Their participation in the shares' structure has increased for 1.6 %.

7.4 Stock broking of the shares of Toplifikacija AD Skopje

Table 31 - Key data of the stock broking of shares of Toplifikacija AD Skopje per months in 2007

Month	Average price	Max.	Min.	Opening price	Close price	Number of trades.	Value	Volume	Market capitalization
January	4,083	4,300	3,998	4,089	4,300	135	19,696,635	4824	1,837,372,668
February	4,563	5,000	4,160	4,300	4,898	224	34,271,574	7510	2,053,556,365
March	5,433	7,753	4,601	4,801	7,000	322	67,178,201	12364	2,445,017,021
April	7,372	9,252	5,990	6,600	9,252	402	62,969,154	8542	3,317,269,878
May	10,065	10,799	8,905	9,252	9,800	629	119,024,580	11826	4,529,093,607
June	9,604	10,090	8,628	9,800	8,700	230	37,300,116	3884	4,321,589,135
July	9,632	10,300	8,950	8,950	10,300	187	26,065,534	2706	4,334,623,171
August	14,491	18,949	10,400	10,400	18,701	520	115,548,233	7974	6,520,780,643
September	18,831	19,200	18,209	18,785	18,209	580	113,269,904	6015	8,474,057,656
October	17,647	19,000	14,700	18,362	14,700	370	77,435,610	4388	7,941,208,865
November	14,663	16,506	10,947	13,602	11,000	310	77,173,266	5263	6,598,512,198
December	12,837	13,850	10,947	10,947	13,800	195	27,123,607	2113	5,776,442,570
	10,768					4104	777,056,414	77409	4,845,793,648

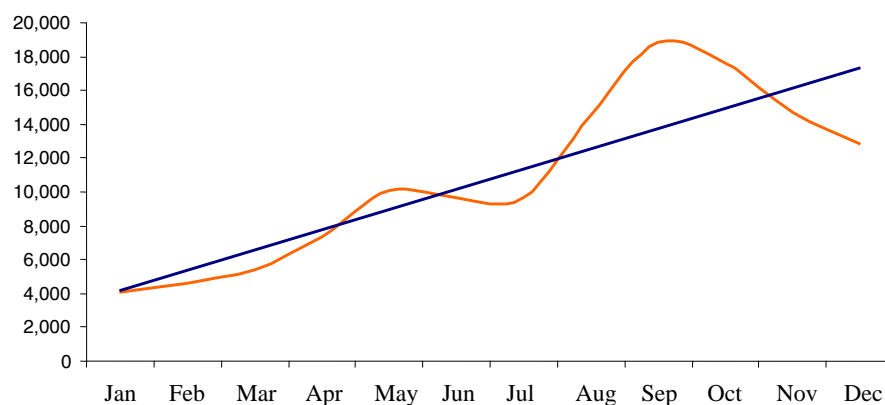
*Monthly bulletins 01-12 2007 Macedonian Stock Exchange & www.mse.org.mk

The average price of the share for 2007 was 10.768 MKD whereas the maximum market price was 19.105 MKD

Table 32 - Financial indicators

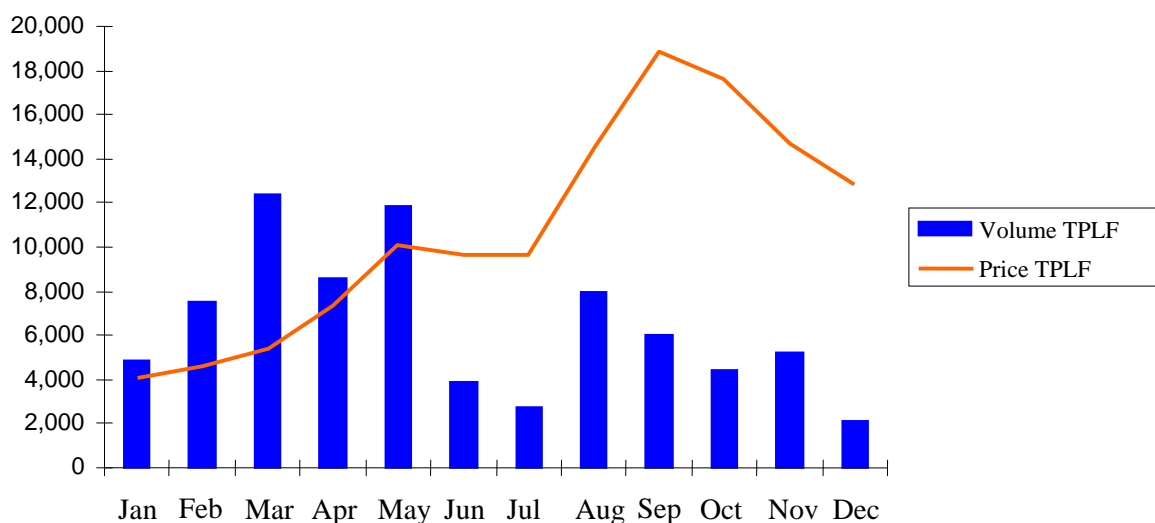
	2007	2006	Change %	2005	2004	2003
Earnings per share	261.56	90.86	187.87%	186.5	220.1	208.93
Book value per share	3707.94	4041.00	-8.24%	3805.00	3526.37	3661.69
P/E ratio	41.17	41.82	-1.55%	15.8	6.26	6.82
Price per share/book value per share	2.90	0.94	208.51%	0.77	0.39	0.39
Return on assets (ROA)	4.16%	1.47%	182.99%	3.53%	5.41%	4.58%
Return on equity (ROE)	6.51%	2.26%	188.05%	4.56%	6.16%	5.91%

Graphic display 15 – Stock market movement of the share price for 2007

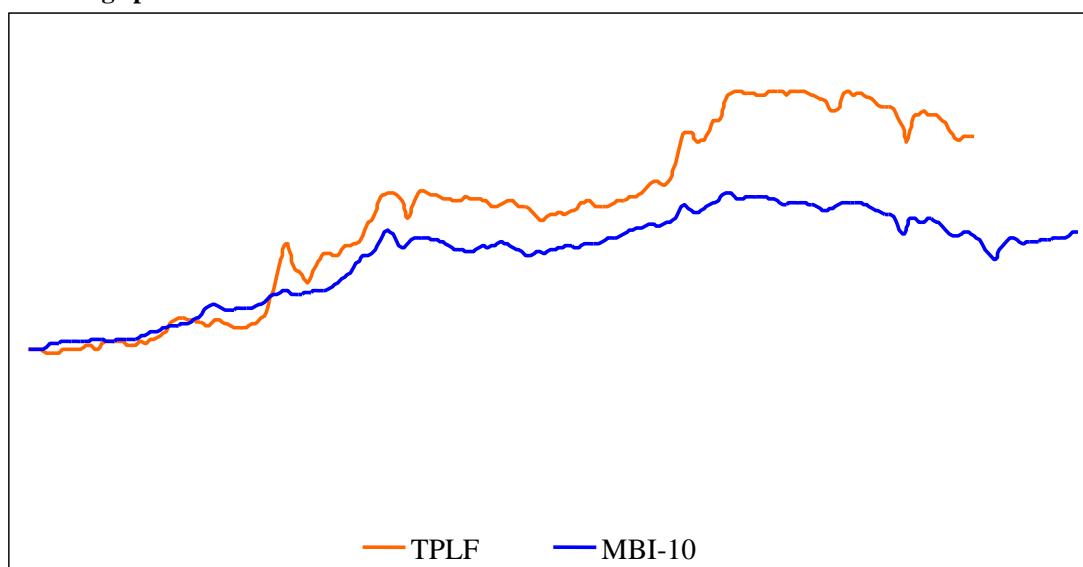


* The share price is taken as average price for the corresponding months according to the data published in the monthly bulletins issued by Macedonian Stock Exchange

Graphic display 16 - Attractiveness of the share price expressed through the volume of trade quantity in 2007



Graphic display 17-A comparative overview of the movement of the MBI-10 and the change of the average price share in 2007



7.5 Governance and management bodies

The management of the joint stock company is organized on a two – level system of managing in accordance with the regulations of the Commercial Code and by constituting the following governance bodies:

- The Shareholders' Assembly
- The Supervisory Committee
- The Board

The Assembly consists of the owners of the shareholding capital.

On the annual assembly held on 04.05.2007 the Shareholders' Assembly in accordance with the Commercial Code elected 5 members of the **Supervisory Committee**, one of them an independent member.



Kovacevski Zoran, Board president, economics technician, born in 1957



Sandrevski Ljupco, independent Board member, electrical engineer, born 1954



Popevska Kubin Elizabeta, Board member, electrical engineer, born 1958



Drobnak Miran, Board member, electrical engineer, born 1956



Skubin Gorazd, Board member, electrical engineer, born 1963

The Board members have received the following income, salary and bonuses for 2007 as presented in the Table n. 34

Table 34

No	Name and surname	Function	Income	
			Salary	Bonus
1	Zoran Kovacevski	Board president	324,223	88,000
2	Ljupco Sandrevski	Independent Board member	325,897	56,000
3	Elizabeta Kubin	Board member	306,772	78,000
4	Miran Drobnak	Board member	0	0
5	Gorazd Skubin	Board member	0	0

The Supervisory committee elected **7 Board members** at the meeting held on 27.04.2007.



PhD Dimitar Hadji Mishev, *Board president*, mechanical engineer, born 1954



Gjorgji Nineski, *Board member*, mechanical engineer, born 1953



Eftim Pocev, *Board member*, mechanical engineer, born 1954



Hristo Kirovski, *Board member*, mechanical engineer, born 1963



Dine Iliev, *Board member*, electrical engineer, born 1958



Sonja Boshkoska, *Board member*, lawyer, born 1958



Jovanche Chadievski, *Board member*, mechanical engineer, born 1955

The Board president governs the company; he represents the enterprise in dealings with third parties and makes decisions on issues in the field of labour relations.

The employees may exercise their rights and obligations in accordance with the collective agreement of the joint stock company.

The Board members have received the following annual income, salary and bonuses as presented in the Table n. 35

Table 35

No	Name and surname	Function	Income	
			Salary	Bonus
1	Dimitar Hadji Mishev	Board president	530,587	96,000
2	Gjorgji Nineski	Board member	454,459	96,000
3	Eftim Pocev	Board member	447,182	96,000
4	Hristo Kirovski	Board member	418,551	96,000
5	Dine Iliev	Board member	426,032	88,000
6	Sonja Boshkovska	Board member	319,778	96,000
7	Jovanche Chadievski	Board member	331,411	56,000

7.6 Report on the Board's operation

Thirty two Board meetings were held in 2007, 12 of which with the previous composition of the Board and 20 with the new Board members elected by the Supervisory committee of Toplifikacija AD Skopje at the meeting held on 04.05.2007.

Several aspects in the field of realization of the business policy were discussed as defined in the business plan for 2007. In its work the Board reviewed and brought:

- 378 decisions;
- 5 Book of rules;
- 5 regulations for altering and suppletion of the book of rules;
- 19 reports;
- 33 business trips reports, supply of basic assets and paid retirement benefits
- 26 employees' requests and requests from consumers of heat energy;
- requests for sponsorship, 59 accepted and the rest were refused

7.7 Report on the Supervisory committee's operation

The supervisory committee held 9 meeting in 2007, 2 of which with the previous composition of the Committee and 7 meetings with the new Board members elected at the Shareholder's Assembly held on 25.04.2007.

All the major aspects of realization of the business policy were discussed and 12 decisions were reviewed and brought.

7.8 Business deals and deals with the interested parties

In 2007 three great business deals were realized in the functioning of the company. The Board discussed the deals and brought decisions on the deals being previously approved by the Supervisory committee.

The following deals were realized:

- Undertaken lending limit in the amount of 7.500.000 EUR from Stopanska Banka AD Skopje;
- Undertaken short term credit in the amount of 4.100,000 EUR from Komercijalna Banka;
- Accepted loan from Bitar Holdings LTD in the amount of 14.000,000 EUR.

7.9 Managing the risks in the company's functioning

On the basis on the gained experience as well as the problems that are being faced in the everyday functioning due to external and internal factors the company has identified the following 7 risks:

- Organizational;
- Technological;
- Operating;
- External risk;
- Financial risk;
- Liquidity risk;
- System risk;

The Board discussed the risks the company is facing on several preparatory meetings and the stress was put on the following two dominant risks:

- Liquidity risk;
- System risk;

7.9.1 Liquidity risk

The company's liquidity risk could affect the regular and on time settling the obligations towards creditors, employees and shareholders. The liquidity risk could occur as a result of:

- Not fulfilling the quota in the part of collecting the payment of the invoiced realization;
- Inadequate and not approved on time heat energy price by the Energy Regulatory committee;
- Binding the financial assets in the main inputs of the company in other words fuels on short terms of realization

7.9.2 System risk

The Energy Regulatory committee determines the price of the heat energy in the field of distribution and supply in accordance with the price regulations which negatively affects the overall company's results.

The company considers that the influence of this system risk could be eliminated by:

- Liberalization of the heat energy market thus giving a possibility to the other legal entities to deal with the activities heat energy distribution and supply in accordance with the conditions determined by the regulatory body.
- Diversification of certain company's activities not affected by this risk factor

7.10 Policies and strategic objectives of the company in the coming period

The Board of Toplifikacija AD Skopje has defined three strategic objectives to overcome the problems that have appeared during the company's functioning.

1. Collecting payment of the service for delivering heat energy through measuring as well for the collective residential buildings;
2. Opening the market of heat energy;
3. Consistent implementation of the Policy for quality;

The details about the strategic objectives are presented on the web page of the company: www.toplif.com.mk