

**TOPLIFIKACIJA AD
SKOPJE**

**AUDITORS' REPORT
AND
FINANCIAL STATEMENTS
FOR THE YEAR
ENDED 31.DECEMBER 2005**

Skopje, April 2006

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**MACEDONIAN
AUDIT CENTER
LTD SKOPJE**

2005 Financial Statements

AUDITORS' REPORT

**TO
THE SHAREHOLDERS ASSEMBLY OF
TOPLIFIKACIJA AD SKOPJE**

According to your request, we have audited the 2005 financial statements of Toplifikacija AD - Skopje ("The Company"). The Income Statement, Balance Sheet, Cash Flow Statement, Statement of Changes in the Equity and the Notes to the financial statements are considered under financial statements.

The financial statements are responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We have conducted our audit in accordance to International Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examination, on a test basis, of the evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

As it is described in Statement of Changes in Equity, during 2005 the Company has made distribution of net profit for employees benefits in amount of 4,903 thousands denars (2004: 4,655 thousands denars). In our opinion, this distribution, does not comply with IAS 19, which requires the cost of profit-sharing (employees benefits) to be recognized as expense not as a distribution of the net profit.

In our opinion, except for the effects of the adjustments from the previous paragraph, the financial statements fairly present, in all material respects, the financial position of Toplifikacija AD Skopje as of December 31, 2005, and of the results of its operations, cash flows and its changes in equity for the year ended, in accordance with International Financial Reporting Standards which are accepted and published in the Republic of Macedonia.

Skopje, March 31, 2006

Certified Auditor

Antonio Veljanov

Director

Antonio Veljanov

TOPLIFIKACIJA AD - SKOPJE
INCOME STATEMENT

	Note	2005 Den.000	2004 Den.000
Revenues	4	1,499,787	1,337,699
Cost of sales	5	(1,003,116)	(721,423)
GROSS PROFIT		496,671	616,276
Other operating income	6	164,002	196,882
Employees expenses	7	(165,982)	(165,180)
other operating expenses	8	(384,271)	(448,314)
OPERATING PROFIT		110,420	199,664
Financing income	9	16,539	11,673
Financing expenses	10	(27,016)	(22,976)
PROFIT BEFORE TAXATION		99,943	188,361
Income tax	11	(16,642)	(26,508)
NET PROFIT FOR THE YEAR		83,301	161,853
Basic earnings per share (In denars)	12	186.00	369.40
Diluted earnings per share (In denars)	12	185.44	359.73

During April 2006, 2005 financial statements, accounting policies and the accompanied notes, are approved by the Board of Directors and recommended to the Shareholders Assembly.

For the Board of Directors
President

TOPLIFIKACIJA AD - SKOPJE
BALANCE SHEET

	Note	2005 Den.000	2004 Den.000
ASSETS			
Current assets			
Cash and cash equivalents	14	18,607	17,431
Trade receivables	15	800,080	634,342
Receivables for advances	16	10,100	1,549
Other current assets	17	55,439	8,815
Inventories	18	187,897	78,068
Total current assets		1,072,123	740,205
Non-current assets			
Investments in subsidiaries	19	249,430	249,430
Investments in associates	19	465	465
Investments available-for-sale	20	241,633	67,205
Investment in heating distribution network	22	123,926	91,073
Property, plant and equipment	21	879,536	881,596
Total non-current assets		1,494,990	1,289,769
TOTAL ASSETS		2,567,113	2,029,974
LIABILITIES AND EQUITY			
Current liabilities			
Trade payables	23	571,529	250,472
Payables for advances		6,247	5,221
Short term borrowings	24	128,113	75,571
Other short term liabilities and accrued expenses	25	103,347	110,311
Total current liabilities		809,236	441,575
Long-term borrowings	26	1,621	2,979
Long-term provisions		-	-
TOTAL LIABILITIES		810,857	444,554
Equity			
Shareholders capital		1,394,100	1,394,100
Treasury shares (-)		(1,242)	(1,242)
Reserves		67,736	53,026
Fair value and other reserves		166,644	(7,843)
Accumulated profit		129,018	147,379
TOTAL EQUITY		1,756,256	1,585,420
TOTAL LIABILITIES AND EQUITY		2,567,113	2,029,974

TOPLIFIKACIJA AD - SKOPJE
CASH FLOW STATEMENT

	Note	2005 Den.000	2004 Den.000
CASH FLOWS FROM OPERATING ACTIVITIES			
PROFIT/LOSS BEFORE TAXES		99,943	188,361
Adjustments for:			
Depreciation of Property, plant and equipment	21	64,854	68,944
Provision for bad and doubtful trade receivables	8	111,110	128,333
Interest expenses		25,565	21,767
Income and expenses from heating network agreement, net	6 and 8	(8,848)	(13,500)
Inventory shortages and surpluses, net	8	(7,356)	(5,986)
Dividend income		3,594	-
Income and expense from previous periods	9	(6,409)	(4,940)
Write off investments available-for-sale		59	-
		282,512	382,979
Trade receivables		(276,848)	(44,291)
Short term financial assets		(8,551)	(735)
Other short term assets and accrued expenses		(40,650)	2,996
Inventories		(102,473)	33,810
Trade payables		322,717	(117,393)
Payables for advances		1,026	(151)
Other short term liabilities and prepaid expenses		(5,066)	3,867
Net cash used in ordinary business		172,667	261,082
Paid interest		(25,565)	(21,767)
Paid profit tax		(28,922)	(21,521)
Net cash flows from operating activities		118,180	217,794
CASH FLOWS FROM INVESTING ACTIVITIES			
Disposal of available-for-sale investments		-	(465)
Acquisition of investments in associated companies		-	310
Proceeds from dividends	9	6,409	4,940
Additions in heating distribution network	22	(34,273)	(48,584)
Property, plant and equipment additions	21	(61,374)	(31,801)
Net cash flows from investing activities		(89,238)	(75,600)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from long term borrowings, net	24	52,542	(70,348)
Repayment of short-term borrowings, net	26	(1,358)	2,979
Acquired treasury shares		-	(1,242)
Paid dividends		(74,380)	(87,414)
Paid employees benefits from profit-sharing (rewards)		(4,570)	(4,655)
Net cash flows from financing activities		(27,766)	(160,680)
NET INCREASE (DECREASE) OF THE CASH FLOWS		1,176	(18,486)
Cash and cash equivalents at the beginning of the year	14	17,431	35,917
Cash and cash equivalents at the end of the year	14	18,607	17,431

Notes comprise integral part of the 2005 financial statements
Auditors report is on page 1.

TOPLIFIKACIJA AD - SKOPJE
STATEMENT OF CHANGES IN EQUITY

	Ordinary shares		Treasury shares		Priority shares		Reserves	Fair value	Accumulated profit	Total equity
	Number of shares	Den. 000	Number of shares	Den. 000	Number of shares	Den. 000				
Balance as at January 1, 2004	428,657	1,327,979	-	-	21,343	66,121	39,062	-	130,403	1,563,565
Adjustments to IFRS (Note 32)	-	-	-	-	-	-	-	(37,257)	(51,784)	(89,041)
Restated opening balance	428,657	1,327,979	-	-	21,343	66,121	39,062	(143,782)	46,155	1,335,535
Acquired treasury shares	-	-	(804)	(1,242)	-	-	-	-	-	(1,242)
Profit for the year	-	-	-	-	-	-	-	-	161,853	150,951
Transfer of accumulated profit to legal reserves	-	-	-	-	-	-	13,964	-	(13,964)	-
Distribution of accumulated profit to dividends	-	-	-	-	-	-	-	-	(74,474)	(74,474)
Fair value adjustments of the investments available-for-sale	-	-	-	-	-	-	-	29,414	-	29,414
Employees benefits from profit-sharing (rewards)	-	-	-	-	-	-	-	-	(4,655)	-
Balance as at December 31, 2004	428,657	1,327,979	(804)	(1,242)	21,343	66,121	53,026	(114,609)	108,909	1,440,184
Profit for the year	-	-	-	-	-	-	-	-	83,301	62,681
Transfer of accumulated profit to legal reserves	-	-	-	-	-	-	14,710	-	(14,710)	-
Distribution of accumulated profit to dividends	-	-	-	-	-	-	-	-	(78,455)	(78,455)
Employees benefits from profit-sharing (rewards)	-	-	-	-	-	-	-	-	(4,903)	-
Fair value adjustments of the investments available-for-sale	-	-	-	-	-	-	-	174,487	-	174,487
Expenses from previous years	-	-	-	-	-	-	-	-	(3,594)	(3,594)
Balance as at December 31, 2005	428,657	1,327,979	(804)	(1,242)	21,343	66,121	67,774	59,878	74,792	1,595,302

Notes comprise integral part of the 2005 financial statements
Auditors report is on page 1.

TOPLIFIKACIJA AD - SKOPJE
NOTES TO THE FINANCIAL STATEMENTS

1. Basic data

a) Foundation and ownership transformation

The company Toplifikacija AD - Skopje (The Company) was founded in 1965 by a Decision of the Municipality of the City of Skopje No.6223/1 from 01.07.1965, as a part of the Directorate for reconstruction and rebuild of the City of Skopje, named as Directorate for central heating of the City of Skopje.

In the meantime, the Directorate has been transformed to socially owned organization, than to shareholding company in mixed ownership and at the end of the transformation process to shareholding company in private property, according to the subsequent legislative changes.

During 1999, Toplifikacija AD Skopje has entered into a property transformation of the company, according to the Law for transformation of the enterprises with social capital, and has made the necessary reconciliation with the Law on trade companies.

The Company is filed in the trade register at the Primary Court Skopje I Skopje under No. 7826 from 05.10.1999. The Agency for privatization, after completion of the privatization of the social capital, has issued a Certificate No. 09-189/1 from 12.07.2000, certifying that, 70.39% of the equity are ordinary shares privatized by the employees, 24.87% are ordinary shares of the Agency for privatization and 4.74% are priority shares of the Fund for pension and disability insurance of the Republic of Macedonia.

b) Shareholders capital

The shareholders capital of the Company is comprised of 450,000 shares, authorized, issued and paid-in, with a par-value of 51.13 EUR, of which, 428,657 ordinary shares and 21,343 priority shares. The structure of the shareholding capital as at 31.December 2005 is as follows:

Type of shareholders	Ordinary shares	Priority shares	Total shares	%
1.Individuals and legal entities	427,853	-	427,853	95.08
2.Treasury shares	804	-	804	0.18
3.Pension Fund of RM	-	21,343	21,343	4.74
Total shares :	428,657	21,343	450,000	100.00
	%	95.26	4.74	100.00

The priority shares of the Pension Fund of RM are participative and convertible. The participative right allows the holders of these shares to participate in the distribution of the dividends alongside the holders of ordinary shares, if the dividend is higher than 2% on the nominal value of the priority shares, which is compulsory dividend for this priority shares, according to law. The convertibility right in the course of selling these shares allows compulsory, legal, conversion into ordinary shares, according to 1 : 1 rate.

TOPLIFIKACIJA AD - SKOPJE
NOTES TO THE FINANCIAL STATEMENTS

1. Basic data (Continued)

c) Activity

The basic activity of the Company is production and distribution of heating energy.

During 2005 and 2004 the activity is performed through heating plants "East"; "West" and "North", as well as the heating plant "11 October" in Skopje.

The heating plants "Vodno" and "Park" are put out of the technological exploitation, due to technical reasons, while the heating capacity planed for these was redirected towards the heating plant "West".

Distribution of heating energy to the consumers is carried out in accordance with the temperature diagram which is designed on the basis of movements in the outdoor temperatures in the Skopje geographic area during the heating season.

Other accompanied registered activities are determined in correlation with the basic activity, as follows: production and distribution of gas fuels; building and installation of heating and gasification capacities; different investment programs, studies, investment and technical documentation for steam-power capacities, heating and gasification networks; scientific research; system engineering in the area of steam-power techniques and energetic; production of software and other activities.

In the previous period the activities of Toplifikacija Group expanded in the field of internal and external trade.

d) Connected users to central heating facilities

During 2005 and 2004, the capacity of connected users to central heating facilities is as follows:

- lump payment

Households	31.12.2005	31.12.2004
Number of flats	47,875	47,042
Total space (m ²)	2,822,610	2,938,395
Capacity (MW)	356,298	349,422

Legal entities (schools and institutions)	31.12.2005	31.12.2004
Total space (m ²)	19,740	19,740
Capacity (MW)	2,508	2,508

Legal entities	31.12.2005	31.12.2004
Capacity (MW)	27,096	24,588

TOPLIFIKACIJA AD - SKOPJE
NOTES TO THE FINANCIAL STATEMENTS

1. Basic data (Continued)

e) Connected users to central heating facilities (Continued)

- measured payment

Households	31.12.2005	31.12.2004
Number of flats	2,010	1,841
Total space (m ²)	180,640	170,496
Capacity (MW)	27,072	27,072
<hr/>		
Legal entities	31.12.2005	31.12.2004
	Legal entities (enterprises)	
Capacity (MW)	111,891	112,431
	Legal entities (nursery's and institutions)	
Capacity (MW)	14,923	13,969
	Schools	
Capacity (MW)	16,106	16,450
	Total	
Capacity (MW)	555,894	546,440

Toplifikacija AD Skopje keeps two sets of records of the capacity of the connected users to central heating facilities: installed and registered. Registered capacity is calculated on the basis of consumption measurement during the heating season. Namely, a large portion of the consumers from the business sector and the households can regulate the consumption of heating energy, thus changing the demand for heating energy, compared to the installed value, calculated according to the engineering project of a specified building.

The development plans for the following period of Toplifikacija AD Skopje include completion of the project for installment of measuring devices at all consumers connected to the heating system.

TOPLIFIKACIJA AD - SKOPJE
NOTES TO THE FINANCIAL STATEMENTS

1. Basic data (Continued)

f) Services price list

The price list of services for distribution of heating energy in the area of Skopje performed by Toplifikacija AD - Skopje is as follows:

Price list date	1.03.2003-31.12.2005	
Tariffs	Units	Price in MKD
1. HOUSEHOLDS		
1.1. Lump payment		
1.1.1. For 12 months installments	m ²	23.50
1.1.2. For 6 months installments	m ²	47.00
1.2. Measured payment		
1.2.1. Heating power	MW	454,326.60
1.2.2. Delivered energy	MWh	1,511.80
2. LEGAL ENTITIES		
2.1. GENERAL TARIFFS		
2.1.1. Lump payment		
	MW	3,530,762.82
2.1.2. Measured payment		
2.1.2.1. Heating power	MW	616,115.57
2.1.2.2. Delivered energy	MWh	2,430.80
2.2. ELEMENTARY SCHOOLS		
2.1. Lump payment		
	MW	1,964,215.23
2.2. Measured payment		
2.2.1. Heating power	MW	462,593.48
2.2.2. Delivered energy	MWh	1,803.45

The price list is subject to previous procedure of agreement by the Energy Regulatory Commission of the Republic of Macedonia.

g) Management of Company

Management structure of the Company is comprised of 6 (six) sectors as follows:

- Bureau of Directors;
- Sector for development, projecting and investment;
- Sector for production of heating energy and maintenance;
- Sector for distribution of heating energy;
- Sector for economy and
- Sector for legal affairs.

The management of the Company is organized through two level system by Supervisory Board consist of 5 members and Board of Directors consist of 7 members.

The management of the Company is realized by the president of the Board of Directors whose responsibilities are:

- to represent the Company in the relations with other parties;
- to conduct the management team and
- to decide for the human resources policy.

TOPLIFIKACIJA AD - SKOPJE
NOTES TO THE FINANCIAL STATEMENTS

1. Basic data (Continued)

b) Employees

The total number of employees in Toplifikacija AD Skopje as at 31. December 2005 is as follows:

Sector:	2005 number	2004 number
Bureau of Directors	7	7
Sector for development, projecting and investment	12	11
Sector for production of heating energy and maintenance	111	113
Sector for distribution of heating energy	90	80
Sector for economy	78	82
Sector for legal affairs	54	56
Total	346	349

i) Contract for utilization of the heating distribution network

In the course of transformation, the heating distribution network was separated from the parent-company and transformed into government property, while the remaining equity of the parent-company was privatized.

The parent-company has entered into an agreement with the Agency for Privatization of RM, as a representative of the State, for utilization of the heating distribution network at an indefinite period of time, for a compensation fee.

The fix amount of the compensation fee, payable to the Government, is Denar counter-value of EUR 50,000. The parent-company, with the above-mentioned agreement, also obligated to pay additional compensation fee, equal to the annual depreciation of buildings and equipment of the heating distribution network, amounting to Denar counter-value of around 43,000 thousands denars. It is stipulated with the agreement that the parent-company shall pay to the Government the amount of the additional fee in excess of the amount invested in new capacities of the heating distribution network and of the amount of investment maintenance expenses of the heating distribution network.

The Agreement has no fix period of duration i.e. its validity is up to the moment of passing the law for the public utility infrastructure.

2. Basis for Preparation of the Financial Statements

a) Basis for preparation of the financial statements

The financial statements shown on pages 2 to 30 are prepared in accordance with the International Accounting Standards (IAS) which were published in the Official gazette of the Republic of Macedonia No.94/2004 and become effective from 1 January 2005, as well as the International Financial Reporting Standard (IFRS) 1 and Interpretations issued by the IFRS Interpretations Committee which were published in the Official gazette of the Republic of Macedonia No.11/2005 and the IFRS 2,3,4,5,6 and 7 which were published in the Official gazette of the Republic of Macedonia No.116/2005.

The Company has prepared the financial statements in accordance with IFRS for the first time. The disclosures required by IFRS 1 concerning the transition from local regulations to IFRS are given in note 32.

The financial statements were prepared for the period ending 31.Decemember 2005 and 2004. The figures for the current and the previous period are shown in thousand of Macedonian denars, if not otherwise stated. Certain adjustments and reclassifications of the balances for the previous year are made in order to adapt them for presentation in the current year.

b) Accounting methods

The financial statements have been stated on the historical cost basis, except for the Property, Plant and Equipment (PPE), which have been adjusted by revaluing the historical cost with the unified coefficient of producer's price increase index, published by the State statistics administration (note 3(i)) and for the trade receivables and investments available-for-sale which have been presented at their objective value.

The effect of revaluation is the revaluation reserve, shown in the balance sheet as part of the equity. Until 2001 the revaluation reserve was appropriately distributed to the shareholders capital, legal reserves and accumulated profit, while beginning 2002 the revaluation reserve is recorded separately in the equity.

3. Principal Accounting Policies and Estimates

a) Sales revenues

Sales revenues are stated at the moment of distribution of heating energy to connected consumers, at invoiced value, decreased for VAT, discounts. Sales revenues are recognized as they arise, when significant risks and rewards associated to the sale have been transferred to the buyer and the amount can be reliably measured.

b) Cost of sales

Cost of sales represent all material costs arising during 2005, directly connected to sales revenues and are consisted of costs for fuel oil, gas, electricity and water.

3. Principal Accounting Policies and Estimates

c) Other operating income

Other operating income during 2005 is stated at invoiced value, decreased for VAT and discounts.

d) General and administrative expenses

General and administrative expenses are consisted of all costs arising during the year, which are not directly connected to sales and income from additional activities and are recognized as they arise.

e) Financing income

Financing income, which are calculated during the year, are shown as revenues, independent from their collection. They are consisted of income from available-for-sale investments, interest revenues and gains on exchange.

Interest revenues are recognized on a time proportion basis, taking into account the effective yield on the asset. Dividends are recognized when the right to receive payment is established.

f) Financing expenses

Financing expenses, which are calculated during the year, are shown as expenses, independent from their payment. They are consisting of interest expenses, losses on exchange and other expenses.

Interest expenses are recognized on a time proportion basis.

g) Income tax

Taxes from income are calculated according to the regulations of the Republic of Macedonia. The income tax is calculated on the basis of income before taxes, adjusted for certain revenues and expenses, according to law. The nominal tax rate is 15%.

The calculation of the income tax is set in Note 11.

b) Gains/losses from translation of foreign currency

At the balance sheet date, all the foreign receivables and payables are translated into denars using the ruling exchange rate on the date of the balance sheet.

Gain or losses arising from such translation are recognized in the Income statement as financing income or expenses for the appropriate period.

Foreign currency exchange rates ruling at December 31 are as follows:

	2005	2004
31 December 1 EUR	61.1779 den.	61.3100 den.
31 December 1 USD	51.8589 den.	45.0676 den.

3. Principal Accounting Policies and Estimates (Continued)

i) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the financial statements, cash and cash equivalents comprise of cash in hand and deposits held at call with banks.

j) Trade receivables

1) Basic presentation

Trade receivables include all invoiced but uncollected receivables from the distribution of heating energy. Trade receivables are recognized at their recoverable amount i.e. at cost less for any impairment losses for all bad and doubtful receivables.

Full (100%) provision was made at 31st December 2005 and recorded as other expenses, for all receivables which are considered to be uncollectible and which have been brought to court i.e. with maturity over 12 months for households and maturity over 36 months for legal entities.

50% provision from the nominal value of the receivables from legal entities with maturity from 12 to 36 months is recorded as expenses.

2) Changes in accounting estimate for receivables provision

During 2005, the Company has changed its accounting estimate for trade receivables collection from legal entities which have maturity from 12 to 36 months, by which 50% provision from its nominal value is recorded, compare to the previous years when no provision was made for these receivables.

The amount of the change in the accounting estimate is more recorded expenses in amount of 36,620 thousands denars in 2005, compare to the estimate used for the previous year financial statements.

The effects of the change in the accounting estimate is presented in profit or loss for the current period and not retrospective according to the alternative treatment from IAS 8 – Profit and loss for the period, basic errors and changes in accounting policy.

k) Inventories

Inventories are valued at the lower of cost and net realizable value. Cost includes all expenses for bringing the inventories to their present condition and location. Net realizable value is selling price less cost to complete the inventory and sell it.

The cost of inventory is recognized as an expense in the period in which the related revenue is recognized, calculated under the average price method. The write down of inventories is charged to expenses.

3. Principal Accounting Policies and Estimates (Continued)

l) Investments in subsidiaries and associates

Investments in subsidiaries and associates in the Company's Financial Statements are stated at cost. Subsidiaries are defined as a companies controlled by another enterprise, which means control of the voting power (over 50%) of those companies. Associates are defined as companies, other than a subsidiary or joint venture, over which the investor has significant influence (20% to 50%).

m) Available-for-sale investments

Available-for-sale investments are consisted of investments into long-term equity securities of financial and non-financial legal entities. Investments intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, are classified as available-for-sale investments. These are included in non-current assets.

Initially, investments are valued at cost, including transaction costs. Subsequently, investments are stated at their fair value that is their market value. Unrealized gains and losses arising from changes in the fair value of available-for-sale investments are recorded in shareholder's equity as fair value and other reserves, until the investment is sold at which time the unrealized gain or loss previous reported in the equity is included in net profit or loss.

All investments in securities of the Company as at 31.December 2005 are considered as investments available-for-sale.

n) Property, plant and equipment (PPE)

Initially, PPE are recorded at their cost. Cost represents the prices billed up by suppliers including all costs incurred for bringing new assets into use. Assets are recorded as PPE if their useful life is over one year and separate cost is over 300 EUR.

The fair value of the property, plant and equipment was established by revaluation from individual experts, in amount of their market value. The last revaluation was done at 31.December 1998 and it was recorded in the Company's accounts in 1999.

Subsequently, PPE were revalued at the end of 1999 and 2000 year by applying the legal unified coefficient of producer's price increase index, published by the State statistics administration on their cost and accumulated depreciation. The applied revaluation coefficient for 1999 and 2000 were 0.079 and 0.042, respectively.

The effect of revaluation is the revaluation reserve, shown in the balance sheet as part of the equity. Until 2001 the revaluation reserve was appropriately distributed to the shareholders capital, legal reserves and accumulated profit, while beginning 2002 the revaluation reserve is recorded separately in the equity. The applied revaluation coefficient for 2005 and 2004 were 0.040 and 0.011, respectively.

TOPLIFIKACIJA AD - SKOPJE
NOTES TO THE FINANCIAL STATEMENTS

3. Principal Accounting Policies and Estimates (Continued)

n) Property, plant and equipment (PPE) - Continued

According to paragraph 17 (b) from the published IFRS 1 – First time adoption of the IFRS, the Company elect to use the depreciated cost, adjusted for changes in a general or specific price index (the legal revaluation coefficient) as deemed cost at the date of the revaluation.

Maintenance and repairs are charged to income as incurred. Cost relating to reconstruction and improvements that change the capacity or the purpose of the fixed assets are added to the value of the fixed assets.

In case of disposals of the PPE, the carrying amount is recognized as other expenses. Research costs are recognized as expenses as they arise.

The company determined the useful life at rates which are not higher than the minimal rates for depreciation, prescribed by Macedonian law. Depreciation method is according to the constant method.

The basic depreciation rates in use are:

	Depreciation rates	
	2005	2004
Property	2-8 %	2-8 %
Plant and equipment	5-15 %	5-15 %
Furniture	10-20 %	10-20 %
Vehicles	16 %	16 %

o) Trade payables

Trade payables are stated at their invoiced value.

Trade payables are written off by crediting other revenues, after the expiration of the legal maturity period or by off-court agreement between parties.

p) Borrowings

Borrowing liabilities represent short term and long term borrowings stated at their nominal value. The amounts of the interest agreed are shown as other expenses in the income statement and as other liabilities in the balance sheet. Foreign loan liabilities are stated at the exchange rate at 31st December, and losses or gains of exchange are stated as other revenues or expenses.

q) Contributions for pension insurance of employees and liabilities for termination of employment

The Company calculates and pays pension insurance contributions of its employees according to the domestic legislation. The contributions, based on the employee's salaries are paid in the domestic National Fund. The Company has no additional liabilities.

3. Principal Accounting Policies and Estimates (Continued)

q) Contributions for pension insurance of employees and liabilities for termination of employment (Continued)

Also, the Company is obliged to pay benefit in amount of two months salary to all its employees who are retiring in the moment of retirement. The Company has made no provision for these liabilities as the amount is not significant for the financial statements.

r) Equity

1) Shareholders' capital

The Company's shareholders' capital is comprised of initially paid-in funds from the shareholders. Shareholders' capital is recognized at the nominal (par) value of the issued shares (ordinary and priority).

The uncovered loss can be charged to shareholders' capital for the amount which is in excess of the reserves.

2) Treasury shares

The shares issued and owned by the Group are considered as treasury shares. They are recognized at cost and are presented as decrease in the Group's equity.

3) Legal reserves

Legal reserves are formed from the profit and in accordance with the regulations as well as by distributing the revaluation reserves, and can be used for covering losses. Under the local statutory legislation, the Group is required to set aside a minimum of 15% of its year net-profit in the reserves, but not more than 20% of the Group's shareholders' capital. As long as these reserves do not exceed 20% of the Group's shareholders' capital, they can be used for covering losses. If they exceed 20% of the Group's shareholders' capital, they can be used for dividends only after a decision of the Shareholders' Assembly.

4) Revaluation reserves

Revaluation reserves are founded from revaluation of the property, plant and equipment as set forth in note 2 and 3(n). According to the Macedonian legislation the revaluation reserve is recorded in the Company's equity. These reserves are not subject to distribution.

TOPLIFIKACIJA AD - SKOPJE
NOTES TO THE FINANCIAL STATEMENTS

4. REVENUES

	2005 <u>Den. 000</u>	2004 <u>Den. 000</u>
Revenues from heating to citizens, owners of flats and households	887,960	845,903
Revenues from heating to legal entities in the private and public sector	610,340	490,599
Revenues from services (connection or disconnection to the heating system)	1,487	1,197
Total revenues	<u>1,499,787</u>	<u>1,337,699</u>

5. COST OF SALES

	2005 <u>Den. 000</u>	2004 <u>Den. 000</u>
Cost of fuel oil	927,064	647,383
Cost of gas	19,176	20,639
Cost of electricity	51,882	49,038
Cost of water	4,994	4,363
Total cos of sales	<u>1,003,116</u>	<u>721,423</u>

6. OSTANATI OPERATIVNI PRIHODI

	2005 <u>Den. 000</u>	2004 <u>Den. 000</u>
Income from sales to related parties (Note 28)	42,722	36,982
Income from services	9,982	32,449
Renting income	1,381	3,256
Income from sales of fuel oil to other companies	1,020	32,030
Income from sales of measurement devices	10,110	7,527
Income from sales of materials and spare parts	5,325	3,663
Income from surpluses	7,502	9,116
	52,128	56,780
Income from collected bad receivables	9,797	-
Other income	24,035	15,079
Total	<u>164,002</u>	<u>196,882</u>

TOPLIFIKACIJA AD - SKOPJE
NOTES TO THE FINANCIAL STATEMENTS

7. EMPLOYEES EXEPNSES

	2005	2004
	<u>Den. 000</u>	<u>Den. 000</u>
Gross wages of employees	132,628	134,510
Per diems	1,027	1,403
Expenses for holiday bonuses	4,538	4,248
Expenses for employees stimulation	373	176
Expenses for employees transportation	7,225	7,014
Expenses for employees nutrition	12,694	12,525
Expenses for termination of employment	600	366
Expenses for rewards to employees	6,897	4,938
Total	<u>165,982</u>	<u>165,180</u>

8. OTHER OPERATING EXPENSES

	2005	2004
	<u>Den. 000</u>	<u>Den. 000</u>
Cost of materials and spare parts sold	53,955	82,529
Depreciation	64,854	68,944
Provision for bad and doubtful receivables	61,158	109,622
Write off receivables	49,952	18,711
Compensation for utilization of the heating distribution network (Note 1h)	43,280	43,280
Compensation for utilization of the heating distribution network (Note 1h)	3,121	3,154
Raw materials for current maintenance	5,888	6,644
Spare parts	9,247	11,382
Services for current maintenance	6,183	7,061
Services for investment maintenance	10,282	9,979
Promotion, advertizing and donations expenses	1,674	1,014
Insurance premium	4,757	4,615
Banks fee for services	3,801	6,191
Shortages	146	3,130
Other	65,973	72,058
Total	<u>384,271</u>	<u>448,314</u>

TOPLIFIKACIJA AD - SKOPJE
NOTES TO THE FINANCIAL STATEMENTS

9. FINANCING INCOME

	2005 <u>Den. 000</u>	2004 <u>Den. 000</u>
Dividend income	6,409	4,940
Interest income from business customers	1,194	3,159
Interest income from households	7,362	3,259
Other interest income	45	51
Gains on exchange	1,529	264
Total financing income	<u>16,539</u>	<u>11,673</u>

10. FINANCING EXPENSES

	2005 <u>Den. 000</u>	2004 <u>Den. 000</u>
Interest expenses from borrowings	6,051	5,912
Interest expenses from suppliers	19,260	14,393
Other interest	254	1,462
Loss on exchange	1,451	1,209
Total financing expenses	<u>27,016</u>	<u>22,976</u>

11. INCOME TAX

The adjustment of the profit tax calculated with profit tax rate according to Macedonian regulations with the profit tax calculated using the effective tax rate of the Company for the years ending December, 31 2005 and 2004 is as follows:

	2005 <u>Den. 000</u>	2004 <u>Den. 000</u>
Profit before taxation	<u>99,943</u>	<u>188,361</u>
Non-deductible expenses	121,310	61,559
Tax exempt revenues and investments in PPE	(75,599)	(73,201)
tax base	<u>145,654</u>	<u>176,719</u>
Calculated income tax	<u>21,848</u>	<u>26,508</u>
Other relief's (listed company)	(5,206)	-
Income tax in income statement	<u>16,642</u>	<u>26,508</u>
Effective tax rate	<u>16.65%</u>	<u>14.07%</u>

The liabilities for profit tax of the Company are based on the submitted tax reports to the tax authorities, and are considered final after they are controlled by the tax authorities or after the expiration of a ten year period from the year of their submission to the tax authorities. As at 31.December 2005, there has been no tax control by the authorities.

TOPLIFIKACIJA AD - SKOPJE
NOTES TO THE FINANCIAL STATEMENTS

12. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the net profit attributable to shareholders, decreased for the priority shares dividends, by the weighted average number of issued ordinary shares during the year.

According to the Central Securities Depository (CSD) statement as at December, 31 2005, The Company owns 804 treasury shares purchased in November of 2004.

	<u>2005</u>	<u>2004</u>
Net profit attributable to shareholders (Den.000)	83,301	161,853
Priority shares dividends (Den.000)	(3,721)	(3,532)
Adjusted net income (Den.000)	79,580	158,321
Weighted average number of ordinary shares in issue	427,853	428,590
Basic earnings per share (Denars per share)	186.00	369.40

Diluted earnings per share is calculated as the Company has issued 21,343 participative, convertible priority shares which leads to necessary corrections to the numerator and denominator of the basic earnings per share.

The convertible priority shares is assumed to have been converted into ordinary shares and the net income attributable to the shareholders is adjusted for the priority shares dividends.

Also, the weighted average number of ordinary shares in issue is adjusted for the weighted average number of the convertible priority shares.

	<u>2005</u>	<u>2004</u>
Net profit attributable to shareholders (Den.000)	83,301	161,853
Weighted average number of ordinary shares in issue	427,853	428,590
Weighted average number of convertible priority shares	21,343	21,343
Adjusted weighted average number of ordinary shares in issue	449,196	449,933
Anti-diluted earnings per share (Denars per share)	185.44	359.73

13. DIVIDENDS PER SHARE

At the Annual Shareholders Assembly of Toplifikacija AD Skopje for 2005, which has been appointed for April 2006, an ordinary shares dividend in amount of 157.63 Denars per share amounting to a total dividend of 67,442 thousands of Denars is to be proposed. These financial statements do not reflect this dividend payable, which will be accounted for in the Statement of changes in equity in the year ending 31 December 2005. The dividends for ordinary shares declared in 2005 are 74,734 thousand denars or 174.35 denars per share.

TOPLIFIKACIJA AD - SKOPJE
NOTES TO THE FINANCIAL STATEMENTS

14. CASH AND CASH EQUIVALENTS

	2005	2004
	<u>Den. 000</u>	<u>Den. 000</u>
Denar accounts at domestic banks	10,437	7,890
Cash in hand	8,123	9,331
Foreign currency accounts at domestic banks	-	142
Foreign currency cash in hand	47	68
Other	-	-
Total cash and cash equivalents	<u>18,607</u>	<u>17,431</u>

15. TRADE RECEIVABLES

	2005	2004
	<u>Den. 000</u>	<u>Den. 000</u>
Domestic receivables - legal entities users	430,285	295,707
Receivables from related parties (Note 28)	89,639	73,652
Bad and doubtful domestic receivables - legal entities users	<u>220,945</u>	<u>216,717</u>
	740,869	586,076
Provision for bad and doubtful domestic receivables - legal entities users	<u>(220,945)</u>	<u>(216,717)</u>
Total receivables from legal entities users	<u>519,924</u>	<u>369,359</u>
Domestic receivables - households users	280,156	260,983
Bad and doubtful domestic receivables - households users	<u>357,964</u>	<u>314,791</u>
	638,120	575,774
Provision for bad and doubtful domestic receivables - households users	<u>(357,964)</u>	<u>(310,791)</u>
Total receivables from households users	<u>280,156</u>	<u>264,983</u>
Total net trade receivables	<u>800,080</u>	<u>634,342</u>

15.1. OBSOLESCE OF RECEIVABLES FROM LEGAL ENTITIES USERS

	2005	2004
	<u>Den. 000</u>	<u>Den. 000</u>
Over 36 months	184,325	34,018
From 24 to 36 months	21,467	22,622
From 12 to 24 months	70,806	85,499
Up to 12 months	<u>464,271</u>	<u>443,937</u>
Total receivables from legal entities users	<u>740,869</u>	<u>586,076</u>

TOPLIFIKACIJA AD - SKOPJE
NOTES TO THE FINANCIAL STATEMENTS

15.2. OBSOLESCE OF RECEIVABLES FROM HOUSEHOLDS USERS

	2005 <u>Den. 000</u>	2004 <u>Den. 000</u>
Over 36 months	129,177	147,348
From 24 to 36 months	81,392	42,293
From 12 to 24 months	147,395	125,150
Up to 12 months	280,156	260,983
Total receivables from households users	638,120	575,774

15.3. RECEIVABLES FROM LEGAL ENTITIES USERS MOVEMENT

	2005 <u>Den. 000</u>	2004 <u>Den. 000</u>
Balance as at 1 January	369,359	472,788
New receivables during the period (including VAT)	823,546	708,628
Collected receivables for delivered heating energy	(613,525)	(722,996)
Write off receivables	(45,431)	(17,018)
Transfer to bad and doubtful receivables	(14,025)	(72,043)
Balance as at 31 December	519,924	369,359
Balance of bad and doubtful receivables as at 1 January	216,717	144,674
New bad and doubtful receivables	14,025	72,043
Collected bad and doubtful receivables	(9,797)	-
Bad and doubtful receivables as at 31 December	220,945	216,717

15.4. RECEIVABLES FROM HOUSEHOLDS USERS MOVEMENT

	2005 <u>Den. 000</u>	2004 <u>Den. 000</u>
Balance as at 1 January	260,983	238,110
New receivables during the period (including VAT)	1,056,933	1,003,902
Collected receivables for delivered heating energy	(986,106)	(941,757)
Write off receivables	(4,521)	(1,693)
Transfer to bad and doubtful receivables	(47,133)	(37,579)
Balance as at 31 December	280,156	260,983
Balance of bad and doubtful receivables as at 1 January	314,791	277,212
New bad and doubtful receivables	47,133	37,579
Adjustment from previous years	(3,960)	-
Collected bad and doubtful receivables	-	-
Bad and doubtful receivables as at 31 December	357,964	314,791

16. RECEIVABLES FOR ADVANCES

	2005 <u>Den. 000</u>	2004 <u>Den. 000</u>
Advances to related parties (Note 28)	1,332	482
Advances for purchase of materials	8,768	1,067
Total	10,100	1,549

TOPLIFIKACIJA AD - SKOPJE
NOTES TO THE FINANCIAL STATEMENTS

17. OTHER CURRENT ASSETS

	2005 <u>Den. 000</u>	2004 <u>Den. 000</u>
Receivables from government for over paid VAT	33,916	-
Receivables from government for over paid income tax	5,974	-
Loans	-	548
Receivables from employees	2,410	3,267
Receivables from damage compensation	5,000	5,000
Prepaid expenses	8,139	-
Total short-term assets and accrued expenses	<u>55,439</u>	<u>8,815</u>

18. INVENTORIES

	2005 <u>Den. 000</u>	2004 <u>Den. 000</u>
Fuel oil inventory	132,448	28,281
Raw materials	8,415	8,182
Spare parts	45,161	39,643
Small inventory	13,643	12,226
Provision of inventories	(11,770)	(10,264)
Total inventories	<u>187,897</u>	<u>78,068</u>

19. INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES

	<u>Activity</u>	<u>% of participation</u>	2005 <u>Den. 000</u>	2004 <u>Den. 000</u>
Investments in subsidiaries:				
Skopje Sever AD Skopje	heating	99.74%	240,227	240,227
Toplifikacija DOO Bitola	heating	98.34%	9,203	9,203
Total			<u>249,430</u>	<u>249,430</u>
Investments in associates:				
TE-TO Skopje	Production of electricity	30%	465	465
Total			<u>465</u>	<u>465</u>
Total			<u>249,895</u>	<u>249,895</u>

20. INVESTMENTS AVAILABLE-FOR-SALE

	2005 <u>Den. 000</u>	2004 <u>Den. 000</u>
Shares in:		
Komercijalna bank AD Skopje	235,993	61,506
Balkanska bank AD Skopje	5,000	5,000
Gazela in bankruptcy Skopje	321	321
Sileks bank AD Skopje	319	319
Nokateks AD Veles	-	43
Hemteks AD Skopje	-	16
Total	<u>241,633</u>	<u>67,205</u>

Investment in shares issued by Komercijalna Bank AD Skopje is adjusted to the last quoted price of these shares on the active market (Macedonian Stock Exchange). Other investments in shares have been presented at cost as there is no active market for it. After the balance sheet date, part of the shares in Komercijalna bank were pledged as security for the borrowing agreement with Stopanska Bank AD Skopje (Note 31: Post balance sheet events).

TOPLIFIKACIJA AD - SKOPJE
NOTES TO THE FINANCIAL STATEMENTS

21. PROPERTY, PLANT AND EQUIPMENT

	Property Den.000	Plant Den.000	Equipment Den.000	Other Den.000	PPE in progress Den.000	Total Den.000
Cost						
Balance as at 1.January 2004	391,116	692,892	145,050	336	25	1,229,419
Additions	495	7,576	11,292	-	12,581	31,944
Transfer from PPE in progress	19	2,419	334	-	(2,772)	-
Disposals	(59)	(37)	(1,755)	-	-	(1,851)
Balance as at 31.December 2004	391,571	702,850	154,921	336	9,834	1,259,512
Accumulated depreciation						
Balance as at 1.January 2004	38,780	187,214	86,513	-	-	312,507
Depreciation for the year	7,904	38,760	20,453	-	-	67,117
Disposals	(1)	(2)	(1,705)	-	-	(1,708)
Balance as at 31.December 2004	46,683	225,972	105,261	-	-	377,916
Carrying amount as at:						
31.12.2004	344,888	476,878	49,660	336	9,834	881,596
31.12.2003	352,336	505,678	58,537	336	25	916,912
Cost						
Balance as at 1.January 2005	391,571	702,850	154,921	336	9,834	1,259,512
Additions	5,309	13,812	11,344	-	35,837	66,302
Transfer from PPE in progress	-	21,458	-	-	(21,458)	-
Disposals	-	(542)	(27,592)	-	-	(28,134)
Balance as at 31.December 2005	396,880	737,578	138,673	336	24,213	1,297,680
Accumulated depreciation						
Balance as at 1.January 2005	46,683	225,972	105,261	-	-	377,916
Depreciation for the year	9,803	38,060	15,571	-	-	63,434
Disposals	-	(170)	(23,036)	-	-	(23,206)
Balance as at 31.December 2005	56,486	263,862	97,796	-	-	418,144
Carrying amount as at:						
31.12.2005	340,394	473,716	40,877	336	24,213	879,536
31.12.2004	344,888	476,878	49,660	336	9,834	881,596

As at 31.December 2005, the Company has no property, plant and equipment pledged as security for its liabilities, except for those after the balance sheet date (See: Note 32 Post balance sheet events). The carrying amount as at 31.Decemembr 2005 of the equipment under mortgage in favor of Stopanska Bank AD Skopje is in amount of 156,237 thousands denars.

TOPLIFIKACIJA AD - SKOPJE
NOTES TO THE FINANCIAL STATEMENTS

22. INVESTMENTS IN HEATING DISTRIBUTION NETWORK

a) changes in 2004

	Property Den.000	Plant Den.000	Equipment Den.000	Total Den.000
Cost				
Balance as at 1.January 2004	17,103	25,346	3,424	45,873
Additions	18,053	24,674	5,857	48,584
Balance as at 31.December 2004	<u>35,156</u>	<u>50,020</u>	<u>9,281</u>	<u>94,457</u>
Accumulated depreciation				
Balance as at 1.January 2004	234	1,122	201	1,557
Depreciation for the year	342	1,216	269	1,827
Balance as at 31.December 2004	<u>576</u>	<u>2,338</u>	<u>470</u>	<u>3,384</u>
Carrying amount as at:				
31.12.2004	<u>34,580</u>	<u>47,682</u>	<u>8,811</u>	<u>91,073</u>
31.12.2003	<u>16,869</u>	<u>24,224</u>	<u>3,223</u>	<u>44,316</u>

a) changes in 2005

Cost				
Balance as at 1.January 2005	35,156	50,020	9,281	94,457
Additions	11,355	12,642	10,276	34,273
Balance as at 31.December 2005	<u>46,511</u>	<u>62,662</u>	<u>19,557</u>	<u>128,730</u>
Accumulated depreciation				
Balance as at 1.January 2005	576	2,338	470	3,384
Depreciation for the year	879	234	307	1,420
Balance as at 31.December 2005	<u>1,455</u>	<u>2,572</u>	<u>777</u>	<u>4,804</u>
Carrying amount as at:				
31.12.2005	<u>45,056</u>	<u>60,090</u>	<u>18,780</u>	<u>123,926</u>
31.12.2004	<u>34,580</u>	<u>47,682</u>	<u>8,811</u>	<u>91,073</u>

TOPLIFIKACIJA AD - SKOPJE
NOTES TO THE FINANCIAL STATEMENTS

23. TRADE PAYABLES

	2005 <u>Den. 000</u>	2004 <u>Den. 000</u>
Domestic trade payables for purchasing of fuel oil, natural gas, electricity and water	543,573	224,761
Payables to government for utilization of the heating distribution network	-	6,908
Other domestic trade payables	26,647	17,824
Foreign trade payables	288	245
Trade payables for commission and consignment sales	-	-
Trade payables to related parties	1,021	734
Total trade payables	<u>571,529</u>	<u>250,472</u>

23.1. PAYABLES TO GOVERNMENT FOR UTILIZATION OF THE HEATING DISTRIBUTION NETWORK

	2005 <u>Den. 000</u>	2004 <u>Den. 000</u>
Balance as at 1.January	6,908	22,956
Fix compensation in amount of EURO 50,000	3,121	3,706
Compensation as a counter value of the calculated depreciation of the heating distribution network	43,280	43,280
Reversed liabilities for fix compensations for 2002 and 2003 without VAT	-	(6,254)
Counter value in denars for the amount of 50,000 euro, fix contribution for 2002 and 2003	-	7,396
Paid liabilities for fix contribution for 2002 and 2003.	(3,706)	(7,396)
regulators in the existing heating distribution network as base for future upgrades	(46,017)	(48,584)
Decrease of the liability in the amount of the expenses for investment maintenance	2,525	-
Payment	(6,111)	(8,196)
Balance as at 31.December	<u>-</u>	<u>6,908</u>

TOPLIFIKACIJA AD - SKOPJE
NOTES TO THE FINANCIAL STATEMENTS

24. SHORT-TERM BORROWINGS

	<u>note</u>	<u>2005 Den. 000</u>	<u>2004 Den. 000</u>
Domestic borrowings from:			
Stopanska Banka AD Skopje		-	39,889
Top-Trejd		-	8,000
Stopanska Banka AD Skopje	(a)	6,216	6,227
Foreign borrowings from:			
LHB Frankfurt	(b)	121,897	21,455
Total		128,113	75,571

(a) The liability to Stopanska Bank AD Skopje represents due long-term borrowing from 2004. The Company has not made any payments from 2001 till now.

(b) The balance of liability to LHB Frankfurt represent short-term borrowing from 06.12.2005 in total amount of 2,000,000 EUR, with interest rate of 3.5% to actual monthly EURIBOR. The period of repayment is till 15.10.2006 in 4 monthly installments, commencing from 15.07.2006.

25. OTHER SHORT-TERM LIABILITIES AND ACCRUED EXPENSES

	<u>2005 Den. 000</u>	<u>2004 Den. 000</u>
Net wages liabilities	1,571	1,472
Liabilities for contribution on wages	2,303	2,294
Liabilities for taxes on wages	589	591
Liabilities for income tax	-	6,306
Liabilities to employees	2,734	2,817
Liabilities for VAT	-	5,366
Liabilities for rewards	4,189	3,856
Dividend liabilities	89,272	85,197
Other liabilities	669	668
Calculated expenses	2,020	1,744
Total other short-term liabilities	103,347	110,311

26. LONG-TERM BORROWINGS

	<u>2005 Den. 000</u>	<u>2004 Den. 000</u>
Vaishaupt Slovenia	1,621	2,979
Total long-term borrowings	1,621	2,979

It is a Contract for long term purchase of equipment between Toplifikacija AD and Vaishaupt from Republic of Slovenia, for the amount of 52,996.50 Euro, with fixed interest rate of 3%, 2 years grace period and mature date of 5 years. As requested by the terms of the Contract Komercijalna bank issued a confirmed payable guarantee in favor of Toplifikacija AD under the same terms as the Contract above plus a 1.2% provision on the outstanding balance of the guarantee calculated every 3 months.

TOPLIFIKACIJA AD - SKOPJE
NOTES TO THE FINANCIAL STATEMENTS

27. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company has financial assets and liabilities which include cash and cash equivalents, trade receivables and receivables for advances, investments available-for-sale, trade payables, payables for advances and borrowings.

The fair value of the financial assets and liabilities approximates their accounting value as all of the financial assets and liabilities have maturity in period of maximum up to one year from the balance sheet date, except for the investments available-for-sale which have long-term character and its fair value represent its last market price at the balance sheet date.

28. RELATED PARTY TRANSACTIONS

The Company is controlling (over 50% of the voting rights) several other companies in Republic of Macedonia, as well as significant influence (over 20% to 50% of the voting rights) in one domestic company (See Note 19). The 2005 and 2004 transactions with these subsidiaries and associates comprise of receivables, payables as well as revenues and expenses and are as follows:

	2005 Den. 000	2004 Den. 000
Receivables from:		
Skopje Sever AD Skopje	62,343	41,780
Toplifikacija Bitola DOO	27,296	31,872
Toplifikacija Bitola DOO (advances)	1,332	482
TE-TO Skopje	487	-
	91,458	74,134
Liabilities to:		
Skopje Sever AD Skopje	1,021	734
Toplifikacija Bitola DOO	-	-
TE-TO Skopje	-	-
	1,021	734
Other operating income from sales to:		
Skopje Sever AD Skopje	40,995	32,448
Toplifikacija Bitola DOO	1,727	4,534
TE-TO Skopje	-	-
	42,722	36,982
Expenses with:		
Skopje Sever AD Skopje	1,187	693
Toplifikacija Bitola DOO	-	-
TE-TO Skopje	-	-
	1,187	693

29. CONTINGENCIES

The Company is not engaged in any court procedures, where it is sued by other companies, nor it has issued guarantees in favor of other companies

30. RISK MANAGEMENT

The Company is engaged in different kind of business transactions that includes trade receivables, trade liabilities, borrowings as well as investments available-for-sale. The most important types of risks to which the Company is exposed and the methods used by management to control them, are as follows:

a) Currency risk

The Company is exposed to currency risk through transactions in foreign currencies from using services and purchase of goods from foreign entities as well as utilization of foreign borrowings and domestic borrowings with foreign currency clausal. According to this, the Company is exposed to possible foreign currencies rates fluctuations, which is still limited as the Denar is pegged to EUR and monetary projections envisage stability of the exchange rate of the Denar against EUR. The Company has no special policy or methods for currency risk management as there are no market instruments in Republic of Macedonia to avoid this kind of risk.

b) Credit risk

The Company is subject of credit risk in cases when its customers will not be able to fulfill its obligations. There is no significant concentration of credit risk as the customers are various entities (households and legal entities) from the country and from different business sectors. The Company has no special policy for credit risk as there are limited possibilities (various number of clients with small balances as well as undeveloped security market instruments). The Company policy is monitoring on an ongoing basis of the uncollected receivables, making regular court procedures and recording its impairment for all bad and doubtful receivables.

c) Interest rate risk

The Company is exposed to risk of interest rate fluctuations from the used short and long term interest bearing borrowings agreed with variable rates. Due to the fact that the Company uses borrowings with short-terms of repayment and the long-term borrowings are agreed with fix interest rates, there is no significant exposure to this kind of risk. The Company has no special policy or methods for interest rate risk management as there are no market instruments in Republic of Macedonia to avoid this kind of risk.

d) Market risk

The Company is exposed to market risk which arise from the prescribed procedure for previous agreement for price lists from the Energy Regulatory Commission of the Republic of Macedonia. The Company is exposed to risk of significant increase of market prices of the main inputs (fuel oil and natural gas) which have main influence of the Company's expenses and the Company is not in position to make fast reaction by changing prices of its services due to the agreement regime. The Company has no special policy or methods for market risk management as there are no market instruments in Republic of Macedonia to avoid this kind of risk.

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31. POST BALANCE SHEET EVENTS

There are no significant events after the balance sheet date that should be presented in these financial statements, except for the following:

a) On January 4, 2006 the Company has made request for increase of the price for heating energy for 26% to the Energy Regulatory Commission of the Republic of Macedonia (Commission). On January 23, 2006, the Commission has approved increase in amount of 2.03% and the Company has made appeal on January 27, 2006 to the adequate Energy Commission for appeals.

The Energy Commission for appeals has instructed the Energy Regulatory Commission to examine the Company's request once again. The Commission has confirmed its previous decision and according to this the Company has announced new appeal. This procedure is still not finished.

b) On January 12, 2006 the Company has made an loan agreement with Stopanska Bank AD Skopje in amount of 1,960,000 EUR, with 12 months period of repayment, interest rate of one month EURIBOR + 4.5% per year and repayment in 4 equal installments commencing from 30.06.2006. The Company has right to use borrowings, guarantees and letters of credit.

As a security to the Bank for its liabilities, The Company has pledged the following assets:

- 13,060 common shares issued by Komercijalna Bank AD Skopje, with market value as at 31.Decemeber 2005 in amount of 47,200 thousands denars (Note 20) and
- equipment (heating boilers) with estimated value by the Bank in amount of 2,745,191 EUR or 167,945 thousands denars (Note 21).

32. ADJUSTMENTS BETWEEN THE CONSOLIDATED PROFIT BASED ON LOCAL REGULATIONS AND THE NET PROFIT CALCULATED USING IFRS

	2005 <u>Den. 000</u>	2004 <u>Den. 000</u>
Net profit based on local regulations	83,301	98,069
Collection (provision) for bad receivables	-	67,269
Income from previous years	-	(3,485)
Net Profit based on IFRS	<u>83,301</u>	<u>161,853</u>

As this is the first year that the Company has presented its financial statements under IFRS adjustment to the accumulated profit in amount of 51,784 thousands denars has been made and it is consisted of provision for bad and doubtful receivables as at 01.01.2004 in amount of 67,269 thousands denars, adjustment of provision for expenses in amount of 12,000 thousands denars and income from previous years in amount of 3,485 thousands denars, according to IFRS 1.