

BALANCE SHEET					
(STATEMENT OF FINANCIAL POSITION)					
on 31 December 2018					
No.	POSITION	Designation for ADP	Note number	(in denars)	
				Amount	
				Current year	Previous year
1	2	3	4	5	6
	ASSETS:				
1.	A. NON-CURRENT ASSETS (002+009+020+021+031)	001		13,749,904,205	13,982,608,027
2.	I. INTANGIBLE ASSETS (003+004+005+006+007+008)	002		2,669,475,487	2,683,420,469
3.	Development expenses	003			
4.	Concessions, patents, licences, trade marks and similar rights	004	7	2,381,497,769	2,461,666,511
5.	Goodwill	005			
6.	Advances for procurement of intangible assets	006			
7.	Intangible assets under construction	007	7	287,977,718	221,753,958
8.	Other intangible assets	008			
9.	II. TANGIBLE ASSETS (010+013+014+015+016+017+018+019)	009		10,617,085,664	10,904,014,897
10.	Real Estate (011+012)	010		3,345,658,455	3,488,990,662
10.a.	Land	011	8	27,878,069	27,878,069
10.b.	Buildings	012	8	3,317,780,386	3,461,112,593
11.	Plants and equipment	013	8	4,759,515,247	4,203,105,034
12.	Means of transport	014	8	130,058,523	144,015,681
13.	Tools, plant and office inventory and furniture	015	8	450,863,329	481,226,574
14.	Biological assets	016			
15.	Advances for procurement of tangible assets	017		2,890,301	4,552,834
16.	Tangible assets under construction	018	8	1,928,099,809	2,582,124,112
17.	Other tangible assets	019			
18.	III. INVESTMENT IN REAL ESTATE	020			
19.	IV. LONG-TERM FINANCIAL ASSETS (022+023+024+025+026+030)	021		136,272,418	109,329,727
20.	Investment in subsidiaries	022			
21.	Investments in associated companies and participations in joint ventures	023			
22.	Receivables from long-term loans to related parties	024			
23.	Receivables from long-term loans	025		32,354,416	44,792,513
24.	Investments in long-term securities (027+028+029)	026		103,305,678	63,924,890
24.a.	Investments in long-term securities held to maturity	027			
24.b.	Investments in securities available-for-sale	028			
24.c.	Investments in securities at fair value through profit or loss	029		103,305,678	63,924,890
25.	Other long-term financial assets	030		612,324	612,324
26.	V. LONG-TERM RECEIVABLES (032+033+034)	031		327,070,636	285,842,934
27.	Receivables from related parties	032			
28.	Trade receivables	033	9	327,070,636	285,842,934
29.	Other long-term receivables	034			
30.	VI. DEFERRED TAX ASSETS	035			
31.	B. CURRENT ASSETS (037+045+052+059)	036		4,196,594,094	4,093,033,378
32.	I. INVENTORIES (038+039+040+041+042+043)	037		269,678,286	338,121,560
33.	Inventory of raw materials and materials	038		81,298,578	94,680,362
34.	Inventory of spare parts, small inventory, packaging material and car tires	039		18,386,315	15,856,137
35.	Inventory of unfinished and semi-finished products	040			
36.	Inventory of finished products	041			
37.	Inventory of trade goods	042		169,993,393	227,585,061
38.	Inventory of biological assets	043			
39.	II. ASSETS (OR GROUPS FOR DISPOSAL) AVAILABLE FOR SALE AND DISCONTINUED OPERATIONS	044			
40.	III. SHORT-TERM RECEIVABLES (046+047+048+049+050+051)	045		2,667,118,406	2,552,031,268
41.	Receivables from related parties	046	16	181,861,993	222,454,203
42.	Trade receivables	047	9	2,398,034,887	2,231,766,288
43.	Receivables for advances given to vendors	048		48,242,822	55,055,692
44.	Receivables from the state based on taxes, contributions, custom duties, excises and for other state levies (prepayments)	049		14,115,116	14,174,631
45.	Receivables from employees	050		20,732,561	24,820,457
46.	Other short-term receivables	051		4,131,027	3,759,997
47.	IV. SHORT-TERM FINANCIAL ASSETS (053+056+057+058)	052		742,487,378	680,505,585
48.	Investments in securities (054+055)	053			
48.a.	Investments held to maturity	054			
48.b.	Investments at fair value through profit or loss	055			
49.	Receivables from loans to related parties	056			
50.	Receivables from loans	057			
51.	Other short-term financial assets	058		742,487,378	680,505,585
52.	V. CASH AND CASH EQUIVALENTS (060+061)	059		517,310,024	522,374,965
52.a.	Cash	060	10	266,303,000	242,362,118
52.b.	Cash equivalents	061		251,007,024	280,012,847
53.	VI. PREPAYMENTS AND ACCRUED INCOME	062		236,749,931	356,092,519
54.	TOTAL ASSETS (001+035+036+044+062)	063		18,183,248,230	18,431,733,924
55.	B. OFF BALANCE RECORDS - ASSETS	064		79,579,841	79,534,567

BALANCE SHEET
(STATEMENT OF FINANCIAL POSITION)
on 31 December 2018

(in denars)

No.	POSITION	Designation for ADP	Note number	Amount	
				Current year	Previous year
1	2	3	4	5	6
	LIABILITIES:				
56.	A. CAPITAL AND RESERVES (066+067-068-069+070+071+075-076+077-078)	065		14,174,620,342	14,163,408,842
57.	I. SHARE CAPITAL	066	11	9,583,887,733	9,583,887,733
58.	II. SHARE PREMIUM ACCOUNT	067		540,659,375	540,659,375
59.	III. TREASURY SHARES (-)	068	11	3,738,357,350	3,738,357,350
60.	IV. CALLED-UP CAPITAL (-)	069			
61.	IV. REVALUATION RESERVE AND DIFFERENCES FROM VALUATION OF COMPONENTS OF OTHER COMPREHENSIVE INCOME	070		865,575,754	867,477,042
62.	VI. RESERVES (072+073+074)	071		980,679,729	980,679,729
63.	Legal reserves	072		958,388,773	958,388,773
64.	Statutory reserves	073			
65.	Other reserves	074		22,290,956	22,290,956
66.	VI. RETAINED EARNINGS	075		4,346,112,887	4,344,211,599
67.	VIII. CARRIED LOSS (-)	076			
68.	IX. PROFIT FOR THE BUSINESS YEAR	077		1,596,062,214	1,584,850,714
69.	X. LOSS FOR THE BUSINESS YEAR	078			
70.	XI. SHARE CAPITAL OF THE OWNERS OF THE PARENT COMPANY	079			
71.	XII. UNCONTROLLED SHARE	080			
72.	B. LIABILITIES (082+085+095)	081		3,183,849,033	2,835,553,735
73.	I. LONG-TERM PROVISIONS FOR LIABILITIES AND EXPENSES (083+084)	082		27,814,650	57,339,859
74.	Provisions for pensions, severance payments and similar liabilities towards the employees	083		27,814,650	57,339,859
75.	Other long-term provisions for liabilities and expenses	084			
76.	II. LONG-TERM LIABILITIES (from 086 to 093)	085		354,743,769	513,713,836
77.	Liabilities to related parties	086			
78.	Trade payables	087		354,743,769	513,713,836
79.	Liabilities for advances, deposits and bails	088			
80.	Liabilities for loans and credits to related parties	089			
81.	Liabilities for loans and credits	090			
82.	Liabilities for securities	091			
83.	Other financial liabilities	092			
84.	Other long-term liabilities	093			
85.	III. DEFERRED TAX LIABILITIES	094			
86.	IV. SHORT-TERM LIABILITIES (from 096 to 108)	095		2,801,290,614	2,264,500,040
87.	Liabilities to related parties	096	16	314,108,728	313,798,055
88.	Trade payables	097	12	2,123,737,494	1,505,091,824
89.	Liabilities for advances, deposits and bails	098		78,638,784	80,709,147
90.	Liabilities for taxes and salary contributions and salary remunerations	099		6,073,348	28,114,709
91.	Liabilities to employees	100		15,138,935	57,117,508
92.	Current tax liabilities	101		53,825,563	74,035,943
93.	Short-term provisions for liabilities and expenses	102		172,780,278	153,906,943
94.	Liabilities for loans and credits to related companies	103			
95.	Liabilities for loans and credits	104			
96.	Liabilities for securities	105			
97.	Liabilities for dividends	106		2,938,592	2,422,100
98.	Other financial liabilities	107			
99.	Other short-term liabilities	108		34,048,892	49,303,811
100.	V. ACCRUED EXPENSES AND DEFERRED REVENUE	109		824,778,855	1,432,771,347
101.	VI. LIABILITIES BASED ON NON-CURRENT ASSETS (OR GROUPS FOR DISPOSAL) AVAILABLE FOR SALE AND DISCONTINUED OPERATIONS	110			
102.	TOTAL LIABILITIES: SHARE CAPITAL AND RESERVES AND LIABILITIES (065+081+094+109+110)	111		18,183,248,230	18,431,733,924
103.	C. OFF BALANCE RECORDS - LIABILITIES	112		79,579,841	79,534,567

Nikola Ljusev
Chief Executive Officer

Slavko Projkoski
Chief Financial Officer

Goran Tilovski
Controlling, Accounting and Tax Director
Certified Accountant
Reg. No. 0105436

INCOME STATEMENT
(PROFIT AND LOSS ACCOUNT)
for the period of 01.01 until 31.12 2018

(in denars)

No.	POSITION	Designation for ADP	Note number	Amount	
				Current year	Previous year
1	2	3	4	5	6
1.	I. OPERATING REVENUES (202+203+206)	201		10,527,700,783	10,367,035,795
2.	Sales revenues	202	13	10,424,930,699	10,221,094,184
3.	Other income	203	14	102,770,084	145,941,611
4.	Change of the value of the inventories of the finished products and work in progress	xxx			
4.a.	Inventories of finished products and work in progress - opening balance	204			
4.b.	Inventories of finished products and work in progress - closing balance	205			
5.	Capitalized own production and services	206			
6.	II. OPERATING EXPENSES (208+209+210+211+212+213+218+219+220+221+222)	207		8,715,074,827	8,526,759,344
7.	Costs for raw materials and other materials	208		232,869,542	208,635,064
8.	Cost of goods sold	209		1,829,148,244	1,645,594,502
9.	Cost of sold materials, spare parts, small inventory, packaging material and car tires	210			
10.	Services with a character of material costs	211	15	2,269,221,814	2,332,849,777
11.	Other operating costs	212	15	757,066,914	862,062,148
12.	Employees related costs (214+215+216+217)	213		1,150,288,815	1,085,889,747
12.a.	Salaries and salary remunerations (net)	214		630,354,078	612,814,682
12.6.	Costs for taxes to salaries and salary remunerations	215		55,867,093	57,687,668
12.b.	Contributions for mandatory social insurance	216		257,060,062	242,596,012
12.r.	Other employees related costs	217		207,007,582	172,791,385
13.	Depreciation/amortisation of tangible and intangible assets	218		2,319,536,020	2,161,918,812
14.	Impairment of non - current assets	219			
15.	Impairment of current assets	220	15	131,029,592	185,366,515
16.	Provisions for liabilities and expenses	221		5,798,545	18,377,889
17.	Other operating expenses	222	15	20,115,341	26,064,890
18.	III. FINANCE INCOME (224+229+230+231+232+233)	223		68,334,335	45,982,329
19.	Finance income from the operation with related parties (225+226+227+228)	224			
19.a.	Income from investments in related parties	225			
19.b.	Interest income from the operation with related parties	226			
19.c.	Foreign exchange income from the operation with related parties	227			
19.d.	Other finance income from the operation with related parties	228			
20.	Income from investments in unrelated parties	229		3,159,626	2,748,974
21.	Interest income from the operation with unrelated parties	230		22,892,906	39,674,071
22.	Foreign exchange income from the operation with unrelated parties	231		2,901,016	
23.	Unrealised gains (income) from financial assets	232		39,380,787	3,559,284
24.	Other finance income	233			
25.	IV. FINANCE EXPENSES (235+239+240+241+242+243)	234		62,424,906	70,484,346
26.	Finance expenses from the operation with related parties (236+237+238)	235			
26.a.	Interest expenses from the operation with related parties	236			
26.b.	Foreign exchange expenses from the operation with related parties	237			
26.c.	Other finance expenses from the operation with related parties	238			
27.	Interest expenses from the operation with unrelated parties	239		39,555,472	35,049,781
28.	Foreign exchange expenses from the operation with unrelated parties	240			21,211,156
29.	Unrealised losses (expenses) from financial assets	241			
30.	Impairment of the financial assets and investments	242			
31.	Other finance expenses	243		22,869,434	14,223,409
32.	Share in the profit of the associated companies	244			
33.	Share in the loss of the associated companies	245			
34.	Profit from the regular operation (201+223+244) - (204-205+207+234+245)	246		1,818,535,385	1,815,774,434
35.	Loss from the regular operation (204-205+207+234+245) - (201+223+244)	247			
36.	Net profit from discontinued operation	248			
37.	Net loss from discontinued operation	249			
38.	Profit before tax (246+248) or (246-249)	250		1,818,535,385	1,815,774,434
39.	Loss before tax (247+249) or (247-248)	251			
40.	Income tax	252		222,473,171	230,923,720
41.	Deferred tax income	253			
42.	Deferred tax expenses	254			
43.	NET PROFIT FOR THE BUSINESS YEAR (250-252+253-254)	255		1,596,062,214	1,584,850,714
44.	NET LOSS FOR THE BUSINESS YEAR (251+252-253+254)	256			
45.	Average number of employees based on the working hours in the accounting period (in absolute amount)	257		1,129	1,117
46.	Number of months of operation (in absolute amount)	258		12	12
47.	PROFIT/LOSS FOR THE PERIOD	259		1,596,062,214	1,584,850,714
47.a.	Profit that belongs to the shareholders in the parent company	260		904,435,285	898,082,101
47.b.	Profit that belongs to the uncontrolled share	261		691,626,929	686,768,613
47.c.	Loss that applies to the shareholders in the parent company	262			
47.d.	Loss that applies to the uncontrolled share	263			
48.	EARNINGS PER SHARE	264		18	18
48.a.	Total basic earning per share	265		18	18
48.b.	Total diluted earning per share	266			
48.c.	Basic earning per share after discontinued operation	267			
48.d.	Diluted earning per share after discontinued operation	268			

STATEMENT OF OTHER COMPREHENSIVE INCOME
for the period of 01.01 until 31.12 2018

(in denars)

No.	POSITION	Designation for ADP	Note number	Amount	
				Current year	Previous year
1	2	3	4	5	6
1.	Profit for the year	269		1,596,062,214	1,584,850,714
2.	Loss for the year	270			
3.	Other comprehensive income (273+275+277+279+281+283) - (274+276+278+280+282+284)	271			
4.	Other comprehensive loss (274+276+278+280+282+284) - (273+275+277+279+281+283)	272			
5.	Gains arising from translation of foreign operations	273			
6.	Losses arising from translation of foreign operations	274			
7.	Gains from re-measurement of the financial assets available-for-sale	275			
8.	Losses from re-measurement of the financial assets available-for-sale	276			
9.	Effective part of the gains from hedging instruments for hedging of cash flows	277			
10.	Effective part of the losses from hedging instruments for hedging of cash flows	278			
11.	Changes in the revaluation reserves for non-current assets (+)	279			
12.	Changes in the revaluation reserves for non-current assets (-)	280			
13.	Actuarial gains from defined plans for employees' benefits	281			
14.	Actuarial losses from defined plans for employees' benefits	282			
15.	Share in the other comprehensive income of the associated companies (only for consolidation purposes)	283			
16.	Share in the other comprehensive loss of the associated companies (only for consolidation purposes)	284			
17.	Profit tax on the components of the other comprehensive income	285			
18.	Net other comprehensive income (271-285)	286			
19.	Net other comprehensive loss (285-271) or (272+285)	287			
20.	Total comprehensive income for the year (269+286) or (286-270)	288		1,596,062,214	1,584,850,714
20.a.	Comprehensive income that belongs to the shareholders in the parent company	289		904,435,285	898,082,101
20.b.	Comprehensive income that belongs to the uncontrolled share	290		691,626,929	686,768,613
21.	Comprehensive loss for the year (270+287) or (270-286) or (287-269)	291			
21.a.	Comprehensive loss that applies to the shareholders in the parent company	292			
21.b.	Comprehensive loss that applies to the uncontrolled share	293			
<p>Nikola Ljusev Chief Executive Officer</p> <p>Slavko Projkoski Chief Financial Officer</p> <p>Goran Tilovski Controlling, Accounting and Tax Director Certified Accountant Reg. No. 0105436</p>					

Makedonski Telekom AD Skopje

Tax period: 01/01/31/12/18

Tax Return

DETERMINATION OF THE INCOME TAX		AOP	
I	Financial result in the income statement	01	1,818,535,385
II	Unrecognized expenses for tax purposes from the current year (sum AOP 03 to AOP 29)	02	409,351,852
1	The expenditures not being related with the performance of the activity of the entity and are not directly related to the activity of the company and not result of the performance of the company	03	9,632,247
2	Payments and other personal income from employment over the limit prescribed by the law	04	19,520,585
3	Payments to the employees which has not been prescribed in Article 9 paragraph 1 item 2 of the Profit tax Law	05	158,409,388
4	Costs for accommodation and travelling for persons not employed by the Company, not documented according to article 9, paragraph 3a, from PTL	06	-
5	Costs for organized food and transportation to and from work for the employees, over the amount prescribed by law	07	-
6	Costs for personal allowances to the members of management and supervisory board over the amount prescribed by law	08	5,590,490
7	Costs paid for voluntary contributions in the voluntary retirement fund above the amount prescribed by the Law	09	-
8	Allowances for the volunteers and for the persons engaged in conducting public affairs paid over the amount prescribed by law	10	5,763,898
9	Hidden payments of profits	11	-
10	Costs for representation	12	32,112,487
11	Total donations expenses in relation to the Law of donations and sponsorships in public activities, except the amount for witch tax relief is used up to 5% from the total revenue generated in the FY	13	1,205,000
12	Sponsorships expenses in relation to the Law of Sponsorships and sponsorships in public activities above 3% from the total revenue generated in the FY	14	-
13	Interest costs for credits which are not used for business activities of the tax payer	15	-
14	Insurance premiums paid by the employer in favour of the members of the governing bodies and the employees	16	-
15	Withholding taxes (deduction) paid in the name of third parties against the expenditures of the taxpayer	17	8,161,559
16	Tax penalties and fines, penalties and penalty interest on a late payment of public duties and costs of forced collection	18	5,797
17	Scholarships	19	750,163
18	The costs for shrinkage, loss, shambles and break-down	20	-
19	Permanent written-off bad debt receivables	21	-
20	Costs for written-off bad debt receivables	22	127,909,255
21	Loan receivables open at the end of the FY	23	-
22	The difference between the transfer price and the market price generated between related parties	24	-
23	Interest derived out of loans or borrowings which are received from the related party, who is not a bank or other financial institution for the amount exceeding the interest among the unrelated parties under the same conditions	25	-
24	The amount of the default interests between related parties, which is not a bank or authorized credit institution	26	-
25	Interest on loans received from shareholders or co-owners with over 25% participation in the capital of the company	27	-
26	Costs for donations in sports according to article 30a and 30b from PTL	28	-
27	Other reconciliation of expenses	29	40,290,983
III	Tax base(+II)	30	2,227,887,237
IV	Tax base decreases (AOP32+AOP33+AOP34+AOP35+AOP36)	31	3,155,526
28	Amount of collected bad debt receivables for which in previous period the tax base was increased	32	-
29	Amount collected loan for which in previous period the tax base was increased	33	-
30	Dividend derived from ownerships rights in other tax payer, already taxed by the dividend payer	34	3,155,526
31	Part of loss decreased by unrecognized expenses, transferred from previous years	35	-
32	Amount of made investments from profit (reinvestment)	36	-
V	Tax base after deductions (III-IV)	37	2,224,731,711
VI	Calculated profit tax (V x 10%)	38	222,473,171
VII	Reduction of calculated profit tax (AOP40+AOP41+AOP42+AOP43)	39	-
33	Decrease of tax in the amount of procured 10 fiscal cash registered for cash payments	40	-
34	Amount of tax incorporated in taxable revenue/profits from abroad (withholding tax) till the prescribed rate	41	-
35	Paid taxes by subsidiary from abroad, for profits included in revenues of the parent company in R.Macedonia but not above the amount of prescribed tax rate	42	-
36	Amount of calculated tax relief for given donation in accordance with article 30a and 30b from PTL	43	-
VIII	Calculated profit tax after deductions (VI-VII)	44	222,473,171
37	Settled advance tax payments for the tax period	45	234,906,026
38	Amount of the overpaid income tax from previous periods	46	-
39	Amount for payment/over paid amount (AOP44-AOP45-AOP46)	47	- 12,432,855
IX	Special informations		
40	Total amount of investment from the profit (reinvested profit)	48	-
41	Losses from previous year for which the rule for three day coverage is not expired	49	-
42	Losses reduced for unrecognized expenses in current year which can be transfer in next 3 years	50	-
43	Transferred unused part of right for deductions of Profit tax under article 30 from PTL	51	-
44	Total revenues in the year	52	10,596,035,118
45	Total expenses for donations in year for which the right for deduction according to Law for sponsorship and donation is used	53	14,099
46	Total expenses for donations in year for which the right for deduction according to Law for sponsorship and donation is not used	54	1,205,000
47	Total expenses for sponsorships in year for which the right for deduction according to Law for sponsorship and donation is used	55	26,164,504
48	Total expenses for sponsorships in year for which the right for deduction according to Law for sponsorship and donation is not used	56	5,135,250
49	Total expenses for donations in sports used for deduction of the calculated tax, according to one of the articles 30a and 30b from PTL	57	-
50	Total expenses for donations in sports under article 30a paragraph 1 from PTL, for which up to 40% tax deduction is defined	58	-
51	Total expenses for donations in sports under article 30a paragraph 2 from PTL, for which up to 50% tax deduction is defined	59	-
52	Total expenses for donations in sports under article 30a paragraph 3 from PTL, for which up to 40% tax deduction is defined	60	-
53	Total expenses for donations in sports under article 30a paragraph 4 from PTL, for which up to 40% tax deduction is defined	61	-
54	Total expenses for donations in sports under article 30a paragraph 5 from PTL, for which up to 35% tax deduction is defined	62	-
55	Total expenses for donations in sports under article 30a paragraph 7 from PTL, for which up to 5% tax deduction is defined	63	-
56	Total expenses for donations in sports under article 30b paragraph 1 from PTL, for which up to 10% tax deduction is defined	64	-
57	Total expenses for donations in sports under article 30b paragraph 2 from PTL, for which up to 10% tax deduction is defined	65	-



LIFE IS FOR SHARING.

Makedonski Telekom AD - Skopje

Explanatory Notes to the

Annual Accounts

For the year ended

31 December 2018

Notes to the annual accounts

1. GENERAL INFORMATION

1.1. About the Company

These notes to the annual accounts relate to the Company Makedonski Telekom AD – Skopje.

Makedonski Telekom AD - Skopje, (hereinafter referred as: “the Company”) is a joint stock company incorporated and domiciled in the Republic of North Macedonia.

The Company’s immediate parent company is AD Stonebridge Communications – Skopje, solely owned by Magyar Telekom Plc. registered in Hungary. The ultimate parent company is Deutsche Telekom AG registered in the Federal Republic of Germany.

As of 31 December 2018, shareholders structure of Company is as follows:

Shareholders of Makedonski Telekom AD - Skopje	Number of shares	%
Stonebridge AD Skopje	48,877,780	51.00
Government of the Republic of North Macedonia	33,364,875	34.81
The Company (treasury shares)	9,583,878	10.00
International Finance Corporation (IFC)	1,392,204	1.45
Other minority shareholders	2,620,044	2.74
	<u>95,838,781</u>	<u>100.00</u>

The Macedonian telecommunications sector is regulated by the Electronic Communications Law (ECL) enacted in March 2014 (Official Gazette No. 39 dated 28 February 2014) as primary legislation and rulebooks as secondary legislation.

As of June 2013 the Company is listed on the Macedonian Stock Exchange (MSE) in the mandatory listing segment and it is reporting to MSE, pursuant to the modifications of the Law on Securities dated 2013. In accordance with the MSE listing rules the Company has permanent disclosure obligations related to the business and capital, significant changes in the financial position, the dividend calendar, changes of the free float ratio (if it fails below 1%) and changes of the major shareholdings above 5%. In addition, the Company has specific disclosure obligations comprising of various financial information, including different financial reports (quarterly, semi-annual and annual), as well as public announcement for convening Shareholders’ Assembly (SA), all modifications and amendments made to the SA agenda and publication of certain adopted SA resolutions. Before June 2013, the Company was reporting to the Macedonian Securities and Exchange Commission as a Joint Stock Company with special reporting obligations.

The Company’s registered address is “Kej 13 Noemvri” No 6, 1000, Skopje, Republic of North Macedonia. The average number of employees of the Company based on the working hours during 2018 was 1,129 (2017:1,117).

As of 31 December 2017, structure of the employees of Company by educational attainment is as follows:

	%
University level education	63.07
Higher education	2.03
4 years secondary education/specialist	4.52
4 years secondary education	27.89
3 years secondary education	2.49
Total	100.00

1.2. Regulation environment - Mobile Line

On 5 September 2008 the Agency for Electronic Communications (the Agency), *ex officio*, issued a notification to the Company for those public electronic communication networks and/or services which have been allocated thereto under the Concession Contracts. The license for radiofrequencies used by the Company with a bandwidth of 25 MHz in the GSM 900 band, was also issued in a form regulated in the ECL with a validity period until 5 September 2018, and in 2018 it was renewed for additional 10 years until 2028, in accordance with the ECL. Due to changes in the bylaws, the 900 MHz band was opened for UMTS technology and at the request of the Company, the radiofrequency license was changed so that these frequencies are now available for both GSM and UMTS technology.

Notes to the annual accounts

In 2008 a decision for granting three radiofrequencies licenses were adopted. The validity of the license was 10 years, i.e. until 17 December 2018. The License was renewed in 2018 for 10 years, until 2028, in accordance with the ECL.

On 19 December 2014, amendments of the ECL were enacted. Many significant changes were made to the ECL, with the Balkan Roaming Regulation being one of the most important changes made in line with EU Roaming III regulation. The glide path for roaming prices reduction finished on 1 July 2017. Additional roaming regulation was proposed, with the final goal roaming prices among the Western Balkan countries to be on the same level as the domestic ones, starting from July 2021 (RLAH model - Roam Like a Home).

Both mobile operators on the market, the Company and one.Vip are designated as operators with Significant Market Power (SMP) status on the relevant wholesale market "Access and call origination on public mobile networks". The Agency imposed same regulatory remedies for both operators:

- mobile access obligation for all MVNO hybrid types (including Reseller)
- cost based price for Full MVNO
- retail minus (-35%) for the Reseller
- obligation for access to MMS services and mobile data based on technology neutrality.

An MVNO, Lyca Mobile hosted on one.Vip network entered the Macedonian market and started retail operations in July 2016 under regulated wholesale conditions.

The cable operator Telekabel, who on the market is already present by offering fixed services (voice, broadband and TV), from January 2019 started operating as MVNO hosted on Telekom mobile network under regulated wholesale conditions.

Both operators, the Company and one.Vip are designated as operators with SMP status on the relevant wholesale market "Wholesale call termination on public mobile networks". The current termination rates are symmetrical for the Company and one.Vip, but as of May 2018, Lyca Mobile has high asymmetry.

The Agency made new market analysis in mid-2018 for „Wholesale SMS termination in public mobile networks" and deregulated Telekom and one.Vip, which were SMP operators on this market, and removed all obligations for both operators.

An auction procedure concluded in August 2013 awarded the whole 790 – 862 MHz band together with the unassigned spectrum in the 1740–1880 MHz band for Long Term Evolution (LTE) technology in a public tender. Each of the 3 Macedonian mobile operators, at that time, obtained an LTE radiofrequency license of 1x10 MHz in the 800 MHz band and 2x15 MHz in the 1800 MHz band. Each license was acquired for a one-off fee of EUR 10.3 million. The license is for 20 years, until 1 December 2033, with renewal option for additional 20 years, in accordance with the ECL.

After the merger of One and VIP, on 18 November 2016, one.Vip submitted a request to the Agency to change the licenses for using radio frequencies in land mobile service with record numbers 108269/1, 108271/1, 104068, 104069, 104711, 108269/2 and 108267/2. The Agency brought a resolution not to approve the reshuffling request of one.Vip .

Based on public debate, at the beginning of 2017 the Agency adopted changes in the Rulebook on Radiofrequencies Fees:

- Decrease of RF fees from 2.3 GHz to 3 GHz by 43% (from 16,800 EUR/MHz to 9,600 EUR/ MHz)
- Decrease of RF fees above 3 GHz by 76 % (from 16,800 EUR/MHz to 4,000 EUR/MHz)
- Decrease of RF fees above 55 GHz (E band RF links) by 50% (from 8,000 EUR/250MHz to 4,000 EUR/250 MHz)

The change is favourable for the existing operators and for new entrants, especially for 2.6 GHz (not occupied).

License duration of the two licences previously owned by VIP lasted until 2017, 10 MHz from 900 MHz band and 10 MHz from 1800 MHz band expired on 23 March 2017, positioned in the lower parts of the bands. At the request of one.Vip for licence renewal, the Agency brought a resolution No. 0804-974 dated 2 November 2016 not to renew these two licences. At the moment these radiofrequencies are not allocated and they are not available for sale.

On 26 May 2017, one.Vip submitted a request to the Agency to change the licence for using radio frequencies in land mobile service with registered number 108267/2, whereby the following radiofrequency block was allocated: 1770-1785/1865-1880 MHz. On 9 October 2017, the Agency issued a resolution for rejecting of the one.Vip's request for reshuffling on 1800 MHz.

In its 2019 working program, the Agency prepared a tender for a 700 MHz band. It also announced the release of Digital dividend 2 radiofrequencies and repositioning of broadcasters in the lower part of the UHF band. Also, public debate on the

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amount of the onetime fees and annual fees for 5G spectrum is expected in 2019, with the possibility to announce the 3.xGHz on a public tender.

1.3. Regulation environment - Fixed Line

The Company has SMP obligations in several regulated markets for fixed services.

At the beginning of 2015, the regulation for access to fiber was implemented, with Local Bitstream Access over NGA on level 3 and 4 and VULA (Virtual Unbundled Local Access) regulation on level 2. The introduction of new technologies (VDSL Vectoring technology in 2017) announced by the Company for the retail customers led to the introduction of new wholesale access products and reshaping of the regulatory obligations.

The final document for the wholesale central access for mass-market products provided at a fixed location market analyses (Market 6) was published in April 2017. For the first time, the Agency imposed a regulation on the access to Hybrid Fibre Coaxial Access (HFC). All existing obligations for the copper and fibre network remain unchanged. All obligations apply to the Company and to one.Vip operator as SMP on the broadband market.

In accordance with the Rulebook on technical conditions and building infrastructure (dated 15 July 2014), the Company is obliged to build its infrastructure underground in urban areas with over 15,000 citizens for buildings for collective living with more than eight apartments. The Company has a Digital Agenda obligation to cover of 100% and 50% of all Macedonian households with 30 Mbps and 100 Mbps broadband speed respectively, with a technology neutral basis until the end of 2020.

The amendments in September 2016, with a new obligation to register the new and existing electronic networks (ATLAS), refer to the joint building and use of networks and a new obligation for the Agency to publish the received reports on the optic backbone segment measurements by all operators.

The tender for a USO provider has been published at the end of 2016, and one of the main criteria is the required amount for a refund.

According results from the last tender, the Company is universal service provider until 2021 for the following services:

- Fixed access and access to disabled users (voice and Internet of minimum 2Mbit/s download)
- Public payphones

R3 Infomedia signed a contract with the Agency for the Telephone Directory and Directory Inquiry universal services.

Following the market trends and the EU regulation, the Agency made decisions for deregulation on several markets: trunk segment of leased lines and avoiding regulation of the Ethernet leased line services; minimal set of leased lines (retail); WLR (Wholesale Line Rental) market; traditional retail fixed voice services (access and traffic). The Company has a cost-based price obligation for the regulated wholesale services, using Long Run Incremental Costs methodology (LRIC).

The Agency developed a process and a model for economical replica of retail and wholesale NGN (Next Generation Network) products.

The Ministry for Information Society and Administration formed working groups for mapping the telecommunication networks and developing National Broadband Plan and 5G strategy for fulfilment of the Digital Agenda, which should be finalized in Q1-2019.

1.4. Investigation into certain consultancy contracts

On 13 February 2006, Magyar Telekom Plc., the controlling owner of the Company, (via Stonebridge Communications AD - Skopje, majority shareholder of the Company), announced that it was investigating certain contracts entered into by another subsidiary of Magyar Telekom Plc. to determine whether the contracts were entered into in violation of Magyar Telekom Plc. policy or applicable law or regulation. Magyar Telekom's Audit Committee retained White & Case, as its independent legal counsel to conduct the internal investigation. Subsequent to this, on 19 February 2007, the Board of Directors of the Company, based on the recommendation of the Audit Committee of the Company and the Audit Committee of Magyar Telekom Plc., adopted a resolution to conduct an independent internal investigation regarding certain contracts in Republic of North Macedonia.

Based on publicly available information, as well as information obtained from Magyar Telekom and as previously disclosed, Magyar Telekom's Audit Committee conducted an internal investigation regarding certain contracts relating to the activities of Magyar Telekom and/or its affiliates in Montenegro and Republic of North Macedonia that totaled more than EUR 31 million.

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In particular, the internal investigation examined whether Magyar Telekom and/or its Montenegrin and Republic of North Macedonian affiliates had made payments prohibited by U.S. laws or regulations, including the U.S. Foreign Corrupt Practices Act (the “FCPA”). The Company has previously disclosed the results of the internal investigation.

Magyar Telekom’s Audit Committee informed the U.S. Department of Justice (the “DOJ”) and the U.S. Securities and Exchange Commission (the “SEC”) of the internal investigation. The DOJ and the SEC commenced investigations into the activities that were the subject of the internal investigation. On 29 December 2011, Magyar Telekom announced that it had entered into final settlements with the DOJ and the SEC to resolve the DOJ’s and the SEC’s investigations relating to Magyar Telekom. The settlements concluded the DOJ’s and the SEC’s investigations. Magyar Telekom disclosed the key terms of the settlements with the DOJ and the SEC on 29 December 2011. In particular, Magyar Telekom disclosed that it had entered into a two-year deferred prosecution agreement (the “DPA”) with the DOJ. The DPA expired on 5 January 2014, and further to the DOJ’s request filed in accordance with the DPA, the U.S. District Court for the Eastern District of Virginia dismissed the charges against Magyar Telekom on 5 February 2014.

In relation to the local investigation by the state authorities in Republic of North Macedonia and further to the previously disclosed information in the Financial Statements of the Company for the preceding years, the criminal procedure at the basic court is on-going.

We have not become aware of any information as a result of a request from any regulators or other external parties, other than the previously disclosed, from which we have concluded that the financial statements may be misstated, including from the effects of a possible illegal act.

2. BASIS OF PREPARATION OF ANNUAL ACCOUNTS

These Annual accounts are prepared, in all material respects, in accordance with the Company Law (published in Official Gazette No. 28/04, 84/05, 25/07, 87/08, 42/10, 48/10, 24/11, 166/12, 70/13 119/13, 120/13, 187/13, 38/14, 41/14, 138/14, 88/15, 192/15, 6/16, 30/16 and 61/16) and Rule Book for Accounting (published in Official Gazette No.159/2009 and No.164/2010), whereby the International Financial Reporting Standards (IFRS) comprising IFRS 1 to IFRS 8, International Accounting Standards (IAS) comprising IAS 1 to IAS 41, International Financial Reporting Interpretations Committee (IFRIC) comprising IFRIC 1 to IFRIC 17 and Standing Interpretations Committee (SIC) Interpretations comprising SIC 7 to SIC 32, were published. IFRS 9, IFRS 10, IFRS 11, IFRS 12, IFRS 13, IFRIC 18, IFRS 15, IFRS 16 IFRIC 19, IFRIC 20 and IFRIC 21 are not included in the Rule Book for Accounting and are not applied by the Company. IFRS (including IFRS 1), were initially published in the Official Gazette in 1997, and since then several updates have followed. The last update was in December 2010.

The Company applies all relevant standards and the amendments and interpretations which were published in the Official Gazette.

The Annual accounts are presented in Macedonian denars.

The preparation of Annual accounts requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the Annual accounts are disclosed in note 4. Actual results may differ from those estimated.

3. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these annual accounts are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

3.1. Foreign currency translation

3.1.1. Functional and presentation currency

The Annual accounts are presented in Macedonian denars, which is the Company’s functional and presentation currency.

3.1.2. Transactions and balances

Transactions in foreign currencies are translated to denars at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to denars at the

Notes to the annual accounts

foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognized in the Income statement (Finance income/expenses). Non-monetary financial assets and liabilities denominated in foreign currency are translated to denars at the foreign exchange rate ruling at the date of transaction.

The foreign currencies deals of the Company are predominantly Euro (EUR) and United States Dollars (USD) based.

The exchange rates used for translation at 31 December were as follows:

	2018	2017
	MKD	MKD
1 USD	53.69	51.27
1 EUR	61.49	61.49

3.2. Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial assets of the Company include, cash and cash equivalents, deposits with banks, equity instruments of another entity (financial instruments at fair value through profit or loss) and contractual rights to receive cash (trade and other receivables) or another financial asset from another entity.

Financial liabilities of the Company include liabilities that originate from contractual obligations to deliver cash or another financial asset to another entity (non-derivatives). In particular, financial liabilities include trade and other payables.

The fair value of traded financial instruments is determined by reference to their market prices at the end of the reporting period. This typically applies to financial assets at fair value through profit or loss.

The fair value of other financial instruments that are not traded in an active market is determined by using discounted cash flow valuation technique. The expected cash inflows or outflows are discounted by market based interest rates.

The fair value of long term financial liabilities is also determined by using discounted cash flow valuation technique. The expected cash inflows or outflows are discounted by market based interest rates.

Assumptions applied in the fair value calculations are subject to uncertainties. Changes in the assumptions applied in the calculations would have an impact on the carrying amounts, the fair values and/or the cash flows originating from the financial instruments. Sensitivity analyses related to the Company's financial instruments are provided in Note 6.

3.2.1. Financial assets

The Company classifies its financial assets in the following categories:

- (a) financial assets at fair value through profit or loss
- (b) loans and receivables

The classification depends on the purpose for which the financial asset was acquired. Management determines the classification of financial assets at their initial recognition.

Standard purchases and sales of financial assets are recognized on the trade-date, the date on which the Company commits to purchase or sell the asset. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognized at fair value, and transaction costs are expensed in the Income statement.

The Company assesses at each financial statement date whether there is objective evidence that a financial asset is impaired. There is objective evidence of impairment if as a result of loss events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Impairment losses of financial assets are recognized in the Income statement against allowance accounts to reduce the carrying amount until derecognition of the financial asset, when the net carrying amount (including any allowance for impairment) is derecognized from the statement of financial position. Any gains or losses on derecognition are calculated and recognized as the difference between the proceeds from disposal and the (net) carrying amount derecognized.

Notes to the annual accounts

Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

(a) Financial assets at fair value through profit or loss

This category comprises those financial assets designated at fair value through profit or loss at inception. A financial asset is classified in this category if the Company manages such asset and makes purchase and sale decisions based on its fair value in accordance with the Company investment strategy for keeping investments within portfolio until there are favorable market conditions for their sale.

Financial assets at fair value through profit or loss' are subsequently carried at fair value. Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are recognized in the Income statement (Finance income/expense) in the period in which they arise.

Dividend income from financial assets at fair value through profit or loss is recognized in the Income statement when the Company's right to receive payments is established and inflow of economic benefits is probable.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except those with maturities over 12 months after the financial statement date. These are classified as non-current assets.

The following items are assigned to the "loans and receivables" measurement category:

- cash and cash equivalents
- deposits over 3 months
- trade receivables
- receivables and loans to third parties
- employee loans
- other receivables

Loans and receivables are initially recognized at fair value and subsequently carried at amortized cost using the effective interest method.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, cash in bank, call deposits held with banks and other short-term highly liquid investments with original maturities of three months or less.

Should impairment on cash and cash equivalents occur, it would be recognized in the Income statement (Finance expenses).

Trade and other receivables

Trade and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the underlying arrangement. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments as well as historical collections are considered indicators that the trade receivable is impaired.

If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognized in the Income statement (Other operating expenses – Impairment losses on trade and other receivables).

The Company's policy for collective assessment of impairment is based on the aging of the receivables due to the large number of relatively similar type of customers.

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Individual valuation is carried out for the largest customers, international customers, customers of interconnection services and also for customers under liquidation and bankruptcy proceedings. Itemized valuation is also performed in special circumstances.

When a trade receivable is established to be uncollectible, it is written off against Income statement (Other operating expenses – Impairment losses on trade and other receivables) with a parallel release of the cumulated impairment on the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against the recognized loss in the Income statement.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss shall be reversed by adjusting an allowance account. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortized cost would have been had the impairment not been recognized at the date the impairment is reversed. The amount of the reversal shall be recognized in the Income statement as a reduction to Other operating expenses (Impairment losses on trade and other receivables).

Amounts due to, and receivable from, other network operators are shown net where a right of set-off exists and the amounts are settled on a net basis (such as receivables and payables related to international traffic).

Employee loans

Employee loans are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

Difference between the nominal value of the loan granted and the initial fair value of the employee loan is recognized as prepaid employee benefits, which reduces Loans and receivables from employees. Interest income on the loan granted calculated by using the effective interest method is recognized as finance income, while the prepaid employee benefits are amortized to Personnel expenses evenly over the term of the loan. The program is not active in terms of granted new loans. In 2013, the last loan was granted.

Impairment losses on Employee loans, if any, are recognized in the Income statement.

Financial liabilities

Trade and other payables

Trade and other payables (including accruals) are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method. The carrying values of trade and other payables approximate their fair values due to their short maturity.

Long term financial liabilities are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

3.3. Inventories

Inventories are stated at the lower of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated selling expenses.

The cost of inventories is based on weighted average cost formula and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition.

Phone sets are often sold for less than cost in connection with promotions to obtain new subscribers with minimum commitment periods. Such loss on the sale of equipment is only recorded when the sale occurs as they are sold as part of a profitable service agreement with the customer and if the normal resale value is higher than the cost of the phone set. If the normal resale value is lower than costs, the difference is recognized as impairment immediately.

Impairment losses on Inventories are recognized in Operating expenses (Impairment of current assets).

3.4. Assets held for sale

An asset is classified as held for sale if it is no longer needed for the future operations of the Company, and has been identified for sale, which is highly probable and expected to take place within 12 months. These assets are accounted for at

Notes to the annual accounts

the lower of carrying value or fair value less cost to sell. Depreciation is discontinued from the date of designation to the held for sale status. When an asset is designated for sale, and the fair value is determined to be lower than the carrying amount, the difference is recognized in the Income statement (Depreciation and amortization) as an impairment loss.

3.5. Tangible assets

Tangible assets are stated at cost less accumulated depreciation and impairment losses (see note 3.7).

The cost of an item of tangible assets comprises its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates, any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the costs if the obligation incurred can be recognized as a provision according to IAS 37 – Provisions, Contingent Liabilities and Contingent Assets.

The cost of self-constructed assets includes the cost of materials and direct labor.

In 2011, Law on acting with illegally built facilities was enacted, according to which the Company will incur certain expenditures related to obtaining complete documentation for base stations and fix line infrastructure in accordance to applicable laws in Republic of North Macedonia. The Company capitalizes those expenditures as incurred. The capitalized expenditures are included within Tangible assets (see note 8).

Items of tangible assets were restated at the year-end using official revaluation coefficients based on the general manufactured goods price increase index. Such coefficients have been applied to historical cost or later valuation and to accumulated depreciation as to approximate replacement cost. The net effect of revaluation was recorded against revaluation reserves. The last revaluation of tangible assets was made in year 2000.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the Income statement during the financial period in which they are incurred.

When assets are scrapped, the cost and accumulated depreciation are removed from the accounts and the loss is recognized in the Income statement as Other operating expenses.

When assets are sold, the cost and accumulated depreciation are removed from the accounts and any related gain or loss, determined by comparing proceeds with carrying amount, is recognized in the Income statement (Other income/Other operating expenses accordingly).

Depreciation is charged to the Income statement on a straight-line basis over the estimated useful lives of items of tangible assets. Assets are not depreciated until they are available for use. Land is not depreciated. The assets useful lives and residual values are reviewed, and adjusted if appropriate, at least once a year. For further details on the groups of assets impacted by the most recent useful life revisions (see note 8).

The estimated useful lives are as follows:

	2018 Years	2017 Years
Buildings	20-40	20-40
Aerial and cable lines	20-25	20-25
Telephone exchanges	7-10	7-10
Base stations	10	10
Computers	4-6	4-6
Furniture and fittings	4-10	4-10
Vehicles	5-10	5-10
Other	2-15	2-15

3.6. Intangible assets

Intangible assets that are acquired by the Company are stated at cost less accumulated amortization and impairment losses (see note 3.7).

Notes to the annual accounts

Items of intangible assets were restated at the year-end using official revaluation coefficients based on the general manufactured goods price increase index. Such coefficients have been applied to historical cost or later valuation and to accumulated depreciation as to approximate replacement cost. The net effect of revaluation was recorded against revaluation reserves. The last revaluation of intangible assets was made in year 2000.

Subsequent expenditure on intangible assets is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred. New software modules that cannot be used independently of the existing software (releases), but rather only combined with the base version's functionalities and are implementations of enhanced software, characterized by systematic updates, revisions or expansions of previous versions of existing software represent subsequent costs for the previous version and are capitalized if they meet the capitalization criteria, i.e. if they coincide with the creation of additional functionalities. Consequently, the costs of releases is capitalized as part of the base version and amortized together with the residual carrying amount over the base software's remaining useful life. If indications exists that the software will be operated longer than the current useful life as a result of subsequently capitalized expenditure, the useful life of the base software is reviewed, and if applicable extended.

The Company's primary activities are in the fixed line and mobile operations in Republic of North Macedonia. These operations usually require acquisition of licenses/frequency usage rights, which generally contain upfront fees and annual fees. For each acquired license/frequency usage right, the Company assesses whether the amount of future annual fees can be measured reliably at the start of the validity period of the license. If the Company considers that the amount of future annual fees can be measured reliably, the present value of the future annual fees is capitalized, if any, as part of the cost of the license otherwise these fees are recognized as expenses (Other operating costs) in the period they relate to.

The useful lives of concession and licenses are determined based on the underlying agreements and are amortized on a straight line basis over the period from availability of the frequency for commercial use until the end of the initial concession or license term. No renewal periods are considered in the determination of useful life (see note 7).

Content rights are capitalized as intangible assets if all of the following conditions are met: there is no doubt whatsoever that the content will be delivered as agreed in the contract; non-cancellable term of the contract is at least 12 months and cost can be estimated reliably. Content rights are amortized over the contracts term. The financial liability recognized for capitalized content is presented in the statement of financial position within Other financial liabilities. Unwinding of an accrued interest is recognized as an interest expense and is presented within Financial expense.

The estimated useful lives are as follows:

	2018 Years	2017 Years
Software and Licenses	2-5	2-5
Concession	18	18
3G and 2G Licenses	10	10
4G License	20	20

Amortization is charged to the Income statement on a straight-line basis over the estimated useful lives of intangible assets. Intangible assets are amortized from the date they are available for use. The assets useful lives are reviewed, and adjusted if appropriate, at least once a year (see note 7).

In determining whether an asset that incorporates both tangible and intangible elements should be treated under IAS 16 - Property, Plant and Equipment or as an intangible asset under IAS 38 - Intangible Assets, management uses judgment to assess which element is more significant and recognizes the assets accordingly.

3.7. Impairment of tangible and intangible assets

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment.

Assets that are subject to amortization or depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and its value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units - CGUs).

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Impairment losses are recognized in the Income statement (Other operating expenses). Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

3.8. Provisions and contingent liabilities

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Provisions are measured and recorded as the best estimate of the economic outflow required to settle the present obligation at the balance sheet date. The estimate can be calculated as the weighted average of estimated potential outcomes or can also be the single most likely outcome. The provision charge is recognized in the Income statement (Provisions for liabilities and charges).

No provision is recognized for contingent liabilities. A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or a present obligation that arises from past events but is not recognized because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability.

3.9. Share capital

Ordinary shares are classified as equity.

3.10. Treasury shares

When the Company purchases the Company's equity share capital, the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to the owners as treasury shares until the shares are cancelled or reissued. When such shares are subsequently reissued, the treasury share balance decreases by the original cost of the shares, thereby increasing equity, while any gains or losses are also recognized in equity (Retained earnings). Treasury shares transactions are recorded on the transaction date.

3.11. Statutory reserves

Under local statutory legislation, the Company was required to set aside minimum 15 percent of its net profit for the year in a statutory reserve until the level of the reserve reaches 1/5 of the share capital. With the changes of the Law on Trading Companies effective from 1 January 2013, the Company is required to set aside minimum 5 percent of its net profit for the year in accordance with the adopted international financial reporting standards published in the "Official Gazette of the Republic of North Macedonia" in a statutory reserve until the level of the reserve reaches 1/10 of the share capital. These reserves are used to cover losses and are not distributed to shareholders except in the case of bankruptcy of the Company.

3.12. Revaluation reserves

The revaluation reserve relates to tangible and intangible assets and comprises the cumulative increased carrying value using official revaluation coefficients based on the general manufactured goods price increase index producers price index on the date of revaluation. The last revaluation of tangible and intangible assets was made in year 2000. When the revaluated assets are fully depreciated or disposed the relevant portion of the revaluation reserve is transferred to Retained earnings.

3.13. Revenues

Revenues for all services and equipment sales (see note 13) are shown net of VAT and discounts. Revenue is recognized when the amount of the revenue can be reliably measured, and when it is probable that future economic benefits will flow to the Company and all other specific recognition criteria of IAS 18 on the sale of goods and rendering of services are met for the provision of each of the Company's services and sale of goods.

Customers of the Company are granted loyalty awards (credit points) based on their usage of the Company's services including timely payment of their invoices. Loyalty awards can be accumulated and redeemed to obtain future benefits (e.g. handsets, telecommunication equipment, etc.) from the operators of the Company. When customers earn their credit points,

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the fair value of the credit points earned are deducted from the revenue invoiced to the customer, and recognized as Deferred revenue. On redemption (or expiry) of the points, the deferred revenue is released to revenue as the customer has collected (or waived) the undelivered element of the deemed bundle.

Revenues from operating leases are recognized on a straight line basis over the period the services are provided.

3.13.1. Fixed line and mobile telecommunications revenues

Revenue is primarily derived from services provided to subscribers and other third parties using telecommunications network, and equipment sales.

Customer subscriber arrangements typically include an equipment sale, subscription fee and charge for the actual voice, internet, data or multimedia services used. The Company considers the various elements of these arrangements to be separate earnings processes and recognizes the revenue for each of the deliverables using the residual method. These units are identified and separated, since they have value on a standalone basis and are sold not only in a bundle, but separately as well. Therefore the Company recognizes revenues for all of these elements using the residual method that is the amount of consideration allocated to the delivered elements of the arrangements equals the total consideration less the fair value of the undelivered elements.

The Company provides customers with narrow and broadband access to its fixed, mobile and TV distribution networks. Service revenues are recognized when the services are provided in accordance with contractual terms and conditions. Airtime revenue is recognized based upon minutes of use and contracted fees less credits and adjustments for discounts, while subscription and flat rate revenues are recognized in the period they relate to.

Revenues and expenses associated with the sale of telecommunications equipment and accessories are recognized when the products are delivered, provided there are no unfulfilled company obligations that affect the customer's final acceptance of the arrangement.

Revenues from premium rate services (voice and non-voice) are recognized on a gross basis when the delivery of the service over the network is the responsibility of the Company; the Company establishes the prices of these services and bears substantial risks of these services, otherwise presented on a net basis.

Customers may also purchase prepaid mobile, public phone and internet credits ("prepaid cards") which allow those customers to use the telecommunication network for a selected amount of time. Customers must pay for such services at the date when the card is purchased. Revenues from the sale of prepaid cards are recognized when used by the customers or when the cards expired with unused traffic.

Third parties using the telecommunications network include roaming customers of other service providers and other telecommunications providers which terminate or transit calls on the network. These wholesale (incoming) traffic revenues are recognized in the period of related usage. A proportion of the revenue received is often paid to other operators (interconnect) for the use of their networks, where applicable. The revenues and costs of these terminate or transit calls are stated gross in these annual accounts as the Company is the principal supplier of these services using its own network freely defining the pricing of the service, and recognized in the period of related usage.

3.13.2. System integration and IT revenues

Contracts for network services consist of the installation and operation of communication networks for customers. Revenues for voice and data services are recognized under such contracts when used by the customer.

Revenue from system integration contracts requiring the delivery of customized products and/or services is generally covered by fixed-price contracts and revenue is recognized based on percentage of completion taking into account the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs.

Revenue from hardware and sales is recognized when the risk of ownership is substantially transferred to the customer, provided there are no unfulfilled obligations that affect the customer's final acceptance of the arrangement. Any costs of these obligations are recognized when the corresponding revenue is recognized.

Revenues from construction contracts are accounted for using the percentage-of-completion method. The stage of completion is determined on the basis of the costs incurred to date as a proportion of the estimated total costs. Receivables from construction contracts are classified in the Balance sheet as Trade receivables.

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3.14. Employee benefits

3.14.1. Short term employee benefits and pensions

The Company, in the normal course of business, makes payments on behalf of its employees for pensions, health care, employment and personnel tax which are calculated according to the statutory rates in force during the year, based on gross salaries and wages. Holiday allowances are also calculated according to the local legislation. The Company makes these contributions to the Governmental and private funds. The cost of these payments is charged to the Income statement in the same period as the related salary cost. No provision is created for holiday allowances for non-used holidays as according to the local legislation the employer is obliged to provide condition for usage, and the employee to use the annual holiday within one year. This is also exercised as Company policy and according to the historical data employees use their annual holiday within the one year legal limit. The Company does not operate any other pension scheme or post-retirement benefits plan and consequently, has no obligation in respect of pensions. The Company has contractual obligation to pay to employees three average monthly salaries in Republic of North Macedonia at their retirement date according to the Collective agreement between the Company and the Trade Union of the Company, for which appropriate liability is recognized in the annual accounts measured at the present value of three average monthly salaries together with adjustments incorporated in the actuarial calculation. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high quality bonds that are denominated in the currency in which the benefits will be paid. In addition, the Company is not obligated to provide further benefits to current and former employees.

3.14.2. Bonus plans

The Company recognizes a liability and an expense for bonuses taking into consideration the financial and operational results. The Company recognizes a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

3.14.3. Termination benefits

Termination benefits are payable whenever an employee's employment is terminated before the nominal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Company recognizes termination benefits when it is demonstrably committed to either terminate the employment of current employees according to a detailed formal plan without the possibility of withdrawal or to provide termination benefits as a result of an offer made to encourage voluntary redundancy.

3.15. Marketing expenses

Marketing costs are expensed as incurred. Marketing expenses are disclosed in note 15.

3.16. Income tax

According to the provisions of the profit tax law, the tax base is the profit generated during the fiscal year increased for non-deductible expenses and reduced for deductible revenue (i.e. dividends already taxed at the payer) and the income tax rate is 10%. In line with these income tax for the year was calculated and recorded in the Income statement.

3.17. Leases

3.17.1. Operating lease –Company as lessor

Assets leased to customers under operating leases are included in tangible assets in the Balance sheet. They are depreciated over their expected useful lives on a basis consistent with similar fixed assets. Rental income is recognized on a straight-line basis over the lease term.

3.17.2. Operating lease –Company as lessee

Costs in respect of operating leases are charged to the Income statement on a straight-line basis over the lease term.

Notes to the annual accounts

3.18. Earnings per share

Basic earnings per share is calculated by dividing profit attributable to the equity holders of the Company for the period by the weighted average number of common stocks outstanding.

3.19. Dividend distribution

Dividends are recognized as a liability and debited against equity in the Company's annual accounts in the period in which they are approved by the Company's shareholders.

3.20. Segments

The operating segments of the Company are based on the business lines, residential, business, wholesale and other, which is consistent with the internal reporting provided to the chief operating decision maker, the Chief Executive Officer (CEO) who is advised by the Management Committee (MC) of the Company. The CEO is responsible for allocating resources to, and assessing the performance of, the operating segments. The accounting policies and measurement principles of the operating segments are the same as those applied for the Company described in the Significant accounting policies (see note 3).

The operating segments' revenues include revenues from external customers and there are no internal revenues generated from other segments.

The operating segments' results are monitored by the CEO and the MC to Direct margin, which is defined by the Company as revenues less direct costs less Impairment losses on trade and other receivables.

The CEO and the MC do not monitor the assets and liabilities at segment level.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The Company makes estimates and assumptions concerning the future. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The most critical estimates and assumptions are outlined below.

4.1. Useful lives of assets

The determination of the useful lives of assets is based on historical experience with similar assets as well as any anticipated technological development and changes in broad economic or industry factors. The appropriateness of the estimated useful lives is reviewed annually, or whenever there is an indication of significant changes in the underlying assumptions. We believe that the accounting estimate related to the determination of the useful lives of assets is a critical accounting estimate since it involves assumptions about technological development in an innovative industry and heavily dependent on the investment plans of the Company. Further, due to the significant weight of depreciable assets in our total assets, the impact of any changes in these assumptions could be material to our financial position, and results of operations. As an example, if the Company was to shorten the average useful life of its assets by 10%, this would result in additional annual depreciation and amortization expense of approximately MKD 258,289,936 (2017: MKD 242,571,852). See notes 7 and 8 for the changes made to useful lives in 2018.

The Company constantly introduces a number of new services or platforms including, but not limited to the Universal Mobile Telecommunications System (UMTS) and the Long Term Evolution (LTE) based broadband services in the mobile communications and the fiber-to-the-home rollout in the fixed line operations. In case of the introduction of such new services, the Company conducts a revision of useful lives of the already existing platforms, but in the vast majority of the cases these new services are designed to co-exist with the existing platforms, resulting in no change-over to the new technology. Consequently, the useful lives of the existing platforms usually do not require shortening.

4.2. Estimated impairment of tangible and intangible assets

We assess the impairment of identifiable tangibles and intangibles whenever there is a reason to believe that the carrying value may materially exceed the recoverable amount and where impairment of value is anticipated. The calculations of recoverable amounts are primarily determined by value in use calculations, which use a broad range of estimates and factors affecting those. Among others, we typically consider future revenues and expenses, technological obsolescence, discontinuance of services and other changes in circumstances that may indicate impairment. If impairment is identified using

Notes to the annual accounts

the value in use calculations, we also determine the fair value less cost to sell (if determinable), to calculate the exact amount of impairment to be charged. As this exercise is highly judgmental, the amount of a potential impairment may be significantly different from that of the result of these calculations. Management has performed an impairment test based on a 10 years cash flow projection and used a perpetual growth rate of 2% (2017: 2%) to determine the terminal value after 10 years. The discount rate used was 8.36% (2017: 8.39%). The impairment test did not result in impairment.

4.3. Estimated impairment of trade and other receivables

We calculate impairment for doubtful accounts based on estimated losses resulting from the inability of our customers to make the required payments. For the largest customers, international customers and for customers under liquidation and bankruptcy proceedings impairment is calculated on an individual basis, while for other customers it is estimated on a portfolio basis, for which we base our estimate on the aging of our account receivables balance and our historical write-off experience, customer credit-worthiness and recent changes in our customer payment terms (see note 3.2.1 (b)). These factors are reviewed annually, and changes are made to the calculations when necessary. In 2018 the Company carried out detailed analysis on the groups of customers on which collective assessment of impairment is performed which resulted in changes in the related impairment rates due to different payment behavior, resulting in new impairment rates of trade and other receivables in . If the financial condition of our customers were to deteriorate, actual write-offs of currently existing receivables may be higher than expected and may exceed the level of the impairment losses recognized so far (see note 6.1.2).

4.4. Provisions

Provisions in general are highly judgmental, especially in case of legal disputes. The Company assesses the probability of an adverse event as a result of a past event and if the probability of an outflow of economic benefits is evaluated to be more than 50%, the Company fully provides for the total amount of the estimated liability (see note 3.8). As the assessment of the probability is highly judgmental in some cases the evaluation may not prove to be in line with the eventual outcome of the case. In order to determine the probabilities of an adverse outcome, the Company uses internal and external legal counsel.

4.5. Subscriber acquisition costs

Subscriber acquisition costs primarily include the loss on the equipment sales (revenues and costs presented on a gross basis) and fees paid to subcontractors that act as agents to acquire new customers or retain the existing subscribers. The Company's agents also spend a portion of their agent fees for marketing the Company's products, while a certain part of the Company's marketing costs could also be considered as part of the subscriber acquisition costs. The up-front fees collected from customers for activation or connection are marginal compared to the acquisition costs. These revenues and costs are recognized when the customer is connected to the Company's fixed or mobile networks. No such costs or revenues are capitalized or deferred. These acquisition costs (losses) are recognized immediately as expense (Other operating expenses) as they are not accurately separable from other marketing costs.

5. CHANGE IN ACCOUNTING POLICY AND ERRORS

Accounting policy is consistently applied in periods presented in these annual accounts.

6. FINANCIAL RISK MANAGEMENT

6.1. Financial risk factors

The Company does not apply hedge accounting for its financial instruments, all gains and losses are recognized in the Income statement. The Company is exposed in particular to credit risks related to its financial assets and risks from movements in exchange rates, interest rates, and market prices that affect the fair value and/or the cash flows arising from financial assets and liabilities. Financial risk management aims to limit these market and credit risks through ongoing operational and finance activities.

The detailed descriptions of risks, the management thereof as well as sensitivity analyses are provided below. Sensitivity analyses include potential changes in profit before tax. The potential impacts disclosed (less tax) are also applicable to the Company's equity.

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6.1.1. Market risk

Market risk is defined as the 'risk that the fair value or value of future cash flows of a financial instrument will fluctuate because of changes in market prices' and includes interest rate risk, currency risk and other price risk.

As the vast majority of the revenues and expenses of the Company arise in MKD, the functional currency of the Company is MKD, and as a result, the Company objective is to minimize the level of its financial risk in MKD terms.

For the presentation of market risks, IFRS 7 requires sensitivity analyses that show the effects of hypothetical changes of relevant risk variables on profit or loss and shareholders' equity. The periodic effects are determined by relating the hypothetical changes in the risk variables to the balance of financial instruments at the balance sheet date. The balances at the end of the reporting period are usually representative for the year as a whole, therefore the impacts are calculated using the year end balances as though the balances had been constant throughout the reporting period. The methods and assumptions used in the sensitivity calculations have been updated to reflect the current economic situation.

a) Foreign currency risk

The functional currency of the Company is the Macedonian denar.

The foreign exchange risk exposure of the Company is related to holding foreign currency cash balances, and operating activities through revenues from and payments to international telecommunications carriers as well as capital expenditure contracted with vendors in foreign currency.

The currency giving rise to this risk is primarily the EUR. The Company uses cash deposits in foreign currency, predominantly in EUR, and cash deposits in denars linked to foreign currency, to economically hedge its foreign currency risk in accordance with the available banks offers. The Company manages net liability foreign exchange risk through maintaining higher amount of deposits in EUR.

The foreign currency risk sensitivity information required by IFRS 7 is limited to the risks that arise on financial instruments denominated in currencies other than the functional currency in which they are measured.

At 31 December 2018, if MKD would have been 1% weaker or stronger against EUR, profit would have been MKD 6,944,545 in net balance lower or higher, respectively. At 31 December 2017, if MKD would have been 1% weaker or stronger against EUR, profit would have been MKD 8,251,142 in net balance lower or higher, respectively. At 31 December 2018, if MKD would have been 10% weaker or stronger against USD, profit would have been MKD 663,179 in net balance lower or higher, respectively. At 31 December 2017, if MKD would have been 10% weaker or stronger against USD, profit would have been MKD 2,466,362 in net balance higher or lower, respectively.

b) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Change in the interest rates and interest margins may influence financing costs and returns on financial investments.

The Company is minimizing interest rate risk through defining of fixed interest rates in the period of the validity of certain financial investments. On the other hand fix term deposits may be prematurely terminated, since the contracts contain a clause that, the bank will calculate and pay interest by interest rate which is valid on the nearest maturity period of the deposit in accordance with the interest rates given in the offer.

In case of significant increase of the market interest rates, deposit may be terminated and replaced by new deposit with interest rate more favorable for the Company at lowest possible cost.

The investments are limited to relatively low risk financial investment forms in anticipation of earning a fair return relative to the risk being assumed.

The Company has no floating interest bearing liabilities, while it incurs interest rate risk on cash deposits with banks and loans to employees. No policy to hedge the interest rate risk is in place. Changes in market interest rates affect the interest income on deposits with banks.

The Company had MKD 1,254,440,015 deposits (including call deposits) and cash in bank as at 31 December 2018, 1% rise in market interest rate would have caused (ceteris paribus) the interest received to increase with approximately MKD 12,544,400 annually, while similar decrease would have caused the same decrease in interest received. The amount of deposits (including call deposits) and cash in bank is MKD 1,185,635,272 as at 31 December 2017, therefore 1% rise in

Notes to the annual accounts

market interest rate would have caused (*ceteris paribus*) the interest received to increase with approximately MKD 11,856,353 annually, while similar decrease would have caused the same decrease in interest received.

c) Other price risk

The Company's investments are in equity of other entities that are publically traded on the Macedonian Stock Exchange, both on its Official and Regular market. The management continuously monitors the portfolio equity investments based on fundamental and technical analysis of the shares. All buy and sell decisions are subject to approval by the relevant Company's bodies. In line with the Company strategy, the investments within portfolio are kept until there are favorable market conditions for their sale.

As part of the presentation of market risks, IFRS 7 also requires disclosures on how hypothetical changes in risk variables affect the price of financial instruments. As at 31 December 2018 and 31 December 2017, the Company holds investments, which could be affected by risk variables such as stock exchange prices.

The Company had MKD 103,305,678 investments in equity of other entities that are publically traded on the Macedonian Stock Exchange as at 31 December 2018, 20% rise in market price would have caused (*ceteris paribus*) MKD 20,661,136 gain, while similar decrease would have caused the same loss in the Income statement. The amount of the investments in equity of other entities that are publically traded on the Macedonian Stock Exchange is MKD 63,924,890 as at 31 December 2017, therefore 20% rise in market price would have caused (*ceteris paribus*) MKD 12,784,978 gain, while similar decrease would have caused the same loss in the Income statement.

6.1.2. Credit risk

Credit risk is defined as the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

The Company is exposed to credit risk from its operating activities and certain financing activities.

Counterparty limits are determined based on the provided Letter of guarantees in accordance with the market conditions of those banks willing to issue a bank guarantee. The total amount of bank guarantees that will be provided should cover the amount of the projected free cash of the Company.

With regard to financing activities, transactions are primarily to be concluded with counterparties (banks) that have at least a credit rating of BBB+ (or equivalent) or where the counterparty has provided a guarantee where the guarantor has to be at least BBB+ (or equivalent).

The depositing decisions are made based on the following priorities:

- To deposit in banks (Deutsche Telekom core banks, if possible) with provided bank guarantee from the banks with the best rating and the best quality wording of the bank guarantee.
- To deposit in banks with provided bank guarantee from the banks with lower rating and poorer quality wording of the bank guarantee.
- Upon harmonization and agreement with the parent company these rules can be altered for ensuring full credit risk coverage. If the total amount of deposits cannot be placed in banks covered with bank guarantees with at least BBB+ rating (or equivalent credit rating), then depositing will be performed in local banks without bank guarantee.

The process of managing the credit risk from operating activities includes preventive measures such as creditability checking and prevention barring, corrective measures during legal relationship for example reminding and disconnection activities, collaboration with collection agencies and collection after legal relationship as litigation process and court proceedings. The overdue payments are monitored based on customer's type amount of debt average invoiced amount and number of disconnections.

The credit risk is controlled through credibility checking – which determines that the customer is not indebted and the customer's credit worthiness and through preventive barring – which determinates the credit limit based on the customer's previous traffic revenues.

The Company has no significant concentration of credit risk with any single counter party or group of counter parties having similar characteristics.

The Company's procedures ensure on a permanent basis that sales are made to customers with an appropriate credit history and not exceed an acceptable credit exposure limit.

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The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the Balance sheet. Consequently, the Company considers that its maximum exposure is reflected by the amount of debtors net of provisions for impairment recognized and the amount of cash deposits in banks at the balance sheet date.

Largest amount of one deposit in 2018 is MKD 491,960,000 denominated in EUR 8,000,000 (2017: MKD 430,434,900 denominated in EUR 7,000,000). In addition, the Company has deposits with 1 domestic bank (2017: 1 domestic bank). The Company has obtained collateral (guarantee) that mitigate the credit risk for the extent of the deposited amount in the respective bank.

6.1.3. Liquidity risk

Liquidity risk is the risk that an entity may encounter difficulty in meeting obligations associated with financial liabilities.

Liquidity risk is defined as the risk that the Company could not be able to settle or meet its obligations on time.

The investment portfolio should remain sufficiently liquid to meet all operating requirements that can be reasonably anticipated. This is accomplished by structuring the portfolio so that financial instruments mature concurrently with cash needs to meet anticipated demands.

The Company's policy is to maintain sufficient cash and cash equivalents to meet its commitments in the foreseeable future. Any excess cash is mostly deposited in commercial banks.

The Company's liquidity management process includes projecting cash flows by major currencies and considering the level of necessary liquid assets, considering business plan, historical collection and outflow data. Monthly, semi-annually and annually cash projections are prepared and updated on a daily basis.

6.2. Capital management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The total amount of equity managed by the Company, as at 31 December 2018, is MKD 14,174,620,342, in accordance with the adopted international financial reporting standards published in the "Official Gazette of the Republic of North Macedonia" (2017: MKD 14,163,408,842). Out of this amount MKD 9,583,887,733 (2017: MKD 9,583,887,733) represent share capital and MKD 958,388,774 (2017: MKD 958,388,774) represent statutory reserves, which are not distributable (see note 3.11). The Company has also acquired treasury shares (see notes 3.10 and 11.1). The transaction is in compliance with the local legal requirements that by acquiring treasury shares the total equity of the Company shall not be less than the amount of the share capital and reserves which are not distributable to shareholders by law or by Company's statute. In addition, according the local legal requirements dividends can be paid out to the shareholders in amount that shall not exceed the net profit for the year as presented in the annual accounts of the Company, increased for the undistributed net profit from previous years or increased for the other distributable reserves, i.e. reserves that exceed the statutory reserves and other reserves defined by the Company's statute. The Company is in compliance with all statutory capital requirements.

6.3. Fair value estimation

Cash and cash equivalents, trade receivables and other current financial assets mainly have short term maturity. For this reason, their carrying amounts at the reporting date approximate their fair values.

The fair value of the non-current portion of trade receivables comprising of employee loans is determined by using discounted cash-flow valuation technique.

The fair value of publicly traded financial assets at fair value through profit and loss is based on quoted market prices at the balance sheet date.

Financial liabilities included in the Balance sheet mainly have short term maturity. For this reason, their carrying amounts at the reporting date approximate their fair values.

The fair value of the long term financial liabilities is determined by using discounted cash-flow valuation technique.

Notes to the annual accounts

7. INTANGIBLE ASSETS

In denars	Software and licenses	Concession, 2G 3G and 4G license	Other	Assets under construction	Total
Cost					
At 1 January 2018	4,600,918,911	1,525,417,256	1,486,193,522	221,753,958	7,834,283,647
Additions	86,858,949	-	280,429,766	238,337,725	605,626,440
Transfer from assets under construction (see note 8)	504,045,429	-	-	(172,113,965)	331,931,464
Disposals	(23,842,184)	-	-	-	(23,842,184)
At 31 December 2018	<u>5,167,981,105</u>	<u>1,525,417,256</u>	<u>1,766,623,288</u>	<u>287,977,718</u>	<u>8,747,999,367</u>
Amortization					
At 1 January 2018	3,587,864,785	937,814,214	625,184,179	-	5,150,863,178
Charge for the year	517,438,545	49,855,787	384,208,554	-	951,502,886
Disposals	(23,842,184)	-	-	-	(23,842,184)
At 31 December 2018	<u>4,081,461,146</u>	<u>987,670,001</u>	<u>1,009,392,733</u>	<u>-</u>	<u>6,078,523,880</u>
Carrying amount					
At 1 January 2018	<u>1,013,054,126</u>	<u>587,603,042</u>	<u>861,009,343</u>	<u>221,753,958</u>	<u>2,683,420,469</u>
At 31 December 2018	<u>1,086,519,959</u>	<u>537,747,255</u>	<u>757,230,555</u>	<u>287,977,718</u>	<u>2,669,475,487</u>

In 2018 review of the TV content rights contracts was performed and two contracts were identified as qualifying for capitalization. Accordingly, these rights were recognized in 2018 in Intangible assets, category Other, at the net present value of future payments in amount of MKD 280,429,766 and will be amortized over the contracts term (see note 12).

In denars	Software and licenses	Concession, 2G 3G and 4G license	Other	Assets under construction	Total
Cost					
At 1 January 2017	4,860,625,219	1,525,417,256	657,340,905	186,387,088	7,229,770,468
Additions	118,388,023	-	828,852,617	195,967,210	1,143,207,850
Transfer from assets under construction (see note 8)	246,063,906	-	-	(160,600,340)	85,463,566
Disposals	(624,158,237)	-	-	-	(624,158,237)
At 31 December 2017	<u>4,600,918,911</u>	<u>1,525,417,256</u>	<u>1,486,193,522</u>	<u>221,753,958</u>	<u>7,834,283,647</u>
Amortization					
At 1 January 2017	3,762,015,610	829,218,016	332,317,364	-	4,923,550,990
Charge for the year	450,461,265	108,596,198	292,866,815	-	851,924,278
Disposals	(624,158,237)	-	-	-	(624,158,237)
Transfer between group of assets	(453,853)	-	-	-	(453,853)
At 31 December 2017	<u>3,587,864,785</u>	<u>937,814,214</u>	<u>625,184,179</u>	<u>-</u>	<u>5,150,863,178</u>
Carrying amount					
At 1 January 2017	<u>1,098,609,609</u>	<u>696,199,240</u>	<u>325,023,541</u>	<u>186,387,088</u>	<u>2,306,219,478</u>
At 31 December 2017	<u>1,013,054,126</u>	<u>587,603,042</u>	<u>861,009,343</u>	<u>221,753,958</u>	<u>2,683,420,469</u>

Notes to the annual accounts

In 2017 review of the TV content rights contracts was performed and five contracts were identified as qualifying for capitalization. Accordingly, these rights were recognized in 2017 in Intangible assets, category Other, at the net present value of future payments in amount of MKD 823,273,214 and will be amortized over the contracts term (see note 12).

The reviews of the useful lives of intangible assets during 2018 affected the lives of a number of assets, mainly concession and software. The change of the useful live of concession contract was due to prolongation of the validity of the license. The change on the useful life of the other affected intangible assets was made according to technological changes and business plans of the Company. The reviews resulted in the following change in the original trend of amortization in the current and future years.

In denars	2018	2019	2020	2021	After 2021
(Decrease)/increase in amortization	(88,798,736)	(17,549,732)	27,463,055	20,118,809	58,766,605
	<u>(88,798,736)</u>	<u>(17,549,732)</u>	<u>27,463,055</u>	<u>20,118,809</u>	<u>58,766,605</u>

8. TANGIBLE ASSETS

In denars	Land	Buildings	Telecom. equipment	Other	Assets under construction	Total
Cost						
At 1 January 2018	27,878,069	6,235,608,911	23,123,269,879	4,176,131,530	2,582,124,112	36,145,012,501
Additions	-	3,219,169	459,153,290	127,987,481	841,726,623	1,432,086,563
Transfer from assets under construction (see note 7)	-	13,093,298	1,035,914,205	114,811,959	(1,495,750,926)	(331,931,464)
Disposals	-	(760,000)	(211,319,995)	(294,471,717)	-	(506,551,712)
At 31 December 2018	<u>27,878,069</u>	<u>6,251,161,378</u>	<u>24,407,017,379</u>	<u>4,124,459,253</u>	<u>1,928,099,809</u>	<u>36,738,615,888</u>
Depreciation						
At 1 January 2018	-	2,774,496,318	18,920,164,845	3,550,889,275	-	25,245,550,438
Charge for the year	-	159,644,674	938,212,206	275,249,660	-	1,373,106,540
Disposals	-	(760,000)	(210,874,919)	(282,601,534)	-	(494,236,453)
At 31 December 2018	-	<u>2,933,380,992</u>	<u>19,647,502,132</u>	<u>3,543,537,401</u>	-	<u>26,124,420,525</u>
Carrying amount						
At 1 January 2018	<u>27,878,069</u>	<u>3,461,112,593</u>	<u>4,203,105,034</u>	<u>625,242,255</u>	<u>2,582,124,112</u>	<u>10,899,462,063</u>
At 31 December 2018	<u>27,878,069</u>	<u>3,317,780,386</u>	<u>4,759,515,247</u>	<u>580,921,852</u>	<u>1,928,099,809</u>	<u>10,614,195,363</u>

In 2018, the Company capitalized MKD 3,650,400 (2017: MKD 35,700) expenditures related to obtaining complete documentation for base stations and MKD 4,428,216 (2017: MKD 8,039,708) expenditures related to obtaining complete documentation for fixed line infrastructure in accordance to applicable laws in Republic of North Macedonia (see note 3.5).

Notes to the annual accounts

In denars	Land	Buildings	Telecom. equipment	Other	Assets under construction	Total
Cost						
At 1 January 2017	27,833,334	6,247,384,664	23,416,262,532	4,102,532,211	2,131,416,574	35,925,429,315
Additions	44,735	3,403,264	370,528,967	129,880,824	847,062,134	1,350,919,924
Transfer from assets under construction (see note 7)	-	8,282,836	193,615,422	108,992,772	(396,354,596)	(85,463,566)
Disposals	-	(6,604,885)	(857,137,042)	(165,036,816)	-	(1,028,778,743)
Transfer to assets held for sale	-	(16,856,968)	-	(237,461)	-	(17,094,429)
At 31 December 2017	<u>27,878,069</u>	<u>6,235,608,911</u>	<u>23,123,269,879</u>	<u>4,176,131,530</u>	<u>2,582,124,112</u>	<u>36,145,012,501</u>
Depreciation						
At 1 January 2017	-	2,631,123,362	18,887,031,973	3,412,499,909	-	24,930,655,244
Charge for the year	-	162,664,358	890,277,922	278,280,108	-	1,331,222,388
Disposals	-	(5,792,334)	(857,137,042)	(140,115,142)	-	(1,003,044,518)
Transfer to assets held for sale	-	(13,499,068)	-	(237,461)	-	(13,736,529)
Transfer between group of assets	-	-	(8,008)	461,861	-	453,853
At 31 December 2017	<u>-</u>	<u>2,774,496,318</u>	<u>18,920,164,845</u>	<u>3,550,889,275</u>	<u>-</u>	<u>25,245,550,438</u>
Carrying amount						
At 1 January 2017	<u>27,833,334</u>	<u>3,616,261,302</u>	<u>4,529,230,559</u>	<u>690,032,302</u>	<u>2,131,416,574</u>	<u>10,994,774,071</u>
At 31 December 2017	<u>27,878,069</u>	<u>3,461,112,593</u>	<u>4,203,105,034</u>	<u>625,242,255</u>	<u>2,582,124,112</u>	<u>10,899,462,063</u>

The reviews of the useful lives and residual values of property, plant and equipment during 2018 affected the lives of a several types of assets, transmissions systems, exchanges, base stations, IT equipment and other technical equipment. The change of the useful life on the affected assets was made due to technological changes and business plans of the Company.

The reviews resulted in the following change in the original trend of depreciation in the current and future years.

In denars	2018	2019	2020	2021	After 2021
(Decrease)/ increase in depreciation	<u>(29,950,415)</u>	<u>(32,386,684)</u>	<u>(3,061,272)</u>	<u>31,036,921</u>	<u>34,361,450</u>
	<u>(29,950,415)</u>	<u>(32,386,684)</u>	<u>(3,061,272)</u>	<u>31,036,921</u>	<u>34,361,450</u>

9. TRADE RECEIVABLES

In denars	2018	2017
Trade receivables – domestic	4,600,817,093	4,387,015,361
Trade receivables – foreign	78,199,912	77,944,906
Impairment of receivables	<u>(1,953,911,482)</u>	<u>(1,947,351,045)</u>
	<u>2,725,105,523</u>	<u>2,517,609,222</u>

10. CASH

In denars	2018	2017
Cash in banks – domestic currency	35,976,222	38,772,605
Cash in banks – foreign currency	224,969,391	186,344,237
Cash on hand – domestic currency	5,355,279	17,241,783
Cash on hand – foreign currency	2,108	3,493
	<u>266,303,000</u>	<u>242,362,118</u>

Notes to the annual accounts

11. SHARE CAPITAL

In denars

Type of shares	Ownership	1 January 2018	%	Increase	Decrease	31 December 2018	%
Ordinary shares	Private persons	187,366,800	1.96		(1,572,000)	185,794,800	1.94
	Legal entities	5,101,636,000	53.23	1,572,000		5,103,208,000	53.25
	Treasury shares	958,387,800	10.00	-	-	958,387,800	10.00
	Government of RM	3,336,487,400	34.81	-	-	3,336,487,400	34.81
Preference shares	Government of RM	9,733	0.00	-	-	9,733	0.00
Total		9,583,887,733	100.00	1,572,000	(1,572,000)	9,583,887,733	100.00

Type of shares	Ownership	1 January 2017	%	Increase	Decrease	31 December 2017	%
Ordinary shares	Private persons	193,957,600	2.03		(6,590,800)	187,366,800	1.96
	Legal entities	5,095,045,200	53.16	6,590,800		5,101,636,000	53.23
	Treasury shares	958,387,800	10.00	-	-	958,387,800	10.00
	Government of RM	3,336,487,400	34.81	-	-	3,336,487,400	34.81
Preference shares	Government of RM	9,733	0.00	-	-	9,733	0.00
Total		9,583,887,733	100.00	6,590,800	(6,590,800)	9,583,887,733	100.00

The golden share with a nominal value of MKD 9,733 is held by the Government of the Republic of North Macedonia. In accordance with Article 16 of the Statute, the golden shareholder has additional rights not vested in the holders of ordinary shares. Namely, no decision or resolution of the Shareholders' Assembly related to: generating, distributing or issuing of share capital; integration, merging, separation, consolidation, transformation, reconstruction, termination or liquidation of the Company; alteration of the Company's principal business activities or the scope thereof; sale or abandonment either of the principal business activities or of significant assets of the Company; amendment of the Statute of the Company in such a way so as to modify or cancel the rights arising from the golden share; or change of the brand name of the Company; is valid if the holder of the golden share, votes against the respective resolution or decision. The rights vested in the holder of the golden share are given in details in the Company's Statute.

11.1. Treasury shares

The Company acquired 9,583,878 of its own shares, representing 10% of its shares, through the Macedonian Stock Exchange during June, 2006. The total amount paid to acquire the shares, net of income tax, was MKD 3,843,504,722. The shares are held as treasury shares.

As a result of the findings of the Investigation, for one consultancy contract, the payments of which was derecognized from treasury shares (see note 1.4).

The amount of treasury shares of MKD 3,738,357,350 (after derecognition), has been deducted from shareholders' equity. The Company has the right to reissue these shares at a later date. All shares issued by the Company were fully paid.

11.2. Statutory reserves

The Shareholders' Assembly of the Company, at its meeting, held on 12 April 2016 adopted a Resolution for distribution of MKD 279,145,260, which exceeds the legally defined obligatory general reserve of the Company as a result of the accession of TMMK towards the Company, in the retained earnings of the Company.

Notes to the annual accounts

12. CURRENT TRADE PAYABLES

In denars	2018	2017
Trade payables – domestic	1,369,076,313	1,191,841,385
Trade payables – foreign	677,138,430	260,729,745
Trade payables for un-invoiced goods	77,522,751	52,520,694
	<u>2,123,737,494</u>	<u>1,505,091,824</u>

In the category Trade payables – domestic MKD 3,074,750 (2017: MKD 3,074,535) represent the carrying amount of short term payables related to the transaction for purchase and sale of buildings with an exchange completed in 2012. These liabilities are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method. In the category Trade payables – foreign MKD 467,675,900 (2017: MKD 371,931,450) represent the carrying amount of short term payables related to the capitalization of certain content right contracts in 2014, 2015, 2016 and 2017 (see note 7). The long term part of the liabilities related to this transaction is presented as long - term trade payables in the Balance sheet in amount of MKD 354,743,769 (2017: MKD 513,713,836). These liabilities are recognized initially at the net present value of future payments and subsequently measured at amortized cost using the effective interest method. The unwinding of the discount is being recognized in Interest expenses in Income statement. The carrying amount of these liabilities approximates their fair value as the related cash flows are discounted with an interest rate of 3.25% and 6% p.a. which is the observable at the market for similar long term financial liabilities. The remaining balance of other financial liabilities arises from contractual obligations for various transactions, from the ordinary course of business of the Company.

At the regular Board of Directors meeting as of 13 September 2016 the Board of Directors adopted the Resolution on the conclusion of a Credit Facility Agreement between the Company, as the Borrower, and Magyar Telekom Plc., as the Lender, with the following main terms and conditions: Magyar Telekom Plc shall lend to the Company frame loan for maximum amount up to EUR 6 million (excluding interest), the disbursement of the loan shall be made based on the Credit Facility Agreement and on the need to need basis, followed by signing of Utilization Notice to the Credit Facility Agreement specifying the value date of the disbursement and the amount of the loan and the loan should be repaid in accordance with the available cash and considering the operational liquidity of the Company up to 31 March 2017. The Company has not utilized any amount from the Credit Facility Agreement.

13. SALES REVENUES

In denars	2018	2017
Sales revenues – domestic	9,793,428,852	9,446,923,125
Sales revenues – foreign	631,501,847	774,171,059
	<u>10,424,930,699</u>	<u>10,221,094,184</u>

14. OTHER INCOME

In denars	2018	2017
Income from penalties	55,411,756	67,996,150
Net gain on disposal of non-current assets	-	4,158,517
Income from insurance compensation	5,582,714	8,491,894
Collected written off receivables	1,686,953	3,612,504
Written off liabilities	2,474,954	1,801,271
Other income	37,613,707	59,881,275
	<u>102,770,084</u>	<u>145,941,611</u>

In 2018 amount of MKD 23,286,785 (2017: MKD 35,063,567) in the category other Income mostly represents re-invoiced personal expenses for joint projects with Deutsche Telekom Group Companies.

Notes to the annual accounts

15. SERVICES WITH CHARACTER OF MATERIAL COST AND OTHER COSTS AND EXPENSES

In denars	2018	2017
Payment to network operators	907,732,622	894,255,895
Materials and maintenance	503,264,181	542,516,391
Services	516,661,905	532,000,414
Marketing and donations	276,647,038	316,738,603
Fees, levies and local taxes	267,635,333	280,807,467
Subcontractors	241,055,525	229,254,600
Royalty payments	125,654,540	190,864,056
Impairment losses on trade receivables	119,014,251	153,982,007
Rental fees	139,929,520	138,450,551
Consultancy	19,806,496	42,444,647
Write down of inventories	14,355,483	32,876,975
Scraping of non-current assets	5,073,406	21,227,854
Insurance	13,146,165	14,327,367
Other	27,457,196	16,596,503
	<u>3,177,433,661</u>	<u>3,406,343,330</u>

16. TRANSACTIONS WITH RELATED PARTIES

All transactions with related parties arise in the normal course of business and their value is not materially different from prevailing market terms and conditions.

The Government of the Republic of North Macedonia has 34.81% ownership in the Company (see note 15). Apart from payment of taxes, fees to Regulatory authorities according to local legislation and dividends (see note 23), in 2018 and 2017, the Company did not execute transactions with the Government of Republic of North Macedonia, or any companies controlled or significantly influenced by it, that were outside normal day-to-day business operations of the Company.

Transactions with related parties mainly include provision and supply of telecommunication services.

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

In denars	2018		2017	
	Revenues	Expenses	Revenues	Expenses
Controlling owner				
Magyar Telekom Plc	673,564	19,843,570	2,304,931	21,020,630
Subsidiaries of the controlling owner	12,857,116	2,855,424	12,778,511	2,507,918
Ultimate parent company				
Deutsche Telekom AG	481,945,115	222,200,355	575,875,020	230,832,332
Subsidiaries of the ultimate parent company	61,506,938	58,691,988	78,825,507	51,407,004
Entity controlled by key management personnel				
Mobico Dooel	-	-	199,236	1,314,381

In addition to the above presented revenues and expenses from transactions with Mobico Dooel, trading goods and assets in amount of MKD 2,561,964, excluding VAT, were purchased in 2017. Due to the change in management personnel of the Company amounts presented for Mobico Dooel in 2017 relates only to the period from 1 January to 30 June 2017.

Notes to the annual accounts

The receivables and payables with the Company's related parties are as follows:

In denars	2018		2017	
	Receivables	Payables	Receivables	Payables
Controlling owner Magyar Telekom Plc	5,492,020	4,301,150	5,858,147	9,845,201
Subsidiaries of the controlling owner	2,835,338	656,050	3,460,388	595,253
Ultimate parent company Deutsche Telekom AG	121,683,447	235,181,256	96,099,977	241,952,837
Subsidiaries of the ultimate parent company	51,851,188	73,970,272	117,035,691	61,404,764

17. EARNINGS PER SHARE

Basic and diluted earnings per share

Basic and diluted earnings per share (in denars)	<u>18.50</u>	<u>18.37</u>
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b) Weighted average number of common stocks outstanding as the denominator

Weighted average number of common stocks outstanding as the denominator for calculation basic and diluted earnings per share	<u>86,254,903</u>	<u>86,254,903</u>
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18. EVENTS AFTER THE BALANCE SHEET DATE

There are no events after the balance sheet date that would have impact on the 2018 Income statement and Balance sheet.

Nikola Ljushev
Chief Executive Officer

Slavko Projkoski
Chief Financial Officer

Goran Tilovski
Controlling, Accounting and Tax Director
Certified Accountant
Reg. No. 0105436