Makedonski Telekom AD - Skopje

Individual Financial Statements

For the year ended

31 December 2023

With the Report of the Auditor Thereon

Contents

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This is an English translation of the opinion from the Independent Auditor's Report and the Company's financial statements originally issued in Macedonian language

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders of Makedonski Telekom a.d. Skopje

We have audited the accompanying individual financial statements of MAKEDONSKI TELEKOM a.d. Skopje (hereinafter: "the Company"), which comprise the individual statement of financial position as at December 31, 2023, and the individual statement of comprehensive income, individual statement of changes in equity and individual statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these individual financial statements in accordance with the applicable accounting standards in the Republic of North Macedonia, and for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these individual financial statements based on our audit. We conducted our audit in accordance with the Law on Auditing and the applicable auditing standards in the Republic of North Macedonia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the individual financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the individual financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the individual financial statements, whether due to fraud or error. In making these risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the individual financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the individual financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

(Continued)

This is an English translation of the opinion from the Independent Auditor's Report and the Company's financial statements originally issued in Macedonian language

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders of Makedonski Telekom a.d. Skopje (Continued)

Opinion

In our opinion, the individual financial statements present fairly, in all material respects, the financial position of MAKEDONSKI TELEKOM a.d. Skopje as at December 31, 2023, and its financial performance and its cash flows for the year then ended in accordance with the applicable accounting standards in the Republic of North Macedonia.

Report on Other Legal and Regulatory Requirements

Management is responsible for the preparation of the Company's annual report and the Company's annual account in accordance with the Company Law, which were adopted and approved by the management of the Company on February 21, 2024. Our responsibility is to express an opinion on the consistency of the annual report with the annual account and the individual financial statements of the Company. We have performed our audit procedures in accordance with the Audit Law of the Republic of North Macedonia and International Standard on Auditing 720 – The Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements applicable in the Republic of North Macedonia. In our opinion, the historical financial information disclosed in the annual report is consistent with the annual account and the accompanying audited individual financial statements of the Company for the year ended December 31, 2023.

Deloitte DOO Skopje

Aleksandar Arizanov
Certified Auditor
Director

Aleksandar Arizanov
Certified Auditor

Skopje, February 21, 2024

Individual statement of financial position

In thousands of denars	Note	As at 31 December 2023	2022
Assets			
Current assets			
Cash and cash equivalents	5	1,079,490	733,224
Trade receivables	7	3,067,706	2,920,187
Other current financial assets	8	10,152	16,171
Other current assets	9	189,143	236,362
Inventories	10	338,464	419,613
Assets held for sale	11	13,805	307
Total current assets		4,698,760	4,325,864
Non-current assets			
Property, plant, and equipment	12	10,641,345	10,532,731
Advances for property, plant, and equipment		4,147	4,147
Intangible assets	13	3,519,662	3,601,338
Trade receivables	7	401,798	551,281
Other non-current financial assets	8	2,759	6,029
Financial assets at fair value through profit and loss	30.1	274,501	222,335
Other non-current assets		612	612
Deferred tax assets	14	63,948	56,639
Total non-current assets		14,908,772	14,975,112
Total assets		19,607,532	19,300,976
Liabilities			
Current liabilities			
Trade payables	15	2,557,430	2,711,150
Other current financial liabilities	16	560,865	583,205
Other current liabilities	17	501,558	519,199
Income tax payable		61,640	38,493
Provision for liabilities and charges	18	57,593	48,607
Total current liabilities		3,739,086	3,900,654
Non-current liabilities			
Other financial liabilities	16	329,992	402,887
Provision for liabilities and charges	18	70,256	73,511
Total non-current liabilities		400,248	476,398
Total liabilities		4,139,334	4,377,052
Equity			
Share capital		9,583,888	9,583,888
Share premium		540,659	540,659
Treasury shares		(3,738,358)	(3,738,358)
Statutory reserves	2.12	958,389	958,389
Revaluation reserves	2.13	865,576	865,576
Other reserves		22,291	22,291
Retained earnings		7,235,753	6,691,479
Total equity	19	15,468,198	14,923,924
Total equity and liabilities		19,607,532	19,300,976

These financial statements were authorized for issue on 21 February 2024 by the Management of Makedonski Telekom AD - Skopje and are subject to review and approval by the Board of Directors on 27 February 2024 and shareholders on date that will be subsequently agreed.

Nikola Ljushev
Chief Executive Officer

Slavko Projkoski
Chief Financial Officer

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

Individual statement of comprehensive income

In thousands of denars	Note	Year ended 31 December 2023	2022
Revenues	20	11,893,587	11,767,549
Depreciation and amortization	12,13	(2,433,320)	(2,442,756)
Personnel expenses	21	(1,115,122)	(1,013,581)
Payments to other network operators	21	(1,123,234)	(1,026,645)
Impairment losses on trade receivables	7	(133,024)	(133,501)
Other operating expenses	22	(4,703,467)	(5,206,866)
Operating expenses		(9,508,167)	(9,823,349)
Other operating income	23	76,347	34,581
Operating profit		2,461,767	1,978,781
Finance expenses	24	(37,029)	(110,199)
Finance income	25	74,208	24,807
Finance (expenses)/income - net		37,179	(85,392)
Profit before income tax		2,498,946	1,893,389
Income tax expense	26	(286,878)	(225,595)
Profit for the year		2,212,068	1,667,794
Total comprehensive income for the year		2,212,068	1,667,794
Earnings per share (EPS) information:			
Basic and diluted earnings per share (in denars)	34	25.65	19.34

Individual statement of cash flows

In thousands of denars	Note	Year ended 31 December 2023	2022
Operating activities			
Profit before tax		2,498,946	1,893,389
Adjustments for:			
Depreciation and amortization	12,13	2,433,320	2,442,756
Release of inventories to net realizable value	22	(1,013)	(1,500)
Fair value gain on financial assets	25	(52,166)	(7,415)
Impairment on trade receivables	7	137,394	138,821
Net increase of provisions	18	62,385	173,130
Net gain on disposal of property, plant, and equipment	23	(2,721)	(21,277)
Dividend income	25	(16,422)	(11,823)
Interest expense	24	33,594	24,643
Interest income	25	(360)	(2,449)
Other non-cash items (foreign exchange changes on cash and cash equivalents)		(343)	2,964
Cash generated from operations before changes in working capital		5,092,614	4,631,239
Change in assets carried as working capital		(609)	(521,705)
Change in liabilities carried as working capital		(180,418)	643,738
Cash generated from operations		4,911,587	4,753,272
Interest paid	16	(25,851)	(23,327)
Provisions paid	18	(46,074)	(181,357)
Taxes paid		(271,040)	(214,132)
Cash flows generated from operating activities		4,568,622	4,334,456
Investing activities			
Acquisition of property, plant, and equipment		(1,605,741)	(2,147,168)
Acquisition of intangible assets		(425,683)	(1,199,684)
Loans collected		3,849	4,563
Deposits collected from banks	6	-	677,897
Dividends received		16,422	11,823
Proceeds from sale of property, plant, and equipment		17,899	42,817
Interest received		360	2,449
Cash flows used in investing activities		(1,992,894)	(2,607,303)
Financing activities			
Dividends paid	27	(1,667,341)	(1,721,037)
Payments for TV content liabilities	16	(562,464)	(561,334)
Cash flows used in financing activities		(2,229,805)	(2,282,371)
Net increase/(decrease) in cash and cash equivalents		345,923	(555,218)
Cash and cash equivalents at 1 January		733,224	1,291,406
Effect of foreign exchange rate changes on cash and cash equivalents		343	(2,964)
Cash and cash equivalents at 31 December	5	1,079,490	733,224

Individual statement of changes in equity

In thousands of denars	Note	Share capital	Share premium	Treasury shares	Statutory reserve	Revaluation reserves	Other reserves	Retained earnings	Total
Balance at 1 January 2022		9,583,888	540,659	(3,738,358)	958,389	865,576	22,291	6,745,665	14,978,110
Total comprehensive income for the year		-	-	-	-	-	-	1,667,794	1,667,794
Transaction with owners in their capacity of owners (dividends paid)		-	-	-	-	-	-	(1,721,980)	(1,721,980)
Balance at 31 December 2022	19	9,583,888	540,659	(3,738,358)	958,389	865,576	22,291	6,691,479	14,923,924
Balance at 1 January 2023		9,583,888	540,659	(3,738,358)	958,389	865,576	22,291	6,691,479	14,923,924
Total comprehensive income for the year		-	-	-	-	-	-	2,212,068	2,212,068
Transaction with owners in their capacity of owners (dividends paid)		-	-	-	-	-	-	(1,667,794)	(1,667,794)
Balance at 31 December 2023	19	9,583,888	540,659	(3,738,358)	958,389	865,576	22,291	7,235,753	15,468,198

Notes to the individual financial statements

1. GENERAL INFORMATION

1.1. About the Company

These financial statements relate to the Company Makedonski Telekom AD - Skopje.

Makedonski Telekom AD – Skopje, (hereinafter referred to as: “the Company”) is a joint stock company incorporated and domiciled in the Republic of North Macedonia, and a leading provider of telecommunications services. The Company provides the following services both to consumers and to business customers: voice and data services via a mobile and a fixed network, internet services, convergent services, digital television and advanced Cloud and ICT solutions.

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.

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.

The Company is listed on the Macedonian Stock Exchange (MSE) in the mandatory listing segment for more than 10 years. As a listed company it has permanent and specific disclosure obligations to the MSE and eventually its investors. In order to be transparent to the investors the Company also maintains the Investor Relations segment on its web site which includes useful data going beyond the legally required data as a step further towards a good corporate governance practice.

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 2023 was 899 (2022: 860).

1.2. Ukraine conflict and economic crises impact on the business and on the financial statements

The annual inflation rate is slowing down and at the end of the 2023 the inflation spread compared to the Eurozone is further decreasing. Albeit, the average inflation rate for 2023 is measured around 10% with the latest IMF country reports and it is still on a relatively high level compared to the historical average. The prices of the basic products, mostly food component, are still marking downward adjustments, but this effect is incorporating very slowly and unsatisfactorily in the domestic prices. Although further decline of the prices is expected, the uncertainty of the future prices on the stock exchanges still persists due to the ongoing military conflicts.

The ongoing military conflict in Ukraine and the related sanctions targeted against the Russian Federation as well as the other ongoing military conflicts may have a further impact on the European and the global economy, apart from the one it already had on the energy prices as discussed above. The Company does not have any significant direct exposure to Ukraine, Russia or Belarus. However, the impact on the general economic situation may require revisions of certain assumptions and estimates in the future. Impact of the crisis has been experienced by the Company through the increased energy prices. The future long-term impact may also affect the trading volumes, cash flows, and profitability. Nevertheless, except for the increased energy cost, no other effects of the Ukraine conflict have been experienced by the Company as of the date of these financial statements.

Notes to the individual financial statements

2. SIGNIFICANT ACCOUNTING POLICIES

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

2.1. Basis of preparation

These financial statements 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, 61/16, 64/18, 120/18 and “Official Gazette of the Republic of North Macedonia” No. 290/20, 215/21 and 99/22) and Rule Book for Accounting (published in Official Gazette No.159/2009, No.164/2010 and No. 107/2011), 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 financial statements are presented in Macedonian denars rounded to the nearest thousand.

The preparation of financial statements 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 financial statements are disclosed in note 4. Actual results may differ from those estimated.

2.2. Foreign currency translation

2.2.1. Functional and presentation currency

The financial statements are presented in thousands of Macedonian denars (MKD), which is the Company’s functional and presentation currency.

2.2.2. Transactions and balances

Transactions in foreign currencies are translated to Macedonian denars at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the financial statement date are translated to Macedonian denars at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognized in the profit or loss (Finance income/expenses). Non-monetary financial assets and liabilities denominated in foreign currency are translated to Macedonian denars at the foreign exchange rate ruling at the date of transaction. Foreign exchange rates used are published middle rates by National bank of Republic of North Macedonia.

The foreign currencies transactions 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:

	2023	2022
	MKD	MKD
1 USD	55.65	57.65
1 EUR	61.50	61.49

Notes to the individual financial statements

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3. 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 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 3.

2.3.1. 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 profit or loss.

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 profit or loss 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.

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 profit or loss (Finance income/expense) in the period in which they arise.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3.1. Financial assets (continued)

Dividend income from financial assets at fair value through profit or loss is recognized in the profit or loss 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 with banks
- 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.

Deposits with banks

Deposits with banks with original maturities over 3 months include bank deposits and other liquid deposits and securities with original maturities over three months.

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 profit or loss (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.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3.1. Financial assets (continued)

Impairment rates used for 2023:

	CONSUMER		BUSINNES							
			Key Accounts		Institutions		Large Accounts		Business other	
Age Bands	Fix	mobile	fix	mobile	fix	mobile	Fix	mobile	fix	mobile
Overdue 0	1.5%	1.3%	0.6%	0.7%	1.9%	0.2%	1.3%	0.8%	3.7%	1.9%
Overdue 1-30 days	6.6%	3.2%	2.3%	1.2%	3.5%	0.4%	4.0%	1.7%	9.7%	3.8%
Overdue 31-60 days	17.7%	30.8%	6.1%	3.5%	4.9%	0.9%	9.9%	4.8%	17.0%	7.4%
Overdue 61-90 days	34.7%	38.7%	10.8%	7.4%	6.0%	1.5%	17.7%	16.8%	23.2%	39.5%
Overdue 91-180 days	58.4%	51.8%	17.6%	19.6%	12.3%	3.0%	23.1%	30.0%	38.2%	66.8%
Overdue 181-365 days	74.9%	63.7%	26.6%	39.0%	19.0%	7.1%	42.7%	40.5%	64.4%	81.1%
Overdue 366-540 days	81.2%	66.0%	34.3%	57.5%	23.2%	24.0%	56.4%	42.8%	85.5%	88.9%
Overdue 541-720 days	82.6%	73.8%	48.2%	73.5%	24.9%	50.5%	59.6%	51.6%	93.8%	91.3%
Overdue above 721 days	98.5%	99.2%	98.3%	98.6%	98.7%	98.3%	98.7%	98.6%	99.8%	99.7%

Impairment rates used for 2022:

	CONSUMER		BUSINNES							
			Key Accounts		Institutions		Large Accounts		Business other	
Age Bands	Fix	mobile	fix	mobile	fix	mobile	Fix	mobile	fix	mobile
Overdue 0	1.5%	1.3%	0.6%	0.6%	2.7%	0.2%	1.4%	0.7%	3.8%	2.1%
Overdue 1-30 days	7.0%	3.1%	2.6%	1.0%	4.6%	0.3%	3.7%	1.4%	10.9%	4.1%
Overdue 31-60 days	18.7%	31.4%	6.2%	2.9%	6.8%	0.8%	9.7%	3.9%	21.1%	7.9%
Overdue 61-90 days	41.5%	39.6%	9.5%	5.8%	8.8%	1.3%	17.1%	15.0%	30.0%	42.8%
Overdue 91-180 days	58.8%	54.3%	20.3%	16.5%	13.6%	2.5%	21.9%	25.6%	38.4%	66.8%
Overdue 181-365 days	77.6%	67.5%	36.0%	47.6%	17.8%	5.5%	41.8%	35.3%	68.6%	75.4%
Overdue 366-540 days	86.8%	69.3%	50.2%	57.7%	20.1%	18.4%	55.0%	37.0%	74.7%	86.6%
Overdue 541-720 days	94.1%	78.9%	70.7%	70.1%	32.2%	52.0%	58.0%	45.0%	85.0%	89.7%
Overdue above 721 days	98.6%	99.1%	98.2%	98.4%	98.4%	98.1%	98.6%	98.4%	99.8%	99.6%

Conditions under which trade receivables are subject of write-off are follows: court judgment in favor of the customer, a notification by a court or an enforcement agent regarding deceased persons (debtors), relocated debtors whose places of residence may not be determined, etc.; submitted certificate of death pertaining to a deceased person prior to litigation for the purposes of avoiding any increase in the costs for further proceedings as per the relevant legal regulations; a completed bankruptcy or liquidation procedure pertaining to the part of the debt that remains pending and deletion of a legal entity from the Central Registry of the Republic of North Macedonia; in the event of any debts that have not been litigated and the Company does not have any mechanisms for an enforced collection; debts that are older than 10 years due to statute of limitations are written off.

When a trade receivable is established to be uncollectible, it is written off against profit or loss (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 profit or loss.

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 profit or loss as a reduction to Impairment losses on trade receivables. During the period MKD 4 million was collected, which was previously written off (2022: MKD 5 million).

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).

Notes to the individual financial statements

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3.1. Financial assets (continued)

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. The Company stopped providing employee loans in 2013.

Impairment losses on Employee loans, are recognized in the profit or loss (Impairment losses on trade and other receivables). During the period, no materially significant impairment loss was recognized in respect to these financial assets.

2.3.2. 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.

2.4. 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 contracts with minimum commitment periods, as part of profitable service agreement. The Company assesses the need to impair inventories due to the net realizable value (NRV) effect on a regular basis. If the actual sale value is lower than costs, the difference is recognized as impairment, due to NRV effect, immediately.

Impairment losses on Inventories are recognized in Other operating expenses (Write down of inventories to net realizable value).

2.5. 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. Both requirements, immediate availability, and a highly probable sale, must be met on order asset to be classified as held for sale. These assets are accounted for at 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 profit or loss (Depreciation and amortization) as an impairment loss.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.6. Property, plant and equipment (PPE)

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see note 2.8).

The cost of an item of PPE 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 with applicable laws in Republic of North Macedonia. The Company capitalizes those expenditures as incurred. The capitalized expenditures are included within Property, plant and equipment (see note 12).

Items of property, plant and equipment 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 property, plant and equipment 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 profit or loss during the financial period in which they are incurred.

When assets are disposed of or when the Company assess that there will be no future economic benefits from the use of an asset, the asset is scrapped, and the costs and accumulated depreciation are removed from the accounts and the impact is recognized in the gain/loss from disposal.

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 profit or loss.

Depreciation is charged to the profit or loss on a straight-line basis over the estimated useful lives of items of property, plant and equipment. 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 12).

The estimated useful lives are as follows:

	2023 Years	2022 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	4
Furniture and fittings	4-10	4-10
Vehicles	5-10	5-10
Other	2-15	2-15

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.7. Intangible assets

Intangible assets that are acquired by the Company are stated at cost less accumulated amortization and impairment losses (see note 2.8).

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 exist 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 expenses) 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 13).

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. Consequently, the relevant cash outflows are presented as cash flows from financing activities.

The estimated useful lives are as follows:

	2023 Years	2022 Years
Software and licenses	2-5	2-5
Concession	18	18
Content rights	1-3	1-3
3G and 2G License	10	10
4G License	7-20	7-20
5G License	15	15

Notes to the individual financial statements

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.7. Intangible assets (continued)

Amortization is charged to the profit or loss 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 13).

In determining whether an asset that incorporates both intangible and tangible 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.

2.8. Impairment of property, plant and equipment 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).

Impairment losses are recognized in the profit or loss (Depreciation and amortization). Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.9. 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 financial statement 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 profit or loss within the expense corresponding to the nature of the provision.

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.

2.10. Share capital

Ordinary shares are classified as equity. Share premiums are classified as equity and represent the amount which is generated in excess of the nominal value when issuing shares.

2.11. 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.

Notes to the individual financial statements

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.12. Statutory reserves

Under local statutory legislation, 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.

2.13. Revaluation reserves

The revaluation reserve relates to property, plant and equipment, 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 property, plant and equipment 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.

2.14. Revenues

Revenues for all services and equipment sales (see note 20) 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. 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, the fair value of the credit points earned are deducted from the revenue invoiced to the customer, and recognized as Other liabilities (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.

2.14.1. Fixed line and mobile telecommunications revenues, including sale of devices

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.

Notes to the individual financial statements

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.14.1. Fixed line and mobile telecommunications revenues, including sale of devices (continued)

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 financial statements 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.

2.14.2. 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 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 statement of financial position as Trade and other receivables.

2.15. Employee benefits

2.15.1. 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 profit or loss in the same period as the related salary cost. No provision is created for holiday allowances for non-used holidays as according 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 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 the Collective agreement between the Company and the Trade Union of the Company, for which appropriate liability is recognized in the financial statements 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.

Notes to the individual financial statements

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.15.2. 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.

2.15.3. Termination benefits

Termination benefits are payable whenever an employee's employment is terminated, on the request of the employer, 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.

2.16. Marketing expenses

Marketing costs are expensed as incurred. Marketing expenses are disclosed in note 22.

2.17. Taxes

2.17.1. Income tax

According to the provisions of the Income 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 Statement of comprehensive income.

The tax authorities may at any time inspect the books and records within 5 years subsequent to the reported tax year, and may impose additional tax assessments and penalties. In a case of tax evasion or tax fraud the statute of limitations may be extended up to 10 years. The Company's management is not aware of any circumstances, which may give rise to a potential material liability in this respect other than those provided for in these financial statements.

2.17.2. Deferred income tax

Deferred tax is recognized applying the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit. Deferred tax is determined using income tax rates that have been enacted or substantially enacted by the financial statement date and are expected to apply when the related deferred tax asset is realized or the deferred tax liability is settled.

Deferred tax assets are recognized to the extent that it is probable that future taxable profit (or reversing deferred tax liabilities) will be available against which the temporary differences can be utilized.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.18. Leases

2.18.1. Operating leases – Company as a lessor

Assets leased to customers under operating leases are included in Property, plant and equipment in the statement of financial position. 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.

2.18.2. Operating Leases – Company as a lessee

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

2.19. 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. The Company has only ordinary shares and basic and diluted earnings per share are the same.

2.20. Dividend distribution

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

2.21. 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 2). In the financial statements, the segments are reported in a manner consistent with the internal reporting.

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.

2.22. Comparative information

In order to maintain consistency with the current year presentation in the Financial statements and the Notes thereto, certain items have been reclassified for comparative purposes. There were no material changes in disclosures.

Notes to the individual financial statements

3. FINANCIAL RISK MANAGEMENT

3.1. Financial risk factors

The Company does not apply hedge accounting for its financial instruments, all gains and losses are recognized in the profit or loss. 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, liquidity 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.

3.1.1. 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 the periodic effects are determined by relating the hypothetical changes in the risk variables to the balance of financial instruments at the financial statement 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.

Notes to the individual financial statements

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1.1. Market risk (continued)

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.

In the table below, exposure toward foreign currencies is disclosed:

In thousands of denars 31.12.2023	EUR	USD
Cash and cash equivalents	302,980	3,001
Trade receivables	172,056	67,799
Other assets	11,468	194
Trade payables	(994,864)	(164,024)
Other financial liabilities	(834,279)	(38,985)
Total	(1,342,639)	(132,015)

In thousands of denars 31.12.2022	EUR	USD
Cash and cash equivalents	356,961	23,190
Trade receivables	179,505	90,877
Other assets	37,447	698
Trade payables	(1,105,313)	(178,899)
Other financial liabilities	(937,500)	(32,954)
Total	(1,468,900)	(97,088)

Sensitivity analysis

As presented in the table below, the reasonably possible strengthening or weakening of the EUR against the MKD as at the end of the reporting period would affect the measurement of the financial instruments denominated in a foreign currency and it would increase (+)/decrease (-) the equity and the profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular the interest rates, remain constant and it disregards any impact of the forecast sales and purchases. In view of the fact that the effect on the profit or loss would be the same as the effect on the equity, only the former is disclosed.

In thousands of denars	Profit or loss	
31.12.2023 EUR/MKD (1% movements)	Strengthening	Weakening
Cash and cash equivalents	3,030	(3,030)
Trade receivables	1,721	(1,721)
Other current assets	115	(115)
Trade payables	(9,949)	9,949
Other financial liabilities	(8,343)	8,343
Net effect	(13,426)	13,426

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1.1. Market risk (continued)

In thousands of denars 31.12.2022 EUR/MKD (1% movements)	Profit or loss Strengthening	 Weakening
Cash and cash equivalents	3,570	(3,570)
Trade receivables	1,795	(1,795)
Other current assets	374	(374)
Trade payables	(11,053)	11,053
Other financial liabilities	(9,375)	9,375
Net effect	(14,689)	14,689

As presented in the table below, the reasonably possible strengthening or weakening of the USD against the MKD as at the end of the reporting period would affect the measurement of the financial instruments denominated in a foreign currency and it would increase (+)/decrease (-) the equity and the profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular the interest rates, remain constant and it disregards any impact of the forecast sales and purchases. In view of the fact that the effect on the profit or loss would be the same as the effect on the equity, only the former is disclosed.

In thousands of denars 31.12.2023 USD/MKD (10% movements)	Profit or loss Strengthening	 Weakening
Cash and cash equivalents	300	(300)
Trade receivables	6,780	(6,780)
Other current assets	19	(19)
Trade payables	(16,402)	16,402
Other current financial liabilities	(3,899)	3,899
Net effect	(13,202)	13,202

In thousands of denars 31.12.2022 USD/MKD (10% movements)	Profit or loss Strengthening	 Weakening
Cash and cash equivalents	2,319	(2,319)
Trade receivables	9,088	(9,088)
Other current assets	70	(70)
Trade payables	(17,890)	17,890
Other current financial liabilities	(3,295)	3,295
Net effect	(9,708)	9,708

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.

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1.1. Market risk (continued)

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 cash and cash equivalents and deposits with banks.

Total interest-bearing assets are shown in the table below:

In thousands of denars	31.12.2023	31.12.2022
Cash and cash equivalents	1,043,905	706,866
Net amount	1,043,905	706,866

Interest bearing assets are cash on bank accounts, which carry variable interest rates and weekly deposits which bear fixed interest.

Sensitivity analysis

A reasonably possible increase/decrease of 1 percentage point in the interest rates during the reporting period (assuming the year-end balance throughout the reporting period) would increase (decrease) the equity and the profit or loss before tax by the amounts shown below. This analysis assumes that all other variables, in particular the foreign currency exchange rates, remain constant. In view of the fact that the effect on the profit or loss would be the same as the effect on the equity, only the former is disclosed.

In thousands of denars	Profit or loss	
31.12.2023	Higher	Lower
Interest rate (1% movements)		
Cash and cash equivalents	10,439	(10,439)
Net effect	10,439	(10,439)

In thousands of denars	Profit or loss	
31.12.2022	Higher	Lower
Interest rate (1% movements)		
Cash and cash equivalents	7,069	(7,069)
Net effect	7,069	(7,069)

c) Other price risk

The Company's investments are in shares of other entities that are publicly 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 2023 and 31 December 2022, the Company holds investments, which could be affected by risk variables such as stock exchange prices.

The Company had MKD 274,501 thousand investments in shares of other entities that are publicly traded on the Macedonian Stock Exchange as at 31 December 2023 (2022: MKD 222,335).

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1.1. Market risk (continued)

Sensitivity analysis

A possible increase/decrease of 20 percentage points in the price of investments in equity during the reporting period (assuming the year-end balance throughout the reporting period) would increase (decrease) the equity and the profit or loss before tax by the amounts shown below. This analysis assumes that all other variables remain constant. In view of the fact that the effect on the profit or loss would be the same as the effect on the equity, only the former is disclosed.

In thousands of denars	Profit or loss	
31.12.2023	Higher	Lower
Market price (20% movements)		
Investments in Equity instruments	54,900	(54,900)
Net effect	54,900	(54,900)

In thousands of denars	Profit or loss	
31.12.2022	Higher	Lower
Market price (20% movements)		
Investments in Equity instruments	44,467	(44,467)
Net effect	44,467	(44,467)

3.1.2. 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.

As of 31 December 2023, and 31 December 2022, cash and cash equivalents are not secured with guarantees. All cash and cash equivalent are allocated in five big domestic banks in Republic North Macedonia based on CAEL methodology rating for purpose of credit risk diversification and upon harmonization and agreement with the parent and ultimate parent companies.

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1.2. Credit risk (continued)

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.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position. 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 financial statement date.

Concentrations of credit risk relating to trade receivables are limited due to the large number of customers comprising the Company's customer base. Trade receivables from the largest customer as of 31 December 2023 amounts to MKD 224,878 thousand, which represents 4.12% of total gross receivables of the Company (2022: MKD 257,314, which represents 4.74% of total gross receivables). Concentration of credit risk toward this customer is significantly less than 20% of gross receivables at any time during the year and the Company has no significant exposure toward any other customer.

The annual bad debt expense of the Company in 2023 was 1.11% (2022: 1.13%) of the revenue. For further information see Note 4.3.

3.1.3. 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.

The tables below show liabilities at 31 December 2023 and 2022 by their remaining contractual maturity. The amounts disclosed in the maturity table are the contractual undiscounted cash flows. Such undiscounted cash flows differ from the amount included in the statement of financial position because the statement of financial position amount is based on discounted cash flows. As the financial liabilities are paid from the cash generated from the ongoing operations, the maturity analysis of the financial assets as at the end of the reporting periods (in comparison with the financial liabilities) would not be useful, therefore, is not included in the tables below.

Notes to the individual financial statements

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1.3. Liquidity risk (continued)

The maturity structure of the Company's contractual undiscounted cash flows as at 31 December 2023 is as follows:

In thousands of denars	Total	Demand and/or less than 1 month	From 1 to 3 months	From 3 to 12 months	From 12 months to 5 years
Trade payables	2,196,489	1,043,567	1,103,248	49,674	-
Liabilities to related parties	381,491	323,083	58,408	-	-
Other financial liabilities	945,010	105,052	189,123	285,447	365,388
	3,522,990	1,471,702	1,350,779	335,121	365,388

The maturity structure of the Company's contractual undiscounted cash flows as at 31 December 2022 is as follows:

In thousands of denars	Total	Demand and/or less than 1 month	From 1 to 3 months	From 3 to 12 months	From 12 months to 5 years
Trade payables	2,235,332	1,105,217	1,105,509	24,606	-
Liabilities to related parties	485,787	418,930	66,857	-	-
Other financial liabilities	1,056,138	78,101	164,753	361,914	451,370
	3,777,257	1,602,248	1,337,119	386,520	451,370

As of 31 December 2023, total short term financial assets of the Company amount to MKD 4,157,348 thousand which is higher MKD 1,039,053 thousand than short term financial liabilities. As of 31 December 2022, total short term financial assets of the Company amount to MKD 3,669,582 thousand which was higher MKD 375,227 thousand than short term financial liabilities. The Company does not have significant exposure to liquidity risk.

3.2. 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 2023, is MKD 15,468,198 thousand, in accordance with the adopted international financial reporting standards published in the "Official Gazette of the Republic of North Macedonia" (2022: MKD 14,923,924 thousand). Out of this amount MKD 9,583,888 thousand (2022: MKD 9,583,888 thousand) represent share capital and MKD 958,389 thousand (2022: MKD 958,389 thousand) represent statutory reserves, which are not distributable (see note 2.12). The Company has also acquired treasury shares (see notes 2.11 and 19.1). The transaction is in compliance with the local legal requirements that as a result of 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.

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 financial statements of the Company in accordance with the adopted international financial reporting standards published in the "Official Gazette of the Republic of North Macedonia", 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.

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3. 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 (see note 30.1).

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

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

The Company classifies fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

(a) quoted prices (unadjusted) in active markets for identical assets (Level 1);

(b) inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly (Level 2); and

(c) inputs for the asset that are not based on observable market data (Level 3).

Fair value quantitative disclosure can be seen in Note 30.1. where there is a comparative table with fair value amounts and carrying values for all financial assets.

The level in the fair value hierarchy within which the fair value measurement is categorized in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. The significance of an input is assessed against the fair value measurement in its entirety.

The fair value of floating rate instruments is normally approximated by their carrying amount. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on credit risk of the counterparty.

Fair values of financial liabilities were determined using valuation techniques. The estimated fair value of fixed interest rate instruments with stated maturity was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity.

Financial liabilities included in the category Trade payables and Other financial liabilities 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.

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 270,369 thousand (2022: MKD 271,417 thousand). See notes 12 and 13 for the changes made to useful lives in 2023.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

4.2. Estimated impairment of property, plant and equipment, and intangible assets

We assess the impairment of identifiable property, plant, equipment 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 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 1% (2022: 1%) to determine the terminal value after 10 years. The discount rate used was 8.66% (2022: 8.98%). The impairment test did not result in impairment. The Company uses a 10-year period for impairment model in accordance with the Group approach on this subject.

4.3. Estimated impairment of trade and other receivables

We calculate impairment for accounts based on estimated losses resulting from the inability of our customers to make the required payments. The loss allowance is recognized in respect of not only losses already incurred as of the reporting date (incurred losses) but also losses which have not yet incurred as of the reporting date but which are expected to be incurred in the future (expected losses). 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 2.3.1 (b)). These factors are reviewed annually, and changes are made to the calculations when necessary. In addition, we consider also the nature of the business (residential, business, fixed line, mobile etc.) and the environment in which the Company operates. In 2023 the Company carried out regular detailed analysis on the portfolio 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. 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 3.1.2).

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 2.9). 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 (see note 18 and 31).

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.

Notes to the individual financial statements

5. CASH AND CASH EQUIVALENTS

In thousands of denars	31.12.2023	31.12.2022
Cash in bank	1,043,905	706,866
Cash on hand	35,585	26,358
	1,079,490	733,224

The carrying amounts of the cash and cash equivalents are denominated in the following currencies:

In thousands of denars	31.12.2023	31.12.2022
MKD	773,509	353,073
EUR	302,980	356,961
USD	3,001	23,190
	1,079,490	733,224

Following is the breakdown of cash in bank by credit rating in local banks without bank guarantee (see note 3.1.2):

In thousands of denars	31.12.2023	31.12.2022
Credit rating: A	241,035	301,911
Credit rating: BB+	280,842	83,642
Credit rating: BB	377,071	-
Credit rating: B+	-	85,862
Credit rating: B-	9,764	104,921
Cash in local banks without rating	135,193	130,530
	1,043,905	706,866

The credit ratings in the table above represent either the credit rating of the local bank or the credit rating of the parent bank if no rating is available for the local bank.

6. DEPOSITS WITH BANKS

Deposits with banks represent cash deposits in reputable domestic banks, and with maturity between 3 and 12 months.

As of 31 December 2023, and 2022 the Company has not held deposits in banks.

7. TRADE RECEIVABLES

In thousands of denars	31.12.2023	31.12.2022
Trade receivables from third parties	5,286,441	5,237,472
Less: allowance for impairment	(1,982,976)	(1,960,687)
Trade receivables from third parties - net	3,303,465	3,276,785
Receivables from related parties	166,039	194,683
	3,469,504	3,471,468
Less non-current portion: Trade receivables from third parties	(401,798)	(551,281)
Current portion	3,067,706	2,920,187

Receivables from related parties represent receivables from members of Magyar Telekom and Deutsche Telekom Group (see note 32).

The non-current portion of domestic trade receivables represents receivables that are due within 4 years of the financial statement date.

The carrying amounts of the Company's non-current trade receivables are denominated in MKD.

The carrying amounts of the Company's current trade receivables are denominated in the following currencies:

In thousands of denars	31.12.2023	31.12.2022
MKD	2,825,548	2,649,805
EUR	172,056	179,505
USD	67,799	90,877
Other	2,303	-
	3,067,706	2,920,187

Age profile of Trade receivables

The following tables show the age profile of the Company's current trade receivables by days outstanding (past due). The carrying amounts of receivables are shown net of impairment losses charged as of the financial statement date.

In thousands of denars

	Carrying amount as of 31.12.2023	Of which not past due	Of which past due by Less than 30 days	31 - 60 days	61 - 90 days	91 - 180 days	181 - 365 days	Over 365 days
Trade receivables from third parties	2,901,667	2,186,774	373,745	83,362	43,812	80,414	62,536	71,024
Trade receivables related parties	166,039	123,992	4,542	4,688	7,047	1,362	1,478	22,930
Total net	3,067,706	2,310,766	378,287	88,050	50,859	81,776	64,014	93,954
Impairment amount	1,982,976	29,981	11,291	11,546	8,116	37,326	59,806	1,824,910
Total gross	5,050,682	2,340,747	389,578	99,596	58,975	119,102	123,820	1,918,864
Impairment rate	39.26%	1.28%	2.90%	11.59%	13.76%	31.34%	48.30%	95.10%

Notes to the individual financial statements

7. TRADE RECEIVABLES (CONTINUED)

In thousands of denars

	Carrying amount as of 31.12.2022	Of which not past due	Of which past due by Less than 30 days	31 - 60 days	61 - 90 days	91 - 180 days	181 - 365 days	Over 365 days
Trade receivables from third parties	2,725,504	2,114,526	360,251	60,940	26,472	29,733	34,923	98,659
Trade receivables related parties	194,683	132,760	3,206	3,491	5,109	25,636	2,220	22,261
Total net	2,920,187	2,247,286	363,457	64,431	31,581	55,369	37,143	120,920
Impairment amount	1,960,687	29,306	11,174	11,210	8,772	30,181	48,132	1,821,912
Total gross	4,880,874	2,276,592	374,631	75,641	40,353	85,550	85,275	1,942,832
Impairment rate	40.17%	1.29%	2.98%	14.82%	21.74%	35.28%	56.44%	93.78%

The table below shows the impairment losses and changes of trade receivables therein for 2023 and 2022:

In thousands of denars	31.12.2023	31.12.2022
Impairment losses at 1 January	1,960,687	1,961,662
Charge for the year	137,394	138,821
Reversal of impairment or decrease due to write off	(115,105)	(139,796)
Impairment losses at 31 December	1,982,976	1,960,687

Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

8. OTHER FINANCIAL ASSETS

In thousands of denars	31.12.2023	31.12.2022
Loans to employees	5,692	9,541
Other	7,219	12,659
	12,911	22,200
Less non-current portion: Loans to employees	(2,759)	(6,029)
Current portion	10,152	16,171

Loans to employees are collateralized by mortgages over real estate or with promissory note. Loans granted to employees carry effective interest rate of 4.55% p.a. (2022: 4.55% p.a.).

The non-current portion of Loans to employees represents receivables that are due within 5 years of the financial statements date.

Notes to the individual financial statements

9. OTHER ASSETS

In thousands of denars	31.12.2023	31.12.2022
Advances paid to suppliers	3,400	41,445
Prepayments	184,809	193,983
Other	1,546	1,546
	189,755	236,974
Less non-current portion: Other	(612)	(612)
Current portion	189,143	236,362

Other assets usually include current and non-current receivables considered as non-financial instruments.

The carrying amounts of the Company's non-current other assets are denominated in MKD.

The carrying amounts of the Company's current other assets are denominated in the following currencies:

In thousands of denars	31.12.2023	31.12.2022
MKD	177,456	197,970
EUR	11,468	37,447
USD	194	698
Other	25	247
	189,143	236,362

10. INVENTORIES

In thousands of denars	31.12.2023	31.12.2022
Materials	173,746	203,207
Inventories for resale	179,501	232,202
Allowance for inventories	(14,783)	(15,796)
	338,464	419,613

Movement in allowance for inventories:

In thousands of denars	31.12.2023	31.12.2022
Allowance at 1 January	15,796	17,296
Release of inventories to net realizable value	(1,013)	(1,500)
Allowance at 31 December	14,783	15,796

Allowance for inventory mainly relates to inventories for resale. Write down of inventories to net realizable value is based on the analysis of the lower of cost and net realizable value at the financial statement dates.

11. ASSETS HELD FOR SALE

As of 31 December 2023, assets held for sale mainly refer to Radio access network (RAN) equipment, which has been determined for sale and customer contract has been already signed. These assets are result of the implementation of the RAN Project for modernization of the existing radio technologies (2G, 3G, 4G) and introduction of a new 5G technology which project was successfully completed in 2023.

As of 31 December 2022, assets held for sale refer to customer premises equipment which have been determined for sale and have been actively marketed. This equipment has been sold in the course of 2023.

Movement in assets held for sale:

In thousands of denars	2023	2022
At 1 January	307	-
Transfers from property, plant, and equipment	20,144	5,409
Disposals	(6,646)	(5,102)
At 31 December	13,805	307

12. PROPERTY, PLANT AND EQUIPMENT

In thousands of denars	Land	Buildings	Telecommunication equipment	Other	Assets under construction	Total
Cost						
At 1 January 2022	27,923	6,266,120	26,775,735	2,601,515	1,237,568	36,908,861
Additions	-	1,180	1,167,847	47,139	974,827	2,190,993
Assets activation/transfers between group of assets	-	7,479	576,562	20,682	(741,904)	(137,181)
Disposals	-	(12,374)	(50,973)	(131,274)	-	(194,621)
Transfers to asset held for sale	-	(32,006)	(219,390)	-	-	(251,396)
At 31 December 2022	27,923	6,230,399	28,249,781	2,538,062	1,470,491	38,516,656
Depreciation						
At 1 January 2022	-	3,387,859	21,592,516	2,153,695	-	27,134,070
Charge for the year	-	149,044	998,713	126,268	-	1,274,025
Disposals	-	(12,374)	(50,967)	(114,842)	-	(178,183)
Transfer between group of assets	-	(8,156)	(12,619)	20,775	-	-
Transfers to asset held for sale	-	(26,904)	(219,083)	-	-	(245,987)
At 31 December 2022	-	3,489,469	22,308,560	2,185,896	-	27,983,925
Carrying amount						
At 1 January 2022	27,923	2,878,261	5,183,219	447,820	1,237,568	9,774,791
At 31 December 2022	27,923	2,740,930	5,941,221	352,166	1,470,491	10,532,731

In thousands of denars	Land	Buildings	Telecommunication equipment	Other	Assets under construction	Total
Cost						
At 1 January 2023	27,923	6,230,399	28,249,781	2,538,062	1,470,491	38,516,656
Additions	-	33	967,140	116,358	528,158	1,611,689
Assets activation/transfers between group of assets (see note 13)	-	13,019	636,770	83,412	(1,006,380)	(273,179)
Disposals	-	-	(682,326)	(154,019)	(6,155)	(842,500)
Transfers to asset held for sale	-	-	(3,500,801)	(3,930)	-	(3,504,731)
At 31 December 2023	27,923	6,243,451	25,670,564	2,579,883	986,114	35,507,935
Depreciation						
At 1 January 2023	-	3,489,469	22,308,560	2,185,896	-	27,983,925
Charge for the year	-	146,226	934,144	115,774	-	1,196,144
Disposals	-	-	(682,323)	(145,856)	-	(828,179)
Transfers between group of assets	-	150	(19,558)	18,695	-	(713)
Transfer to asset held for sale	-	-	(3,480,657)	(3,930)	-	(3,484,587)
At 31 December 2023	-	3,635,845	19,060,166	2,170,579	-	24,866,590
Carrying amount						
At 1 January 2023	27,923	2,740,930	5,941,221	352,166	1,470,491	10,532,731
At 31 December 2023	27,923	2,607,606	6,610,398	409,304	986,114	10,641,345

Notes to the individual financial statements

12. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

In 2023, the Company capitalized expenditures related to obtaining complete documentation for base stations in amount of MKD 1,800 thousand (2022: MKD 3,211). In addition, in 2023, the Company capitalized expenditures related to obtaining complete documentation for fixed line infrastructure in amount of MKD 282 thousand in accordance with applicable laws in Republic of North Macedonia (2022: MKD 278) (see note 2.6).

Regular reviews of the useful lives and residual values of property, plant and equipment during 2023 affected the lives of several types of assets, technology assets, network and platforms. The change of the useful life on the affected assets was made due to technological changes and business plans of the Company (see note 4.1). The reviews resulted in the following change in the original trend of depreciation in the current and future years:

In thousands of denars	2023	2024	2025	2026	After 2026
(Decrease)/increase in depreciation	(12,858)	(17,010)	(1,810)	16,529	15,149
	(12,858)	(17,010)	(1,810)	16,529	15,149

13. INTANGIBLE ASSETS

In thousands of denars	Software and software licenses	Concession licenses	TV content rights and other	Assets under construction	Total
Cost					
At 1 January 2022	5,617,589	1,710,502	1,611,159	178,168	9,117,418
Additions	169,430	502,814	1,014,701	151,077	1,838,022
Assets activation/transfers between group of assets (see note 12)	295,648	-	-	(158,467)	137,181
Disposals	(403,488)	-	(697,610)	-	(1,101,098)
At 31 December 2022	5,679,179	2,213,316	1,928,250	170,778	9,991,523
Amortization					
At 1 January 2022	4,458,418	1,104,350	759,784	-	6,322,552
Charge for the year	542,406	81,361	544,964	-	1,168,731
Disposals	(403,488)	-	(697,610)	-	(1,101,098)
At 31 December 2022	4,597,336	1,185,711	607,138	-	6,390,185
Carrying amount					
At 1 January 2022	1,159,171	606,152	851,375	178,168	2,794,866
At 31 December 2022	1,081,843	1,027,605	1,321,112	170,778	3,601,338

In 2022 twelve contracts (including the prolongation of cooperation) for TV content rights were identified as qualifying for capitalization. Accordingly, these rights were recognized in 2022 in Intangible assets, category TV content rights and other, at the net present value of future payments in amount of MKD 1,014,701 thousand and will be amortized over the contracts term (see note 16 and 24).

Notes to the individual financial statements

13. INTANGIBLE ASSETS (CONTINUED)

In thousands of denars	Software and software licenses	Concession licenses	TV content rights and other	Assets under construction	Total
Cost					
At 1 January 2023	5,679,179	2,213,316	1,928,250	170,778	9,991,523
Additions	324,263	-	451,565	107,206	883,034
Assets activation/transfers between group of assets (see note 12)	416,541	-	-	(143,362)	273,179
Disposals	(609,999)	-	(139,658)	-	(749,657)
At 31 December 2023	5,809,984	2,213,316	2,240,157	134,622	10,398,079
Amortization					
At 1 January 2023	4,597,336	1,185,711	607,138	-	6,390,185
Charge for the year	569,675	98,122	569,379	-	1,237,176
Disposals	(609,999)	-	(139,658)	-	(749,657)
Transfers between group of assets (see note 12)	713	-	-	-	713
At 31 December 2023	4,557,725	1,283,833	1,036,859	-	6,878,417
Carrying amount					
At 1 January 2023	1,081,843	1,027,605	1,321,112	170,778	3,601,338
At 31 December 2023	1,252,259	929,483	1,203,298	134,622	3,519,662

In 2023 ten contracts (including the prolongation of cooperation) for TV content rights were identified as qualifying for capitalization. Accordingly, these rights were recognized in 2023 in Intangible assets, category TV content rights and other, at the net present value of future payments in amount of MKD 451,565 thousand and will be amortized over the contracts term (see note 16 and 24).

The reviews of the useful lives of intangible assets during 2023 affected the lives of a number of assets, mainly license and software. The change on the useful life of the 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 thousands of denars	2023	2024	2025	2026	After 2026
(Decrease)/increase in amortization	(65,671)	(42,007)	55,845	42,635	9,198
	(65,671)	(42,007)	55,845	42,635	9,198

14. DEFERRED INCOME TAX

Recognized deferred income tax assets are attributable to the following items:

In thousands of denars	Assets		Liabilities		Net	
	31.12.2023	31.12.2022	31.12.2023	31.12.2022	31.12.2023	31.12.2022
Property, plant and equipment	19,567	17,459	-	-	19,567	17,459
Intangible assets	44,381	39,180	-	-	44,381	39,180
Tax assets	63,948	56,639	-	-	63,948	56,639

Movement in temporary differences during the year

In thousands of denars	Balance 1 January 2023	Effects on profit	Balance 31 December 2023
Property, plant and equipment	17,459	2,108	19,567
Intangible assets	39,180	5,201	44,381
	56,639	7,309	63,948

In thousands of denars	Balance 1 January 2022	Effects on profit	Balance 31 December 2022
Property, plant and equipment	14,525	2,934	17,459
Intangible assets	25,940	13,240	39,180
	40,465	16,174	56,639

The temporary differences presented above relate to different carrying amount of property, plant and equipment and intangible assets due to the tax prescribed deprecation rates and currently applicable rules.

15. TRADE PAYABLES

In thousands of denars	31.12.2023	31.12.2022
Trade payables to third parties	2,196,488	2,235,332
Liabilities to related parties	360,942	475,818
	2,557,430	2,711,150

Liabilities to related parties represent liabilities to members of Magyar and Deutsche Telekom Group (see note 32).

The carrying amounts of the trade payables are denominated in the following currencies:

In thousands of denars	31.12.2023	31.12.2022
MKD	1,392,553	1,421,378
EUR	994,864	1,105,313
USD	164,024	178,899
Other	5,989	5,560
	2,557,430	2,711,150

16. OTHER FINANCIAL LIABILITIES

In thousands of denars	31.12.2023	31.12.2022
Liabilities for TV content right	851,615	958,945
Liabilities to related parties	20,549	9,969
Other current financial liabilities	12,842	11,780
Dividends payable	5,851	5,398
	890,857	986,092
Less non-current portion: Liabilities for TV content right	(329,992)	(402,887)
Current portion	560,865	583,205

Financial liabilities of MKD 851,615 thousand (2022: MKD 958,945 thousand) represent the carrying amount of long-term liabilities related to the capitalization of certain content right contracts in 2020, 2021, 2022 and 2023 (see note 13). 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 expense in profit or loss (see note 24). The carrying amount of these liabilities approximates their fair value as the related cash flows are discounted with an interest rate of 3.25% p.a. which is observable at the market for similar long-term financial liabilities.

The balance of the other financial liabilities arises from contractual obligations for various transactions, from the ordinary course of business of the Company.

The movement of the liabilities for TV content right:

In thousands of denars	2023	2022
1 January	958,945	937,912
Addition	451,565	583,794
Interest charged	32,980	25,503
Repayment of principal	(562,464)	(561,334)
Repayment of interest	(25,851)	(23,327)
Effect from exchange rate valuation	(3,560)	(3,603)
31 December	851,615	958,945

The carrying amounts of the Company’s non-current portion of other financial liabilities are denominated in EUR.

The carrying amounts of the current portion of other financial liabilities are denominated in the following currencies:

In thousands of denars	31.12.2023	31.12.2022
MKD	17,593	15,638
EUR	504,287	534,613
USD	38,985	32,954
	560,865	583,205

17. OTHER CURRENT LIABILITIES

In thousands of denars	31.12.2023	31.12.2022
Salaries, wages and bonuses	101,603	81,714
Other taxes and social security	1,472	1,454
Other tax payables	56,800	61,807
Advances received	101,197	73,642
Deferred revenue	214,683	275,260
Other current liabilities	25,803	25,322
	501,558	519,199

18. PROVISION FOR LIABILITIES AND CHARGES

In thousands of denars	Legal cases	Employee benefits	Total
1 January 2022	43,162	87,183	130,345
Additional provision	128,012	49,937	177,949
Unused amount reversed	(1,707)	(1,117)	(2,824)
Used during period	(159,453)	(21,904)	(181,357)
Other	288	(2,283)	(1,995)
31 December 2022	10,302	111,816	122,118

In thousands of denars	Legal cases	Employee benefits	Total
1 January 2023	10,302	111,816	122,118
Additional provision	8,464	57,439	65,903
Unused amount reversed	-	(3,518)	(3,518)
Used during period	(7,555)	(38,519)	(46,074)
Other	-	(10,580)	(10,580)
31 December 2023	11,211	116,638	127,849

Analysis of total provisions:

In thousands of denars	31.12.2023	31.12.2022
Non-current (Other)	70,256	73,511
Current	57,593	48,607
	127,849	122,118

Provisions for legal cases relate to certain legal and regulatory claims brought against the Company.

There are a number of legal cases for which provisions were recognized. Management recognizes a provision for its best estimate of the obligation but does not disclose the information required by paragraph 85 of IAS 37 because the management believes that to do so would seriously prejudice the outcome of the case. Management does not expect that the outcome of these legal claims will give rise to any significant loss beyond the amounts provided at 31 December 2023.

Item "Employee benefits" includes provision made for the legal or contractual obligation of the Company to pay to employees three average monthly salaries in Republic of North Macedonia at their retirement date (see note 2.15.1) and provision for long-term incentive programs (see note 33). The provision is recognized against Personnel expenses in the profit or loss.

19. EQUITY

Share capital consists of the following:

In thousands of denars	31.12.2023	31.12.2022
Ordinary shares	9,583,878	9,583,878
Golden share	10	10
	9,583,888	9,583,888

Share capital consists of one golden share with a nominal value of MKD 9,733 and 95,838,780 ordinary shares with a nominal value of MKD 100 each.

19. EQUITY (CONTINUED)

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.

As at 31 December 2023 and 2022, the shares of the Company were held as follows:

In thousands of denars	31.12.2023	%	31.12.2022	%
Stonebridge AD Skopje	4,887,778	51.00	4,887,778	51.00
Government of the Republic of North Macedonia	3,336,497	34.81	3,336,497	34.81
The Company (treasury shares)	958,388	10.00	958,388	10.00
International Finance Corporation (IFC)	97,988	1.02	101,120	1.06
Other minority shareholders	303,237	3.17	300,105	3.13
	9,583,888	100.00	9,583,888	100.00

19.1. 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 3,843,505 thousand. 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 37).

The amount of treasury shares of MKD 3,738,358 thousand (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.

20. REVENUES

In thousands of denars	2023	2022
Revenues from fixed line operations		
Internet	1,100,555	980,629
TV	915,596	995,328
Voice retail	868,745	873,101
Wholesale	583,453	504,744
Data	478,848	479,777
Equipment	20,195	28,925
Other	91,961	101,021
	4,059,353	3,963,525
Revenues from mobile operations		
Internet	2,678,559	2,496,146
Voice retail	2,015,194	1,964,561
Equipment	1,164,571	1,140,791
Wholesale	570,525	588,213
Data	469,908	437,119
Voice visitor	181,267	124,387
Content	78,637	84,729
Other	332,436	300,695
	7,491,097	7,136,641
SI/IT revenues	299,282	613,580
Other services	43,855	53,803
	11,893,587	11,767,549

21. PERSONNEL EXPENSES

In thousands of denars	2023	2022
Salaries	626,908	581,698
Contributions on salaries	242,690	218,816
Other staff costs	165,259	146,652
Bonus payments	145,047	127,637
Capitalized personnel costs	(64,782)	(61,222)
	1,115,122	1,013,581

Other staff costs include termination benefits, holiday allowance and other benefits for employees and managers who have left the Company in amount MKD 93,545 thousand for 57 persons (2022: MKD 106,021 thousand for 57 persons). As of 31 December 2023, amount of MKD 85,194 thousand was paid out, while MKD 8,351 thousand were presented as Other current liabilities (see note 17). As of 31 December 2022, all liabilities for termination benefits were settled.

Bonus payments also include the cost for long-term incentive programs (see note 33).

22. OTHER OPERATING EXPENSES AND PAYMENTS TO OTHER NETWORK OPERATORS

In thousands of denars	2023	2022
Purchase cost of goods sold	2,133,669	2,370,775
Services	547,354	521,717
Energy	499,604	640,416
Materials and maintenance	478,759	574,277
Fees, levies and local taxes	302,990	288,315
Services from subcontractors	274,296	305,649
Marketing and donations	174,597	155,242
Rental fees	173,716	174,167
Royalty payments	77,975	82,315
Consultancy	13,775	15,855
Insurance	9,845	10,173
Legal costs	5,041	41,291
Write down of inventories	3,807	19,843
(Release)/write down of inventories to net realizable value	(1,013)	(1,500)
Other	9,052	8,331
	4,703,467	5,206,866

Services mainly include agent commissions, postal expenses, services for support of IT application and systems, security, cleaning, and utilities.

Purchase cost of goods sold include costs for sold equipment in fixed and mobile operations and as well as equipment sold in SI/IT projects. Corresponding revenue is presented in note 20.

Payments to other network operators in amount of MKD 1,123,234 thousand (2022: MKD 1,026,645 thousand) represents interconnection and roaming costs with other telecommunication operators.

23. OTHER OPERATING INCOME

In thousands of denars	2023	2022
Net gain on sale of PPE	2,721	21,277
Other	73,626	13,304
	76,347	34,581

In 2022 the amount of MKD 14,928 thousand included in the category Net gain on sale of PPE represents gain from sales of three buildings.

In the category Other, amounts mainly relate to sales of waste, mainly copper cables and reinvoicing of different operating expenses.

24. FINANCE EXPENSES

In thousands of denars	2023	2022
Interest from liabilities for TV content rights	32,979	25,503
Other	4,050	84,696
	37,029	110,199

Interest expense from liabilities for TV content right represents the unwinding of the discount related to the carrying amount of long-term payables from the content right contracts capitalized, recognized initially at the net present value of future payments and subsequently measured at amortized cost using the effective interest method (see note 16). Other category represent mainly interest related to provisions (see note 18). In 2022 a major part of interest relates to interest paid from one lost legal case.

Notes to the individual financial statements

25. FINANCE INCOME

In thousands of denars	2023	2022
Fair value through profit and loss	52,166	7,415
Dividend income	16,422	11,823
Net foreign exchange gain	5,260	3,120
Interest income	360	2,449
	74,208	24,807

Dividend income arises from financial assets at fair value through profit and loss. The amount of Interest income is mainly generated from financial assets classified as Financial assets measured at an amortized cost.

26. INCOME TAX EXPENSE

Recognized in the statement of comprehensive income:

In thousands of denars	2023	2022
Current tax expense		
Current year	294,187	241,769
Deferred tax expense		
Origination and reversal of temporary differences	(7,309)	(16,174)
Total income tax in the statement of comprehensive income	286,878	225,595

Temporary differences arise in relation to the recognized different tax assets (see note 14).

Reconciliation of effective tax rate:

In thousands of denars		2023		2022
Profit before tax		2,498,946		1,893,389
Income tax	10.00%	249,895	10.00%	189,339
Non-deductible expenses	2.77%	69,275	3.38%	64,011
Tax credit in the future periods from depreciation	(0.29%)	(7,309)	(0.85%)	(16,174)
Tax credit from depreciation	(0.79%)	(19,683)	(0.33%)	(6,260)
Tax credit from donations in sport	(0.17%)	(4,305)	(0.23%)	(4,305)
Tax exempt revenues	(0.04%)	(995)	(0.05%)	(1,016)
	11.48%	286,878	11.92%	225,595

Tax credit from reinvested profit, are credit used due to reinvested net profit generated as per the Financial Statements of the Company in accordance with the adopted international financial reporting standards published in the “Official Gazette of the Republic of North Macedonia”, for investments in qualified tangible and intangible assets in accordance with Income tax law.

Notes to the individual financial statements

27. DIVIDENDS

The Shareholders' Assembly of the Company, at its meeting, held on 30 May 2023 adopted a Resolution for the dividend payment for the year 2022 and determination of the dividend calendar in the total gross amount of MKD 1,667,794 thousand from the net profit generated as per the Financial Statements of the Company for the year 2022 in accordance with the adopted international financial reporting standards published in the "Official Gazette of the Republic of North Macedonia". Gross amount of dividend per share for 2022 is MKD 19.34. The dividend was paid out in September 2023. Up to the date of issuing of these financial statements, no dividends have been declared for 2023.

On 31 May 2022 Shareholders' Assembly of the Company adopted a Resolution for the dividend payment for the year 2021 and determination of the dividend calendar in the total gross amount of MKD 1,721,980 thousand from the net profit generated as per the Financial Statements of the Company for the year 2021 in accordance with the adopted international financial reporting standards published in the "Official Gazette of the Republic of North Macedonia". Gross amount of dividend per share for 2021 was MKD 19.96. The dividend was paid out in August 2022.

28. REPORTABLE SEGMENTS AND INFORMATION

28.1. Reportable segments

The Company's reportable segments are: business, residential, wholesale segments and other.

Residential segment is consisted of consumer subscribers who are directly owned human subscribers without business subscribers (i.e. self-employed individuals or legal entities offering chargeable products and/or services to customers, non-profit organizations and public organizations). Business segment is consisted of business subscribers which are all directly owned human subscribers who are either self-employed individuals or employees of a legal entity that offers chargeable products and/or services to customers. Employees or members of non-profit and public organizations are also business subscribers. Wholesale comprises all services with telecommunication carriers for both mobile and fixed line, i.e. carrier services, mobile VNO and visitors.

28.2. Information regularly provided to the chief operating decision maker

The following tables present the segment information by reportable segment regularly provided to the Chief operating decision maker of the Company. The information regularly provided to the MC (Management Committee) includes several measures of profit which are considered for the purposes of assessing performance and allocating resources. Management believes that direct margin which is defined as revenues less direct costs less Impairment losses on trade and other receivables is the segment measure that is most consistent with the measurement principles used in measuring the corresponding amounts in these financial statements. Another important KPI monitored at Company level is EBITDA adjusted for the impact of certain items considered as "special influence". These items vary year-over-year in nature and magnitude.

Revenues

In thousands of denars	2023	2022
Residential segment revenues	8,123,993	7,822,780
Business segment revenues	2,627,999	2,927,428
Wholesale segment revenues	1,126,784	992,396
Other segment revenues	14,811	24,945
	11,893,587	11,767,549

None of the Company's external customers represent a significant source of revenue.

Notes to the individual financial statements

28.2. Information regularly provided to the chief operating decision maker (continued)

Segment results (Direct margin)

In thousands of denars	2023	2022
Direct margin		
Residential segment	5,661,108	5,447,004
Business segment	1,697,251	1,658,974
Wholesale segment	751,786	680,781
Other	14,811	24,943
Total direct margin	8,124,956	7,811,702
Total Indirect costs	(3,306,216)	(3,424,746)
Other operating income	76,347	34,581
EBITDA	4,895,087	4,421,537
Depreciation and amortization	(2,433,320)	(2,442,756)
Total operating profit	2,461,767	1,978,781
Finance (expenses)/income – net	37,179	(85,392)
Profit before tax	2,498,946	1,893,389
Income tax expense	(286.878)	(225,595)
Net profit for the year	2.212.068	1,667,794

29. LEASES AND OTHER COMMITMENTS

29.1. Operating lease commitments – where the Company is the lessee:

Operating lease commitments – where the Company is the lessee, are mainly from lease of business premises, locations for base telecommunication stations and other telecommunications facilities.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

In thousands of denars	2023	2022
Not later than 1 year	152,847	148,749
Later than 1 year and not later than 5 years	264,739	289,340
Later than 5 years	31,017	33,706
	448,603	471,795

29.2. Operating lease commitments – where the Company is the lessor:

Operating lease commitments, concluded on temporary basis, where the Company is the lessor are mainly from lease of land sites for base stations.

The future aggregate minimum lease receivables under non-cancellable operating leases are as follows:

In thousands of denars	2023	2022
Not later than 1 year	25,741	18,051
Later than 1 year and not later than 5 years	29,542	9,772
	55,283	27,823

Revenue from leases where Company is the lessor are presented in note 20.

Notes to the individual financial statements

29.3. Capital commitments

The amount for capital expenditure (external commitments) as at 31 December 2023 was MKD 118,151 thousand (2022: MKD 524,631 thousand). The amount for capital expenditure as at 31 December 2023 and 2022 mainly relates to telecommunication assets.

30. ADDITIONAL DISCLOSURES ON FINANCIAL ASSETS

30.1. Financial assets – Carrying amounts and fair values

The table below shows the categorization of financial assets as at 31 December 2023.

Assets	Financial assets			
In thousands of denars	Loans and receivables	At fair value through profit and loss (Level 1)	Carrying amount	Fair value
Cash and cash equivalents	1,079,490	-	1,079,490	1,079,490
Trade receivables	3,469,504	-	3,469,504	3,469,504
Other financial assets	12,911	-	12,911	12,911
Financial assets at fair value through profit and loss (equity instruments)	-	274,501	274,501	274,501

The table below shows the categorization of financial assets as at 31 December 2022.

Assets	Financial assets			
In thousands of denars	Loans and receivables	At fair value through profit and loss (Level 1)	Carrying amount	Fair value
Cash and cash equivalents	733,224	-	733,224	733,224
Trade receivables	3,471,468	-	3,471,468	3,471,468
Other financial assets	22,200	-	22,200	22,200
Financial assets at fair value through profit and loss (equity instruments)	-	222,335	222,335	222,335

Loans and receivables are measured at amortized cost, while financial assets at fair value through profit and loss assets are measured at fair value.

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

Financial assets at fair value through profit or loss are investment in equity instruments, measured at fair value.

Financial assets at fair value through profit or loss include investments in equity instruments in the amount of MKD 274,501 thousand (2022: MKD 222,335 thousand) calculated with reference to the Macedonian Stock Exchange quoted bid prices. Changes in fair values of other financial assets at fair value through profit or loss are recorded in finance income/expenses in the profit or loss (see note 25).

30.2. Offsetting financial assets and financial liabilities

For the financial assets and liabilities subject to enforceable netting arrangements, each agreement between the Company and the counterparty (typically roaming and interconnect partners) allows for net settlement of the relevant trade receivable and payable when both elect to settle on a net basis. In the absence of such an election, the trade receivables and payables will be settled on a gross basis, however, each party to the netting agreement will have the option to settle all such amounts on a net basis in the event of default of the other party.

30.2. Offsetting financial assets and financial liabilities (continued)

The following trade receivables and trade payables (presented in the notes 7 and 15) are subject to offsetting agreements, and are presented after netting in the statements of financial position as at 31 December 2023:

In thousands of denars	Trade receivables	Trade payables
Gross amounts of recognized financial instruments	4,097,846	3,185,772
Gross amounts of financial instruments set off	(628,342)	(628,342)
Net amounts of recognized financial instruments	3,469,504	2,557,430

The following trade receivables and trade payables (presented in the notes 7 and 15) are subject to offsetting agreements, and are presented after netting in the statements of financial position as at 31 December 2022:

In thousands of denars	Trade receivables	Trade payables
Gross amounts of recognized financial instruments	3,837,147	3,076,829
Gross amounts of financial instruments set off	(365,679)	(365,679)
Net amounts of recognized financial instruments	3,471,468	2,711,150

30.3. Other disclosures about financial instruments

There were no financial assets or liabilities, which were reclassified into another financial instrument category.

No financial assets were transferred in such a way that part or all of the financial assets did not qualify for de-recognition.

31. CONTINGENCIES

The Company has contingent liabilities in respect of the legal and regulatory claims arising from the ordinary course of business and the outcome of which often cannot be reliably anticipated. A major part of the contingent liabilities relates to one legal case with claimed amount of MKD 240 million, related to damage compensation against the Company for an alleged abuse of the dominant position in terms of access to data transfer networks. Based on legal advice and strong legal arguments presented in the court procedure, the management believes that it is not probable that this court procedure will result in a liability of the claimed size. Accordingly, no provision was made as of 31 December 2023 and 2022. At the moment, the Management, does not anticipate any material liabilities arising from the contingent liabilities other than those provided for (see note 18).

32. RELATED PARTY TRANSACTIONS

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 19). Government-related entities disclosure exemption applies (IAS 24.25), considering that the Government of the Republic of North Macedonia has significant influence over the entity. Apart from payment of taxes, fees to Regulatory authorities according to local legislation and dividends (see note 27), in 2023 and 2022, 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. In 2022, new licenses in 713-723/768-778 MHz and 3,6-3,7 GHz (5G) were issued to the Company in amount of MKD 503 million. Licenses validity are until end of 2037. The licenses were recognized as intangible assets (see note 13).

Transactions with related parties mainly include provision and supply of telecommunication services, services for support and maintenance and cross charges. The amounts receivable and payable are disclosed in the appropriate notes (see notes 7, 15 and 16).

32. RELATED PARTY TRANSACTIONS (CONTINUED)

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

In thousands of denars	2023		2022	
	Revenues	Expenses	Revenues	Expenses
Controlling owner Magyar Telekom Plc	426	11,480	564	15,465
Subsidiaries of the controlling owner	9,135	2,452	8,913	2,902
Ultimate parent company Deutsche Telekom AG	557,326	440,213	514,927	380,159
Subsidiaries of the ultimate parent company	28,312	29,066	33,454	38,459

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

In thousands of denars	31.12.2023		31.12.2022	
	Receivables	Payables	Receivables	Payables
Controlling owner Magyar Telekom Plc	6,055	4,006	5,520	3,331
Subsidiaries of the controlling owner	5,327	1,428	3,064	752
Ultimate parent company Deutsche Telekom AG	116,707	275,205	141,208	382,654
Subsidiaries of the ultimate parent company	37,950	100,852	44,891	99,050

33. KEY MANAGEMENT COMPENSATION

The compensation of the key management of the Company, including taxation charges and contributions, is presented below:

In thousands of denars	2023	2022
Short-term employee benefits (including taxation)	67,669	71,094
Contributions to the state pension system on short-term employee benefits	9,890	10,964
Other state contributions on short-term employee benefits	5,049	4,345
Termination benefits	9,657	12,941
Long-term incentive programs	50,879	44,487
Other payments	2,474	1,884
	145,618	145,715

The remuneration of the members of the Company's Board of Directors and its committees, which amounted to MKD 7,738 thousand (2022: MKD 8,680 thousand) is included in Short-term employee benefits. These are included in Personnel expenses (see note 21).

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33. KEY MANAGEMENT COMPENSATION (CONTINUED)

In 2015 a new performance-based long-term-incentive (LTI) program was launched as part of the global DT Group-wide compensation tool for the companies. The program is a cash settled share-based program. Executives receive virtual shares depending on their individual performance. The number of virtual shares at the end of the term (4-year term) is determined by the target achievement of KPIs. The value and quantity of shares fluctuates during the term of the plan on the basis of two indicators: development of the DT share price and target achievement in connection with 4 company targets: (adjusted earnings per share (EPS); adjusted return on capital employed (ROCE); customer satisfaction and employee satisfaction). The target achievement is measured at the end of each annual cycle and the number of virtual shares determined on this basis is fixed as the result of the annual cycle (non-forfeitable). At the end of the plan's term (4-year term), the results from the four annual cycles are totaled and paid out in cash. Each year a new cycle of long-term-incentive (LTI) program is launched.

In 2019 a new long-term incentive program called Repetitive performance incentive (RPI) was introduced by DT Group, which honors repeated, extraordinary collective performance, which is measured by the overachievement of a defined bonus KPI. The RPI is a four-year plan, running for period 2018 to 2021. The first year is only considered as the year of eligibility of the respective company, if there is a target achievement in two consecutive years as defined in the policy. The bonus will be paid out to entitled executives from the second year onwards in case the defined program requirements are met. The group-wide relevant bonus KPI is EBITDA unadjusted of the respective segment/company. The threshold for bonus eligibility/payment starts with 115% target achievement, including the costs for the RPI bonus payments. Chief Executive Officer and the Chief Officers participate in the program. The amount of the bonus payout depends on Management level, target achievement of the Company and the number of years of consecutive over-performance. In 2022 final payment for RPI was executed, by which the program is closed.

In 2022 a new long-term incentive program called Game Changer Incentive Program was introduced by the DT Group. The program is a four-year plan, that will be implemented in the period from 2022 to 2025, with acceptance of the DT Terms and Conditions of Participation in the EU Game Changer Incentive Program.

Eligibility for participation in the program is defined on the Chief Executive Officer and Chief Officer Level. A wildcard for participation in the program may be offered to an executive manager under defined criteria. Payments under the Program are subject to the performance parameters, KPIs and target achievement levels. The amount of the incentive each year depends on the subsequent over-performance (if threshold conditions are met) and the average target achievement of specific KPI's, defined for the Company.

The expenses incurred by the Company related to the programs described above are shown within Long-term incentive programs (see note 18 and 21).

34. EARNINGS PER SHARE

a) Basic and diluted earnings per share

	2023	2022
Earnings for the purposes of earnings per share being net profit attributable to owners of the Company (in thousands of denars)	2,212,068	1,667,794
Basic and diluted earnings per share (in denars, calculated as net result divided by number of shares)	25.65	19.34

b) Weighted average number of common stocks outstanding as the denominator

	2023	2022
Weighted average number of common stocks outstanding as the denominator for calculation basic and diluted earnings per share	86,254,903	86,254,903

The Company has issued ordinary shares and one golden share, which has equal rights related to the dividend payment and therefore the basic and diluted earnings per share are the same. The details regarding the other rights of the golden share are stated in Note 21.

35. EVENTS AFTER THE FINANCIAL STATEMENT DATE

There are no events after 31 December 2023 that would have an impact on the 2023 profit or loss, statement of financial position or cash flows.

The Environment, Social and Governance (ESG) Strategy is incorporated in the Company strategy and it is reflected through various activities supporting two main strategy pillars - “Good Magenta” and “Green Magenta”. Additionally, as part of the DT Group, ESG targets were established at a Company level which additionally confirms the commitment to the ESG agenda.

36. REGULATORY ENVIRONMENT

36.1. Regulatory Environment - Mobile Line

On 5 September 2008 the Agency for Electronic Communications (hereinafter referred to as "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 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. Due to the changes in the bylaws, the 900 MHz band is opened for UMTS technology and at the request of the Company, the radiofrequency license is changed so that these frequencies are now technology neutral.

In 2008 a decision for granting 2x15 MHz radiofrequencies license on 2100 MHz was announced. 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.

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 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, A1 Macedonia (former 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 adopted a resolution not to approve the reshuffling request of A1 Macedonia.

In tender procedure, new license in 2100 MHz (2x15 MHz) was issued to the Company. New license in 2100 MHz (2x10 MHz) was issued also to A1 Macedonia. License validity is until end of 2028.

In a direct award procedure dated 11 July 2022, the Agency issued a new license in 700 MHz and 3.x GHz (5G) to the Company (2x10 MHz on 700 MHz and 100 MHz on 3.x GHz). The validity of the license is 15 years. The same amount of spectrum was issued also to A1 Macedonia.

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. In 2019, regulatory bodies of the West Balkan countries (WB6) (North Macedonia, Montenegro, Serbia, Bosnia, Albania, Kosovo) introduced a roaming regulation, starting with RLAH+ (Roam Like At Home) surcharge model from 1 July 2019 until 30 June 2021. From 1 July 2021, the RLAH- model regulation shall be in place. With this regulation, the international termination rates between the WB6 countries were also decreased.

Both mobile operators on the market, the Company and A1 Macedonia are designated as operators with a Significant Market Power (SMP) status on the relevant wholesale market "Access and call origination on public mobile networks". The Agency imposed the same regulatory remedies for both operators:

- mobile access obligation for all Mobile Virtual Network Operators (MVNO) hybrid types (including Reseller),
- cost based price for Full MVNO,
- retail minus (-35%) for the Reseller,
- obligation for access to Multimedia Messaging Service(MMS) services and mobile data based on technology neutrality.

An MVNO, Lyca Mobile hosted on the A1 Macedonia network entered the Macedonian market and started retail operations in July 2016 under regulated wholesale conditions. Also, from October 2020, new MVNO (Green Mobile) started operating, hosted on A1 Macedonia network. All three MVNO's are designated as operators with SMP status on the relevant market for mobile calls termination.

The cable operator Telekabel, which on the market is already present by offering fixed services (voice, broadband and TV), as of January 2019 started operating as an MVNO hosted on Company's mobile network under regulated wholesale conditions.

36.1. Regulatory Environment - Mobile Line (continued)

The license duration of the two licenses previously owned by A1 Macedonia was 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 A1 Macedonia for license renewal, the Agency adopted resolution No. 0804-974 dated 2 November 2016 not to renew these two licenses. At the moment these radiofrequencies are not allocated and they are not available for sale, they are saved for a third entrant.

On 26 May 2017, A1 Macedonia 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 the A1 Macedonia's request for reshuffling on 1800 MHz.

Based on the appeal submitted by A1 Macedonia, in September 2019 the reshuffling request on 1800 MHz was finally approved by the Agency, due to a court decision in favor of A1 Macedonia. In the 1800 MHz range A1 Macedonia will get huge continuous block of 35 MHz effective as of 15 October 2019. Based on the Company's request, the Agency prolonged the licenses on 900 (2x12.5MHz), 1800 (2x10MHz) and 2100 (2x15MHz) for additional validity of 10 years (until 2028-2029) without onetime fee.

License 2x10 MHz on 1800 MHz owned by A1 Macedonia was prolonged in March 2022.

In April 2019, the Ministry of Information Society and Administration issued the National Broadband Strategy which sets the following targets:

- By the end of 2023 at least one major city should be covered with 5G signal;
- By the end of 2025 the regional highways and state highways defined by the Agency should be covered by a continuous 5G signal;
- By the end of 2027 all urban areas will be covered by a continuous 5G signal;
- By the end of 2029, everyone will have access to 5G internet with a minimum internet speed 100 Mbps;
- By the end of 2029, at least 50% of the total number of subscribers contracts of households across the whole country should have internet access of at least 100 Mbps;
- By the end of 2029 all households will have affordable access to a network that provides download speeds of at least 100 Mbps with the possibility of upgrading to gigabit speed;
- By the end of 2029, all public institutions (schools, universities, research centres and other educational institutions, health institutions, ministries, courts, local governments and other public authorities and bodies), should have symmetric access to the Internet of at least 1Gb/s.

Based on public debate at the beginning of 2021 the Agency adopted changes in the Rulebook on Radiofrequencies fees:

- Decrease of RF fees from 3.x GHz for 50% (from 4,000 EUR/MHz to 2,000 EUR/MHz)
- Decrease of RF fees for 700 MHz for 50 % (from 11,480 EUR/MHz to 5,740 EUR/MHz)
- Decrease of RF fees above 55 GHz (E band RF links) for 50% (from 4,000 EUR/250 MHz to 2,000 EUR/250 MHz)

36.2. Regulatory 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 fibre was implemented, with Local Bitstream Access over next-generation access NGA) on level 3 and 4 and VULA (Virtual Unbundled Local Access) regulation on level 2. The introduction of new technologies Very high-speed digital subscriber line (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 after the new analysis in 2022. All obligations apply to the Company and to the A1 Macedonia operator as SMPs on the broadband market.

The amendments from 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 (Universal service obligation) provider was published in October 2021, for period 2022 to 2026, and one of the main criteria is refund amount from the regulator that the tendering party is requesting.

According to the results from the tender, the Company is a universal service provider until 2026 for Fixed access and access for disabled users (voice and Internet of minimum 12Mbit/s download).

A1 Macedonia was designated for 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).

In the middle of 2019, the Agency implemented Economic Replicability Test (ERT) testing (margin squeeze methodology) to NGA based broadband wholesale services supplied by the two dominant operators (the Company and A1 Macedonia). The developed ERT model will test the economic replicability of the retail bundles including broadband services with access speed higher than 30 Mb/s.

37. 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. In particular, the internal investigation examined whether Magyar Telekom and/or its Montenegrin and 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.

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37. INVESTIGATION INTO CERTAIN CONSULTANCY CONTRACTS (CONTINUED)

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, in the first quarter of 2023 the First – instance criminal court issued a non-judicial verdict declaring the three accused former managers of the Company guilty and ordering them to jointly compensate for the damage. However, based on the proposal from the Higher Public Prosecution Office, with the 2023 Q4 verdict from the Court of Appeal – Skopje all charges against the defendants have been dismissed due to reached statute limitation period, as per the latest changes in the Criminal Code. With this verdict, the criminal case against the defendants is closed, and now the state can only sue the defendants for compensation of damages in a civil court procedure.

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 would have concluded that the financial statements may be misstated, including from the effects of a possible illegal act.