



Makedonski Telekom AD - Skopje

Individual Financial Statements

For the year ended

31 December 2022

With the Report of the Auditor Thereon

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the individual financial statements of Makedonski Telekom a.d. Skopje (hereinafter: the "Company"), which comprise the individual balance sheet as at December 31, 2022, and the individual income statement, individual statement of other comprehensive income, individual statement of changes in equity and individual statement of cash flows for the year then ended, and notes to the individual financial statements, including 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 International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of the individual 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.

Opinion

In our opinion, the accompanying individual financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2022 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

(Continued)

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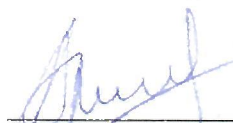
INDEPENDENT AUDITOR'S REPORT

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


Other matter

The audit of the individual financial statements of the Company for the year ending on December 31, 2021 was carried out by another auditor, who in his report dated February 21, 2022 reported that the individual financial statements present fairly, in all material respects, the financial position of Makedonski Telekom a.d. Skopje on December 31, 2021, as well as its financial performance and its cash flows for the year then ended.

Deloitte DOO Skopje



Aleksandar Arizanov
Certified Auditor
Director



Aleksandar Arizanov
Certified Auditor

Skopje, February 20, 2023

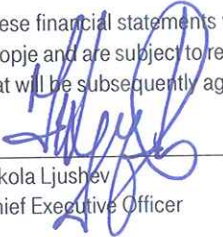
Individual statement of financial position


Individual statement of financial position		As at 31 December	
In thousands of denars	Note	2022	2021
Assets			
Current assets			
Cash and cash equivalents	5	733,224	1,291,406
Deposits with banks	6	-	677,897
Trade receivables	7	2,920,187	2,652,332
Other current financial assets	8	16,171	17,830
Other current assets	9	283,077	258,190
Contract assets	22.1	213,331	187,850
Inventories	10	419,613	497,731
Assets held for sale	11	323	-
Total current assets		4,585,926	5,583,236
Non-current assets			
Property, plant and equipment	13	10,920,728	10,360,926
Right of use assets	12	435,548	446,271
Advances for property, plant and equipment		4,147	4,265
Intangible assets	14	3,588,583	2,793,678
Trade receivables	7	551,281	379,168
Other non-current financial assets	8	6,029	9,766
Contract assets	22.1	82,122	80,818
Financial assets at fair value through profit and loss	32.1	222,335	214,920
Other non-current assets	9	12,681	10,475
Total non-current assets		15,823,454	14,300,287
Total assets		20,409,380	19,883,523

Individual statement of financial position

Individual statement of financial position		As at 31 December	
In thousands of denars	Note	2022	2021
Liabilities			
Current liabilities			
Trade payables	15	2,711,150	1,970,893
Other current financial liabilities	16	583,205	505,323
Lease Liabilities	17	130,814	125,308
Other current liabilities	18	198,399	160,499
Contract liabilities	22.1	265,448	283,669
Income tax payable		38,493	10,856
Provision for liabilities and charges	20	48,607	66,064
Total current liabilities		3,976,116	3,122,612
Non-current liabilities			
Other financial liabilities	16	402,887	460,600
Lease liabilities	17	294,508	317,212
Contract liabilities	22.1	37	7
Deferred income tax liabilities	19	22,863	57,652
Provision for liabilities and charges	20	73,511	64,281
Total non-current liabilities		793,806	899,752
Total liabilities		4,769,922	4,022,364
Equity			
Share capital		9,583,888	9,583,888
Share premium		540,659	540,659
Treasury shares		(3,738,358)	(3,738,358)
Other reserves	2.12	958,389	958,389
Retained earnings		8,294,880	8,516,581
Total equity	21	15,639,458	15,861,159
Total equity and liabilities		20,409,380	19,883,523

These financial statements were authorized for issue on 20 February 2023 by the Management of Makedonski Telekom AD - Skopje and are subject to review and approval by the Board of Directors on 24 February 2023 and by the shareholders on date that will be subsequently agreed.


Nikola Ljushev
Chief Executive Officer


Slavko Projkoski
Chief Financial Officer


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

Individual statement of comprehensive income

In thousands of denars	Note	Year ended 31 December	
		2022	2021
Revenues	22	11,845,137	11,274,079
Depreciation and amortization	12,13,14	(2,793,719)	(3,039,322)
Personnel expenses	23	(1,015,335)	(1,021,192)
Payments to other network operators	24	(1,026,645)	(1,062,732)
Expected credit losses on trade receivables and other assets	7	(197,730)	(187,413)
Other operating expenses	24	(5,033,866)	(4,255,959)
Operating expenses		(10,067,295)	(9,566,618)
Other operating income	25	35,723	23,687
Operating profit		1,813,565	1,731,148
Finance expenses	26	(131,155)	(57,849)
Finance income	27	24,849	90,297
Finance (expenses)/income – net		(106,306)	32,448
Profit before income tax		1,707,259	1,763,596
Income tax expense	28	(206,980)	(172,303)
Profit for the year		1,500,279	1,591,293
Total comprehensive income for the year		1,500,279	1,591,293
Earnings per share (EPS) information:			
Basic and diluted earnings per share (in denars)	36	17.39	18.45

Individual statement of cash flows

In thousands of denars	Note	Year ended 31 December	
		2022	2021
Operating activities			
Profit before tax		1,707,259	1,763,596
Adjustments for:			
Depreciation and amortization	12,13,14	2,793,719	3,039,322
(Release)/write down of inventories to net realizable value	24	(1,500)	3,741
Fair value gain on financial assets	27	(7,415)	(74,040)
Expected credit losses on trade receivables	7	138,821	126,181
Net increase of provisions	20	173,130	71,808
Net gain on disposal of property, plant and equipment	25	(22,419)	(3,521)
Dividend income	27	(11,823)	(9,833)
Interest expense	26	45,599	57,849
Interest income	27	(2,449)	(3,430)
Other non-cash items (IFRS 15 effect and foreign exchange changes on cash and cash equivalents)		(14,120)	(19,588)
Cash generated from operations before changes in working capital		4,798,802	4,952,085
Change in assets carried as working capital		(535,132)	(172,532)
Change in liabilities carried as working capital		657,165	(757,233)
Cash generated from operations		4,920,835	4,022,320
Interest paid	16,17	(44,283)	(48,606)
Provisions paid	20	(181,357)	(14,309)
Taxes paid		(214,132)	(177,674)
Cash flows generated from operating activities		4,481,063	3,781,731
Investing activities			
Acquisition of property, plant and equipment		(2,147,168)	(1,197,328)
Acquisition of intangible assets		(1,199,684)	(766,929)
Loans collected		4,563	3,877
Deposits collected from banks	6	677,897	494,112
Deposits placed with banks	6	-	(677,897)
Dividends received		11,823	9,833
Proceeds from sale of property, plant and equipment		42,817	10,684
Interest received		2,449	3,430
Cash flows used in investing activities		(2,607,303)	(2,120,218)
Financing activities			
Dividends paid	29	(1,721,037)	(1,381,361)
Payments for leases (principal)	17	(146,607)	(128,874)
Payments for TV content liabilities	16	(561,334)	(496,163)
Cash flows used in financing activities		(2,428,978)	(2,006,398)
Net decrease in cash and cash equivalents		(555,218)	(344,885)
Cash and cash equivalents at 1 January		1,291,406	1,635,743
Effect of foreign exchange rate changes on cash and cash equivalents		(2,964)	548
Cash and cash equivalents at 31 December	5	733,224	1,291,406

Individual statement of changes in equity

In thousands of denars	Note	Share capital	Share premium	Treasury shares	Other reserves	Retained earnings	Total
Balance at 1 January 2021		9,583,888	540,659	(3,738,358)	958,389	8,307,186	15,651,764
Total comprehensive income for the year		-	-	-	-	1,591,293	1,591,293
Transaction with owners in their capacity of owners (dividends paid)		-	-	-	-	(1,381,898)	(1,381,898)
Balance at 31 December 2021	21	9,583,888	540,659	(3,738,358)	958,389	8,516,581	15,861,159
Balance at 1 January 2022		9,583,888	540,659	(3,738,358)	958,389	8,516,581	15,861,159
Total comprehensive income for the year		-	-	-	-	1,500,279	1,500,279
Transaction with owners in their capacity of owners (dividends paid)		-	-	-	-	(1,721,980)	(1,721,980)
Balance at 31 December 2022	21	9,583,888	540,659	(3,738,358)	958,389	8,294,880	15,639,458

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.

As of June 2013, the Company is listed on the Macedonian Stock Exchange (MSE) in the mandatory listing segment and it is reporting to MSE, pursuant to the modifications of the Law on Securities dated 2013. In accordance with the MSE listing rules the Company has permanent disclosure obligations related to the business and capital, significant changes in the financial position, the dividend calendar, changes of the free float ratio (shares of a company that can be publicly traded and are not restricted, if it falls below 1%) and changes of the major shareholdings above 5%. In addition, the Company has specific disclosure obligations comprising of various financial information, including different financial reports (quarterly, semi-annual and annual), as well as public announcement for convening Shareholders’ Assembly (SA), all modifications and amendments made to the SA agenda and publication of certain adopted SA resolutions. Before June 2013, the Company was reporting to the Macedonian Securities and Exchange Commission as a Joint Stock Company with special reporting obligations.

The Company’s registered address is “Kej 13 Noemvri” No 6, 1000, Skopje, Republic of North Macedonia. The average number of employees of the Company based on the working hours during 2022 was 860 (2021: 911).

1.2. COVID-19, Ukraine conflict and economic crises impact on the business and on the financial statements

In 2020, the coronavirus spread globally, and its negative impact continues to affect entities across the world. In the course of 2021, some recovery has been already visible which has resulted in local easement of the restrictive measures as well as increased mobility of the people across the borders. The management closely monitors the impact of the pandemic on the operations and provides further updates to the stakeholders as the situation evolves. Furthermore, the management is in close communication with the local state institutions and remains compliant with official guidelines.

The Company responded to the COVID-19 situation swiftly. The Company continues to meet the increased demand for connectivity through its network and has not identified any events which could jeopardize the going concern of its operation, furthermore, based on the management’s assessment of the future cash flows no underperformance is expected for the long term.

Management paid particular attention to the solvency of customers due to COVID-19 however, based on experiences of last months and expectations considering the future COVID effects, no material effects on the impairment rates.

Notes to the individual financial statements

**1.2. COVID-19, Ukraine conflict and economic crises impact on the business and on the financial statements
(continued)**

The annual inflation rate in November 2022 amounts to 19.5% and it is lower compared to October 2022 (19.8%) after the constant growth in the previous 12 months. The slowing of the inflation growth is a result of the lower increase of the food prices, the stabilization of the growth of energy prices and the moderate growth of the basic inflation. Yet, the inflation is still a result of factors on the supply side i.e., the rise of the import prices of food and energy, including the domestic price of electricity and heating energy, which are impacted by the movements on the global energy market induced by the conflict in Ukraine. In addition, their long-term higher growth has a domino effect on the prices of other products and services.

The global rise of energy cost resulted in significant increase of the Company's energy costs in 2022 which created a pressure on the results achievement. However, the Management put an effort, as much as possible, with a set of optimizing measures as well as better commercial results to compensate these negative trends.

The ongoing military conflict in Ukraine and the related sanctions targeted against the Russian Federation 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.

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

The financial statements of Makedonski Telekom AD – Skopje have been prepared in accordance with International Financial Reporting Standards (IFRS), using the accrual basis of accounting, except for cash flow information.

The financial statements are presented in Macedonian denars rounded to the nearest thousand.

The preparation of financial statements in conformity with IFRS 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.

Notes to the individual financial statements

2.1.1. Standards amended and the subject of the amendments effective on or after 1 January 2022 that are relevant to the Company accounting policies

Title of standard	Nature of change	Expected Impact on financial statements	Application date
Amendments to IFRS 3; IAS 16; IAS 37 and Annual Improvements 2018-2020	Business Combinations; Property, Plant and Equipment; Provisions; Contingent Liabilities and Contingent Assets; Package of narrow-scope amendments to three Standards as well as the Board's Annual Improvements, which are changes that clarify the wording or correct minor consequences, oversights or conflicts between requirements in the Standards.	No material impact in the financial statements of the Company	1 January 2022

2.1.2. Standards, amendments and interpretations that are not yet effective as of 31 December 2022 and have not been early adopted by the Company and other expected changes for 2023 and 2024

Title	Key requirements	Impact on the financial statements	Effective date
Standards endorsed by the EU			
IFRS 17 and Amendments to IFRS 17	Insurance Contracts; IFRS 17 governs the accounting for insurance contracts and replaces IFRS 4. Deferral of first-time application of IFRS 17 to January 1, 2023. The amendments refer to specific topics helping entities to implement the standard and avoiding a significant loss of useful information.	No impact is expected in the financial statements of the Company	1 January 2023
Amendments to IAS 1	Presentation of Financial Statements; Disclosure of material accounting policy information instead of significant accounting policies. In addition, IFRS Practice Statement 2 has been amended.	No material impact is expected in the financial statements of the Company	1 January 2023
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	No material impact is expected in the financial statements of the Company	1 January 2023
Amendments to IAS 8	Accounting policies, Changes in Accounting Estimates and Errors; Introduced a definition of 'accounting estimates' and included other amendments to help entities distinguish changes in accounting policies from changes in accounting estimates.	No material impact is expected in the financial statements of the Company	1 January 2023

Notes to the individual financial statements

Amendments to IAS 12	Income Taxes; Deferred Tax related to Assets and Liabilities arising from a Single Transaction	No material impact is expected in the financial statements of the Company	1 January 2023
Amendments to IFRS 17	Insurance contracts; Initial Application of IFRS 17 and IFRS 9 – Comparative Information; Transition option relating to comparative information about financial assets presented on initial application of IFRS 17, helping entities to avoid temporary accounting mismatches between financial assets and insurance contract liabilities, and therefore improve the usefulness of comparative information for users of financial statements.	Not applicable	1 January 2023
Standards not yet endorsed by the EU*			
Amendments to IAS 1	Presentation of Financial Statements; Classification of Liabilities as Current or Non-current and Deferral of Effective Date.	No material impact is expected in the financial statements of the Company	1 January 2024
Amendments to IFRS 16 Leases	Lease Liability in a Sale and Leaseback; The amendments add subsequent measurement requirements for sale and leaseback transactions that satisfy the requirements in IFRS 15 Revenue from Contracts with Customers to be accounted for as a sale.	No material impact is expected in the financial statements of the Company	1 January 2024

* For standards not yet endorsed by the EU, the date of first-time adoption scheduled by the IASB is assumed for the time being as the likely date of first-time adoption.

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.

Notes to the individual financial statements

2.2.2. Transactions and balances (continued)

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:

	2022	2021
	MKD	MKD
1 USD	57.65	54.37
1 EUR	61.49	61.63

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.

Notes to the individual financial statements

2.3.1. Financial assets

The Company classifies its financial assets on the basis of both:

- the entity's business model for managing the financial assets and
- the contractual cash flow characteristics of the financial asset

in the following categories:

- at amortized cost if both of the following conditions are met:
 - the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and
 - the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.
- at fair value through other comprehensive income (FVOCI) if both of the following conditions are met:
 - the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and
 - the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.
- at fair value through profit or loss (FVTPL) unless it is classified in the previous categories.

For the purpose of the above classification:

- principal is the fair value of the financial asset at initial recognition
- interest consists of consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin.

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.

Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred. Financial assets have been transferred when the contractual rights to receive cash flows of the financial assets have been transferred or the contractual rights to receive cash flows of the financial assets have been retained but there is a contractual obligation to pay the cash flows to one or more recipients in an arrangement compliant with the conditions set out by IFRS 9. Any gains or losses on derecognition are recognized in the profit or loss and they are calculated as the difference between (a) the sum of the consideration received and any cumulative gain or loss that had been recognized in other comprehensive income and (b) the carrying amount derecognized.

- **Impairment of financial assets**

Depending on the business model of the Company and the characteristics of the contractual cash flows of the financial assets, financial assets are subsequently measured at amortized cost, at fair value through other comprehensive income or at fair value through profit or loss.

The Company assesses at each balance sheet date the level of expected credit loss.

Notes to the individual financial statements

2.3.1. Financial assets (continued)

Loss events can be the following:

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganization;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:
 - adverse changes in the payment status of borrowers in the group (an increased number of delayed payments); or
 - national or local economic conditions that correlate with defaults on the assets in the group (e.g. an increase in the unemployment rate in the geographical area of the borrowers, or adverse changes in industry conditions that affect the borrowers in the group).

A loss allowance must be recognized for financial assets measured at amortized cost and at fair value through other comprehensive income. The loss allowance must be recognized through profit or loss and reduces the carrying amount of the relevant financial asset measured at amortized cost. In the case of financial assets measured at fair value through other comprehensive income, the corresponding offsetting entry is recognized in other comprehensive income and does not reduce the carrying amount of the financial asset.

Loss allowances must also be recognized for lease receivables, contract assets as defined in IFRS 15, financial guarantee contracts and loan commitments relating to loans bearing an off-market interest rate.

The simplified approach is to be applied to assess and account for credit losses of trade receivables.

- **Simplified approach**

All financial instruments underlying the simplified approach are measured with lifetime expected credit loss. Simplified approach is applied only to trade receivables. The Company is aware of the necessity of applying general model for cash and cash equivalents, deposits with banks, employee loans and other financial receivables, however it has assessed that possible impairment arising from these financial assets is immaterial for financial statements. Nevertheless, Company assesses and evaluates the need for impairment of these financial assets. As of each year end, the Company reassess its approach for determining the level of ECL and evaluates the need for development of general approach in order to calculate ECL for other financial assets (other than trade receivables). Therefore, except for insolvency, neither any indicators for increase in credit risk nor any default events are relevant within simplified approach. The simplified approach is applicable for trade receivables of the Company.

The Company classifies its financial assets in the following categories:

- (a) Financial assets measured at amortized cost
- (b) Financial assets at fair value through profit or loss (FVTPL)

- (a) Financial assets measured at amortized cost

The following items are assigned to category financial assets measured at amortized cost:

- cash and cash equivalents;
- deposits with banks;
- trade receivables;
- employee loans;
- other receivables.

Notes to the individual financial statements

2.3.1. Financial assets (continued)

Financial assets at amortized cost are initially recognized at fair value and subsequently carried at amortized cost using the effective interest method (relevant only for the receivables with long-term maturity).

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

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).

The Company calculates impairment for doubtful accounts based on estimated losses resulting from the inability of customers to make required payments. For the largest customers and international customers, 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 ageing of our account receivables balance and our historical write-off experience, customer credit-worthiness and recent changes in our customer payment terms. These factors are reviewed periodically, and changes are made to the calculations when necessary. 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.

When it is determined that there is no need for individual assessment of account receivable, whether significant or not, the item should be included in a group of accounts receivables with similar credit risk characteristics and assessed collectively for impairment. Receivables that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

There are two categories of calculating impairment loss for trade receivables:

- for invoices which are overdue
- for invoices which are not yet due

In the case of collective assessment ECL level is assessed primarily based on the ageing structure of the receivables. An ageing list is prepared on overdue receivables and the amount of impairment is calculated by multiplying impairment rates based on historical loss experience with the amount of receivables.

Impairment rates are calculated based on historical loss experience, however it is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Such information can be, for example, internal changes in the billing and dunning processes and external extreme changes e.g., credit crisis, debt to financial system and non-residents / GDP, Household debt-service and principal payments / disposable income etc.

Notes to the individual financial statements

2.3.1. Financial assets (continued)

Impairment rates used for 2022:

Age Bands	CONSUMER		BUSINNES							
	Fix	mobile	Key Accounts		Institutions		Large Accounts		Business other	
			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%

When a trade receivable is established to be uncollectible, it is written off against the allowance for Trade receivables.

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.

Subsequent recoveries of amounts previously written off are credited against the period's expected credit losses on trade receivables and other assets. During the period MKD 5 million was collected, which was previously written off (2021: MKD 7 million).

If, in a subsequent period, the amount of the impairment loss decreases and the decrease 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.

Notes to the individual financial statements

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 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 (Expected credit loss on trade receivables and other assets). During the period, no materially significant ECL was recognized in respect to these financial assets.

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

The “financial assets at fair value through profit or loss” measurement category includes equity instruments. 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.

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.

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).

Notes to the individual financial statements

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. 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.

2.6. 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 to 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 13).

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 13).

The estimated useful lives are as follows:

	2022	2021
	Years	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

Notes to the individual financial statements

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).

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 14).

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:

	2022	2021
	Years	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	-

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 14).

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.

Notes to the individual financial statements

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.

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.

2.12. Other 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.

Notes to the individual financial statements

2.13. Revenues

Revenues for all services and equipment sales (see note 22) are shown net of VAT and discounts.

The core principle of IFRS 15 is for companies to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration (that is, payment) to which the company expects to be entitled in exchange for those goods or services.

Revenue is recognized when or as performance obligations are satisfied by transferring control of a promised good or service to a customer. Control either transfers over time or at a point in time, which affects when revenue is recorded.

As a practical expedient, the Company applies the guidance to a group of contracts with similar characteristics instead of to a single contract with a customer. A portfolio approach is acceptable if the Company can reasonably expect that the effect of applying a portfolio approach to a group of contracts or a group of performance obligations would not differ materially from considering each contract or performance obligation separately. This implies that a portfolio of contracts with similar characteristics does not necessarily need to refer to homogenous products being included in these contracts.

Main principles:

- If Company performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, the Company shall present the contract as a Contract asset, excluding any amounts presented as a receivable. A contract asset is the Company's right to consideration in exchange for goods or services that the Company has transferred to a customer.
- In the case of multiple-element arrangements (e.g., mobile contract plus handset) with subsidized products delivered in advance, a larger portion of the total remuneration is attributable to the component delivered in advance (mobile handset), requiring earlier recognition of revenue. This leads to the recognition of what is known as a contract asset – a receivable arising from the customer contract that has not yet legally come into existence – in the Statement of Financial Position.
- At the same time, it resulted in higher revenue from the sale of goods and merchandise and to lower revenue from the provision of services.
- Expenses for sales commissions (customer acquisition costs) must be capitalized in the Contract costs, presented in Trade receivables and other assets line of the Statement of Financial Position and recognized over the estimated customer retention period.
- Later recognition of revenue in cases where “material rights” are granted, such as offering additional discounts for future purchases of further products.
- Contract liabilities (which, as deferred revenue, were already recognized as liabilities in the past and with the transition reclassified) are now netted off against the contract assets for each customer contract.
- For the purposes of determining whether the Company sells products for its own account (principal = gross revenue) or for the account of others (agent = net revenue), there was no material change upon the application of IFRS 15 requirements.
- A significant financing component is not considered for the amount and timing of revenue recognition if the period between when a promised good or service is transferred to the customer and when the customer pays for that good or service will be one year or less.
- If the promise to grant a license is distinct from the other promised goods or services in the contract then the promise to grant the license is a separate performance obligation and the Company shall determine whether the license transfers to a customer either at a point in time or over time.

Notes to the individual financial statements

2.13.1. 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.

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.

The Company provides customers with narrow and broadband access to its fixed, mobile and TV distribution networks.

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

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

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

Contracts are frequently sold to customers containing a cross subsidy between two or more components. A typical example is where a mobile phone is sold at a price significantly below its market value in a bundle with a service contract for a period of 24 months. From a commercial point of view, the subsidy on the mobile phone is recompensated via the service fee.

With this adjustment requirement (also termed as "basic adjustment") a cross-subsidy or an overall bundle discount must be allocated to the individual components of the bundle so that revenue generally reflects the fair value of the good and/or service with a bundle discount being allocated based on relative standalone selling prices.

The revenue is determined for every component by distributing the transaction price to the individual components in proportion to their relevant standalone selling prices.

Notes to the individual financial statements

2.13.2. System integration and IT revenues

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

The Company transfers control of goods and services over time and, therefore, satisfies a performance obligation and recognizes revenue over time, if one of the following criteria is met:

- a customer simultaneously receives and consumes the benefit provided by Company's performance as Company performs
- Company's performance creates or enhances assets that the customer controls as the asset is created or enhanced
- Company's performance does not create an asset with an alternative use to Company and Company has an enforceable right to payment for performance completed to date.

If the performance obligation is not satisfied over time, the Company satisfies the performance obligation at a point in time.

Revenue from hardware sales or sales-type leases is recognized when the customer obtains the control over the product.

To determine the progress of performance the Company is applying the Input method. The Company recognize revenue on the basis of the Company's efforts or inputs to the satisfaction of a performance obligation (resources consumed, labor hours expended, cost incurred, time elapsed or machine hours used) relative to the total expected inputs to the satisfaction of the performance obligation.

2.14. Employee benefits

2.14.1. Short term employee benefits and pensions

The Company, in the normal course of business, makes payments on behalf of its employees for pensions, health care, employment and personnel tax which are calculated according to the statutory rates in force during the year, based on gross salaries and wages. Holiday allowances are also calculated according to the local legislation. The Company makes these contributions to the Governmental and private funds. The cost of these payments is charged to the 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.

2.14.2. Bonus plans

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

2.14.3. 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.

Notes to the individual financial statements

2.15. Marketing expenses

Marketing costs are expensed as incurred. Marketing expenses are disclosed in note 24.

2.16. Taxes

2.16.1. 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.

2.16.2. 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.

Notes to the individual financial statements

2.17. Leases

2.17.1. Operating leases – Company as a lessor

Under IFRS 16, an operating lease is a lease that does not transfer substantially all the risks and rewards incidental to ownership of an underlying asset. These are typically simple short-term hire arrangement (an operating lease), whereby rental payments received are dealt with in profit or loss with the primary impact on the balance sheet relating to the timing of lease payments.

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.

2.17.2. Leases – Company as a lessee

Leases are recognized as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Company. Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the lease payments. The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions. The measurement includes non-cancellable lease payments (including inflation-linked payments), and also includes payments to be made in optional periods if the lessee was reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease. In order to determine Right of Use and Lease Liability at the moment of commencement of lease contract, the Company will estimate the lease period in accordance with the contract and possible extension options, determine the total lease consideration to be transferred to lessor and discount this consideration in accordance with the rate implicit in the lease or if not available determine the incremental lease rate for the purpose of discounting. For the asset and liabilities arising from a lease, see notes 12 and 17.

As a consequence, the Company recognizes depreciation of the right-of-use asset and interest on the lease liability. The repayments of lease liability are separated into a principal portion and an interest portion and presented in the statement of cash flows separately as cashflows from financial (Payments for leases - principal) and operating activities (Interest paid), respectively.

The company applies IFRS 16 to all leases, including leases of right-of-use assets in a sublease, except for:

- Rights held by a lessee under licensing agreements within the scope of (IAS 38) Intangible Assets;
- Leases of intangible assets;
- Service concession arrangements within the scope of (IFRIC 12) Service Concession Arrangements; and
- Licenses of intellectual property granted (or sold) by Company lessors within the scope of IFRS 15 Revenue from Contracts with Customers.

Recognition exemptions

- The Company decided not to apply the short-term recognition exemptions to lease contracts, except for some minor and insignificant lease arrangements with a lease term of one month or less. Such very short-term leases and related asset classes are expensed as incurred and no additional quantitative disclosure is required;
- The Company decided not to apply the practical expedient with respect to low value items. Hence, they have to be recognized, measured and presented as lease arrangements in the scope of IFRS 16.

Notes to the individual financial statements

2.17.2. Leases – Company as a lessee (continued)

Lease term

The lease term refers to the period for which Company is reasonably certain to maintain the contract under the terms and conditions as originally negotiated. The initial lease term assessment is made at commencement of the lease. When determining the lease term, the most reasonably certain, i.e. justifiable, term is always to be used in case of doubt. Reasonable certainty is determined in accordance with judgment of the relevant management responsible for the lease. The lease term assessment is largely based on management judgement and the Company usually use estimates or assumptions (especially in case of options and indefinite contracts) at an asset cluster level.

The commencement date of the lease (commencement date), is the date on which a lessor makes an underlying asset (i.e., the property, plant or equipment that is subject to the lease) available for use to the lessee. At the commencement date, the lease term begins and lease liability and the right-of-use asset is initially recognized and measured.

Options - “Reasonably certain criteria”

In assessing whether a lessee is reasonably certain to exercise an option to extend a lease, or not to exercise an option to terminate a lease, lessees shall consider all relevant facts and circumstances that create an economic incentive for the lessee to exercise the option to extend the lease, or not to exercise the option to terminate the lease.

Lease payments

Lease payments are defined as payments made by a lessee to a lessor relating to the right to use an underlying asset during the lease term.

In the definition of lease payments, the Company includes payments for non-lease components as well.

Reassessment of the lease liability

In terms of IFRS 16, a reassessment of the lease liability only takes place if the change is based on already existing contractual clauses, i.e. those that have been part of the contract since commencement.

A lessee reassesses the lease term, i.e. whether it is reasonably certain to exercise an extension option, or not to exercise a termination option, upon the occurrence of either a significant event or a significant change in circumstances that: is within the control of the lessee, or in specific circumstances outside the control of the lessee, and affects whether the lessee is reasonably certain to exercise an option not previously included in its determination of the lease term, or not to exercise an option previously included in its determination of the lease term.

Accounting for lease modifications

A lease modification is defined as “a change in the scope of a lease, or the consideration for a lease, that was not part of the original terms and conditions of the lease (for example, adding or terminating the right to use one or more underlying assets, or extending or shortening the contractual lease term)”. Modification can also result from a change in consideration only. The effective date of the modification is defined as the date when both parties agree to a lease modification.

A lessee accounts for a lease modification as a separate lease if both of the following conditions are fulfilled:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the lease increases by an amount equivalent to the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

Notes to the individual financial statements

2.17.2. Leases – Company as a lessee (continued)

When these conditions are met, the modification is considered to result in the creation of a new lease that is separate from the original lease. The agreement for the right to use one or more additional assets is accounted for as a separate lease (or leases) to which the requirements of IFRS 16 are applied independently of the original lease.

For a lease modification that is not a separate lease, i.e. that do not meet the conditions outlined above, at the effective date of the modification, the lessee accounts for the lease modification by remeasuring the lease liability using a discount rate determined at that date and:

- for lease modifications that decrease the scope of the lease, the lessee decreases the carrying amount of the right-of-use asset to reflect the partial or full termination of the lease, and recognises a gain or loss that reflects the proportionate decrease in scope; and
- for all other lease modifications, the lessee makes a corresponding adjustment to the right-of-use asset.

When a lease arrangement is modified, then the revised lease payments will always be discounted with a revised discount rate. This is different from the requirements for a reassessment of the lease, where only in specific cases a revised discount rate is required.

2.18. Earnings per share

Basic earnings per share is calculated by dividing profit attributable to the equity holders of the Company for the period by the weighted average number of common stocks outstanding. The Company has only ordinary shares and basic and diluted earnings per share are the same.

2.19. 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.

2.20. Segments

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

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

2.21. 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.

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

31.12.2022	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)
Lease liabilities	(395,048)	-
Other financial liabilities	(937,500)	(32,954)
Total	<u>(1,863,948)</u>	<u>(97,088)</u>

Notes to the individual financial statements

3.1.1. Market risk (continued)

In thousands of denars

31.12.2021	EUR	USD
Cash and cash equivalents	774,875	19,089
Deposits in banks	677,897	-
Trade receivables	184,529	85,243
Other assets	62,773	191
Trade payables	(1,164,450)	(94,544)
Lease liabilities	(410,799)	-
Other financial liabilities	(910,877)	(36,723)
Total	<u>(786,052)</u>	<u>(26,744)</u>

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

31.12.2022	Profit or loss	
EUR/MKD (1% movements)	Strengthening	Weakening
Cash and cash equivalents	3,570	(3,570)
Deposits with banks	-	-
Trade receivables	1,795	(1,795)
Other current assets	374	(374)
Trade payables	(11,053)	11,053
Lease liabilities	(3,950)	3,950
Other financial liabilities	(9,375)	9,375
Net effect	<u>(18,639)</u>	<u>18,639</u>

In thousands of denars

31.12.2021	Profit or loss	
EUR/MKD (1% movements)	Strengthening	Weakening
Cash and cash equivalents	7,749	(7,749)
Deposits with banks	6,779	(6,779)
Trade receivables	1,845	(1,845)
Other current assets	628	(628)
Trade payables	(11,645)	11,645
Lease liabilities	(4,108)	4,108
Other financial liabilities	(9,109)	9,109
Net effect	<u>(7,861)</u>	<u>7,861</u>

Notes to the individual financial statements

3.1.1. Market risk (continued)

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 31.12.2022 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	<u>(3,295)</u>	<u>3,295</u>
Net effect	<u>(9,708)</u>	<u>9,708</u>

In thousands of denars 31.12.2021 USD/MKD (10% movements)	Profit or loss	
	Strengthening	Weakening
Cash and cash equivalents	1,909	(1,909)
Trade receivables	8,524	(8,524)
Other current assets	19	(19)
Trade payables	(9,454)	9,454
Other current financial liabilities	<u>(3,672)</u>	<u>3,672</u>
Net effect	<u>(2,674)</u>	<u>2,674</u>

b) Interest rate risk

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

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

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

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

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

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

Notes to the individual financial statements

3.1.1. Market risk (continued)

Total interest-bearing assets are shown in the table below

In thousands of denars	31.12.2022	31.12.2021
Cash and cash equivalents	706,866	1,276,685
Deposits in banks	-	677,897
Net amount	<u>706,866</u>	<u>1,954,582</u>

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	
31.12.2022	Higher	Lower
Interest rate (1% movements)		
Cash and cash equivalents	<u>7,069</u>	<u>(7,069)</u>
Net effect	<u>7,069</u>	<u>(7,069)</u>

In thousands of denars	Profit or loss	
31.12.2021	Higher	Lower
Interest rate (1% movements)		
Cash and cash equivalents	12,767	(12,767)
Deposits in banks	<u>6,779</u>	<u>(6,779)</u>
Net effect	<u>19,546</u>	<u>(19,546)</u>

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 2022 and 31 December 2021, the Company holds investments, which could be affected by risk variables such as stock exchange prices.

The Company had MKD 222,335 thousand investments in shares of other entities that are publicly traded on the Macedonian Stock Exchange as at 31 December 2022 (2021: MKD 214,920).

Notes to the individual financial statements

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	
31.12.2022	Higher	Lower
Market price (20% movements)		
Investments in Equity instruments	44,467	(44,467)
Net effect	<u>44,467</u>	<u>(44,467)</u>

In thousands of denars	Profit or loss	
31.12.2021	Higher	Lower
Market price (20% movements)		
Investments in Equity instruments	42,984	(42,984)
Net effect	<u>42,984</u>	<u>(42,984)</u>

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 2022, and 31 December 2021, 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.

Notes to the individual financial statements

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 2022 amounts to MKD 257,314 thousand, which represents 4.74% of total gross receivables of the Company. 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 2022 was 1.13% (2021: 1.06%) 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 2022 and 2021 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

3.1.3. Liquidity risk (continued)

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 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

The maturity structure of the Company's contractual undiscounted cash flows as at 31 December 2021 is as follows:

In thousands of denars	Total	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 12 months to 5 years
Trade payables	1,588,121	1,269,680	307,995	10,446	-
Liabilities to related parties	391,689	388,786	2,903	-	-
Other financial liabilities	1,023,068	87,636	187,958	244,341	503,133
	3,002,878	1,746,102	498,856	254,787	503,133

As of 31 December 2022, total short term financial assets of the Company amount to MKD 3,669,582 thousand which is MKD 375,227 thousand higher than short term financial liabilities. As of 31 December 2021, short term financial assets amount to MKD 4,639,465 thousand which was MKD 2,163,249 thousand higher 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 2022, is MKD 14,923,924 thousand, in accordance with the adopted international financial reporting standards published in the "Official Gazette of the Republic of North Macedonia" (2021: MKD 14,978,110 thousand). Out of this amount MKD 9,583,888 thousand (2021: MKD 9,583,888 thousand) represent share capital and MKD 958,389 thousand (2021: MKD 958,389 thousand) represent statutory reserves (Other reserves), which are not distributable (see note 2.12). The Company has also acquired treasury shares (see notes 2.11 and 21.1). 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. Part of the net profit generated as per the Financial Statements of the Company for the year 2020 in accordance with the adopted international financial reporting standards published in the "Official Gazette of the Republic of North Macedonia", in amount of MKD 345,475 thousand were transferred in retained earnings, for investments in qualified tangible and intangible assets for purpose of tax reliefs utilization in 2021, in accordance with Income tax law (see note 29).

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.

Notes to the individual financial statements

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 32.1).

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 32.1. 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.

Notes to the individual financial statements

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 310,413 thousand (2021: MKD 337,702 thousand). See notes 13 and 14 for the changes made to useful lives in 2022.

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% (2021: 1%) to determine the terminal value after 10 years. The discount rate used was 8.98% (2021: 7.42%). 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 expected credit loss of trade and other receivables

We calculate expected credit loss (ECL) for all accounts based on estimated losses resulting from the inability of our customers to make the required payments. For the largest customers, international customers and for customers under liquidation and bankruptcy proceedings ECL 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). 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. Management paid particular attention to the solvency of customers due to COVID-19 however, based on experiences of last months and expectations considering the future COVID effects, no material effects on bad debt rate. In 2022 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 in 2022. 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 ECL recognized so far (see note 3.1.2).

Notes to the individual financial statements

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 20 and 33).

4.5. Costs of obtaining contracts with customers

The Company recognizes assets for costs incurred in connection with the signing of customer contracts which would not have been incurred if the customer contract had not been concluded. Capitalization is subject to the expectation that those costs will be recovered by future revenues resulting from the contract.

Costs of obtaining a contract with a customer includes sales commission to its employees, master dealer and sales agents. Costs of obtaining a contract with a customer are amortized during the average customer retention period which is based on historical customer retention data and past experiences in that business segment.

The Company decided not to use the practical expedient to expense incremental costs of obtaining a contract immediately, instead these are amortized over a period of one year or less.

5. CASH AND CASH EQUIVALENTS

In thousands of denars	31.12.2022	31.12.2021
Cash in bank	706,866	1,276,685
Cash on hand	26,358	14,721
	<u>733,224</u>	<u>1,291,406</u>

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

In thousands of denars	31.12.2022	31.12.2021
MKD	353,073	497,442
EUR	356,961	774,875
USD	23,190	19,089
	<u>733,224</u>	<u>1,291,406</u>

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	31.12.2022	31.12.2021
Credit rating: A	301,911	60,347
Credit rating: BB+	83,642	504,723
Credit rating: B	-	143
Credit rating: B+	85,862	-
Credit rating: B-	104,921	132,919
Cash in local banks without rating	130,530	578,553
	<u>706,866</u>	<u>1,276,685</u>

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.

Notes to the individual financial statements

6. DEPOSITS WITH BANKS

Deposits with banks represent cash deposits in reputable domestic banks, with interest rate of 0.10% p.a. to 0.85% p.a. and with maturity between 3 and 12 months.

The carrying amounts of the deposits with banks are denominated in the following currencies:

In thousands of denars	31.12.2022	31.12.2021
EUR	-	677,897
	-	677,897

Following is the breakdown of deposits with banks without bank guarantee (see note 3.1.2):

In thousands of denars	31.12.2022	31.12.2021
Credit rating: A	-	369,762
Credit rating: B-	-	308,135
	-	677,897

7. TRADE RECEIVABLES

In thousands of denars	31.12.2022	31.12.2021
Trade receivables from third parties	5,237,472	4,811,568
Less: allowance for expected credit losses	(1,960,687)	(1,961,662)
Trade receivables from third parties- net	3,276,785	2,849,906
Receivables from related parties	194,683	181,594
	3,471,468	3,031,500
Less non-current portion: Trade receivables from third parties	(551,281)	(379,168)
Current portion	2,920,187	2,652,332

Receivables from related parties represent receivables from members of Magyar Telekom Group and Deutsche Telekom Group (see note 34).

The non-current portion of domestic trade receivables represents receivables that are due within 5 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	31.12.2022	31.12.2021
MKD	2,649,805	2,381,005
EUR	179,505	184,529
USD	90,877	85,243
Other	-	1,555
	2,920,187	2,652,332

Notes to the individual financial statements

7. TRADE RECEIVABLES (CONTINUED)

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 31.12.2022	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%

In thousands of denars

	Carrying amount as of 31.12.2021	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	2,470,738	1,933,276	315,418	52,273	17,948	30,221	43,546	78,056
Trade receivables related parties	181,594	124,486	2,902	127	-	594	28,935	24,550
Total net	2,652,332	2,057,762	318,320	52,400	17,948	30,815	72,481	102,606
Impairment amount	1,961,661	29,623	10,577	9,676	6,874	20,779	44,331	1,839,801
Total gross	4,613,993	2,087,385	328,897	62,076	24,822	51,594	116,812	1,942,407
Impairment rate	42.52%	1.42%	3.22%	15.59%	27.69%	40.27%	37.95%	94.72%

Notes to the individual financial statements

7. TRADE RECEIVABLES (CONTINUED)

The table below shows the impairment losses and changes of trade receivables therein for 2022 and 2021:

In thousands of denars	31.12.2022	31.12.2021
Impairment losses at 1 January	1,961,662	2,024,974
Charge for the year	138,821	117,040
Reversal of impairment or decrease due to write off	(139,796)	(180,352)
Impairment losses at 31 December	<u>1,960,687</u>	<u>1,961,662</u>

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

The table below shows the impairment losses and changes of contract assets therein for 2022 and 2021:

In thousands of denars	31.12.2022	31.12.2021
Impairment losses at 1 January	101,936	101,674
Charge for the year	64,229	67,923
Reversal of impairment or decrease due to write off	(67,814)	(67,661)
Impairment losses at 31 December	<u>98,351</u>	<u>101,936</u>

8. OTHER FINANCIAL ASSETS

In thousands of denars	31.12.2022	31.12.2021
Loans to employees	9,541	14,104
Other	<u>12,659</u>	<u>13,492</u>
	<u>22,200</u>	<u>27,596</u>
Less non-current portion: Loans to employees	<u>(6,029)</u>	<u>(9,766)</u>
Current portion	<u>16,171</u>	<u>17,830</u>

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. (2021: 4.55% p.a.).

The non-current portion of Loans to employees represents receivables that are due within 6 years of the financial statements date.

Notes to the individual financial statements

9. OTHER ASSETS

In thousands of denars	31.12.2022	31.12.2021
Advances paid to suppliers	41,445	29,153
Prepayments	193,983	182,911
Asset recognized from the costs to obtain contracts with customers	58,784	55,059
Other	<u>1,546</u>	<u>1,542</u>
	<u>295,758</u>	<u>268,665</u>
Less non-current portion: Asset recognized from the costs to obtain contracts with customers	(12,069)	(9,863)
Less non-current portion: Other	<u>(612)</u>	<u>(612)</u>
Current portion	<u>283,077</u>	<u>258,190</u>

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	31.12.2022	31.12.2021
MKD	244,685	193,360
EUR	37,447	62,773
USD	698	191
Other	<u>247</u>	<u>1,866</u>
	<u>283,077</u>	<u>258,190</u>

10. INVENTORIES

In thousands of denars	31.12.2022	31.12.2021
Materials	203,207	133,212
Inventories for resale	232,202	381,815
Allowance for inventories	<u>(15,796)</u>	<u>(17,296)</u>
	<u>419,613</u>	<u>497,731</u>

Movement in allowance for inventories:

In thousands of denars	31.12.2022	31.12.2021
Allowance at 1 January	17,296	17,055
(Release)/write down of inventories to net realizable value	(1,500)	3,741
Write off	<u>-</u>	<u>(3,500)</u>
Allowance at 31 December	<u>15,796</u>	<u>17,296</u>

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, 2022, assets held for sale represents the multiple customer premises equipment which have been determined to be sold within a year and are actively marketed.

Notes to the individual financial statements

12. RIGHT OF USE ASSETS

In thousands of denars	Leased land assets	Leased building assets	Leased vehicles and other equipment	Total
Cost				
At 1 January 2021	194,738	394,667	30,266	619,671
Additions	41,155	84,239	69,898	195,292
Disposals	(1,440)	(2,281)	-	(3,721)
At 31 December 2021	<u>234,453</u>	<u>476,625</u>	<u>100,164</u>	<u>811,242</u>
Depreciation				
At 1 January 2021	77,770	151,499	9,685	238,954
Charge for the year	39,474	79,201	9,381	128,056
Disposals	(908)	(1,131)	-	(2,039)
At 31 December 2021	<u>116,336</u>	<u>229,569</u>	<u>19,066</u>	<u>364,971</u>
Carrying amount				
At 1 January 2021	<u>116,968</u>	<u>243,168</u>	<u>20,581</u>	<u>380,717</u>
At 31 December 2021	<u>118,117</u>	<u>247,056</u>	<u>81,098</u>	<u>446,271</u>
In thousands of denars	Leased land assets	Leased building assets	Leased vehicles and other equipment	Total
Cost				
At 1 January 2022	234,453	476,625	100,164	811,242
Additions	40,720	78,025	17,312	136,057
Disposals	(390)	(6,351)	(2,733)	(9,474)
At 31 December 2022	<u>274,783</u>	<u>548,299</u>	<u>114,743</u>	<u>937,825</u>
Depreciation				
At 1 January 2022	116,336	229,569	19,066	364,971
Charge for the year	40,972	80,541	20,466	141,979
Disposals	(172)	(3,877)	(624)	(4,673)
At 31 December 2022	<u>157,136</u>	<u>306,233</u>	<u>38,908</u>	<u>502,277</u>
Carrying amount				
At 1 January 2022	<u>118,117</u>	<u>247,056</u>	<u>81,098</u>	<u>446,271</u>
At 31 December 2022	<u>117,647</u>	<u>242,066</u>	<u>75,835</u>	<u>435,548</u>

Corresponding lease liabilities are presented in the note 17.

Leases of land and buildings for purposes to place antennas and base station has generally lease terms 10 years, and rents for shops are generally between 1 and 5 years, while vehicles and other equipment generally have lease terms of 5 years.

Notes to the individual financial statements

12. RIGHT OF USE ASSETS (CONTINUED)

Amounts recognized in profit and loss in relation to leases for the year ended 31 December 2022 and 2021 are as follows:

In thousands of denars	2022	2021
Depreciation expense on right of use assets	141,979	128,056
Interest expense on lease liabilities	20,956	19,394
Expense relating to variable lease payments not included in the measurement of the lease liability	6,645	7,236
Income from sub-leasing right-of-use assets	10,724	10,307

13. PROPERTY, PLANT AND EQUIPMENT

In thousands of denars	Land	Buildings	Telecommunication Equipment	Other	Assets under construction	Total
Cost						
At 1 January 2021	10,777	5,570,319	24,242,094	3,443,008	463,150	33,729,348
Additions	-	89	640,134	37,466	898,148	1,575,837
Assets activation/transfers between group of assets	-	-	204,428	(71,319)	(133,109)	-
Reclassification in the initial balances	-	26,936	647,994	(665,448)	9,435	18,917
Transfer to asset held for sale	-	(4,472)	-	-	-	(4,472)
Disposals	-	-	(97,257)	(157,390)	(57)	(254,704)
At 31 December 2021	10,777	5,592,872	25,637,393	2,586,317	1,237,567	35,064,926
Depreciation						
At 1 January 2021	-	2,695,025	17,694,227	2,694,124	-	23,083,376
Charge for the year	-	138,052	1,570,091	155,189	-	1,863,332
Disposals	-	-	(97,097)	(151,009)	-	(248,106)
Reclassification in the initial balances	-	15,389	492,975	(499,926)	-	8,438
Transfer to asset held for sale	-	(3,040)	-	-	-	(3,040)
Transfer between group of assets	-	-	62,303	(62,303)	-	-
At 31 December 2021	-	2,845,426	19,722,499	2,136,075	-	24,704,000
Carrying amount						
At 1 January 2021	10,777	2,875,294	6,547,867	748,884	463,150	10,645,972
At 31 December 2021	10,777	2,747,446	5,914,894	450,242	1,237,567	10,360,926

Notes to the individual financial statements

13. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

In thousands of denars	Land	Buildings	Telecommunication Equipment	Other	Assets under construction	Total
Cost						
At 1 January 2022	10,777	5,592,872	25,637,393	2,586,317	1,237,567	35,064,926
Additions	-	1,180	1,167,847	47,139	974,827	2,190,993
Assets activation/transfers between group of assets (see note 14)	-	7,694	576,671	20,358	(741,904)	(137,181)
Transfer to asset held for sale	-	(26,182)	(219,390)	-	-	(245,572)
Disposals	-	(12,351)	(49,670)	(131,212)	-	(193,233)
At 31 December 2022	<u>10,777</u>	<u>5,563,213</u>	<u>27,112,851</u>	<u>2,522,602</u>	<u>1,470,490</u>	<u>36,679,933</u>
Depreciation						
At 1 January 2022	-	2,845,426	19,722,499	2,136,075	-	24,704,000
Charge for the year	-	137,488	1,207,096	126,858	-	1,471,442
Disposals	-	(12,351)	(49,581)	(114,363)	-	(176,295)
Transfer to assets held for sale	-	(20,875)	(219,067)	-	-	(239,942)
Transfer between group of assets	-	(7,938)	(12,407)	20,345	-	-
At 31 December 2022	<u>-</u>	<u>2,941,750</u>	<u>20,648,540</u>	<u>2,168,915</u>	<u>-</u>	<u>25,759,205</u>
Carrying amount						
At 1 January 2022	<u>10,777</u>	<u>2,747,446</u>	<u>5,914,894</u>	<u>450,242</u>	<u>1,237,567</u>	<u>10,360,926</u>
At 31 December 2022	<u>10,777</u>	<u>2,621,463</u>	<u>6,464,311</u>	<u>353,687</u>	<u>1,470,490</u>	<u>10,920,728</u>

In 2022, the Company capitalized expenditures related to obtaining complete documentation for base stations in amount of MKD 3,211 thousand (2021: MKD 0). In addition, in 2022, the Company capitalized expenditures related to obtaining complete documentation for fixed line infrastructure in amount of MKD 278 thousand in accordance to applicable laws in Republic of North Macedonia (2021: MKD 0) (see note 2.6).

Regular reviews of the useful lives and residual values of property, plant and equipment during 2022 affected the lives of a several types of assets, mainly telecom equipment, telephone lines, and multi-standard radio equipment. 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	2022	2023	2024	2025	After 2025
(Decrease)/increase in depreciation	(34,850)	(27,229)	14,377	17,721	29,981
	<u>(34,850)</u>	<u>(27,229)</u>	<u>14,377</u>	<u>17,721</u>	<u>29,981</u>

Notes to the individual financial statements

14. INTANGIBLE ASSETS

In thousands of denars	Software and software licenses	Concession license	TV content rights and other	Assets under construction	Total
Cost					
At 1 January 2021	5,389,032	1,525,417	1,769,775	107,274	8,791,498
Additions	385,318	185,085	497,599	145,620	1,213,622
Assets activation	65,291	-	-	(65,291)	-
Correction in the initial balances	(9,482)	-	-	(9,435)	(18,917)
Disposals	(217,893)	-	(656,217)	-	(874,110)
At 31 December 2021	5,612,266	1,710,502	1,611,157	178,168	9,112,093
Amortization					
At 1 January 2021	4,210,242	1,057,790	884,997	-	6,153,029
Charge for the year	475,768	41,163	531,003	-	1,047,934
Disposals	(217,893)	-	(656,217)	-	(874,110)
Correction in the initial balances	(8,438)	-	-	-	(8,438)
At 31 December 2021	4,459,679	1,098,953	759,783	-	6,318,415
Carrying amount					
At 1 January 2021	1,178,790	467,627	884,778	107,274	2,638,469
At 31 December 2021	1,152,587	611,549	851,374	178,168	2,793,678

In 2021 two contracts (including the prolongation of cooperation) for TV content rights were identified as qualifying for capitalization. Accordingly, these rights were recognized in 2021 in Intangible assets, category TV content rights and other, at the net present value of future payments in amount of MKD 497,599 thousand and will be amortized over the contracts term (see note 16 and 26).

In thousands of denars	Software and software licenses	Concession license	TV content rights and other	Assets under construction	Total
Cost					
At 1 January 2022	5,612,266	1,710,502	1,611,157	178,168	9,112,093
Additions	169,430	502,814	1,014,701	151,077	1,838,022
Assets activation/transfers between group of assets (see note 13)	295,648	-	-	(158,467)	137,181
Disposals	(403,488)	-	(697,610)	-	(1,101,098)
At 31 December 2022	5,673,856	2,213,316	1,928,248	170,778	9,986,198
Amortization					
At 1 January 2022	4,459,679	1,098,953	759,783	-	6,318,415
Charge for the year	553,174	82,160	544,964	-	1,180,298
Disposals	(403,488)	-	(697,610)	-	(1,101,098)
At 31 December 2022	4,609,365	1,181,113	607,137	-	6,397,615
Carrying amount					
At 1 January 2022	1,152,587	611,549	851,374	178,168	2,793,678
At 31 December 2022	1,064,491	1,032,203	1,321,111	170,778	3,588,583

Notes to the individual financial statements

14. INTANGIBLE ASSETS (CONTINUED)

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 26).

The reviews of the useful lives of intangible assets during 2022 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	2022	2023	2024	2025	After 2025
(Decrease)/increase in amortization	(25,326)	(17,831)	26,617	11,042	5,498
	<u>(25,326)</u>	<u>(17,831)</u>	<u>26,617</u>	<u>11,042</u>	<u>5,498</u>

15. TRADE PAYABLES

In thousands of denars	31.12.2022	31.12.2021
Trade payables to third parties	2,235,332	1,588,121
Liabilities to related parties	<u>475,818</u>	<u>382,772</u>
	<u><u>2,711,150</u></u>	<u><u>1,970,893</u></u>

Liabilities to related parties represent liabilities to members Magyar Telekom Group and Deutsche Telekom Group (see note 34).

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

In thousands of denars	31.12.2022	31.12.2021
MKD	1,421,378	704,641
EUR	1,105,313	1,164,450
USD	178,899	94,544
Other	<u>5,560</u>	<u>7,258</u>
	<u><u>2,711,150</u></u>	<u><u>1,970,893</u></u>

16. OTHER FINANCIAL LIABILITIES

In thousands of denars	31.12.2022	31.12.2021
Liabilities for TV content right	958,945	937,912
Liabilities to related parties	9,969	8,916
Other current financial liabilities	11,780	14,640
Dividends payable	<u>5,398</u>	<u>4,455</u>
	<u><u>986,092</u></u>	<u><u>965,923</u></u>
Less non-current portion: Liabilities for TV content right	<u>(402,887)</u>	<u>(460,600)</u>
Current portion	<u><u>583,205</u></u>	<u><u>505,323</u></u>

Notes to the individual financial statements

16. OTHER FINANCIAL LIABILITIES (CONTINUED)

Financial liabilities of MKD thousand 958,945 (2021: MKD 937,912 thousand) represent the carrying amount of long-term liabilities related to the capitalization of certain content right contracts in, 2019, 2020, 2021 and 2022 (see note 14). 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 26). 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	2022	2021
1 January	937,912	942,425
Addition	583,794	497,599
Interest charged	25,503	24,861
Repayment of principal	(561,334)	(496,163)
Repayment of interest	(23,327)	(29,213)
Effect from exchange rate valuation	(3,603)	(1,597)
31 December	<u>958,945</u>	<u>937,912</u>

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	31.12.2022	31.12.2021
MKD	15,638	18,323
EUR	534,613	450,277
USD	<u>32,954</u>	<u>36,723</u>
	<u>583,205</u>	<u>505,323</u>

17. LEASE LIABILITIES

Analyses of total lease liabilities:

In thousands of denars	31.12.2022	31.12.2021
Current	130,814	125,308
Non-current	<u>294,508</u>	<u>317,212</u>
	<u>425,322</u>	<u>442,520</u>

Asset related to these lease liabilities are presented in note 12.

The carrying amounts of lease liabilities are denominated in the following currencies

In thousands of denars	31.12.2022	31.12.2021
EUR	395,048	410,799
MKD	<u>30,274</u>	<u>31,721</u>
	<u>425,322</u>	<u>442,520</u>

Notes to the individual financial statements

17. LEASE LIABILITIES (CONTINUED)

Future cash outflows to which the Company is potentially exposed due to the extension options in the lease contracts which are not reflected in the measurement of lease liabilities total to MKD 57,260 thousand as of 31 December 2022. (2021: MKD 84,604 thousand.)

During the period total amount of lease payments made for 2022 and 2021 are as follows:

In thousands of denars	31.12.2022	31.12.2021
Fixed payments	151,317	134,690
Variable payments	<u>16,246</u>	<u>13,578</u>
	<u>167,563</u>	<u>148,268</u>

Maturity analysis of lease liabilities as of 31 December 2022 and 2021 is as follows:

In thousands of denars	31.12.2022	31.12.2021
Less than 1 year	148,749	143,067
From 1 to 2 years	117,699	110,591
From 2 to 3 years	86,625	88,487
From 3 to 4 years	58,199	63,500
From 4 to 5 years	26,817	44,026
Above 5 years	<u>33,706</u>	<u>42,499</u>
	<u>471,795</u>	<u>492,170</u>
Less unearned interest	<u>(46,473)</u>	<u>(49,650)</u>
	<u>425,322</u>	<u>442,520</u>

18. OTHER CURRENT LIABILITIES

In thousands of denars	31.12.2022	31.12.2021
Salaries, wages and bonuses	81,714	88,980
Other taxes and social security	1,454	1,512
Other tax payables	61,807	28,713
Deferred revenue	28,102	5,644
Other current liabilities	<u>25,322</u>	<u>35,650</u>
	<u>198,399</u>	<u>160,499</u>

Notes to the individual financial statements

19. DEFERRED INCOME TAX

Recognized deferred income tax (assets)/liabilities are attributable to the following items:

In thousands of denars	Assets		Liabilities		Net	
	31.12.2022	31.12.2021	31.12.2022	31.12.2021	31.12.2022	31.12.2021
Property, plant and equipment	-	-	21,340	44,089	21,340	44,089
Intangible assets	(40,455)	(26,059)	-	-	(40,455)	(26,059)
IFRS 15	-	-	40,955	39,247	40,955	39,247
(Right of use asset)/Lease Liabilities of IFRS 16	(42,532)	(44,252)	43,555	44,627	1,023	375
Tax (assets)/liabilities	(82,987)	(70,311)	105,850	127,963	22,863	57,652

Movement in temporary differences during the year:

In thousands of denars	Balance 1 January 2022	Effects on profit	Balance 31 December 2022
Property, plant and equipment	44,089	(22,749)	21,340
Intangible assets	(26,059)	(14,396)	(40,455)
IFRS 15	39,247	1,708	40,955
(Right of use asset)/Lease Liabilities of IFRS 16	375	648	1,023
	<u>57,652</u>	<u>(34,789)</u>	<u>22,863</u>
In thousands of denars	Balance 1 January 2021	Effects on profit	Balance 31 December 2021
Property, plant and equipment	72,921	(28,832)	44,089
Intangible assets	(20,093)	(5,966)	(26,059)
IFRS 15	37,343	1,904	39,247
(Right of use asset)/Lease Liabilities of IFRS 16	206	169	375
	<u>90,377</u>	<u>(32,725)</u>	<u>57,652</u>

The temporary differences presented above relates to different carrying amount of property, plant and equipment and intangible assets as these assets were restated in accordance with statutory requirements in previous years at the year-end using official revaluation coefficients based on the general manufactured goods price increase index and in addition the tax prescribed depreciation rates and currently applicable rules. With the transition to the IFRS 15 and IFRS 16, the standards on Revenue from contracts with customers and Lease, temporary difference arise, as these standards are not part of the adopted international financial reporting standards published in the "Official Gazette of the Republic of North Macedonia".

Notes to the individual financial statements

20. PROVISION FOR LIABILITIES AND CHARGES

In thousands of denars	Legal cases	Employee benefits	Total
1 January 2021	5,108	67,738	72,846
Additional provision	38,789	36,223	75,012
Unused amount reversed	(735)	(2,469)	(3,204)
Used during period	-	(14,309)	(14,309)
31 December 2021	43,162	87,183	130,345

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

Analysis of total provisions:

In thousands of denars	31.12.2022	31.12.2021
Non-current (Other)	73,511	64,281
Current	48,607	66,064
	<u>122,118</u>	<u>130,345</u>

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 2022.

Item "Other" 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 2.14.1) and provision for long-term incentive programs (see note 35). The provision is recognized against Personnel expenses in the profit or loss.

21. EQUITY

Share capital consists of the following:

In thousands of denars	31.12.2022	31.12.2021
Ordinary shares	9,583,878	9,583,878
Golden share	10	10
	<u>9,583,888</u>	<u>9,583,888</u>

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.

Notes to the individual financial statements

21. 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 2022 and 2021, the shares of the Company were held as follows:

In thousands of denars	31.12.2022	%	31.12.2021	%
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)	101,120	1.06	101,120	1.06
Other minority shareholders	300,105	3.13	300,105	3.13
	<u>9,583,888</u>	<u>100.00</u>	<u>9,583,888</u>	<u>100.00</u>

21.1. 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 erroneously capitalized as part of treasury shares in 2006 has been retrospectively derecognized from treasury shares (see note 39).

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

Notes to the individual financial statements

22. REVENUES

In thousands of denars	2022	2021
Revenues from fixed line operations		
TV	946,003	937,736
Internet	916,671	881,606
Voice retail	826,727	859,288
Wholesale	504,744	574,544
Data	479,777	482,525
Equipment	28,777	37,879
Other	101,021	126,959
	<u>3,803,720</u>	<u>3,900,537</u>
Revenues from mobile operations		
Internet	2,273,257	1,562,855
Equipment	1,843,019	1,614,472
Voice retail	1,753,200	2,194,820
Wholesale	588,213	671,318
Data	406,534	382,036
Voice visitor	124,387	63,004
Content	84,729	86,013
Other	300,695	293,696
	<u>7,374,034</u>	<u>6,868,214</u>
SI/IT revenues	613,580	452,134
Other services	53,803	53,194
	<u>11,845,137</u>	<u>11,274,079</u>
Of which:		
Revenue from contracts with customers	11,738,184	11,152,158
Other sources	106,953	121,921

Other sources of revenue include rental fees, and other revenues which are presented above in the Revenue from other sources Other fixed revenues and Other mobile revenues.

Equipment revenue is recognized at a point in time while service revenue is recognized over time. SI/IT revenue is recognized mostly over time and to a lesser extent at a point in time depending on the project.

22.1. Assets and liabilities related to the contracts with customers

Contract assets of the Company consist of unbilled amounts typically resulting from sales under long-term contracts when revenue recognized exceeds the amount billed to the customer. The current portion of contract assets is included in Trade receivables and other assets in the Statement of financial position. The non-current portion of contract assets is included accordingly in the non-current section of the Statement of financial position - Trade receivables and other assets. Contract liabilities consist of advance payments and billings in excess of costs incurred and deferred revenue. The current portion of contract liabilities is included in Trade payables and other liabilities in the Statement of financial position. The non-current portion of contract liabilities is included accordingly in the non-current section of the Statement of financial position - Other liabilities.

Notes to the individual financial statements

22.1. Assets and liabilities related to the contracts with customers (continued)

In thousands of denars	31.12.2022	31.12.2021
Contract assets – current	213,331	187,850
Contract assets – noncurrent	82,122	80,818
Contract liabilities – current	(265,448)	(283,669)
Contract liabilities – noncurrent	(37)	(7)
Net contract assets (liabilities)	<u>29,968</u>	<u>(15,008)</u>

Revenue recognized in the reporting period from amounts included in contract liability at the beginning of the period 200,943 167,174

Impairment losses recognized on contract assets are disclosed together with trade receivables in note 7 and they amounted to MKD 98,351 thousand as at 31 December 2022 (2021 MKD: 101,936 thousand).

As of 31 December, 2022, the aggregate amount of the transaction price allocated to the remaining performance obligation is MKD 3,405,248 thousand (2021: MKD 3,631,096 thousand) and the Company will recognize this revenue as services are rendered, which is expected to occur over the next 29 months (2021: 29 months).

The Company did not account for revenue recognized in the reporting period from performance obligations satisfied (or partially satisfied) in previous periods.

23. PERSONNEL EXPENSES

In thousands of denars	2022	2021
Salaries	581,698	611,200
Contributions on salaries	218,816	223,775
Other staff costs	146,652	124,672
Bonus payments	127,637	111,361
Capitalized personnel costs	<u>(59,468)</u>	<u>(49,816)</u>
	<u>1,015,335</u>	<u>1,021,192</u>

Other staff costs include termination benefits, holiday's allowance and other benefits for employees and managers who have left the Company in amount MKD 106,021 thousand for 57 persons (2021: MKD 77,119 thousand for 42 persons). As of 31 December 2022, all was settled. As of 31 December, 2021, amount of MKD 74,672 thousand was paid out, while MKD 2,447 thousand were presented as Other current liabilities. (see note 18).

Bonus payments also include the cost for long-term incentive programs (see note 35).

Notes to the individual financial statements

24. OTHER OPERATING EXPENSES AND PAYMENTS TO OTHER NETWORK OPERATORS

In thousands of denars	2022	2021
Purchase cost of goods sold	2,370,775	1,888,922
Energy	640,416	212,702
Materials and maintenance	574,277	629,794
Services	518,276	563,231
Services from subcontractors	303,611	341,667
Fees, levies and local taxes	288,315	252,145
Marketing and donations	155,242	173,197
Royalty payments	82,315	87,463
Legal costs	41,291	29,325
Write down of inventories	19,843	25,894
Consultancy	15,855	10,944
Insurance	10,173	12,635
(Release)/write down of inventories to net realizable value	(1,500)	3,741
Other	14,977	24,299
	<u>5,033,866</u>	<u>4,255,959</u>

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 22.

Payments to other network operators in amount of MKD 1,026,645 thousand (2021: MKD 1,062,732 thousand) represents interconnection and roaming costs with other telecommunication operators.

25. OTHER OPERATING INCOME

In thousands of denars	2022	2021
Net gain on sale of PPE	22,419	3,521
Other	13,304	20,166
	<u>35,723</u>	<u>23,687</u>

In 2022 amount of MKD 14,724 thousand (2021: MKD 2,270 thousand) included in the category Net gain on sale of PPE represents gain from sales of three buildings (2021: one building).

In the category Other, amounts mainly relates to re invoicing of different operating expenses.

26. FINANCE EXPENSES

In thousands of denars	2022	2021
Interest from liabilities for TV content rights	25,503	24,861
Interest from lease liabilities	20,956	19,394
Other	84,696	13,594
	<u>131,155</u>	<u>57,849</u>

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). Interest expense from leases are coming from leases in relation to the Lease liabilities recognized (see note 17). Other category represents mainly interest related to provisions (see note 20), the major part of which relate to interest paid from one lost legal case.

Notes to the individual financial statements

27. FINANCE INCOME

In thousands of denars	2022	2021
Fair value through profit and loss	7,415	74,040
Dividend income	11,823	9,833
Interest income	2,449	3,430
Net foreign exchange gain	3,162	2,994
	<u>24,849</u>	<u>90,297</u>

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

28. INCOME TAX EXPENSE

Recognized in the statement of comprehensive income:

In thousands of denars	2022	2021
Current tax expense		
Current year	<u>241,769</u>	<u>205,029</u>
Deferred tax expense		
Origination and reversal of temporary differences	<u>(34,789)</u>	<u>(32,726)</u>
Total income tax in the statement of comprehensive income	<u>206,980</u>	<u>172,303</u>

Temporary differences arise in relation to the recognized different tax assets/liabilities (see note 19).

Reconciliation of effective tax rate:

In thousands of denars		2022		2021
Profit before tax		<u>1,707,259</u>		<u>1,763,596</u>
Income tax	10.00%	170,726	10.00%	176,359
Non-deductible expenses	3.75%	64,011	3.51%	61,880
Tax credit from reinvested Profit	-	-	(1.96%)	(34,547)
Tax credit in the future periods from depreciation	(0.95%)	(16,175)	(1.03%)	(18,205)
Tax credit from depreciation	(0.37%)	(6,261)	(0.45%)	(7,896)
Tax credit from donations in sport	(0.25%)	(4,305)	(0.24%)	(4,305)
Tax exempt revenues	(0.06%)	(1,016)	(0.06%)	(983)
		<u>12.12%</u>		<u>9.77%</u>
		<u>206,980</u>		<u>172,303</u>

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

29. DIVIDENDS

The Shareholders' Assembly of the Company, at its meeting, held on 31 May 2022 adopted a Resolution for the dividend payment for the year 2021. The Resolution on dividend payment for 2021 is in the 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 is MKD 19.96. The dividend was paid out in August 2022. Up to date of issuing of these financial statements, no dividends have been declared for 2022.

On 17 June 2021 Shareholders' Assembly of the Company adopted a Resolution for the dividend payment for the year 2020. The Resolution on dividend payment for 2020 is in the gross amount of MKD 1,381,898 thousand from the net profit generated as per the Financial Statements of the Company for the year 2020 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 2020 was MKD 16.02. The dividend was paid out in September 2021. On the same meeting Shareholders' Assembly of the Company brought decision part of the net profit generated as per the Financial Statements of the Company for the year 2020 in accordance with the adopted international financial reporting standards published in the "Official Gazette of the Republic of North Macedonia" to be transferred in retained earnings for investments in qualified tangible and intangible assets (in accordance with Income tax law) in amount of MKD 345,475 thousand.

30. REPORTABLE SEGMENTS AND INFORMATION

30.1. 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.

30.2. 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.

Notes to the individual financial statements

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

Revenues

In thousands of denars	2022	2021
Residential segment revenues	7,893,745	7,453,220
Business segment revenues	2,934,048	2,772,411
Wholesale segment revenues	992,399	1,012,971
Other segment revenues	24,945	35,477
	<u>11,845,137</u>	<u>11,274,079</u>

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

Segment results (Direct margin)

In thousands of denars	2022	2021
Direct margin		
Residential segment	5,467,153	5,226,705
Business segment	1,655,622	1,778,166
Wholesale segment	680,784	633,673
Other	24,943	827
Total direct margin	<u>7,828,502</u>	<u>7,639,371</u>
Total Indirect costs	<u>(3,256,941)</u>	<u>(2,892,588)</u>
Other operating income	35,723	23,687
EBITDA	<u>4,607,284</u>	<u>4,770,470</u>
Depreciation and amortization	<u>(2,793,719)</u>	<u>(3,039,322)</u>
Total operating profit	<u>1,813,565</u>	<u>1,731,148</u>
Finance (expenses)/income – net	<u>(106,306)</u>	<u>32,448</u>
Profit before tax	<u>1,707,259</u>	<u>1,763,596</u>
Income tax expense	<u>(206,980)</u>	<u>(172,303)</u>
Net profit for the year	<u>1,500,279</u>	<u>1,591,293</u>

Notes to the individual financial statements

31. LEASES AND OTHER COMMITMENTS

31.1. 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	2022	2021
Not later than 1 year	18,051	27,960
Later than 1 year and not later than 5 years	<u>9,772</u>	<u>26,242</u>
	<u>27,823</u>	<u>54,202</u>

Revenue from leases where Company is the lessor are presented in note 22.

Property, plant and equipment subject to operating leases are as follows:

In thousands of denars	Buildings	Telecommunication Equipment	Total
At 31 December 2020			
Cost	33,293	109,020	142,313
Accumulated depreciation	<u>(20,239)</u>	<u>(99,060)</u>	<u>(119,299)</u>
Carrying amount	<u>13,054</u>	<u>9,960</u>	<u>23,014</u>
Carrying amount at 1 January 2021	13,054	9,960	23,014
Additions	20,613	7,523	28,136
Disposals	(6,952)	(1,274)	(8,226)
Depreciation charge	<u>(13,729)</u>	<u>(7,446)</u>	<u>(21,175)</u>
Carrying amount 31 December 2021	<u>12,986</u>	<u>8,763</u>	<u>21,749</u>
At 31 December 2021			
Cost	46,954	115,269	162,223
Accumulated depreciation	<u>(33,968)</u>	<u>(106,506)</u>	<u>(140,474)</u>
Carrying amount	<u>12,986</u>	<u>8,763</u>	<u>21,749</u>

Notes to the individual financial statements

31.1. Operating lease commitments – where the Company is the lessor (continued)

In thousands of denars	Buildings	Telecommunication equipment	Total
At 31 December 2021			
Cost	46,954	115,269	162,223
Accumulated depreciation	(33,968)	(106,506)	(140,474)
Carrying amount	12,986	8,763	21,749
Carrying amount at 1 January 2022	12,986	8,763	21,749
Additions	4,671	-	4,671
Disposals	-	(1,671)	(1,671)
Depreciation charge	(2,698)	(414)	(3,112)
Carrying amount 31 December 2022	14,959	6,678	21,637
At 31 December 2022			
Cost	51,625	113,598	165,223
Accumulated depreciation	(36,666)	(106,920)	(143,586)
Carrying amount	14,959	6,678	21,637

31.2. Capital commitments

The amount for capital expenditure (external commitments) as at 31 December 2022 was MKD 524,631 thousand (2021: MKD 932,586 thousand). The amount for capital expenditure as at 31 December 2022 and 2021 mainly relates to telecommunication assets.

32. ADDITIONAL DISCLOSURES ON FINANCIAL ASSETS

32.1. Financial assets – Carrying amounts and fair values

The table below shows the categorization of financial assets as at 31 December 2021.

Assets	Financial assets			
In thousands of denars	Measured at amortized cost	At fair value through profit and loss (Level 1)	Carrying amount	Fair value
Cash and cash equivalents	1,291,406	-	1,291,406	1,291,406
Deposits with banks	677,897	-	677,897	677,897
Trade receivables	3,031,500	-	3,031,500	3,031,500
Other financial assets	27,596	-	27,596	27,596
Contracts assets	268,668	-	268,668	268,668
Financial assets at fair value through profit and loss (equity instruments)	-	214,920	214,920	214,920

Notes to the individual financial statements

32.1. Financial assets – Carrying amounts and fair values (continued)

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

Assets	Financial assets			
In thousands of denars	Measured at amortized cost	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
Contracts assets	295,453	-	295,453	295,453
Financial assets at fair value through profit and loss (equity instruments)	-	222,335	222,335	222,335

Cash and cash equivalents, deposits, 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 222,335 thousand (2021: MKD 214,920 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 27).

32.2. 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.

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	<u>3,471,468</u>	<u>2,711,150</u>

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 2021:

In thousands of denars	Trade receivables	Trade payables
Gross amounts of recognized financial instruments	3,236,004	2,175,397
Gross amounts of financial instruments set off	(204,504)	(204,504)
Net amounts of recognized financial instruments	<u>3,031,500</u>	<u>1,970,893</u>

Notes to the individual financial statements

32.3. 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 derecognition.

33. 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. The 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 2022 and 2021. At the moment, the Management, does not anticipate any material liabilities arising from the contingent liabilities other than those provided for (see note 20).

34. 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 21). 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 29), in 2022 and 2021, 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. In 2021, new license in 2100 MHz (2x15 MHz) was issued to the Company in amount of MKD 185 million. License validity is until end of 2028. The licenses were recognized as intangible assets (see note 14).

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).

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

In thousands of denars	2022		2021	
	Revenues	Expenses	Revenues	Expenses
Controlling owner				
Magyar Telekom Plc	564	15,465	125	16,193
Subsidiaries of the controlling owner	8,913	2,902	9,678	3,879
Ultimate parent company				
Deutsche Telekom AG	514,927	380,159	432,409	278,877
Subsidiaries of the ultimate parent company	33,454	38,459	46,099	37,107

Notes to the individual financial statements

34. RELATED PARTY TRANSACTIONS (CONTINUED)

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

In thousands of denars	31.12.2022		31.12.2021	
	Receivables	Payables	Receivables	Payables
Controlling owner				
Magyar Telekom Plc	5,520	3,331	5,230	3,015
Subsidiaries of the controlling owner	3,064	752	2,233	961
Ultimate parent company				
Deutsche Telekom AG	141,208	382,654	132,023	310,194
Subsidiaries of the ultimate parent company	44,891	99,050	42,108	77,518

35. KEY MANAGEMENT COMPENSATION

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

In thousands of denars	2022	2021
Short-term employee benefits (including taxation)	71,094	74,482
Contributions to the state pension system on short-term employee benefits	10,964	11,501
Other state contributions on short-term employee benefits	4,345	4,458
Termination benefits	12,941	5,160
Long-term incentive programs	44,487	35,806
Other payments	1,884	2,045
	<u>145,715</u>	<u>133,452</u>

The remuneration of the members of the Company's Board of Directors and its committees, which amounted to MKD 8,680 thousand (2021: MKD 8,680 thousand) is included in Short-term employee benefits. These are included in Personnel expenses (see note 23).

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.

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35. KEY MANAGEMENT COMPENSATION (CONTINUED)

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 20 and 23).

36. EARNINGS PER SHARE

a) Basic and diluted earnings per share

	2022	2021
Earnings for the purposes of earnings per share being net profit attributable to owners of the Company (in thousands of denars)	<u>1,500,279</u>	<u>1,591,293</u>
Basic and diluted earnings per share (in denars, calculated as net result divided by number of shares)	<u>17.39</u>	<u>18.45</u>

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

	2022	2021
Weighted average number of common stocks outstanding as the denominator for calculation basic and diluted earnings per share	<u>86,254,903</u>	<u>86,254,903</u>

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

37. EVENTS AFTER THE FINANCIAL STATEMENT DATE

There are no events after 31 December 2022 that would have impact on the 2022 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.

Notes to the individual financial statements

38. REGULATORY ENVIRONMENT

38.1. 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.

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38.1. Regulatory Environment - Mobile Line (continued)

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.

Both operators, the Company and A1 Macedonia are designated as operators with an SMP status on the relevant wholesale market "Wholesale call termination on public mobile networks". The current termination rates are symmetrical for the Company and A1 Macedonia, but as of May 2018, Lyca Mobile has high asymmetry. With the new analysis of the relevant market in 2020 symmetry was implemented also for Lyca Mobile from 1 July, 2020.

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)

Notes to the individual financial statements

38.2. 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.

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39. 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.

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

In relation to the local investigation by the state authorities in Republic of North Macedonia and further to the previously disclosed information in the Financial Statements of the Company for the preceding years, the criminal procedure against former managers of the company is still ongoing at first instance criminal court.

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.