



LIFE IS FOR SHARING.

Makedonski Telekom AD - Skopje

Financial Statements

For the year ended

31 December 2018

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 AD - Skopje

Report on the financial statements

We have audited the accompanying financial statements of *Makedonski Telekom AD - Skopje*, which comprise the statement of financial position as of 31 December 2018 and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

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

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 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 financial statements presents fairly, in all material respects, the financial position of *Makedonski Telekom AD – Skopje* as of 31 December 2018, and of its financial performance and its cash flows for the year than ended in accordance with Accounting Standards applicable in Republic of North Macedonia.

Report on Other Legal and Regulatory Requirements

Annual Report is prepared by the Management in accordance with the requirement of the Company Law, article 384.

Management is responsible for the preparation of the Annual Accounts and Annual Report of *Makedonski Telekom AD - Skopje*, which are approved by the Board of Directors of *Makedonski Telekom AD - Skopje*.

As required by the Audit Law, we report that the historical information presented in the Annual Report prepared by the Management of *Makedonski Telekom AD - Skopje* in accordance with article 384 of the Company Law is consistent, in all material respects, with the financial information presented in the Annual Accounts and audited Financial Statements of *Makedonski Telekom AD - Skopje*, as of and for the year ended 31 December 2018.


Ljube Gjorgjievski
General Manager
Aleksandra Kuzmanovska
Certified Auditor

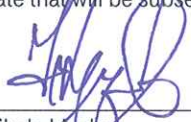
PRICEWATERHOUSECOOPERS REVIZIJA DOO Skopje

Skopje, 18 February 2019

Statement of financial position

In thousands of denars	Note	As at 31 December	
		2018	2017
Assets			
Current assets			
Cash and cash equivalents	5	517,310	522,375
Deposits with banks	6	742,487	680,506
Trade and other receivables	7	2,889,753	2,893,949
Other taxes receivable	8	14,115	14,175
Inventories	9	269,678	338,121
Total current assets		4,433,343	4,449,126
Non-current assets			
Property, plant and equipment	11	10,614,196	10,899,462
Advances for property, plant and equipment		2,890	4,553
Intangible assets	12	2,669,475	2,683,420
Trade and other receivables	7	359,425	330,635
Financial assets at fair value through profit and loss	26.1	103,306	63,925
Other non-current assets		612	612
Total non-current assets		13,749,904	13,982,607
Total assets		18,183,247	18,431,733
Liabilities			
Current liabilities			
Trade and other payables	13	3,396,184	3,463,777
Income tax payable		7,330	25,428
Other taxes payable	8	46,495	48,608
Provision for liabilities and charges	14	172,780	153,907
Total current liabilities		3,622,789	3,691,720
Non-current liabilities			
Other payables	13	358,023	519,264
Provision for liabilities and charges	14	27,815	57,340
Total non-current liabilities		385,838	576,604
Total liabilities		4,008,627	4,268,324
Equity			
Share capital		9,583,888	9,583,888
Share premium		540,659	540,659
Treasury shares		(3,738,358)	(3,738,358)
Statutory reserves		958,389	958,389
Revaluation reserves		865,576	867,477
Other reserves		22,291	22,291
Retained earnings		5,942,175	5,929,063
Total equity	15	14,174,620	14,163,409
Total equity and liabilities		18,183,247	18,431,733

These financial statements were authorized for issue on 18 February 2019 by the Management of Makedonski Telekom AD - Skopje, and are subject to review and approval by the Board of Directors on 28 February 2019 and by the shareholders on date that will be subsequently agreed.


Nikola Ljusev
Chief Executive Officer


Slavko Projkoski
Chief Financial Officer


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

Statement of comprehensive income

In thousands of denars	Note	Year ended 31 December	
		2018	2017
Revenues	16	10,498,437	10,318,376
Depreciation and amortization	11,12	(2,324,609)	(2,183,147)
Personnel expenses	17	(1,146,786)	(1,090,333)
Payments to other network operators		(907,733)	(894,255)
Other operating expenses	18	(4,335,947)	(4,359,024)
Operating expenses		(8,715,075)	(8,526,759)
Other operating income	19	29,264	48,660
Operating profit		1,812,626	1,840,277
Finance expenses	20	(62,425)	(70,484)
Finance income	21	68,334	45,982
Finance income/(expense) - net		5,909	(24,502)
Profit before income tax		1,818,535	1,815,775
Income tax expense	22	(222,473)	(230,924)
Profit for the year		1,596,062	1,584,851
Total comprehensive income for the year		1,596,062	1,584,851
Earnings per share (EPS) information:			
Basic and diluted earnings per share (in denars)	30	18.50	18.37

Statement of cash flows

In thousands of denars	Note	Year ended 31 December	
		2018	2017
Operating activities			
Profit before tax		1,818,535	1,815,775
Adjustments for:			
Depreciation and amortization	11,12	2,324,609	2,183,147
Write down of inventories to net realizable value	18	4,061	11,228
Fair value gain on financial assets	21	(39,381)	(3,559)
Impairment on trade and other receivables	18	119,015	153,982
Net increase/(release) of provisions	14	12,068	(6,805)
Net loss/(gain) on disposal of property, plant and equipment	19	1,069	(4,158)
Dividend income	21	(3,159)	(2,749)
Interest expense	20	39,556	35,050
Interest income	21	(22,893)	(39,674)
Effect of foreign exchange rate changes on cash and cash equivalents		1,862	9,583
Cash generated from operations before changes in working capital		4,255,342	4,151,820
Decrease in inventories		64,382	88,971
(Increase)/decrease in receivables		(155,987)	298,909
Decrease in payables		(120,925)	(512,703)
Cash generated from operations		4,042,812	4,026,997
Interest paid		(28,196)	(22,849)
Taxes paid		(240,571)	(225,584)
Cash flows generated from operating activities		3,774,045	3,778,564
Investing activities			
Acquisition of property, plant and equipment		(1,575,601)	(1,576,746)
Acquisition of intangible assets		(259,713)	(467,105)
Loans collected		12,438	9,469
Deposits collected from banks		680,506	178,457
Deposits placed with banks		(742,487)	(680,506)
Dividends received		3,159	2,749
Proceeds from sale of property, plant and equipment		11,245	38,416
Interest received		22,893	39,674
Cash flows used in investing activities		(1,847,560)	(2,455,592)
Financing activities			
Dividends paid	23	(1,584,334)	(1,251,439)
Payments of other financial liabilities	13	(345,354)	(480,597)
Cash flows used in financing activities		(1,929,688)	(1,732,036)
Net decrease in cash and cash equivalents		(3,203)	(409,064)
Cash and cash equivalents at 1 January		522,375	941,022
Effect of foreign exchange rate changes on cash and cash equivalents		(1,862)	(9,583)
Cash and cash equivalents at 31 December	5	517,310	522,375

Statement of changes in equity

In thousands of denars	Note	Share capital	Share premium	Treasury shares	Statutory reserve	Revaluation reserves	Other reserves	Retained earnings	Total
Balance at 1 January 2017		9,583,888	540,659	(3,738,358)	958,389	867,477	22,291	5,595,810	13,830,156
Total comprehensive income for the year		-	-	-	-	-	-	1,584,851	1,584,851
Transaction with owners in their capacity of owners (dividends paid)		-	-	-	-	-	-	(1,251,598)	(1,251,598)
Balance at 31 December 2017	15	9,583,888	540,659	(3,738,358)	958,389	867,477	22,291	5,929,063	14,163,409
Balance at 1 January 2018		9,583,888	540,659	(3,738,358)	958,389	867,477	22,291	5,929,063	14,163,409
Total comprehensive income for the year		-	-	-	-	-	-	1,596,062	1,596,062
Transaction with owners in their capacity of owners (dividends paid)		-	-	-	-	-	-	(1,584,851)	(1,584,851)
Transfer (see note 2.13)		-	-	-	-	(1,901)	-	1,901	-
Balance at 31 December 2018	15	9,583,888	540,659	(3,738,358)	958,389	865,576	22,291	5,942,175	14,174,620

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 as: “the Company”) is a joint stock company incorporated and domiciled in the Republic of North Macedonia.

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

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

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

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

1.2. Regulation environment - Mobile Line

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

In its 2019 working program, the Agency prepared a tender for a 700 MHz band. It also announced the release of Digital dividend 2 radiofrequencies and repositioning of broadcasters in the lower part of the UHF band. Also, public debate on the amount of the onetime fees and annual fees for 5G spectrum is expected in 2019, with the possibility to announce the 3.xGHz on a public tender.

1.3. Regulation environment - Fixed Line

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

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

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

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

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

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

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

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

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

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

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

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

1.4. Investigation into certain consultancy contracts

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

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

2.1. Basis of preparation

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

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

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

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

2.2. Foreign currency translation

2.2.1. Functional and presentation currency

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

2.2.2. Transactions and balances

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

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

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

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

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

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

Assumptions applied in the fair value calculations are subject to uncertainties. Changes in the assumptions applied in the calculations would have an impact on the carrying amounts, the fair values and/or the cash flows originating from the financial instruments. Sensitivity analyses related to the Company's financial instruments are provided in Note 3.

2.3.1. Financial assets

The Company classifies its financial assets in the following categories:

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

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

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

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

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

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

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

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

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

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

- (b) Loans and receivables

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

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

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

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

Cash and cash equivalents

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

Should impairment on cash and cash equivalents occur, it would be recognized in the Profit or Loss (Finance expenses).

Trade and other receivables

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

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

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

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

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

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

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

Employee loans

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

Difference between the nominal value of the loan granted and the initial fair value of the employee loan is recognized as prepaid employee benefits, which reduces Loans and receivables from employees. Interest income on the loan granted

calculated by using the effective interest method is recognized as finance income, while the prepaid employee benefits are amortized to Personnel expenses evenly over the term of the loan. The program is not active in terms of granted new loans. In 2013, the last loan was granted.

Impairment losses on Employee loans, if any, are recognized in the Profit or Loss (Personnel expenses).

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

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

2.5. Assets held for sale

An asset is classified as held for sale if it is no longer needed for the future operations of the Company, and has been identified for sale, which is highly probable and expected to take place within 12 months. 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 11).

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

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

When assets are scrapped, the cost and accumulated depreciation are removed from the accounts and the loss is recognized in the Profit or Loss as depreciation expense.

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 (Other operating income/expense).

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 11).

The estimated useful lives are as follows:

	2018	2017
	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	4-6	4-6
Furniture and fittings	4-10	4-10
Vehicles	5-10	5-10
Other	2-15	2-15

2.7. Intangible assets

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

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

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

The Company's primary activities are in the fixed line and mobile operations in Republic of North Macedonia. These operations usually require acquisition of licenses/frequency usage rights, which generally contain upfront fees and annual fees. For each acquired license/frequency usage right, the Company assesses whether the amount of future annual fees can be measured reliably at the start of the validity period of the license. If the Company considers that the amount of future annual fees can be measured reliably, the present value of the future annual fees is capitalized, if any, as part of the cost of the license otherwise these fees are recognized as expenses (Other operating 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 12).

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:

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

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 12).

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

2.8. Impairment of property, plant and equipment and intangible assets

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

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

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

2.9. Provisions and contingent liabilities

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

Provisions are measured and recorded as the best estimate of the economic outflow required to settle the present obligation at the financial statement date. The estimate can be calculated as the weighted average of estimated potential outcomes or can also be the single most likely outcome. The provision charge is recognized in the Profit or Loss within the expense corresponding to the nature of the provision.

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

2.10. Share capital

Ordinary shares are classified as equity.

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. Statutory reserves

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

2.13. Revaluation reserves

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

2.14. Revenues

Revenues for all services and equipment sales (see note 16) are shown net of VAT and discounts. Revenue is recognized when the amount of the revenue can be reliably measured, and when it is probable that future economic benefits will flow to the Company and all other specific recognition criteria of IAS 18 on the sale of goods and rendering of services are met for the provision of each of the Company's services and sale of goods.

Customers of the Company are granted loyalty awards (credit points) based on their usage of the Company's services including timely payment of their invoices. Loyalty awards can be accumulated and redeemed to obtain future benefits (e.g. handsets, telecommunication equipment, etc.) from the operators of the Company. When customers earn their credit points, the fair value of the credit points earned are deducted from the revenue invoiced to the customer, and recognized as Other liabilities (deferred revenue). On redemption (or expiry) of the points, the deferred revenue is released to revenue as the customer has collected (or waived) the undelivered element of the deemed bundle.

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

2.14.1. Fixed line and mobile telecommunications revenues

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

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

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

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

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

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

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

2.14.2. System integration and IT revenues

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

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

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

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

2.15. Employee benefits

2.15.1. Short term employee benefits and pensions

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

2.15.2. Bonus plans

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

2.15.3. Termination benefits

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

2.16. Marketing expenses

Marketing costs are expensed as incurred. Marketing expenses are disclosed in note 18.

2.17. Income tax

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

2.18. Leases

2.18.1. Operating lease – Company as lessor

Assets leased to customers under operating leases are included in Property, plant and equipment in the statement of financial position. They are depreciated over their expected useful lives on a basis consistent with similar fixed assets. Rental income is recognized on a straight-line basis over the lease term.

2.18.2. Operating lease – Company as lessee

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

2.19. Earnings per share

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

2.20. Dividend distribution

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

2.21. Segments

The operating segments of the Company are based on the business lines, residential, business, wholesale and other, which is consistent with the internal reporting provided to the chief operating decision maker, the Chief Executive Officer (CEO) who is advised by the Management Committee (MC) of the Company. The CEO is responsible for allocating resources to, and assessing the performance of, the operating segments. The accounting policies and measurement principles of the operating segments are the same as those applied for the Company described in the Significant accounting policies (see note 2). In the financial statements, the segments are reported in a manner consistent with the internal reporting.

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

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

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

2.22. Comparative information

In order to maintain consistency with the current year presentation in the Financial statements and the Notes thereto, certain items have been reclassified for comparative purposes. Material changes in disclosures, if any, are described in detail in the relevant notes.

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 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, IFRS 7 requires sensitivity analyses that show the effects of hypothetical changes of relevant risk variables on profit or loss and shareholders' equity. The periodic effects are determined by relating the hypothetical changes in the risk variables to the balance of financial instruments at the 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.

At 31 December 2018, if MKD would have been 1% weaker or stronger against EUR, profit would have been MKD 6,945 thousand in net balance lower or higher, respectively. At 31 December 2017, if MKD would have been 1% weaker or stronger against EUR, profit would have been MKD 8,251 thousand in net balance lower or higher, respectively. At 31 December 2018, if MKD would have been 10% weaker or stronger against USD, profit would have been MKD 663 thousand in net balance lower or higher, respectively. At 31 December 2017, if MKD would have been 10% weaker or stronger against USD, profit would have been MKD 2,466 thousand in net balance higher or lower, respectively.

b) Interest rate risk

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

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

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

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

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

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

The Company had MKD 1,254,440 thousand deposits (including call deposits) and cash in bank as at 31 December 2018, 1% rise in market interest rate would have caused (ceteris paribus) the interest received to increase with approximately MKD 12,544 thousand annually, while similar decrease would have caused the same decrease in interest received. The amount of deposits (including call deposits) and cash in bank is MKD 1,185,636 thousand as at 31 December 2017, therefore 1% rise in market interest rate would have caused (ceteris paribus) the interest received to increase with approximately MKD 11,856 thousand annually, while similar decrease would have caused the same decrease in interest received.

c) Other price risk

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

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

The Company had MKD 103,306 thousand investments in equity of other entities that are publically traded on the Macedonian Stock Exchange as at 31 December 2018, 20% rise in market price would have caused (ceteris paribus) MKD 20,661 thousand gain, while similar decrease would have caused the same loss in the Profit or Loss. The amount of the investments in equity of other entities that are publically traded on the Macedonian Stock Exchange is MKD 63,925 thousand as at 31 December 2017, therefore 20% rise in market price would have caused (ceteris paribus) MKD 12,785 thousand gain, while similar decrease would have caused the same loss in the Profit or Loss.

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.

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.

Largest amount of one deposit in 2018 is MKD 491,960 thousand, denominated in EUR 8,000 thousand, (2017: MKD 430,435 thousand denominated in EUR 7,000 thousand). In addition, the Company has deposits with 1 domestic bank (2017: 1 domestic bank). The Company has obtained collateral (guarantee) that mitigate the credit risk for the extent of the deposited amount in the respective bank.

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 2018 and 2017 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.

The maturity structure of the Company's financial liabilities as at 31 December 2018 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	1,575,464	882,431	690,795	1,666	572
Liabilities to related parties	314,109	312,481	1,628	-	-
Other financial liabilities	984,136	171,939	149,697	277,185	385,315
	<u>2,873,709</u>	<u>1,366,851</u>	<u>842,120</u>	<u>278,851</u>	<u>385,887</u>

The maturity structure of the Company's financial liabilities as at 31 December 2017 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	1,077,565	588,357	489,208	-	-
Liabilities to related parties	313,798	301,480	12,318	-	-
Other financial liabilities	1,044,150	142,820	83,529	261,226	556,575
	<u>2,435,513</u>	<u>1,032,657</u>	<u>585,055</u>	<u>261,226</u>	<u>556,575</u>

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 2018, is MKD 14,174,620 thousand, in accordance with the adopted international financial reporting standards published in the "Official Gazette of the Republic of North Macedonia" (2017: MKD 14,163,409 thousand). Out of this amount MKD 9,583,888 thousand (2017: MKD 9,583,888 thousand) represent share capital and MKD 958,389 thousand (2017: MKD 958,389 thousand) represent statutory reserves, which are not distributable (see note 2.12). The Company has also acquired treasury shares (see notes 2.11 and 15.1). The transaction is in compliance with the local legal requirements that by acquiring treasury shares the total equity of the Company shall not be less than the amount of the share capital and reserves which are not distributable to shareholders by law or by Company's statute. In addition, according the local legal requirements dividends can be paid out to the shareholders in amount that shall not exceed the net profit for the year as presented in the financial statements of the Company in accordance with the adopted international financial reporting standards published in the "Official Gazette of the Republic of North Macedonia", increased for the undistributed net profit from previous years or increased for the other distributable reserves, i.e. reserves that exceed the statutory reserves and other reserves defined by the Company's statute. The Company is in compliance with all statutory capital requirements.

3.3. Fair value estimation

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

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

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

Financial liabilities included in the category Trade and other payables mainly have short term maturity. For this reason, their carrying amounts at the reporting date approximate their fair values.

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

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

4.1. Useful lives of assets

The determination of the useful lives of assets is based on historical experience with similar assets as well as any anticipated technological development and changes in broad economic or industry factors. The appropriateness of the estimated useful lives is reviewed annually, or whenever there is an indication of significant changes in the underlying assumptions. We believe that the accounting estimate related to the determination of the useful lives of assets is a critical accounting estimate since it involves assumptions about technological development in an innovative industry and heavily dependent on the investment plans of the Company. Further, due to the significant weight of depreciable assets in our total assets, the impact of any changes in these assumptions could be material to our financial position, and results of operations. As an example, if the Company was to shorten the average useful life of its assets by 10%, this would result in additional annual depreciation and amortization expense of approximately MKD 258,290 thousand (2017: MKD 242,572 thousand). See note 11 and 12 for the changes made to useful lives in 2018.

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

4.2. Estimated impairment of 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 2% (2017: 2%) to determine the terminal value after 10 years. The discount rate used was 8.36% (2017: 8.39%). The impairment test did not result in impairment.

4.3. Estimated impairment of trade and other receivables

We calculate impairment for doubtful accounts based on estimated losses resulting from the inability of our customers to make the required payments. For the largest customers, international customers and for customers under liquidation and bankruptcy proceedings impairment is calculated on an individual basis, while for other customers it is estimated on a portfolio basis, for which we base our estimate on the aging of our account receivables balance and our historical write-off experience, customer credit-worthiness and recent changes in our customer payment terms (see note 2.3.1 (b)). These factors are reviewed annually, and changes are made to the calculations when necessary. In 2018 the Company carried out detailed analysis on the groups of customers on which collective assessment of impairment is performed which resulted in changes in the related impairment rates due to different payment behavior, resulting in new impairment rates of trade and other receivables in 2018. If the financial condition of our customers were to deteriorate, actual write-offs of currently existing receivables may be higher than expected and may exceed the level of the impairment losses recognized so far (see note 3.1.2).

4.4. Provisions

Provisions in general are highly judgmental, especially in case of legal disputes. The Company assesses the probability of an adverse event as a result of a past event and if the probability of an outflow of economic benefits is evaluated to be more than 50%, the Company fully provides for the total amount of the estimated liability (see note 2.9). As the assessment of the probability is highly judgmental, in some cases the evaluation may not prove to be in line with the eventual outcome of the case. In order to determine the probabilities of an adverse outcome, the Company uses internal and external legal counsel (see note 14 and 27).

4.5. Subscriber acquisition costs

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

5. CASH AND CASH EQUIVALENTS

In thousands of denars	2018	2017
Call deposits	251,007	280,013
Cash in bank	260,946	225,117
Cash on hand	5,357	17,245
	<u>517,310</u>	<u>522,375</u>

The interest rate on call deposits is 0.33% p.a. (2017: 0.35% p.a.). These deposits have maturities of less than 3 months.

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

In thousands of denars	2018	2017
MKD	292,341	336,031
EUR	214,011	122,772
USD	10,958	63,572
	<u>517,310</u>	<u>522,375</u>

Following is the breakdown of call deposits and cash in bank with bank guarantee by credit rating of the Guarantor (see note 3.1.2):

In thousands of denars	2018	2017
Credit rating of the Guarantor: A	<u>479,831</u>	<u>472,044</u>
	<u>479,831</u>	<u>472,044</u>

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

In thousands of denars	2018	2017
Credit rating: A-	250	387
Credit rating: BB+	1,243	5,003
Credit rating: BB	-	942
Credit rating: B+	4,317	-
Credit rating: CCC+	11,382	-
Credit rating: RD	-	19,176
Call deposits in local banks without rating	<u>14,930</u>	<u>7,578</u>
	<u>32,122</u>	<u>33,086</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.

6. DEPOSITS WITH BANKS

In 2018 deposits with banks represent cash deposits in domestic bank, with interest rate from 0.60% p.a. to 0.85% p.a. (2017: from 0.25% p.a. to 0.27% 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	2018	2017
MKD	250,139	250,041
EUR	<u>492,348</u>	<u>430,465</u>
	<u>742,487</u>	<u>680,506</u>

Following is the breakdown of deposits with banks by categories and by credit rating of the Guarantor (see note 3.1.2):

In thousands of denars	2018	2017
Credit rating of the Guarantor: A	<u>742,487</u>	<u>680,506</u>
	<u>742,487</u>	<u>680,506</u>

7. TRADE AND OTHER RECEIVABLES

In thousands of denars	2018	2017
Trade debtors – domestic	4,600,817	4,387,015
Less: allowance for impairment	<u>(1,924,519)</u>	<u>(1,919,797)</u>
Trade debtors – domestic – net	2,676,298	2,467,218
Trade debtors – foreign	162,569	284,730
Less: allowance for impairment	<u>(29,393)</u>	<u>(27,554)</u>
Trade debtors – foreign – net	133,176	257,176
Receivables from related parties	181,862	222,454
Loans to employees	41,461	56,107
Other receivables	<u>15,757</u>	<u>17,266</u>
Financial assets	3,048,554	3,020,221
Advances given to suppliers	111,165	117,978
Less: allowance for impairment	<u>(62,922)</u>	<u>(62,923)</u>
Advances given to suppliers – net	48,243	55,055
Prepayments	<u>152,381</u>	<u>149,308</u>
	<u>3,249,178</u>	<u>3,224,584</u>
Less non-current portion: Loans to employees	(32,354)	(44,792)
Less non-current portion: Trade debtors – domestic	<u>(327,071)</u>	<u>(285,843)</u>
Current portion	<u>2,889,753</u>	<u>2,893,949</u>

Receivables from related parties represent receivables from members of Magyar Telekom Group and Deutsche Telekom Group (see note 28).

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. (2017: 4.55% p.a.).

The non-current portion of Loans to employees represents receivables that are due within 9 years of the financial statement date. The non-current portion of domestic trade receivables represents receivables that are due within 4 years of the financial statement date.

As at 31 December 2018, domestic trade debtors of MKD 2,396,028 thousand (2017: MKD 2,386,311 thousand) are impaired. The aging of these receivables is as follows:

In thousands of denars	2018	2017
Less than 30 days	280,338	253,872
Between 31 and 180 days	137,965	163,725
Between 181 and 360 days	92,164	139,064
More than 360 days	<u>1,885,561</u>	<u>1,829,650</u>
	<u>2,396,028</u>	<u>2,386,311</u>

As at 31 December 2018, domestic trade receivables in amount of MKD 106,501 thousand (2017: MKD 141,407 thousand) were past due but not impaired. These are mainly related to specified business and governmental customers that belong to certain age bands and are past due but not impaired, based on past experience of payment behavior, as well as the domestic trade receivables whose terms have been renegotiated and it is not impaired since the collectability of the renegotiated cash flows is considered ensured, and customers for interconnection services assessed on individual basis in accordance with past Company experience and current expectations (see notes 2.3 and 4.3).

The analysis of these past due domestic trade receivables is as follows:

In thousands of denars	2018	2017
Less than 30 days	25,952	13,716
Between 31 and 60 days	5,810	21,922
Between 61 and 90 days	5,677	7,305
Between 91 and 180 days	6,147	25,673
Between 181 and 360 days	9,602	32,479
More than 360 days	53,313	40,312
	<u>106,501</u>	<u>141,407</u>

The total amount of the provision for domestic trade debtors is MKD 1,924,519 thousand (2017: MKD 1,919,797 thousand). Out of this amount MKD 1,703,940 thousand (2017: MKD 1,711,668 thousand) relate to provision made according the aging structure of the above receivables, while the amount of MKD 67,691 thousand (2017: MKD 74,800 thousand) is from customers under liquidation and bankruptcy which are fully impaired. In addition, the Company has a specific provision calculated in respect of a certain group of customers in amount of MKD 152,888 thousand (2017: MKD 133,329 thousand). The total amount of the provision for foreign trade debtors is MKD 29,393 thousand (2017: MKD 27,554 thousand).

The fair values of financial assets within trade and other receivables category are as follows:

In thousands of denars	2018	2017
Trade debtors – domestic	2,676,298	2,467,218
Trade debtors – foreign	133,176	257,176
Receivables from related parties	181,862	222,454
Loans to employees	41,461	56,107
Other receivables	15,757	17,266
	<u>3,048,554</u>	<u>3,020,221</u>

Movement in allowance for impairment:

In thousands of denars	2018	2017
Impairment losses at 1 January	1,947,351	1,851,926
Charge for the year	119,015	153,982
Utilization	(112,454)	(58,557)
Impairment losses at 31 December	<u>1,953,912</u>	<u>1,947,351</u>

In 2017 and 2018 there is no movement in allowance for impairment of advances given to suppliers.

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

As at 31 December 2018, invoiced foreign trade debtors of MKD 29,393 thousand (2017: MKD 27,554 thousand) are impaired. The aging of these receivables is as follows:

In thousands of denars	2018	2017
More than 360 days	29,393	27,554
	<u>29,393</u>	<u>27,554</u>

As at 31 December 2018, foreign trade receivables in amount of MKD 42,513 thousand (2017: MKD 42,611 thousand) were past due but not impaired. These relate to a number of international customers assessed on individual basis in accordance with past Company experience and current expectations.

The analysis of these past due but not impaired invoiced foreign trade receivables is as follows:

In thousands of denars	2018	2017
Less than 30 days	4,081	7,329
Between 31 and 60 days	2,077	431
Between 61 and 90 days	3,745	13,896
Between 91 and 180 days	6,949	4,322
Between 181 and 360 days	9,419	1,202
More than 360 days	16,242	15,431
	<u>42,513</u>	<u>42,611</u>

The Company has renegotiated domestic trade receivables in carrying amount of MKD 16,900 thousand (2017: MKD 19,566 thousand). The carrying amount of loans and receivables, which would otherwise be past due, whose terms have been renegotiated is not impaired if the collectability of the renegotiated cash flows are considered ensured.

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

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

In thousands of denars	2018	2017
MKD	2,512,065	2,347,174
EUR	321,335	435,005
USD	53,936	109,525
Other	2,417	2,245
	<u>2,889,753</u>	<u>2,893,949</u>

The credit quality of trade receivables that are neither past due nor impaired is assessed based on historical information about counterparty default rates.

Following are the credit quality categories of neither past due nor impaired domestic trade receivables:

In thousands of denars	2018	2017
Group 1	1,617,567	1,438,065
Group 2	109,690	102,269
Group 3	43,960	33,120
	<u>1,771,217</u>	<u>1,573,454</u>

Following are the credit quality categories of neither past due nor impaired invoiced foreign trade receivables:

In thousands of denars	2018	2017
Group 1	6,294	7,780
	<u>6,294</u>	<u>7,780</u>

Group 1 – fixed line related customers that on average are paying their bills before due date and mobile related customers with no disconnections in the last 12 month.

Group 2 – fixed line related customers that on average are paying their bills on due date and mobile related customers with up to 3 disconnections in the last 12 month.

Group 3 – fixed line related customers that on average are paying their bills after due date and mobile related customers with more than 3 disconnections in the last 12 month.

8. TAXES

As of 1 August 2014, profit tax law came into force being applicable from 1 January 2015 for the net income for 2014, with which the base for income tax computation had been shifted from income “distribution” concept to the profit before taxes. According to the provisions of the 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 changes income tax for the year was calculated and recorded in the statement of comprehensive income. In addition, the tax on the tax base adjusting items (the non-deductible expenses and tax credits) is presented as part of income tax expense in the statement of comprehensive income (see note 2.17).

The profit tax law has been amended and came in to force starting from 1 January 2019, valid for the fiscal year 2019. Mainly changes relate to spreading the non-deductible expenses category, changes on the tax treatment of the depreciation and changes in the transfer pricing provisions. Referring the nondeductible expenses, the bonus expenses (payments) above the maximum base for calculation and payment of social contributions will be treated as non-deductible expense. This change will have effect on the profit tax of the Company. The depreciation expense will be treated as tax deductible, if the expense is calculated within the statutory prescribed depreciation rates and rules. In addition, the new provisions are applicable for all type of transactions with related parties. Furthermore, the Company will have to submit transfer pricing report along with the Annual Profit Tax Return. For calculation of the possible effects on the profit tax and the financials of the Company, the Guidelines for depreciation and transfer pricing are needed, which are not published, yet.

Up to now the tax authorities had carried out a full-scope tax audits at the Company for 2005 and the years preceding. Additionally, audit of personal income tax was carried out by the tax authorities for the period 1 January 2005 to 31 March 2006. During 2010 there was tax audit conducted by the Public revenue office for Profit tax for the period 2005 - 2009, as well as, withholding tax for years 2007 and 2008. In addition, in 2011 the Public revenue office conducted tax audit for withholding tax for 2010 and tax audit over certain service contracts from transfer pricing perspective. In 2012 the Public revenue office conducted specific tax audit for VAT for August 2012 for the Company. In 2012 the Public revenue office carried out a tax audit in the Company for Profit tax for the years 2005-2011, as well as tax audit for VAT for 2005-2009. During 2016 and 2017 Public revenue office conducted tax audit for Profit tax for period 2013-2015.

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.

8.1. Other taxes receivable

In thousands of denars	2018	2017
VAT receivable	12,896	13,247
Other taxes receivable	1,219	928
	<u>14,115</u>	<u>14,175</u>

8.2. Other taxes payable

In thousands of denars	2018	2017
VAT and other tax payables	46,495	48,608
	<u>46,495</u>	<u>48,608</u>

9. INVENTORIES

In thousands of denars	2018	2017
Materials	99,753	110,604
Inventories for resale	206,815	257,206
Allowance for inventories	<u>(36,890)</u>	<u>(29,689)</u>
	<u>269,678</u>	<u>338,121</u>

Movement in allowance for inventories:

In thousands of denars	2018	2017
Allowance at 1 January	29,689	19,277
Write down of inventories to net realizable value	4,061	11,228
Write down of inventories	10,293	21,649
Write off	<u>(7,153)</u>	<u>(22,465)</u>
Allowance at 31 December	<u>36,890</u>	<u>29,689</u>

Allowance for inventory mainly relates to inventories for resale and obsolete materials. 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.

10. ASSETS HELD FOR SALE

During 2016, the Company brought decision for selling one building. The carrying amount of the affected asset was reclassified to assets held for sale in the statement of financial position. As at 31 December 2016 the balance of asset held for sale includes affected building with carrying amount of MKD 5,166 thousand.

During 2017, the Company brought decision for selling one additional building and several other assets. The carrying amounts of the affected assets in amount of MKD 3,358 thousand were reclassified to assets held for sale in the statement of financial position. These assets together with building classified as held for sale at 31 December 2016, were sold during 2017. As at 31 December 2017 there are no assets categorized as asset held for sale.

As at 31 December 2018 there are no assets categorized as assets held for sale.

In accordance with IFRS 5, the assets presented as held for sale at the balance sheet date are accounted for at the lower of carrying value or fair value less cost to sell. The fair value less cost to sell is dominantly within level 3 of the fair value hierarchy.

11. PROPERTY, PLANT AND EQUIPMENT

In thousands of denars	Land	Buildings	Telecommunication equipment	Other	Assets under construction	Total
Cost						
At 1 January 2017	27,833	6,247,385	23,416,263	4,102,532	2,131,417	35,925,430
Additions	46	3,403	370,529	129,881	847,062	1,350,921
Assets activation (see note 12)	-	8,283	193,615	108,993	(396,355)	(85,464)
Disposals	-	(6,605)	(857,137)	(165,036)	-	(1,028,778)
Transfer to assets held for sale	-	(16,857)	-	(237)	-	(17,094)
At 31 December 2017	<u>27,879</u>	<u>6,235,609</u>	<u>23,123,270</u>	<u>4,176,133</u>	<u>2,582,124</u>	<u>36,145,015</u>
Depreciation						
At 1 January 2017	-	2,631,124	18,887,032	3,412,500	-	24,930,656
Charge for the year	-	162,664	890,278	278,281	-	1,331,223
Disposals	-	(5,792)	(857,137)	(140,115)	-	(1,003,044)
Transfer to assets held for sale	-	(13,499)	-	(237)	-	(13,736)
Transfer between group of assets	-	-	(8)	462	-	454
At 31 December 2017	<u>-</u>	<u>2,774,497</u>	<u>18,920,165</u>	<u>3,550,891</u>	<u>-</u>	<u>25,245,553</u>
Carrying amount						
At 1 January 2017	<u>27,833</u>	<u>3,616,261</u>	<u>4,529,231</u>	<u>690,032</u>	<u>2,131,417</u>	<u>10,994,774</u>
At 31 December 2017	<u>27,879</u>	<u>3,461,112</u>	<u>4,203,105</u>	<u>625,242</u>	<u>2,582,124</u>	<u>10,899,462</u>

In thousands of denars	Land	Buildings	Telecommunication equipment	Other	Assets under construction	Total
Cost						
At 1 January 2018	27,879	6,235,609	23,123,270	4,176,133	2,582,124	36,145,015
Additions	-	3,219	459,153	127,987	841,727	1,432,086
Assets activation (see note 12)	-	13,093	1,035,914	114,813	(1,495,751)	(331,931)
Disposals	-	(760)	(211,320)	(294,472)	-	(506,552)
At 31 December 2018	<u>27,879</u>	<u>6,251,161</u>	<u>24,407,017</u>	<u>4,124,461</u>	<u>1,928,100</u>	<u>36,738,618</u>
Depreciation						
At 1 January 2018	-	2,774,497	18,920,165	3,550,891	-	25,245,553
Charge for the year	-	159,645	938,212	275,249	-	1,373,106
Disposals	-	(760)	(210,875)	(282,602)	-	(494,237)
At 31 December 2018	<u>-</u>	<u>2,933,382</u>	<u>19,647,502</u>	<u>3,543,538</u>	<u>-</u>	<u>26,124,422</u>
Carrying amount						
At 1 January 2018	<u>27,879</u>	<u>3,461,112</u>	<u>4,203,105</u>	<u>625,242</u>	<u>2,582,124</u>	<u>10,899,462</u>
At 31 December 2018	<u>27,879</u>	<u>3,317,779</u>	<u>4,759,515</u>	<u>580,923</u>	<u>1,928,100</u>	<u>10,614,196</u>

In 2018, the Company capitalized MKD 3,650 thousand (2017: MKD 36 thousand) expenditures related to obtaining complete documentation for base stations and MKD 4,428 thousand (2017: MKD 8,040 thousand) expenditures related to obtaining complete documentation for fixed line infrastructure in accordance to applicable laws in Republic of North Macedonia (see note 2.6).

The reviews of the useful lives and residual values of property, plant and equipment during 2018 affected the lives of a several types of assets, mainly transmissions systems, exchanges, base stations, IT equipment and other technical equipment. The change of the useful life on the affected assets was made due to technological changes and business plans of the Company (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	2018	2019	2020	2021	After 2021
(Decrease)/increase in depreciation	(29,950)	(32,387)	(3,061)	31,037	34,361
	(29,950)	(32,387)	(3,061)	31,037	34,361

12. INTANGIBLE ASSETS

In thousands of denars	Software and software licenses	Concession license	Other	Assets under construction	Total
Cost					
At 1 January 2017	4,860,625	1,525,417	657,341	186,387	7,229,770
Additions	118,387	-	828,853	195,967	1,143,207
Assets activation (see note 11)	246,064	-	-	(160,600)	85,464
Disposals	(624,158)	-	-	-	(624,158)
At 31 December 2017	4,600,918	1,525,417	1,486,194	221,754	7,834,283
Amortization					
At 1 January 2017	3,762,017	829,217	332,317	-	4,923,551
Charge for the year	450,461	108,596	292,867	-	851,924
Disposals	(624,158)	-	-	-	(624,158)
Transfer between group of assets	(454)	-	-	-	(454)
At 31 December 2017	3,587,866	937,813	625,184	-	5,150,863
Carrying amount					
At 1 January 2017	1,098,608	696,200	325,024	186,387	2,306,219
At 31 December 2017	1,013,052	587,604	861,010	221,754	2,683,420

In 2017 review of the TV content rights contracts was performed and five contracts were identified as qualifying for capitalization. Accordingly, these rights were recognized in 2017 in Intangible assets, category Other, at the net present value of future payments in amount of MKD 823,273 thousand and will be amortized over the contracts term (see note 13 and 20).

In thousands of denars	Software and software licenses	Concession license	Other	Assets under construction	Total
Cost					
At 1 January 2018	4,600,918	1,525,417	1,486,194	221,754	7,834,283
Additions	86,859	-	280,430	238,338	605,627
Assets activation (see note 11)	504,045	-	-	(172,114)	331,931
Disposals	(23,842)	-	-	-	(23,842)
At 31 December 2018	5,167,980	1,525,417	1,766,624	287,978	8,747,999
Amortization					
At 1 January 2018	3,587,866	937,813	625,184	-	5,150,863
Charge for the year	517,438	49,856	384,209	-	951,503
Disposals	(23,842)	-	-	-	(23,842)
At 31 December 2018	4,081,462	987,669	1,009,393	-	6,078,524
Carrying amount					
At 1 January 2018	1,013,052	587,604	861,010	221,754	2,683,420
At 31 December 2018	1,086,518	537,748	757,231	287,978	2,669,475

In 2018 review of the TV content rights contracts was performed and two contracts were identified as qualifying for capitalization. Accordingly, these rights were recognized in 2018 in Intangible assets, category Other, at the net present value of future payments in amount of MKD 280,430 thousand and will be amortized over the contracts term (see note 13 and 20).

The reviews of the useful lives of intangible assets during 2018 affected the lives of a number of assets, mainly concession and software. The change of the useful live of concession contract was due to prolongation of the validity of the license. The

change on the useful life of the other affected intangible assets was made according to technological changes and business plans of the Company. The reviews resulted in the following change in the original trend of amortization in the current and future years.

In thousands of denars	2018	2019	2020	2021	After 2021
(Decrease)/increase in amortization	(88,799)	(17,550)	27,463	20,119	58,767
	<u>(88,799)</u>	<u>(17,550)</u>	<u>27,463</u>	<u>20,119</u>	<u>58,767</u>

13. TRADE AND OTHER PAYABLES

In thousands of denars	2018	2017
Trade payables - domestic	1,356,047	1,427,981
Trade payables - foreign	791,043	817,855
Liabilities to related parties	314,109	313,798
Dividends payable	2,939	2,422
Other financial liabilities	937,171	975,521
Financial liabilities	<u>3,401,309</u>	<u>3,537,577</u>
Deferred revenue	217,618	228,968
Advances received	78,639	80,709
Other	56,641	135,787
	<u>3,754,207</u>	<u>3,983,041</u>
Less non-current portion:		
Deferred revenue	(3,280)	(5,550)
Other financial liabilities	<u>(354,743)</u>	<u>(513,714)</u>
Current portion	<u>3,396,184</u>	<u>3,463,777</u>

Liabilities to related parties represent liabilities to members Magyar Telekom Group and Deutsche Telekom Group (see note 28).

Non-current deferred revenues have maturity up to 7 years from the date of the statement of financial position.

In the category Other financial liabilities MKD 3,075 thousand (2017: MKD 3,075 thousand) represent the carrying amount of long-term payables related to the transaction for purchase and sale of buildings with an exchange completed in 2012. These liabilities are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method. Financial liabilities of MKD 822,420 thousand (2017: MKD 885,645 thousand) represent the carrying amount of long-term payables related to the capitalization of certain content right contracts in 2014, 2015, 2016, 2017 and 2018 (see note 12). 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 20). The carrying amount of these liabilities approximates their fair value as the related cash flows are discounted with an interest rate of 3.25% and 6% p.a. which is the observable at the market for similar long-term financial liabilities. The remaining balance of other financial liabilities arises from contractual obligations for various transactions, from the ordinary course of business of the Company.

The carrying amounts of the current portion of trade and other payables are denominated in the following currencies:

In thousands of denars	2018	2017
MKD	1,597,366	1,495,600
EUR	1,722,149	1,813,356
USD	71,526	148,433
Other	5,143	6,388
	<u>3,396,184</u>	<u>3,463,777</u>

At the regular Board of Directors meeting as of 13 September 2016 the Board of Directors adopted the Resolution on the conclusion of a Credit Facility Agreement between the Company, as the Borrower, and Magyar Telekom Plc., as the Lender, with the following main terms and conditions: Magyar Telekom Plc shall lend to the Company frame loan for maximum amount up to EUR 6 million (excluding interest), the disbursement of the loan shall be made based on the Credit Facility Agreement and on the need to need basis, followed by signing of Utilization Notice to the Credit Facility Agreement specifying

the value date of the disbursement and the amount of the loan and the loan should be repaid in accordance with the available cash and considering the operational liquidity of the Company up to 31 March 2017. The Company has not utilized any amount from the Credit Facility Agreement.

14. PROVISION FOR LIABILITIES AND CHARGES

In thousands of denars	Legal cases	Other	Total
1 January 2017	165,994	65,808	231,802
Additional provision	14,509	18,378	32,887
Unused amount reversed	(19,257)	(20,435)	(39,692)
Used during period	(7,339)	(6,411)	(13,750)
31 December 2017	<u>153,907</u>	<u>57,340</u>	<u>211,247</u>

In thousands of denars	Legal cases	Other	Total
1 January 2018	153,907	57,340	211,247
Additional provision	12,163	5,793	17,956
Unused amount reversed	(731)	(5,157)	(5,888)
Used during period	(40)	(22,680)	(22,720)
31 December 2018	<u>165,299</u>	<u>35,296</u>	<u>200,595</u>

Analysis of total provisions:

In thousands of denars	2018	2017
Non-current (Other)	27,815	57,340
Current	<u>172,780</u>	<u>153,907</u>
	<u>200,595</u>	<u>211,247</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 2018.

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 2.15.1) and provision for long-term incentive programs (see note 29). The provision is recognized against Personnel expenses in the Profit or Loss.

15. CAPITAL AND RESERVES

Share capital consists of the following:

In thousands of denars	2018	2017
Ordinary shares	9,583,878	9,583,878
Golden share	<u>10</u>	<u>10</u>
	<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.

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 2018 and 2017, the shares of the Company were held as follows:

In thousands of denars	2018	%	2017	%
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)	139,220	1.45	139,220	1.45
Other minority shareholders	262,005	2.74	262,005	2.74
	<u>9,583,888</u>	<u>100.00</u>	<u>9,583,888</u>	<u>100.00</u>

15.1. Treasury shares

The Company acquired 9,583,878 of its own shares, representing 10% of its shares, through the Macedonian Stock Exchange during June 2006. The total amount paid to acquire the shares, net of income tax, was MKD 3,843,505 thousand. The shares are held as treasury shares. As a result of the findings of the Investigation, for one consultancy contract, the payments of which was derecognized from treasury shares (see note 1.4).

The amount of treasury shares of MKD 3,738,358 thousand (after derecognition), has been deducted from shareholders' equity. The Company has the right to reissue these shares at a later date. All shares issued by the Company were fully paid.

16. REVENUES

In thousands of denars	2018	2017
Revenues from fixed line operations		
Internet	1,146,934	1,182,764
Voice retail	1,044,161	1,083,488
TV	779,886	679,485
Wholesale	378,859	439,034
Data	276,659	274,682
Equipment	80,068	79,692
Other	<u>95,274</u>	<u>159,437</u>
	<u>3,801,841</u>	<u>3,898,582</u>
Revenues from mobile operations		
Voice retail	2,776,341	2,776,069
Internet	1,316,544	1,162,643
Equipment	985,599	888,304
Wholesale	572,726	632,722
Data	375,837	405,794
Content	95,795	88,037
Voice visitor	85,233	73,382
Other	<u>185,468</u>	<u>179,240</u>
	<u>6,393,543</u>	<u>6,206,191</u>
SI/IT revenues	<u>303,053</u>	<u>213,603</u>
	<u>10,498,437</u>	<u>10,318,376</u>

17. PERSONNEL EXPENSES

In thousands of denars	2018	2017
Salaries	692,834	677,209
Contributions on salaries	257,060	242,596
Other staff costs	212,142	151,687
Bonus payments	64,993	103,216
Capitalized personnel costs	(80,243)	(84,375)
	<u>1,146,786</u>	<u>1,090,333</u>

Other staff costs include termination benefits, holiday's allowance and other benefits for employees and managers who have left the Company during 2018 in amount MKD 152,285 thousand for 88 persons (2017: MKD 85,613 thousand for 27 persons). Bonus payments also include the cost for long-term incentive programs (see note 29).

18. OTHER OPERATING EXPENSES

In thousands of denars	2018	2017
Purchase cost of goods sold	1,837,044	1,657,119
Services	571,490	611,872
Materials and maintenance	486,806	507,254
Marketing and donations	271,715	308,630
Fees, levies and local taxes	267,635	280,807
Subcontractors	241,056	229,255
Energy	205,864	179,505
Rental fees	139,930	138,451
Royalty payments	125,655	190,864
Impairment losses on trade and other receivables	119,015	153,982
Consultancy	19,806	42,445
Insurance	13,982	15,177
Write down of inventories	10,294	21,649
Write down of inventories to net realizable value	4,061	11,228
Other	21,594	10,786
	<u>4,335,947</u>	<u>4,359,024</u>

Services mainly include agent commissions, expenses for content services, postal expenses, services for support and maintenance of IT equipment, security, cleaning, and utilities.

19. OTHER OPERATING INCOME

In thousands of denars	2018	2017
Net (loss) /gain on sale of PPE	(1,069)	4,158
Other	30,333	44,502
	<u>29,264</u>	<u>48,660</u>

In 2017 amount of MKD 5,408 thousand is included in the category Net (loss)/gain on sale of PPE represents gain from sales of two administrative buildings. Category Other mainly includes income from re invoicing and income from insurance.

20. FINANCE EXPENSES

In thousands of denars	2018	2017
Interest expense	39,556	35,050
Bank charges and other commissions	22,869	14,223
Net foreign exchange loss	-	21,211
	<u>62,425</u>	<u>70,484</u>

Interest expense in amount of MKD 27,555 thousand (2017: MKD 18,408 thousand) 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. Interest expense in amount of MKD 2,279 thousand in 2017 represents the unwinding of the discount related to the carrying amount of long-term payables from the transaction for purchase and sale of buildings with an exchange completed in 2012, recognized initially at fair value and subsequently measured at amortized cost using the effective interest method (see note 13).

21. FINANCE INCOME

In thousands of denars	2018	2017
Fair value through profit and loss	39,381	3,559
Interest income	22,893	39,674
Dividend income	3,159	2,749
Net foreign exchange gain	2,901	-
	<u>68,334</u>	<u>45,982</u>

Interest income is mainly generated from financial assets classified as loans and receivables. In 2017 amount of MKD 19,048 included in the category Interest income represents release of interest from one closed legal case, being previously provided for. Dividend income is from financial asset at fair value through profit and loss.

22. INCOME TAX EXPENSE

Reconciliation of effective tax rate:

In thousands of denars	2018	2017
Profit before tax	<u>1,818,535</u>	<u>1,815,775</u>
Income tax	10.00% 181,854	10.00% 181,577
Non-deductible expenses	2.25% 40,935	2.50% 45,455
Income tax increase from previous years	- -	0.27% 4,831
Tax exempt revenues	(0.02%) (316)	(0.05%) (939)
	<u>12.23% 222,473</u>	<u>12.72% 230,924</u>

23. DIVIDENDS

The Shareholders' Assembly of the Company, at its meeting, held on 16 April 2018 adopted a Resolution for the dividend payment for the year 2017. The Resolution on dividend payment for 2017 is in the gross amount of MKD 1,584,851 thousand from the net profit generated as per the Financial Statements of the Company for the year 2017 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 2017 is MKD 18.37. The dividend was paid out in September 2018. Up to date of issuing of these financial statements, no dividends have been declared for 2018.

24. REPORTABLE SEGMENTS AND INFORMATION

24.1. Reportable segments

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

Residential segment is consisted of consumer subscribers which are all 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.

24.2. Information regularly provided to the chief operating decision maker

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

Revenues

In thousands of denars	2018	2017
Residential segment revenues	6,905,204	6,677,404
Business segment revenues	2,724,826	2,654,791
Wholesale segment revenues	839,390	936,436
Other	29,017	49,745
	<u>10,498,437</u>	<u>10,318,376</u>

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

Segment results (Direct margin)

In thousands of denars	2018	2017
Direct margin		
Residential segment	4,862,591	4,720,100
Business segment	1,835,116	1,785,080
Wholesale segment	502,151	613,433
Other	26,263	43,512
Total direct margin	<u>7,226,121</u>	<u>7,162,125</u>
Indirect costs		
Personal expenses	(1,146,786)	(1,090,333)
Other operating expenses	<u>(1,971,364)</u>	<u>(2,097,028)</u>
Total Indirect costs	<u>(3,118,150)</u>	<u>(3,187,361)</u>
Other operating income	<u>29,264</u>	<u>48,660</u>
EBITDA	<u>4,137,235</u>	<u>4,023,424</u>
Depreciation and amortization	<u>(2,324,609)</u>	<u>(2,183,147)</u>
Total operating profit	<u>1,812,626</u>	<u>1,840,277</u>
Finance income/(expense) – net	<u>5,909</u>	<u>(24,502)</u>
Profit before tax	<u>1,818,535</u>	<u>1,815,775</u>
Income tax expense	<u>(222,473)</u>	<u>(230,924)</u>
Net profit for the year	<u>1,596,062</u>	<u>1,584,851</u>

25. LEASES AND OTHER COMMITMENTS

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

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

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

In thousands of denars	2018	2017
Not later than 1 year	127,601	101,799
Later than 1 year and not later than 5 years	232,794	164,690
Later than 5 years	40,944	39,803
	<u>401,339</u>	<u>306,292</u>

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

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

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

In thousands of denars	2018	2017
Not later than 1 year	6,081	7,704
Later than 1 year and not later than 5 years	10,567	10,841
Later than 5 years	799	1,925
	<u>17,447</u>	<u>20,470</u>

25.3. Capital commitments

The amount authorized for capital expenditure as at 31 December 2018 was MKD 579,798 thousand (2017: MKD 667,058 thousand). The amount authorized for capital expenditure as at 31 December 2017 and 2018 mainly relates to telecommunication assets.

26. ADDITIONAL DISCLOSURES ON FINANCIAL ASSETS

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).

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 values in level 2 and level 3 of fair value hierarchy were estimated using the discounted cash flows valuation technique. The fair value of floating rate instruments that are not quoted in an active market was estimated to be equal to their carrying amount. The fair value of unquoted fixed interest rate instruments was estimated 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.

Financial assets carried at amortized cost

The fair value of floating rate instruments is normally 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.

Liabilities carried at amortized cost

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.

There was no transfer between Level 1 and Level 2 financial assets. Loans and receivables and the financial liabilities are measured at amortized cost, but fair value information is also provided for these. The fair values of these assets and liabilities were determined using level 3 type information. There are no assets or liabilities carried at fair value where the fair value was determined using level 3 type information.

26.1. Financial assets – Carrying amounts and fair values

The table below shows the categorization of financial assets as at 31 December 2017.

Assets		Financial assets		
In thousands of denars	Loans and receivables	At fair value through profit and loss (Level 1)	Carrying amount	Fair value
Cash and cash equivalents	522,375	-	522,375	522,375
Deposits with banks	680,506	-	680,506	680,506
Trade and other receivables	3,020,221	-	3,020,221	3,020,221
Financial assets at fair value through profit and loss	-	63,925	63,925	63,925

The table below shows the categorization of financial assets as at 31 December 2018.

Assets		Financial assets		
In thousands of denars	Loans and receivables	At fair value through profit and loss (Level 1)	Carrying amount	Fair value
Cash and cash equivalents	517,310	-	517,310	517,310
Deposits with banks	742,487	-	742,487	742,487
Trade and other receivables	3,048,554	-	3,048,554	3,048,554
Financial assets at fair value through profit and loss	-	103,306	103,306	103,306

Loans and receivables are measured at amortized cost, while held-for-trading assets are measured at fair value.

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 103,306 thousand (2017: MKD 63,925 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 21). The cost of these equity investments is MKD 31,786 thousand (2017: MKD 31,786 thousand).

26.2. 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 are subject to offsetting agreements, and are presented after netting in the statements of financial position as at 31 December 2018:

In thousands of denars	Trade and other receivables	Trade payables
Gross amounts of recognized financial instruments	3,263,332	3,616,087
Gross amounts of financial instruments set off	(214,778)	(214,778)
Net amounts of recognized financial instruments	<u>3,048,554</u>	<u>3,401,309</u>

The following trade receivables and trade payables are subject to offsetting agreements, and are presented after netting in the statements of financial position as at 31 December 2017:

In thousands of denars	Trade and other receivables	Trade payables
Gross amounts of recognized financial instruments	3,360,576	3,877,932
Gross amounts of financial instruments set off	(340,355)	(340,355)
Net amounts of recognized financial instruments	<u>3,020,221</u>	<u>3,537,577</u>

26.3. Other disclosures about financial instruments

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

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

27. CONTINGENCIES

The Company has contingent liabilities in respect of legal and regulatory claims arising in the ordinary course of business. The major part of the contingent liabilities relates to 3 requests for initiating misdemeanor procedures from regulatory bodies for alleged breach of deadlines for provision of certain services, number portability and failure to comply with the obligations for allowing access and use of specific network assets. The maximum possible fine for each individual case is 7% to 10% of the annual revenue from the previous year, in accordance with the applicable local legislation. Management believes, based on legal advice, that it is not probable that a significant liability will arise from these claims because of unsubstantial basis for initiating these misdemeanor procedures. It is not anticipated by the management that any material liabilities will arise from the contingent liabilities other than those provided for (see note 14).

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

Transactions with related parties mainly include provision and supply of telecommunication services. The amounts receivable and payable are disclosed in the appropriate notes (see note 7 and 13).

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

In thousands of denars	2018		2017	
	Revenues	Expenses	Revenues	Expenses
Controlling owner Magyar Telekom Plc	674	19,844	2,305	21,021
Subsidiaries of the controlling owner	12,857	2,855	12,779	2,508
Ultimate parent company Deutsche Telekom AG	481,946	222,200	575,875	230,832
Subsidiaries of the ultimate parent company	61,505	58,691	78,825	51,406
Entity controlled by key management personnel				
Mobico Doool	-	-	199	1,314

In addition to the above presented revenues and expenses from transactions with Mobico Dooel, trading goods and assets in amount of MKD 2,562 thousand, excluding VAT, were purchased, in 2017. Due to the change in management personnel of the Company amounts presented for Mobico Dooel in 2017 relates only to the period from 1 January to 30 June 2017.

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

In thousands of denars	2018		2017	
	Receivables	Payables	Receivables	Payables
Controlling owner				
Magyar Telekom Plc	5,492	4,301	5,858	9,845
Subsidiaries of the controlling owner	2,833	656	3,461	595
Ultimate parent company				
Deutsche Telekom AG	121,682	235,181	96,100	241,953
Subsidiaries of the ultimate parent company	51,855	73,971	117,035	61,405

29. KEY MANAGEMENT COMPENSATION

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

In thousands of denars	2018	2017
Short-term employee benefits (including taxation)	70,964	78,588
Contributions to the state pension system on short-term employee benefits	9,499	7,017
Other state contributions on short-term employee benefits	4,090	3,275
Termination benefits	9,400	47,024
Long-term incentive programs	1,621	10,965
Other payments	2,593	5,510
	<u>98,167</u>	<u>152,379</u>

The remuneration of the members of the Company's Board of Directors and its committees, which amounted to MKD 6,613 thousand (2017: MKD 6,706 thousand) is included in Short-term employee benefits. These are included in Personnel expenses (see note 17).

A variable performance-based long-term-incentive program, named Variable II Program, was launched in 2012 as part of the global DT Group-wide compensation tool for the companies, which promotes the medium and long-term value enhancement of DT Group, aligning the interests of management and shareholders.

The Variable II Program for 2013 is applicable from 1 January 2013 until 31 December 2016 and after the evaluation of the targets payment was executed in June 2017. The Variable II Program for 2014 was applicable from 1 January 2014 until 31 December 2017 and after its evaluation the payments were executed in 2018.

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 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, the results from the four annual cycles are totaled and paid out in cash. In 2016 new cycle of long-term-incentive (LTI) program was launched, as well as in 2017 and 2018

Additionally, as a part of the adopted Lead to Win programme, DT Group-wide Virtual Share Matching Plan (VSMP) was adopted with aim to lead the executives to manage and control the company with entrepreneurial spirit in accordance with the defined corporate strategy. It is separate from the Deutsche Telekom Group's Share Matching Plan, yet within the framework of the local legal regulations in the Republic of North Macedonia and it adheres to the same principles.

The eligible executives have a possibility to participate in the Plan by allocating part of their Short-Term Incentive in the amount from 10% to 33%. This amount is converted into a number of virtual DT shares (original virtual shares) for calculation purposes. The final amount of the incentive payable to the executives depends on the value of the DT shares at the end of the Plan. The executives are entitled to a cash equivalent for the so-called virtual matching shares, which are additional virtual free-of-charge shares based on their Performance dialog rating, as well as to a cash equivalent in the amount of the dividends payments, calculated on the original virtual shares.

The Company's VSMP is designed as a four years' cash plan intended for the executives of the Company, which uses virtual shares of DT for the purposes of calculation only.

The VSMP was introduced for 2016 and 2017. The 2016 VSMP also includes a possibility for the executives to voluntary participate in the Substitute for 2015 VSMP, with the aim to fully implement alternative solution for the Company as in the other companies within the DT Group. The VSMP is introduced also for the year 2018.

Programs participants are Company's top managers who fulfilled the program criteria and have accepted participation in the designated time frame. In 2018 there was no interest from the executives to voluntary participate in the program.

The expenses incurred by the Company related to the programs described above are shown within Long-term incentive programs (see note 14 and 17).

30. EARNINGS PER SHARE

a) Basic and diluted earnings per share

	2018	2017
Basic and diluted earnings per share (in denars)	<u>18.50</u>	<u>18.37</u>

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

	2018	2017
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>

31. EVENTS AFTER THE FINANCIAL STATEMENT DATE

There are no events after 31 December 2018 that would have impact on the 2018 profit or loss, statement of financial position or cash flows.