# BUILDING THE NETWORK OF THE FUTURE

**ANNUAL REPORT 2018**
MAKEDONSKI TELEKOM AD – SKOPJE

LIFE IS FOR SHARING.

# INDEX

# BUILDING THE NETWORK OF THE FUTURE

The world is already living the digital age. Technology, like never before, has a great influence in the creation of life habits and changing people’s everyday lives. And, with our work as a leading operator, through our infrastructure and services, we are paving a new direction of movement and a new perspective of living. We create tools that make life better, more cheerful and simpler.

Our vision is to be a key factor in the creation of a digital society in which we will move forward. We have started a technological revolution that will sooner lead us to the future. And no technology can function without infrastructure. It is the bloodstream - the basis for reaching a future in which digitization will move us through the everyday functioning. What awaits us there? In our vision, in the digital future there is an extremely fast data flow, real-time communication, artificial intelligence, virtual reality and robotics. Thanks to the network we will see autonomous vehicle management, medicine available everywhere and for everyone through interventions from robots connected to 5G and medicine in the true sense of early diagnostics through an implanted chip that detects even the smallest changes in humans at the earliest stage possible. The changes caused by the new technologies will essentially and qualitatively change the lives of all of us.

Therefore, providing infrastructure, increasing the capacities for technologically advanced solutions and digitizing the processes for superior customer experience, has always been and remains our strategic priority. The network of the future we are building will create a new, more humane society, in which technology will serve us for good purposes. We are creating an equal society for all, where the speed of communication is of primary importance, and the digital technology will be exclusively in function of our needs.

# CORPORATE GOVERNANCE

## MANAGEMENT AND GOVERNANCE OF MAKEDONSKI TELEKOM AD – SKOPJE

Pursuant to the legal regulations and the Statute of Makedonski Telekom AD - Skopje (Makedonski Telekom/ Company), the bodies of Makedonski Telekom are the Shareholders' Assembly and the Board of Directors. The corporate governance of Makedonski Telekom aims at ensuring better transparency by providing the following information:

- Competences of the Shareholders' Assembly of Makedonski Telekom AD - Skopje
- Roles, responsibilities and members of the Board of Directors
- The independent auditor
- Other relevant information (acts of Makedonski Telekom and risk management)

## MAKEDONSKI TELEKOM STRUCTURE

Makedonski Telekom AD – Skopje is a Joint Stock Company for Electronic Communications with a one-tier management system, as follows:


In accordance with the Law on Trade Companies and the Statute of Makedonski Telekom AD - Skopje, the Shareholders' Assembly, the Board of Directors and the Chief Executive Officer of the Company are authorized to adopt resolutions within their competence.

## SHAREHOLDERS' ASSEMBLY

THE SHAREHOLDERS' ASSEMBLY SHALL ONLY PASS RESOLUTIONS UPON ISSUES EXPRESSLY SET OUT BY THE LAW ON TRADE COMPANIES AND THE STATUTE OF MAKEDONSKI TELEKOM, IN PARTICULAR THE FOLLOWING:

1. Modifications to the Statute of the Company
2. Approval of the Annual Accounts, Financial Statements and Annual Report on the Operations of the Company in the previous business year, deciding upon the distribution of the profit and defining the amount and meth od of dividend payments
3. Defining the means of covering losses incurred in the accounting period, additional approval of the method of utilization of the proceeds from the Reserve Fund
4. Appointment and release of the members of the Board of Directors and determining the remuneration which shall be paid to the non-executive members of the Board of Directors for their operation
5. Approval of the operation and management of the operation of the Company by the members of the Board of Directors
6. Change in the share type and class and change in the rights linked to certain types and classes of shares
7. Increase and decrease of the share capital of the Company
8. Issuing shares and other securities
9. Appointment of an authorized auditor for auditing the Annual Accounts and Financial Statements
10. Transformation of the Company into another form of a Company and status modifications of the Company
11. Approval of major transactions in accordance with the Statute
12. Alterations of the Company's property structure, if the accounting value of the relevant part of the property affected by the alteration exceeds ten percent (10%) of the Company's property net value as set forth in its latest Financial Statements
13. Termination of the Company
14. Other issues defined by law or the Statute of the Company
15. Adoption of Rules of Procedure for its operation The Shareholders' Assembly of the Company may not decide upon issues in the field of managing and governing the Company, which fall within the competence of the Board of Directors.

The share capital of Makedonski Telekom AD - Skopje consists of 95,838,780 ordinary shares and one cumulative preference share (golden share). The ordinary shares of Makedonski Telekom are listed and traded on the Official Market of the Macedonian Stock Exchange, on the Obligatory Listing sub-segment.

## MAKEDONSKI TELEKOM'S

| SHARES | PREFERENCE SHARES | ORDINARY SHARES |
|---|---|---|
| Issuer | Makedonski Telekom AD - Skope | Makedonski Telekom AD - Skopje |
| International Securities Identification Number (ISIN) | MKMTSK121017 | MKMTSK101019 |
| Industry | Telecommunications | Telecommunications |
| Country | Republic of North Macedonia | Republic of North Macedonia |
| Registered office of company | Skopje | Skopje |
| Total number of issued shares | 1 golden share | 95,838,780 |
| Total number of voting rights * | 1 ** | 86,254,902 *** |
| Currency | MKD (Macedonian Denar) | MKD (Macedonian Denar) |
| Nominal value per share | MKD 9,733 | MKD 100 |
| Security identification (ticker symbol) | - | TEL |
| Voting rights | One voting right and special rights | One voting right per share |

* Out of the total number of voting shares - 86,254,903, for 3,361 shares which are part of the 2% of shares which the Government of the Republic of North Macedonia granted to the employees of Makedonski Telekom, the owners are either not identified in the shareholders book of MKT due to incomplete personal data (3,320 shares), or they are not distributed yet (41 shares). ** Preference cumulative share (golden share) owned by the Government of the Republic of North Macedonia has one voting right and special rights in accordance with the Statute of the Company. There is a restriction on tradable and non-tradable transfer. *** Decreased for the treasury shares of Makedonski Telekom whose rights are suspended in accordance with the Law on Trade Companies (article 338).

## DIVIDEND CALENDAR

| Year | Gross dividend per share in mkd | First date of payment | Announcement date |
|---|---|---|---|
| 2017 | 18,37 | 26.09.2018 | 16.04.2018 |
| 2016 | 14,51 | 26.09.2017 | 24.04.2017 |
| 2015 | 17,09 | 26.09.2016 | 12.04.2016 |
| N/A* | 14,38 | 18.12.2015 | 20.11.2015 |
| 2014 | 26,23 | 18.05.2015 | 16.04.2015 |
| 2013 | 31,49 | 23.04.2014 | 27.03.2014 |
| 2012 | 65,46 | 17.04.2013 | 29.03.2013 |
| 2011 | 71,46 | 25.04.2012 | 04.04.2012 |
| 2010 | 68,95 | 29.04.2011 | 14.04.2011 |
| 2009 | 75,01 | 12.07.2010 | 02.07.2010 |
| 2008 | 71,42 | 22.05.2009 | 29.04.2009 |
| 2007 | 113,42 | 29.09.2008 | 03.09.2008 |
| 2005 | 86,10 | 01.08.2007 | 31.07.2007 |
| 2004 | 60,88 | 04.07.2005 | 30.05.2005 |
| 2003 | 26,10 | 19.03.2004 | 20.02.2004 |
| 2002 | 25,04 | 05.05.2003 | 18.04.2003 |

* The dividend paid in the month of December 2015 was paid from the accumulated earnings of the Company from prior periods pursuant to the Resolution of the Shareholders' Assembly of Makedonski Telekom adopted on 20.11.2015.

## SHAREHOLDERS' STRUCTURE

SHAREHOLDERS OF MAKEDONSKI TELEKOM AD - SKOPJEBY 31.12.2015 INCLUSIVE

| NAME OF OWNER | NUMBER OF SHARES | AS % |
|---|---|---|
| Stonebridge AD Skopje (in liquidation) | 48,877,780 | 51,00 |
| Government of the RNM | 33,364,875* | 34,81 |
| Makedonski Telekom AD - Skopje (Treasury Shares) | 9,583,878** | 10,00 |
| IFC | 1,392,204 | 1,45 |
| Other minority shareholders | 2,620,044 | 2,73 |
| Total | 95,838,781 | 100,00 |

* Including the preference cumulative share (golden share) with nominal value of MKD 9,733 owned by the Government of the Republic of North Macedonia. The golden share has one voting right and special rights in accordance with the Statute of the Company. There is a restriction on tradable and non-tradable transfer. ** In accordance with the Law on Trade Companies (article 338) the rights attached to the acquired treasury shares are suspended.

## CALENDAR OF EVENTS

MEETINGS OF THE SHAREHOLDERS' ASSEMBLY OF MAKEDONSKI TELEKOM IN 2017

| | |
|---|---|
| 10.01.2018 | SHAREHOLDERS' ASSEMBLY |
| 16.04.2018 | ANNUAL SHAREHOLDERS' ASSEMBLY |
| 28.06.2018 | SHAREHOLDERS' ASSEMBLY |
| 11.09.2018 | SHAREHOLDERS' ASSEMBLY |
| 25.09.2018 | SHAREHOLDERS' ASSEMBLY |
| 09.11.2018 | SHAREHOLDERS' ASSEMBLY |

# TO OUR SHAREHOLDERS

*Nikola Ljushev,*
*Chief Executive Officer of*
*Makedonski Telekom*

Dear shareholders,

The rapid technological development dictates the concept of modern life. The changes happen overnight, changing our dynamic everyday life, which cannot be imagined without the ultimate telecommunication solutions and devices. Definitely, we are living in a digital world led by companies with a clear-cut goal to provide a better future for the new generations. After all, it is our mission, to be the leader in providing services that will make our everyday life easier.

For Makedonski Telekom, 2018 was a successful year. It was a year of positive trends, big turnarounds, success, growth and many implemented projects. When I look back, I am satisfied with the results. We have accomplished everything we had planned.

What did we do? For the first time in a long time, we have achieved excellent financial results. In 2018, we achieved revenue growth at annual level and we increased profitability. We achieved growth in the post paid and customer base through the Smart and Magenta 1 portfolio and we improved the structure in our own mobile base as a result of the attractive offers we created in the course of the year. Our commitment to the growth of the fixed segment and the provision of exclusive TV content contributed to the growth of the fixed broadband internet users and YoY increase of the number of IPTV users by 9.3%.
Last year we also celebrated 10 years since the introduction of the unique Max TV service, an advanced technology in the market, which we have perfected and upgraded over the years according to the needs of the users. Guided by the idea to bring the most advanced technology closer to the citizens, we continued with the investments in the optical network, as a result of which we had an annual increase of 7% of families covered by optical access. We continuously expanded the optical network, and in the end of 2018 we managed to ensure that 31% of the households in North Macedonia have access to the optical network of Makedonski Telekom, and thus the possibility to use super fast internet and have better customers experience.

In terms of the infrastructure, I am glad that this year too, we once again confirmed our position as the operator with the best mobile network in North Macedonia, i.e. we won the “Best in Test” certificate in 2018. We achieved the best result so far according to the independent measurement for quality testing of networks, conducted by the company P3 Communications.

Also, in 2018, we once again justified the primacy as the leading operator in the country by performing the first 5G demo in the country, thus making another step towards the introduction of this technology in North Macedonia, which will enable technological advancement of the society and many benefits for the customers. With our knowledge and continuous investments, for the first time in the region, we measured speed over the mobile network, which is more than four times higher than the data transfer speeds of the 4G network.

Therefore, we remain committed to improving the infrastructure performances, because only through a modern network we can be a step ahead and bring the cutting-edge technological services and solutions to our customers. That is exactly what they expect from us and we must continue with the idea of being the leaders of transformation of the society, for a better future of all citizens in the country.

Dear shareholders,

We work in a very dynamic time, a time of big changes, but also a big responsibility for us as a leading Telekom operator. Responsibility to enable digitization, and thus functioning of the society in the new era!
There is no area that will remain immune to the revolutionary changes brought about by digitization, artificial intelligence, virtual reality, and robotics, and 5G will be the bloodstream of this latest industrial revolution.
Leading digitization necessitates vision, experience, infrastructure and investment capacity, and we in Makedonski Telekom have it all. Therefore, from now on, our focus will be to put the technology in function of the citizens and the community as a whole.
Of course, the challenges are enormous and it is therefore inevitable to transform our business, to become more efficient, faster, more flexible and wiser.

If we walk together, as a team and with dedication, I am sure that our success is guaranteed!

Yours faithfully,
Nikola Ljushev

# MANAGEMENT

Branko Stancev, Slavko Projkoski, Nikola Ljusev, Slobodanka Gievska and Miroslav Jovanovic

# BOARD OF DIRECTORS

## BOARD OF DIRECTORS

The Board of Directors of Makedonski Telekom AD – Skopje manages the Company within the authorizations defined by the Law and the Statute, as well as the authorizations explicitly granted by the Shareholders' Assembly. The rights and obligations of the Board of Directors, in accordance with the Law on Trade Companies, are regulated with the Statute of the Company.

- The members of the Board of Directors are appointed by the Shareholders' Assembly of Makedonski Telekom AD - Skopje.
- The Board of Directors of Makedonski Telekom AD - Skopje appoints the President of the Board of Directors from its Non-Executive members.
- The structure, appointment, authorizations and operation of the Board of Directors are regulated with the Statute of Makedonski Telekom AD – Skopje and the Rules of Procedure of the Board of Directors.
- Bodies established by the Board of Directors are: Audit Committee and Remuneration Committee
- The members of the Audit Committee and the Remuneration Committee are appointed and released by the Board of Directors of Makedonski Telekom.
- The operation of these bodies is defined in the Rules of Procedure that regulate their competences, composition and activities. The said Rules of Procedure are adopted by the Board of Directors.
- The rights and obligations for decision making by the Board of Directors, in accordance with the Law on Trade Companies, are regulated with the Statute of Makedonski Telekom.

Within the authorizations defined with the Law on Trade Companies and the Statute of Makedonski Telekom, the Board of Directors manages the Company and consists of fourteen (14) members, of whom 13 (thirteen) are Non-Executive members, 1 (one) is Executive member who bears the title Chief Executive Officer, and 4 (four) of the Non-Executive members are Independent members of the Board of Directors.

## RULES OF PROCEDURE OF THE BOARD OF DIRECTORS

Pursuant to the provisions of the Statute of Makedonski Telekom AD - Skopje, the Board of Directors adopts its Rules of Procedure, which regulates the manner of operation of the Board of Directors, particularly:

1. The preparation of the meetings, the convening of the meetings, the course of operation during the meetings, the manner of decision-making (postponing, adjourning and concluding the meetings),

2. Minutes of the meetings, rights and duties of the members and other participants in the operation at the meeting, as well as

3. Other issues related to the operation of the Board of Directors within the authorizations granted by the law and the Statute of Makedonski Telekom.

## MEMBERS OF THE BOARD OF DIRECTORS OF MAKEDONSKI TELEKOM AD – SKOPJE AS OF 31.12.2018

1. Nazim Bushi - Non-Executive member and President
2. Sasho Veleski - Non-Executive member and Vice President
3. Nikola Ljushev - Executive member and CEO
4. Miroslav Vujikj - Non-Executive member
5. Andreas Maierhofer - Non-Executive member
6. Andrea Sághy - Non-Executive member
7. Károly Schweininger - Non-Executive member
8. János Tremmel - Non-Executive member
9. Borce Siljanoski - Non-Executive member
10. Peter Veil - Independent member
11. David Kopriva - Independent member
12. Zamir Mehmed - Independent member
13. Divna Jovkovska - Eftimoska - Independent member

## MEMBERS OF THE BOD OF MAKEDONSKI TELEKOM AD – SKOPJE WHOSE MANDATE HAS EXPIRED/WHO RESIGNED/WERE RELEASED DURING 2018:

**Released:**

- Aneta Simeska Dimoska from the position of a Non-Executive member of the Board of Directors of the Company, as of 10 January 2018
- István György Dévényi from the position of a Non-Executive member of the Board of Directors of the Company, as of 9 November 2018

**Resigned:**

- Klaus Steinmaurer from the position of an Independent member of the Board of Directors of the Company, applicable as of 30 June 2018,
- Pavel Hadrbolec from the position of an Independent Non-Executive member of the Board of Directors of the Company, applicable as of 1 July 2018,
- Andreas Elsner from the position of a Non-Executive member of the Board of Directors of the Company, applicable as of 1 July 2018,
- Goran Trajanovski from the position of a Non-Executive member of the Board of Directors of the Company, applicable as of 1 July 2018,
- Peter Zsom from the position of a Non-Executive member of the Board of Directors of the Company, applicable as of 11 September 2018

# MARKET ENVIROMENT

This Annual Report on Operation refers to Makedonski Telekom AD - Skopje (hereinafter referred to as: "MKT").

The fixed line voice revenues in 2018 still show a downward trend, mainly due to the decrease of the outgoing traffic. On the other side, the mobile voice revenues have been stabilized. The revenues from mobile non-voice services show increase in 2018, supported by the IPTV revenues growth trend mainly due to the growing IPTV subscriber base.

At the end of 2018, MKT had 212,356 voice access fixed lines compared to 210,905 at the end of 2017. The number of total BB accesses is stable with 196,263 at the end of 2018, compared to 193,958 at the end of 2017. The number of IPTV customers at the end of 2018 reached 128,406 customers (including Magenta1, 3 Play and other TV services), marking 9.3% increase from the end of 2017. The number of Fibre to the Home (FTTH) customers reached 48,516 at the end of 2018, marking 14.8% increase from the end of 2017.

MKT had 1,205,728 mobile subscribers at the end of 2018, compared to 1,203,228 at the end of 2017. The mobile market penetration in Republic of North Macedonia is 105.9%, which shows continual trend of individuals owning multiple SIM cards. As a result of the market saturation, MKT especially focuses on retaining the customers in order to protect the market share.

The Macedonian market was characterized by highly competitive campaigns and offers in 2018. MKT launched several new packages, price plans and additional services specially designed to meet the customers' needs, targeting different customer segments, and primarily focusing on delivering the best quality of its own services.

MAGENTA 1 continued to be MKT's main product offering. By integrating mobile and fixed products and services, it maximizes the household base, satisfying the needs of entire family, and securing revenues and profitability.

In order to provide best service quality, MKT continued to invest in it's mobile and fix network development, thus improving the availability of both fiber based and mobile high-speed internet.

In 2018, MKT was strongly focused on improving the digital experience of it's customers with several large initiatives in both the Business and the Consumers segment.

## TRANSACTION WITH AN INTERESTED PARTY

Below are the details of the transactions concluded with an interested party:

a) On 20.08.2018, MKT concluded an Agreement for International IP Peering and Global Transit Services with Magyar Telekom, as a transaction with an interested party, in view of the fact that Magyar Telekom is the sole shareholder of Stonebridge Communications AD, a shareholder that owns 56.67% of the voting shares (issued shares) in MKT.
With the Resolution of the Board of Directors of MKT adopted at the regular meeting held on 13 March 2018, the conclusion of the Agreement for International IP Peering and Global Transit Services with Magyar Telekom was approved, as a transaction with an interested party, in order to enable international IP connection of all its customers on broadband internet.
The value of the contract is EUR 600,000 and its implementation and the adequate payments by MKT to Magyar Telekom shall be made by 1 July 2020.

b) At its extraordinary meeting dated 29 October 2018, MKT adopted Borad of Directors's Resolution for concluding a Lease Contract for Business Premises with the Office for General and Common Affairs of the Government of the Republic of North Macedonia (hereinafter referred to as: "OGCA"), as a transaction with an interested party, in view of the fact that the Government of the Republic of North Macedonia is a shareholder of MKT that owns more than 38% of the voting shares. OGCA will use the leased premises for the purposes of accommodating the Operational-Technical Agency. The Contract is concluded for a period of 2 months starting as of 01.11.2018, and the subject of the lease are premises that are owned by the Company and are located within the office building – TC Centre – Skopje, located at ul. Orce Nikolov bb Skopje, for a monthly lease in the amount of EUR 5,000 (VAT excluded).

c) MKT concluded a Delivery Framework Contract for IPTV STBs (set-top boxes) with Crnogorski Telekom, based on the Resolution of the Board of Directors, adopted at the regular meeting dated 12 December 2018, as a transaction with an interested party, considering that Mr. Nikola Ljushev, Executive member of the Board of Directors and Chief Executive Officer of MKT has conflict of interest as an authorized person of both MKT and Crnogorski Telekom. The contract is concluded for an indefinite period and the initial obligation for delivery of IPTV STBs in 2018 shall be in the amount of EUR 150,000, for a quantity of 6 000 set-top boxes.

## REGULATION AND PRICING

The Macedonian law concerning the electronic communications (Law on Electronic Communications - "LEC") was enacted on 5 March 2005. Thus, by means of certain transitional provisions, the country's telecommunications regulations were harmonized with the European Union (EU) regulatory framework. For the purposes of aligning with the EU Framework Directives 2009, the new draft LEC was enacted in March 2014 as primary legislation, as well as rulebooks as secondary legislation.

On 19 December 2014, amendments of the LEC were enacted. One of the most important changes is implemented in Article 75-a, which regulates the prices of international roaming.

In accordance with this Article, the Agency for Electronic Communications ("the Agency") has the right, with a Decision, to determine the maximum prices for the services which are offered to the roaming users from countries with which the Republic of North Macedonia has concluded agreements on the reduction of the prices of roaming services in public mobile communications networks (Bosnia and Herzegovina, Montenegro and Serbia) on a reciprocal base, which cannot be higher than the prices of the same services in the EU. In a period of 3 years, starting from 2015, the prices will be reduced to the maximum determined. There is an initiative for imposing additional roaming regulation for the purpose of bringing the roaming prices between Western Balkan (Kosovo and Albania are included) countries at the same level as the domestic ones, starting from July 2021 (RLAH-roam like a home model). Before the start of the RLAH, the idea is to implement RLAH+ model i.e to calculate the retail roaming prices based on the wholesale roaming prices plus a surcharge.

On 6 November 2015, in the Official Gazette of the RM No. 193, amendments to the LEC were enacted, wherein the respective changes affect the misdemeanour provisions.

On 27 December 2016, MKT was once again designated as a Universal Service (US) provider for the following period of 5 years, for fixed telephony services and Internet of 2 Mbit/s, public payphones and equivalent access for disabled end-users for a five-year period starting as of 1 January 2016.

At the end of 2018, the Macedonian Ministry for Information Society and Administration, published a draft national broadband plan for the RM. The main purpose is to set the national NGN broadband targets.

## REGULATION OF FIXED LINE BUSINESS

MKT is a significant market power (SMP) operator on the wholesale markets of fixed telephony networks and services, including the market of access to the networks for data transmission and leased lines. MKT, as an SMP operator, has the obligation to enable its subscribers to access publicly available telephone services of any interconnected operator with an officially signed interconnection contract.

In 2017, both relevant retail markets for fixed telephony: 1. Access to the public telephone network at a fixed location and 2. Publically available telephone services at a fixed location were deregulated. Based on it, MKT is not an SMP anymore and has no ex-ante regulations for the retail fixed services.

According to the bylaws, MKT has an obligation to publish reference offers for the wholesale products for interconnection, Unbundling Local Loop (ULL), Local Bit-stream Access (BSA), Reference Access Offer for providing access to physical infrastructure and use of specific network facilities and wholesale terminating segments of leased lines.

On 15 July 2014, the Agency introduced an obligation for all operators with cable network infrastructure (including MKT) to build their network underground and to place their existing aerial networks underground by the end of 2020 in the cities with more than 15,000 citizens. Additionally, all fixed and mobile operators are obliged in terms of the digital agenda targets to provide broadband services with a minimum speed of 30 Mb/s for 100% of the households' network coverage and 100 Mb/s for 50% of the households' network coverage by the end of 2020.

The Rulebook on the emergency number E 112 was enacted on 27 October 2015 (Official Gazette No. 184/2015). Even though the obligations for the operators are defined in the rulebook, the date for starting the service is not set.

## REGULATED WHOLESALE PRICES

In May 2017, the Agency adopted a Decision for designation of MKT as an SMP operator on wholesale markets, local and central access on a fixed location, relevant markets, 3a and 3b. With the same market analysis, one.Vip was designated as an SMP operator for the first time, with same regulatory obligations as MKT. one.Vip is obliged to offer wholesale broadband services on DOCSIS technology.

AEC developed a process and model for economical replica of retail and wholesale NGA products. In January 2019 AEC approved the new decreased wholesale prices for mobile origination services (MVNO).

## REGULATION OF THE MOBILE BUSINESS

MKT has radiofrequency usage rights for the following radiofrequencies for public mobile communications systems:

- 2 x 12.5 MHz in the 900 MHz band, validity period: 8 September 2008 – 8 September 2018 (10 years)
- 2 x 10 MHz in the 1800 MHz band, validity period: 9 June 2009 – 9 June 2019 (10 years)
- 2 x 15 MHz 2100 MHz band, validity period: 17 December 2008 – 17 December 2018 (10 years)
- 2 x 10 MHz in the 800 MHz band, validity period: 1 December 2013 – 30 November 2033 (20 years)
- 2 x 15 MHz in the 1800 MHz band, validity period: 1 December 2013 – 30 November 2033 (20 years)

2 x 15 MHz in the 2100 MHz band and 2 x 12.5 MHz in the 900 MHz are prolonged until 2028.
The competitor one.Vip has frequency usage rights for the following radiofrequencies for public mobile communications systems:

- 2 x 12.5 MHz in the 900 MHz band
- 2 x 10 MHz in the 2100 MHz band
- 2 x 10 MHz in the 800 MHz band
- 2 x 15 MHz in the 1800 MHz band
- 2 x 10 MHz in the 800 MHz band
- 2 x 15 MHz in the 1800 MHz band

The duration of two licences positioned in the lower parts of the bands previously owned by one.Vip was until 2017, 10 MHz from 900 MHz band and 10 MHz from 1800 MHz band and they expired on 23 March 2017. Based on a request from one.Vip for licence prolongation, the Agency adopted Resolution No. 0804-974 dated 2 November 2016 not to prolong these two licences. Their resolution was based on efficient and effective spectrum usage and necessity for realising radiofrequencies for entrance of third mobile operator on the market in order to foster competition. At the moment, these radiofrequencies are not allocated and are not available for sale to the existing operators.

2 x 15 MHz in the 2100 MHz band is prolonged until 2028.

The retail services provided by the mobile network operators in Republic of North Macedonia are currently not subject to price regulation.

MKT is an SMP Operator on the wholesale market for voice call termination services in mobile communications networks, whereby several obligations are imposed: interconnection and access, non-discrimination in interconnection and access, accounting separation and price control and cost accounting.

At the beginning of the year 2016, the Agency conducted new market analyses on the relevant market for mobile origination and adopted a new Decision for SMP designation in April 2016. The regulatory remedies imposed by the Agency are as follows: joint dominance of one.Vip and MKT, the same remedies for both operators, mobile access obligation for all MVNO hybrid types (including Reseller), a cost based price for Full MVNO and retail minus (-35%) for the Reseller, an obligation for access to MMS services and mobile data based on technology neutrality (including 4G access).

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 acquired an LTE radiofrequency license of 2x10 MHz (in the 790 – 862 MHz band) and 2x15 MHz (in the 1740 – 1880 MHz band). Each license was acquired for a one-off fee of EUR 10.3 million (MKD 634,011 thousand). TMMK will retain the license for 20 years, until 30 November 2033, with an extension option for up to 20 years in accordance with the LEC.

## AUDIOVISUAL AND MEDIA REGULATION

As of 28 December 2018 the Law for Audio and Audiovisual Media Services has been amended in a way that new obligations are imposed to the operators that retransmit program services. By submitting the application for program services registration to the Agency for Audio and Audiovisual Media Services, the responsible person of the operator and the person in charge of the broadcaster submit a statement under full moral, material and criminal responsibility confirming that for the retransmission of program services they have regulated TV rights for a foreign broadcaster who plans to retake its entire programming service for the territory of the Republic North Macedonia. In case of retransmission of any part of the program service of a broadcaster from another country for which the broadcaster does not have regulated rights for the territory of the Republic of North Macedonia, all the moral, material and criminal liability falls on the broadcaster and on the operator that retransmits its program service. The procedure for determining the liability for the violation or the violation committed, as well as the manner of registration of a legal representative of a broadcaster from another country shall be prescribed by the Council of the Agency for Audio and Audiovisual Media services with a by-law.

On 4 February 2019, additional amendments on the Law on Audio and Audiovisual Media Services were adopted: "Paragraph (3) and paragraph (4) of Article 35 amending Article 143 of the Law Amending and Supplementing the Law on Audio and Audiovisual Media Services ("Official Gazette of the Republic of North Macedonia" No. 248/2018) shall enter into force 60 days after the election of the Council of the Agency for Audio and Audiovisual Media Services, elected in accordance with the Law on Amending and Supplementing the Law on Audio and Audiovisual Media Services ("Official Gazette of the Republic of North Macedonia" No. 248/2018)".

All of the above shall enter into force 60 days after the election of the Council of the Agency for Audio and Audiovisual Media Services.

## COMPETITION

The competition in the telecommunications business is well-developed in all segments. Two main integrated players that offer full portfolio of fixed and mobile services shape the telecommunications market in Republic of North Macedonia .

Vip Operator, a subsidiary of the Telekom Austria Group, was merged with Telekom Slovenije's subsidiary ONE. The merger was consolidated as of 1 October 2015. In November 2017, Telekom Austria became full owner of the company, after purchasing the remaining 45% share from Telekom Slovenije, as agreed with the merger.

one.Vip, as an integrated operator, was offering various services - mobile and fixed voice, mobile and fixed broadband Internet and TV. The main focus was put on mobile post-paid, as well as on bundled FMC offers. In the mobile segment one.Vip continued to increase the contract ratio, which reached 63% by YE 2018. Total mobile base declined by 1.5% YoY, as a result of decline in prepaid segment. (source: Telekom Austria Q4 2018 report). In the fixed segment, one.Vip offers triple play bundles (fixed voice/Internet/TV) and FMC products. They introduced broadband internet for home use over 4G routers in 2017 and managed to increase significantly their fixed BB base in 2018 (15% Q4 YoY: Telekom Austria Q4 2018 Report).

Telekabel is the biggest cable provider among around 50 active cable operators, having strong presence in regions where MKT has low market share. They are entering in the mobile business as of January 2019, as an MVNO on MKT's network. By offering all fix and mobile services, they are becoming a new FMC player on the market.

The other cable operators also have a significant role in the telecommunications market and, as providers of cable television as their main service; they are well-established on the Macedonian market. Most of them offer Internet broadband services and fixed voice services on top of the TV service.

The MVNO Lyca-mobile entered the market in July 2016, on the network of one.Vip, and reached a low market share by year end 2018 (around 2% according to an internal estimation). They are limited to prepaid offers only, and focus on international calls and data packages.

The product portfolio of all operators is driven by bundle products. The cable operators are bundling their TV offer with Internet and fixed voice services. The fixed voice service of the cable operators is usually perceived as a value added service. As the overall market is price sensitive, the price perception plays a major role in the customers' choice and thus the cable operators' offers are seen as more competitive than MKT's.

The trend of number portability continued to increase in 2018, for both mobile and fixed numbers. By the end of Q2 2018, there were almost 245 thousands mobile and 179 thousands fixed ported numbers in total (source: Report for electronic communications development Q2 2018, the Agency).

As at 31 December 2018, MKT has an estimated retail fixed voice market share of 56%, retail fixed broadband Internet market share of 41% and TV market share of 31% (source: internal best estimates for market development based on official Telekom Austria report Q4 2018 and AEC Q2 2018 report). In the mobile market, the market share of MKT was estimated to 50% (source: internal best estimates based on official Telekom Austria report Q4 2018, AEC Q2 2018 report and internal reports for active customers).

# SERVICES FOR OUR CUSTOMERS

Operating in a highly competitive environment in all telecommunications segments, MKT was focused on the retention of the existing customers and their up-sales to bundled converged services, as well as on the acquisition of new customers on the fixed and mobile market, for both the residential and the business segment.

## Simplify the products

The simplicity of our offers and organization makes the digital transformation of our core business easier. In this way we increase our implementation speed – both in terms of the interaction with the customers and the implementation of new strategic initiatives.

To simplify the products means to offer our customers intuitive products and easy to understand services. Our convergent products such as Magenta 1 are the first step in that direction. Additionally, we want to significantly reduce the product complexity and to optimize them wherever possible.

## Novelties in products portfolios

Magenta 1. **Full of great benefits for families.** In 2018, Magenta 1 remained the main offer that allows flexible combination of mobile communication, Internet and TV at home. Following the trends and the growing customer needs for mobile data, it was enhanced with additional features such as Video and Family Share. With MaxTV GO, the Magenta 1 customers can follow the Sport TV content, in which UEFA Champions League and League Europe is exclusively available only for MaxTV customers, from anywhere and at any device.

Video: **We are revolutionizing the mobile market.** Video was launched in February 2018 and it is a revolutionary new rate option that enables Magenta and Smart customers to stream videos over the mobile network to their smartphones without using the high-speed data volume included in their rate plans.

Family Share: **For families and youngsters.** The Family share option was launched in March 2018 and it is exclusively available only for Magenta 1 customers. It enables sharing the mobile internet with the Magenta 1 family members in the course of the month. Now everything is simple and easy using the new Telekom MK app.

Sport: **Makes the real difference.** In line with the strategy for offering exclusive TV content as a main differentiator from the competition, MKT extended its Sport TV offer and, as of September 2018, it has the exclusive TV rights for broadcasting the UEFA Champions League and Europa League matches in the country.

Family Budget: **More choices for purchasing devices.** With Family Budget, the Magenta 1 customers have the option to purchase not only handsets, but also TV sets, laptops and tablets at attractive prices. This option was intensively communicated during 2018 as part of the Sport communication, and hence it contributed to the significant increase of sales of TV sets in 2018.

Magenta 1 has been continuously strengthening its position as the best offer on the market, reaching 12% of the households in the country.

The further growth of the mobile post-paid customers was supported by Smart portfolio that was enhanced with new additional features in combination with attractive handset offers. It continued to be very well perceived by the customers during 2018.

2018 was marked as the year of broadband growth, mainly by introducing new approach for addressing the non-addressed segments and x-sell of fixed services to the existing mobile post-paid base.

Further growth in TV was supported by the broadband growth, but also by keeping the strategy of offering the exclusive content as a main differentiator from the competition. As of 2018, MKT has the full exclusivity for TV distribution of UEFA and Europa League matches. The TV service was also enhanced with improved MaxTV GO that provided the customers with an ability to watch TV "wherever they are and from any device".

In the prepaid segment, the active base was stimulated by activities with tailor made offers for different segments. Different communication activities were executed, mainly with BTL campaigns giving positive results on both the customer satisfaction and the financials. During the summer period excellent results were achieved by attracting visitors to MKT's offer.

In the Business segment, MKT's focus proposition during 2018 was Magenta 1 Business. FMCC revenues in 2018 have increased by 21% compared to FMCC revenues in 2017, thus reaching 70% of total SOHO and SME revenues. FMCC proposition was enriched with the newly introduced Office 365 product which was well accepted on the market and contributes towards the strengthening of the MKT's position as a service provider of everything that businesses need.

**Innovative and quality services for a impeccable user experience**

## Best quality service

In order to provide best service quality, MKT continuously invests in the network development, widening the FTTH and VDSL coverage in the country and providing services via 4G cubes in specific regions, thus reaching to 100% Internet availability, country wide. In 2018, the FTTH home passed rate is 28%.

In mobile communication we set ourselves apart from our competitors with the outstanding quality of our network. We have regularly come out on the top position on the independent network tests. In 2018, MKT was rated as “best in test” by the P3 communications network experts.

## Excel in customer experience

Providing simple and easy customer journey was imperative for 2018. To achieve this, the different customer segments were addressed via the most appropriate sales channel. Although the PoS remains the main sales channel, in 2018 the D2D and Telesales significantly increased their contribution.

Digitalization is the key for improving the customer experience. In 2018 MKT was strongly focused on improving the digital experience of its customers. Two main pillars were push of the e-commerce and usage of the self-service mobile app (Telekom MK).

With continuous improvement of the on-line shopping experience, the sale doubled in 2018 compared to 2017. The number of active Telekom MK app users significantly increased from 4% at the beginning of the year to more than 25% at the end of the year, from the residential smartphone user base. It was a result of the improved customer experience and the new features. The desktop and mobile versions of the web were constantly improved according to the latest standards and trends in the industry.

In 2018, MKT started the Digital Hub, attracting students from e-business and IT, in order to bring fresh new ideas in the e-commerce part, as well as move towards a more agile way of working and digital product development.

Another app is the use of Facebook chatbot in direct dialogues with the customers. The Virtual Technician (Vito) available via Moj Telekom provides self-service possibilities. With Vito, the customers themselves can check the quality of service, reset routers, set WiFi and other actions online. Besides the traditional customer support via a call center, the customers are also served online via mobile and web life chat channels.

In marketing communications, during 2018, MKT kept the same course as in 2017: we communicated three major messages – we have the best network; we have the best offer for the whole family, with Magenta 1; and, we offer the best standalone communication option, via Smart post-paid.

Sports continued to be our main domain of customer engagement, bringing to life our exclusive Champions League content, as well as the handball state representation sponsorship, through several major and numerous minor social media activities – Fantasy Football, Virtual stadium, a trip award to the world handball championship, Trip award to CHL finale in Kiev, and many more.

In business and ICT, our focus was on promoting Telekom MK as the most innovative partner for digital transformation of SME/SOHO as well as major accounts, with Magenta 1 Business as the best-seller, combining communication and innovative services in one package. In addition, the Smart City products and offers were given special promotion with a permanent display within the corporate HQ.

In media, in addition to regular business, the first programmatic efforts, both on our behalf and for few local websites, happened this year, opening up opportunities for improved audience purchase, as well as more effective budget utilization in the upcoming years.

# RESEARCH AND DEVELOPMENT

MKT continues with its determination and its work to be an innovation and technology leader on the market. Among the main focuses, as a continuation to the previous years, are the projects in the area of Smart City. Further to our successful Smart Bus Transport Project implemented for the City of Skopje in 2015 and 2016 and the realized demo operation solutions for a Smart Light, Smart Waste, Smart Parking, Smart Bench and Electrical Vehicle Charging in 2017, during this year we have demonstrated the advantages of the implementation of such smart systems and our competences in this area to municipalities and key accounts.

Apart of the Smart City business area, we drive full force exploring of other business possibilities for growth and development, in the field of finance, health, education etc., especially considering their business prospects and potentials in terms of top line growth of our ICT and B2B business overall. As a firm supporter of the new era of smart connected way of life and working, in 2018 MKT successfully realized its pilot project in the area of Smart School - Hybrid Classroom, which is about implementation of an ICT assisted solution for interactive learning during classes and at distance, in two secondary schools in the City of Skopje. The implementation of this project aims at creating positive change in terms of the way of education, and providing advanced, self-driven, collaborative and interactive classroom experience for the youngsters. In addition, its aim is to demonstrate how the use of technology could support the quality and efficiency of the education, thus impacting the long-term development of the educational system, as well as the society and economy.

**Technological leader with continuous investments in infrastructure**

Moreover, we investigated the potential market and we made a cost analysis for the implementation of Narrowband for Internet of Things (NB-IoT).
Furthermore, utilizing the potential coming out from the EU funded projects in smart Digitalization, IoT solutions, e-government, etc., was also under close loop.

In addition to the business development activities given above, in 2018 we put the focus on the development of the projects and products for digitization and smart working for the business segment, which we believe are growing market potentials in the forthcoming years, expected to be driven by the advantages of the efficiency of ICT in daily workflows systems and networks, as well as by the transparency and accountability of such solutions.

Under the motto - INNOVATION SYNERGIES – WIN WITH PARTNER, we keep further on our strategic technology partnerships-Cisco Gold, EMC Cloud solution provider and Microsoft Silver Data Center. Furthermore, in 2018 we got recertification of our Oracle Platinum and HP Business partnership, we finished the process of getting a status of Microsoft Cloud Solution provider and we lunched Office 365 as a first Microsoft Cloud product. These partnerships are confirmations of MKT's competences in the areas of enterprise networks, cloud, collaborations, network securities, and Data Center technologies. Such competences are deemed to be crucial assets on which we can leverage further in our ICT business development activities.

Competitive pressure in conjunction with saturated Telco market, complexity of business environment with multiple and more sophisticated customer segments, multiple vendors and complex service offerings, fast changes in the technology with new technology paradigm targeting for one universal IP network and cloud based service delivery platform, as well as changes in the regulations, are only part of the challenges that MKT will face in the next few years.

In order to keep sustainable business and major revenue streams in a very complex telecommunication environment, as well as proactively influence the market trends with new business opportunities, MKT is aiming to keep its technology leadership position and ensure growth through service improvement and innovation by continuous development of its infrastructure.

Development of infrastructure and investment in Technology should encompass the following objectives/trends: broadband performance, integrated service delivery platforms, efficiency and quality leadership, self-service enablers, cloud concept and "virtual" infrastructure, cost efficiency, flexibility and responsiveness – reduced time-to-market, as well as competence development.

During 2018, we have made significant steps towards the achievement of our goals with the development of the telecommunications network, service platforms and supporting systems.

In order to ensure a high quality broadband (BB) performance, BB market and technology leadership, MKT is continuously investing in fixed and mobile access development. At the end of 2018, installed capacity of more than 172,500 homes passed or 30.5% households' coverage with FTTH from MKT's network was reached. Regarding the VDSL rollout, the total numbers of VDSL CO were more than 154k and more than 13k VDSL FTTC homes passed.

Hybrid Access Solution was further developed which aggregates the bandwidth of both DSL and LTE transmission links and creates a single, powerful broadband pipe between the network service node and the customer's Broadband CPE. At the end of 2018, there were more than 4.8K users and more than 2.8K FMS users.

Significant improvement was also achieved in terms of the LTE rollout, reaching 92% territory coverage and 99.67% population coverage outdoor. More than 95% of the total sites provide LTE services. At the end of 2018, 62% of BTSs were connected via optic.

Alongside the extensive mobile BB access rollout, during 2018, high focus was put on the network quality and performance, which was confirmed by P3 "Best in Test" certificate in November 2018 which represents an internationally recognized acknowledgement for quality of mobile network, as well as by the National Report for Network Quality Parameters prepared by the Agency. MKT is the best in class for voice and data services and leads the overall ranking with 907 points.

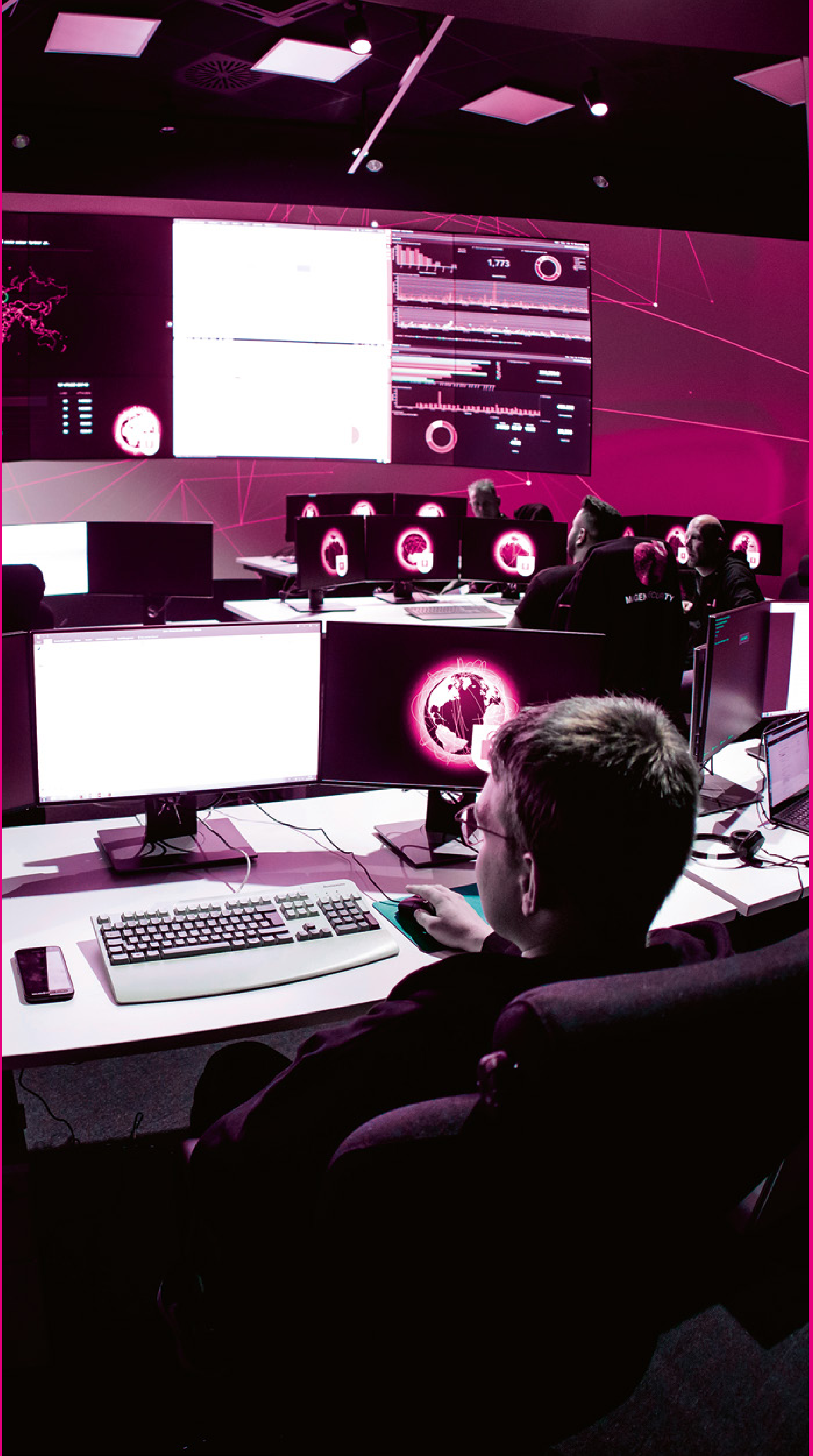
During 2018, the emphasis was placed on the fixed voice network modernization. The scope of the project included HW/SW upgrade of IMS network nodes, OSS migration and consolidation, MMDec HW/SW upgrade, as well as LI HW/SW upgrade. The Project for Consolidation of subscriber databases was finished with the migration of the fixed customers at the end of November 2018. It's purpose was to unify the existing monolithic 2G/3G and LTE UDM mobile networks with the existing monolithic UDM for IMS fixed network. It provides consolidation of user data for all network functions such as user authentication, service authorization, mobility management and fraud protection on a single SDM system, thus enabling convergence of CS, PS, EPC, WLAN, M2M and IMS user profile services.

MKT continuously follows the latest technology trends in the world thus providing its customers with the latest innovative services which constantly keeps it as the leading operator on the market in Republic of North Macedonia and wider as part of the DT Group. In that line, the start of VoLTE project in MKT was announced at the end of 2018.

The growth of BB access and the continuous traffic increase are supported with further development of the IP Core and transport network as the cornerstone of all services. During the last two years, the IP Core & Transport Network Modernization project which includes modernization, reorganization and extension of all IP Core Network elements, Transport and Aggregation systems was successfully completed. MKT managed to install full DWDM network and finalized IP Core implementation and integration, as well as IP Core services migration. The plans are to continue with the HA Aggregation Network modernization and to finish 100% of the Aggregation sites and continue with the activities for modernization of the SPNI & BRAS segment of the network.

The video and high-speed data services are expected to be the main driver and main potential for further market differentiation as well as main opportunity for business growth. In order to improve the quality of the IPTV service and to achieve the ambition for being #1 TV provider on the Macedonian market, it is very important to follow the new technologies and new market trends. In that line, the expectation from the platform, besides ensuring the high quality of the existing services, is a new functionality that should increase the interactivity and service personalization for the customers.

# INFORMATION TECHNOLOGY





Following the Corporate Strategy and the EU IT strategy in the DT group, in 2018, MKT IT developed an IT Strategy and Business Plan that is focusing on:

**SUPPORTING NEW PRODUCTS DEVELOPMENT**

**DIGITALIZATION**

**FUTURE PROOF AND TRANSFORMATION**

**CLOUDIFICATIION**

**NEW IT ARCHITECTURE ALIGHNED WITH EU IT**

**AUTOMATION**

There are several projects that are aimed at providing efficient IT systems and solutions which will fulfil the plan and enable the realization of the strategic focuses. In order to support new products development, functional improvements of several systems such as CRM system, Billing, OSS, as well as SAP system were made during 2018.

# HUMAN RESOURCES

## OUR COMMITMENT TO HUMAN RESOURCES

Intensive and dynamic market changes require dynamic, agile and productive execution of the processes and activities in every segment of our operation. Concurrently, it is necessary to simplify our product portfolio in order to be able to offer services that are innovative and user friendly for superior customer experience and at the same time we are also committed to simplification of our internal process and business rules for a better operational efficiency.

As a business partner of the organisation, the Human Resources Department promotes service culture following the pace of the company's transformation process in accordance with our Strategy and the dynamic changes in the market.

In order to achieve our strategic commitment, we constantly follow and apply the latest methods and trends in the human resources management processes in compliance with the highest global standards.

The basic foundation of the human resources operation is that professional, competent and dedicated employees are vital for Makedonski Telekom.

That is what we value the most!

**We undertake activities and support the process of change – a necessity for the future business demands**

The market changes require adoption of a business model that will be able to respond to the demands of the customers and our employees, and at the same time to be up-to-date with the trends of operations in the country and beyond, in compliance with the internationally accepted standards.

For the purpose of keeping the successfulness, competitiveness and efficiency in the operation, a need emerged for a completely new and different approach to our business activities that resulted in a Programme for voluntary termination of the labour relation of the employees in MKT with financial benefit for 2018 which was concluded by Makedonski Telekom in cooperation with the trade union organisations. The programme applied to all employees in MKT employed for an indefinite period of time, with the exception of the employees with managerial and expert contract, and it was solely on voluntary basis. The programme offered an attractive financial package that, in addition to the basic offer, also included additional benefits.

To enable a transparent communication and provide the employees with all necessary information related to the Programme, the Human Resources Department perceived the need for open discussion on this topic. Therefore, Open Day was organized as an opportunity for each interested employee to discuss all issues related to the Programme, in full discretion and trust. The interest of the employees was excellent, whereas their feedback encouraged us to regularly apply this approach.

## EQUAL OPPORTUNITIES FOR EARNING

We appreciate the excellent performance results and we strive to provide equal opportunities for earning and attractive remuneration for all our dedicated employees involved in the customer support segment. Therefore we implemented a new salary and incentive system for the employees in the segment Customer Relations – Contact Centre. In practise, this implies standardisation of the fixed salary according to the local market conditions and introduction of a variable part of the salary that will depend on the level of successful achievement of the service and sales targets.

## DEVELOPMENT OF OUR EMPLOYEES – A PRIORITY THAT WE CONSISTENTLY FOLLOW

**The involvement of each employee in decision-making and exchange of opinions creates an environment in which we change for the better, both in the workplace and in our surroundings.**

The inevitable fact is that the professional development of the employees is directly linked to better overall company's results. We are working on the constant improvement; we follow the trends, as well as the needs of our employees and thus we develop various development programmes that can respond to the needs of various levels of the organizational structure. As a result of the need for better cooperation and understanding among the employees from the same and different departments, we conducted a great number of team building trainings. At the same time, we also successfully implemented the trainings for our PMP professionals and for PMP and SDI certification.

**Development programmes for frontline employees**

We organised numerous trainings for development of communications skills for the new frontline employees. The trainings are based on SDI methodology so as to enable them to better acquire the new skills.

We successfully coped with the challenge for organisation and implementation of trainings for advanced sales skills for the employees in the shops. The training was preceded by a detailed analysis of the employees' needs and the challenges they face on everyday basis. Thus, we defined all the required techniques and solutions in order for these employees to better and more professionally do their job and provide the best experience to our customers.

We organised training for trainers for basic and advanced level of sales skills for the B2B and B2C segment. We marked the end of 2018 with the topic "Sales Processes and Sales Skills" and in following year we will continue with other relevant topics.

**Development programmes for the management**

Business leaders of today are faced with extremely dynamic business environment characterised by technological innovation, constant changes in the demands and new directions in the employees management. In order to strengthen the managers' competences and increase their leadership role, having in mind that they are the ones who responsibly and completely stand behind their decisions and the decisions of their team, we felt that it is extremely important to renew, strengthen and improve their leadership skills. Therefore, we continuously develop and implement a leadership culture in which the achievements and recognised and distinguished.

We worked on development and implementation of a programme for development of leadership competences intended for managers that correspond to the complex business environment. We also conducted global programmes for leadership skills such as Level Up; Open leadership portfolio program; Lead FIRST program (aimed at managers who were appointed to managerial positions for the first time in the current year).

**LET'S GROW – we grow and develop in all aspects**

The employees of Makedonski Telekom were part of the largest initiative for Growth mindset organized in DT Europe. It all started in London where our Chief Executive Officer was part of the Learning Journey programme. 123 employees from different areas of MKT took part in the Growth Lab programme where they worked together in international teams and created pilot projects in nine different areas. Three of our employees, as part of the winning teams, presented their projects in Bonn before the DT EU management. They talked about Digitalisation, FMCC and Design EU 5G story. Eight employees are part of the Growth Leaders programme and three employees are influencers. During the entire programme we all worked together, learned how to communicate, how to learn from our mistakes, we learned how to give and receive feedback, all for the purposes of creating a pleasant and inspiring working environment. In 2019 we will continue with our activities for development of corporate culture in our company.

## NEW APPROACH TO RECOGNISING AND AWARDING OUR EMPLOYEES

We worked in detail on the development of a new concept and paid special attention to creating a positive experience for recognition, increased motivation and productivity of our key employees. We introduced a recognition programme with the leading motto #ITryHarder, which includes all employees who, with their exceptional commitment and success in the work, the team spirit, the cooperation and the constant constructive support of other colleagues, contribute to the greater company's success, those who equally focus on external and internal customers and who are selflessly dedicated to the performance of their working tasks. The employees had the opportunity to give recognition to their colleagues, a step that contributed to the identification of our best employees who became members of the #ITryHarder club.

The programme is with duration of one year and 2018 was marked by this cycle. The members of the #ITryHarder club had the opportunity to spend time together and cooperate, to work together on creating new business ideas and were also rewarded with adequate benefits.

## HAPPY BIRTHDAY – Thank you for being part of our team

Little something for everyone for their most important day – their birthday. We carried out an initiative to celebrate the birthday of every employee. With a personalised electronic message for a good start of the day and with a sweet surprise for the birthday person, we hope that we have created pleasant moments for our employees.

## DIGITALISATION - NEW TRENDS FOR GREATER EFFICIENCY AND PRODUCTIVITY

We focused on the implementation of the changes that will accelerate the digitalisation process, by addressing core topics that concern everyone. The new trends demand that we become faster, more flexible and wiser in copying with the challenges. That is the path to a truly oriented digital company, a company driven by energetic employees who are experts in their field of operation. For that purpose, in September we initiated trainings on Design thinking and Agile methodology that by the end of the year were attended by 85 employees. We will continue with these trainings in 2019 as well. At the same time, we also organise trainings on Digital Marketing, Digital PR and Photoshop for the employees.

## WE ENTERED THE VIRTUAL WORLD OF KNOWLEDGE – HR SUITE

We use the benefits of the digitalisation to the maximum in order to develop our skills. Following the trend of the Deutsche Telekom Group companies, as of the end of 2018, our employees got access to the digital learning via the HR Suite platform. With this additional option for development, we made another step forward in the world of electronic learning. The innovative contents available via HR Suite are useful, fun and necessary and the platform is available 24/7 and offers flexible schemes in order to successfully acquire the required skills. The employees can learn different topics – Computer Skills (Microsoft Office, SAP, etc.), IT skills and business operations (soft skills, management, sales, human resources and many other areas). The employees can also learn German and English via the Learnlight Digital platform.

The only team that recruits the best – attracts and retains talents

We offer opportunities for skilled and qualified employees, as well as for the best talented students who are looking for their first job. At the same time, we offer many opportunities for professional development and internship which proved to be an indispensable experience for the students.

As a result of our successful cooperation with many universities and faculties in the country, during the year we managed to provide quality education for approximately 50 students. Some of them gained excellent knowledge and experience and some became part of our team.

Having the digitalisation as our mission, we created the Digital Hub. This is the place where the most talented students develop their best digital solutions and products, based on the needs of all areas in the company. With their creative and sharp mind, complemented by the outstanding technical and IT knowledge, they created successful digital solutions that make our work easier, fully cover our needs and are competitive on the market.

## EMPLOYEES' OPINION - OUR GUIDE FOR FUTURE ACTIVITIES

We believe that employees should get involved and give their opinion on the overall company's operation, because that's the only way in which we can act and fill in the missing gaps. Employees' involvement in the decision-making and exchange of opinions creates an environment in which changes for the good happen in the workplaces and also in our environment and atmosphere. Therefore, we constantly monitor the employees' opinion through the regular Pulse Survey of the company, which was carried out twice in 2018. This helps us identify the trends and opinions of the employees, it shows us how the employees understand the company's processes, and we identify the strengths and weaknesses in the areas where further measures for improvement should be implemented.

We communicate openly with the employees

Transparency in our operation is something that we foster and consier it a necessity on which we should continuously work. The interest in the novelties and initiatives coming from the Human Resources Department always pique the interest of our employees, so we organized HR Open Day, on which we presented several initiatives - some that are aready in operation, and some of them were announcements for the future. The employees had the opportunity to see how the HR Suite works, hear more about Let's Grow, get information on the new Wellness program, and apply for participation in one of the nine trainings that we offered them for professional development. The luckiest colleagues won a voucher for their desired training. The event aroused a great interest and the employees' reactions encouraged us to organise such events again and confirmed the need of transparent communication.

## WE CARE ABOUT OUR EMPLOYEES' HEALTH

We continuously follow the latest European regulations and practices and we provide a healthy environment for our employees by implementing the Policy in the sphere of health and safety of the employees. Our goal is to provide safe working environment and healthy working conditions for the employees.
Having in mind the nature of the working process, every employee undergoes an adequate medical examination, whereby we take care of the health of each individual in the Company. At the same time, in order to raise the awareness about the importance of our own health, we also introduced a new benefit for all employees with special expanded medical check-ups.

We take care of the working environment by implementing various safety measures and European standards. As a proof of the successful operation for 2018, the application on behalf of MKT for the Good Practise Award was accepted by the European Occupational Health and Safety Agency in Brussels.

We believe that raising the employees' awareness will bring positive changes for better and quality life of the entire community. Therefore, Makedonski Telekom and the occupational health and safety team joined the European campaign for healthy workplaces and we successfully celebrated the World Day of Safety and Health at Work with digital campaign in the company for raising the employees' awareness and adopting healthy habits.

In August 2018, Makedonski Telekom was successfully Re-certified for compliance with the requirements of the OHSAS 18001 standard Occupational Health and Safety Management System and we became part of the DT Umbrella OHSAS certificate. As a proof of the successful recertification we were awarded the ISO 14001 _ EN _ 2018-2021 certificate by DEKRA Certification GmbH.

Furthermore, in order to fully meet the safety requirements for high-risk jobs, all necessary and additional tests of the personal and collective protective equipment for 2018 were conducted.

We are continuously conducting trainings for all new employees in order to acquire the necessary specific knowledge about the safety and health and raise their awareness about these issues.

The Safety and Health at Work team in excellent correlation with the Corporate Security Unit in MKT and in cooperation with the Fire-Fighting Unit of the City of Skopje, the Emergency Service within the Health Centre Skopje, the Ministry of Interior and the Red Cross of the Republic of Macedonia took part in the organisation, preparation and implementation of simulation exercise - evacuation in case of fire and providing first aid.

# SOCIAL RESPONSIBILITY

Makedonski Telekom does not only provide top technological solutions and services on the telecommunications market in Macedonia. We are much more than just a top provider that makes today's dynamic everyday life of the citizens easier. As a company, we strive to leave a mark in the country, making the socially responsible practices a basic value in our operation. This does not only mean taking care of the employees, customers and partners, but also helping, i.e. investing in all social spheres, thus enriching the life of each individual in the community.

The creation of additional value for the community is an imperative for strong companies that have put the corporate social responsibility on a pedestal. In Macedonia, for many years now, Makedonski Telekom has been an example and is the number one company that invests in the environment, with an ultimate goal to inspire the other business entities to provide added value to all citizens. Thus, we have continuously been supporting cultural events, sports, donating to health, education, taking care of the environment, thereby promoting the true values of corporate social responsibility.

The list of socially responsible activities for 2018 is quite long and varied. Of course, sports and culture were the main pillars of our sponsorship strategy, but we have also paid equal attention to the other segments of the social life.

In that direction, in 2018 we continued the cooperation with our best handball and football club "Vardar" and the Macedonian tennis federation. The support of handball that has become popular sport in recent years has been expanded with the partnership with the Handball Federation of Macedonia. We are still part of the futsal league and the humanitarian giant slalom in Mavrovo. We continued the successful cooperation with the basketball club "Shkupi" and additionally we became partners of the football club of the same name, and for the first time we supported the football club "Belasica" from Strumica.

We always try to enrich the culture and raise it to a higher level, but we pay special attention to the nurturing of events that have a long tradition and a special place on the world cultural map of significant and attractive activities. Thus, we continued our traditional partnership and cooperation with Ohrid Summer Festival; we were partners of the unique Skopje Jazz Festival, as well as the Strumica Open Festival. It is also worth to mention our traditional cooperation and sponsorship of the children's music festival "Grozdoberce", as well as the cooperation with the Macedonian top guitarist, Vlatko Stefanovski.

We constantly make sure that we support events and activities for all citizens in Macedonia. So, once again we were partners of the traditional events of the Albanian population in the Republic of Macedonia, such as: "The Sounds of the Bazaar", "Ensemble Ibe Palikuca", the children's festival "Rainbow", "Tetovo Cultural Summer", etc.

We were pleased that, in 2018 as well, we provided the famous European program of Deutsche Telekom for music and lifestyle - Electronic Beats, which we started in 2017. Thus, in Macedonia, which is now on the map of countries where the Electronic Beats program is present, performances were given by the world renowned DJs and musicians, such as Tama Sumo, Stephan Bodzin and Fideles.

The protection of the environment and the improvement of the ecosystems in Macedonia are issues to which Makedonski Telekom pays serious attention. As part of the #TelekomGoesGreen initiative, we supported an innovative design solution for reduction of the air pollution, patented by professors at FINKI and the Faculty of Agriculture in Skopje. It involves aerosolization, an efficient ecological method, which cleans the air by spraying small water droplets that attach the PM10 particles and other pollutants to the surface of the soil. Aerosolization will be performed by using turbo-atomizers, devices that are used for irrigation of agricultural areas. Telekom got involved in the implementation of the solution by donating two such devices that will be used at different locations, of course in coordination with the relevant institutions.


Also, as part of the #TelekomGoesGreen initiative, two environmental actions were organized in which the employees actively participated. The first eco action was for cleaning the park forest Vodno, and the second one for cleaning the City Park, places of special importance for all who live in Skopje; places where we relax, where in the fastest possible way we can get out of the turbulent modern everyday life and step into the beautiful green world of tranquillity and silence.

The real ultimate goal of the two eco actions that involved many Telekom employees is not just one-time cleaning of waste, but raising the eco-awareness in the society, encouraging the individuals and organizations to improve the environment today so that tomorrow - the world would be a more beautiful place to live and grow younger generations and our children.

**CONTINUOUSLY WE ARE PROMOTING THE TRUE VALUES OF CORPORATE RESPONSIBILITY.**

# STRATEGY FOR 2019

# MAKEDONSKI TELEKOM ASPIRATION...

DIGITALIZING HOUSEHOLDS, BUSINESSES AND SOCIETIES
THROUGH SEAMLESS CONNECTIVITY
POWERED BY THE BELIEF IN GROWTH

## FIXED MOBILE CONVERGENCE

Own the household and business

## DIGITALIZATION

Become the telco of tomorrow

## GROWTH MINDSET

A growing telco

# FINANCIAL STATEMENTS

PricewaterhouseCoopers Revizija doo,
8th September 16,
Hyperium Business Center,
2nd floor, 1000 Skopje
Republic of North Macedonia,
VAT No. MK4030008022586,
T: +389 (02)31 40 900/901,
F: +389 (02) 31 16 525, www.pwc.com/mk

## Independent auditor's report

*To the Board of Directors and Shareholders of Makedonski Telekom AD – Skopje*

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 International Financial Reporting Standards 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 the *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 the International Financial Reporting Standards.

PricewaterhouseCoopers Revizija DOO

PRICEWATERHOUSECOOPERS REVIZIJA DOO Skopje
Skopje, 18 February 2019

As at 31 December

| In thousands of denars | Note | 2018 | 2017 |
|---|---|---|---|
| **Assets** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | 5 | 517,310 | 522,375 |
| Deposits with banks | 6 | 742,487 | 680,506 |
| Trade receivables and other assets | 7 | 3,118,822 | 2,893,949 |
| Other taxes receivable | 8 | 14,115 | 14,175 |
| Inventories | 9 | 269,678 | 338,121 |
| **Total current assets** | | 4,662,412 | 4,449,126 |
| | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 11 | 11,695,620 | 12,180,690 |
| Advances for property, plant and equipment | | 2,890 | 4,553 |
| Intangible assets | 12 | 2,676,777 | 2,691,472 |
| Trade receivables and other assets | 7 | 446,422 | 330,635 |
| Financial assets at fair value through profit and loss | 27.1 | 103,306 | 63,925 |
| Other non-current assets | | 612 | 612 |
| **Total non-current assets** | | 14,925,627 | 15,271,887 |
| **Total assets** | | 19,588,039 | 19,721,013 |
| | | | |
| **Liabilities** | | | |
| **Current liabilities** | | | |
| Trade payables and other liabilities | 13 | 3,364,138 | 3,463,777 |
| Income tax payable | | 7,330 | 25,428 |
| Other taxes payable | 8 | 46,495 | 48,608 |
| Provision for liabilities and charges | 15 | 172,780 | 153,907 |
| **Total current liabilities** | | 3,590,743 | 3,691,720 |
| | | | |
| **Non-current liabilities** | | | |
| Other liabilities | 13 | 358,164 | 519,264 |
| Deferred income tax liabilities | 14 | 143,670 | 128,928 |
| Provision for liabilities and charges | 15 | 27,815 | 57,340 |
| **Total non-current liabilities** | | 529,649 | 705,532 |
| **Total liabilities** | | 4,120,392 | 4,397,252 |
| | | | |
| **Equity** | | | |
| Share capital | | 9,583,888 | 9,583,888 |
| Share premium | | 540,659 | 540,659 |
| Treasury shares | | (3,738,358) | (3,738,358) |
| Other reserves | | 958,389 | 958,389 |
| Retained earnings | | 8,123,069 | 7,979,183 |
| **Total equity** | 16 | 15,467,647 | 15,323,761 |
| **Total equity and liabilities** | | 19,588,039 | 19,721,013 |

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 Ljushev
Chief Executive Officer

Slavko Projkoski
Chief Financial Officer

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

## STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December

| In thousands of denars | Note | 2018 | 2017 |
|---|---|---|---|
| **Revenues** | 17 | 10,535,628 | 10,318,376 |
| Depreciation and amortization | 11,12 | (2,524,799) | (2,410,816) |
| Personnel expenses | 18 | (1,135,017) | (1,090,333) |
| Payments to other network operators | | (907,733) | (894,255) |
| Other operating expenses | 19 | (4,378,240) | (4,359,024) |
| **Operating expenses** | | (8,945,789) | (8,754,428) |
| Other operating income | 20 | 28,900 | 49,659 |
| **Operating profit** | | 1,618,739 | 1,613,607 |
| Finance expenses | 21 | (62,425) | (70,484) |
| Finance income | 22 | 68,334 | 45,982 |
| **Finance income/(expense) - net** | | 5,909 | (24,502) |
| **Profit before income tax** | | 1,624,648 | 1,589,105 |
| Income tax expense | 23 | (203,084) | (208,257) |
| **Profit for the year** | | 1,421,564 | 1,380,848 |
| **Total comprehensive income for the year** | | 1,421,564 | 1,380,848 |
| **Earnings per share (EPS) information:** | | | |
| Basic and diluted earnings per share (in denars) | 31 | 16.48 | 16.01 |

## STATEMENT OF CASH FLOWS

Year ended 31 December

| In thousands of denars | Note | 2018 | 2017 |
|---|---|---|---|
| **Operating activities** | | | |
| Profit before tax | | 1,624,648 | 1,589,105 |
| Adjustments for: | | | |
| Depreciation and amortization | 11,12 | 2,524,799 | 2,410,816 |
| Write down of inventories to net realizable value | 19 | 4,061 | 11,228 |
| Fair value gain on financial assets | 22 | (39,381) | (3,559) |
| Impairment on trade receivables and other assets | 19 | 159,925 | 153,982 |
| Net increase/(release) of provisions | 15 | 12,068 | (6,805) |
| Net loss/(gain) on disposal of property, plant and equipment | 20 | 1,433 | (5,157) |
| Dividend income | 22 | (3,159) | (2,749) |
| Interest expense | 21 | 39,556 | 35,050 |
| Interest income | 22 | (22,893) | (39,674) |
| Other non-cash items | | (47,577) | - |
| 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 trade receivables and other assets | | (122,102) | 298,909 |
| Decrease in liabilities | | (154,810) | (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 | 24 | (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 | Other reserves | Retained earnings | Total |
|---|---|---|---|---|---|---|---|
| Balance at 1 January 2017 | | 9,583,888 | 540,659 | (3,738,358) | 958,389 | 7,849,933 | 15,194,511 |
| Total comprehensive income for the year | | - | - | - | - | 1,380,848 | 1,380,848 |
| Transaction with owners in their capacity of owners (dividends paid) | | - | - | - | - | (1,251,598) | (1,251,598) |
| Balance at 31 December 2017 | 16 | 9,583,888 | 540,659 | (3,738,358) | 958,389 | 7,979,183 | 15,323,761 |
| Catch-up- IFRS 9 and IFRS 15 | | - | - | - | - | 341,303 | 341,303 |
| Catch-up IFRS 9 and IFRS 15 - deferred tax | | - | - | - | - | (34,130) | (34,130) |
| Equity adjusted as of 1 January 2018 | | 9,583,888 | 540,659 | (3,738,358) | 958,389 | 8,286,356 | 15,630,934 |
| Total comprehensive income for the year | | - | - | - | - | 1,421,564 | 1,421,564 |
| Transaction with owners in their capacity of owners (dividends paid) | | - | - | - | - | (1,584,851) | (1,584,851) |
| Balance at 31 December 2018 | 16 | 9,583,888 | 540,659 | (3,738,358) | 958,389 | 8,123,069 | 15,467,647 |

# 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 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 previo
usly 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.

## 1.5. Financial information – impact of the adoption of the IFRS 9 and IFRS 15

As a major change compared to 2017, the Company adopted IFRS 9 and IFRS 15 as of 1 January 2018. The following tables show the amounts by which each financial statement line item is affected in 2018 due to the application of the new standards. We show the impact of IFRS 9 and IFRS 15 accounting standards together since the effect of IFRS 9 accounting standard is not significant. For further details please see Note 2.1.1.

The tables below show the impacts of the adoption of the IFRS 9 and IFRS 15 on the 2018 Statement of financial position and Statement of comprehensive income for the year ended 31 December 2018. As the impacts appear in a separate line in the Statement of Changes in Equity, this is not presented here. As these changes had no impact on the Statement of cash flows, they have not been presented here either.

The column Catch-up & reclass of IFRS 9 & IFRS 15 includes the accumulated effect of the first-time application of IFRS 9 and IFRS 15 together with the related reclassifications that were required by these standards at the adoption date, i.e. as of 1 January 2018. The column IFRS 9 & IFRS 15 effects includes the impact resulting from the application of IFRS 9 and IFRS 15 throughout 2018. Other changes include the changes resulting from the usual business operations of the Company.

| In thousands of denars | At 31 December 2018 | IFRS 9 & IFRS 15 effects | Other changes | At 1 January 2018 | Catch-up & reclass of IFRS 9 & IFRS 15 | As at 31 December 2017 |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| **Current assets** | | | | | | |
| Cash and cash equivalents | 517,310 | - | (5,065) | 522,375 | - | 522,375 |
| Deposits with banks | 742,487 | - | 61,981 | 680,506 | - | 680,506 |
| Trade receivables and other assets | 3,118,822 | 15,656 | (11,512) | 3,114,678 | 220,729 | 2,893,949 |
| There of: | | | | | | |
| Contracts assets | 198,062 | (3,408) | (7,315) | 208,785 | 208,785 | - |
| Contract costs | 46,768 | 7,622 | - | 39,146 | 39,146 | - |
| Other taxes receivable | 14,115 | - | (60) | 14,175 | - | 14,175 |
| Inventories | 269,678 | - | (68,443) | 338,121 | 0 | 338,121 |
| **Total current assets** | 4,662,412 | 15,656 | (23,099) | 4,669,855 | 220,729 | 4,449,126 |
| **Non-current assets** | | | | | | |
| Property, plant and equipment | 11,695,620 | - | (485,070) | 12,180,690 | - | 12,180,690 |
| Advances for property, plant and equipment | 2,890 | - | (1,663) | 4,553 | - | 4,553 |
| Intangible assets | 2,676,777 | - | (14,695) | 2,691,472 | - | 2,691,472 |
| Trade receivables and other assets | 446,422 | (10,354) | 28,790 | 427,986 | 97,351 | 330,635 |
| There of: | | | | | | |
| Contracts assets | 72,219 | (13,117) | - | 85,336 | 85,336 | - |
| Contract costs | 14,778 | 2,763 | - | 12,015 | 12,015 | - |
| Financial assets at fair value through profit and loss | 103,306 | - | 39,381 | 63,925 | - | 63,925 |
| Other non-current assets | 612 | - | - | 612 | - | 612 |
| **Total non-current assets** | 14,925,627 | (10,354) | (433,257) | 15,369,238 | 97,351 | 15,271,887 |
| **Total assets** | 19,588,039 | 5,302 | (456,356) | 20,039,093 | 318,080 | 19,721,013 |

| In thousands of denars | At 31 December 2018 | IFRS 9 & IFRS 15 effects | Other changes | At 1 January2018 | Catch-up & reclass of IFRS 9 & IFRS 15 | As at 31 December 2017 |
|---|---|---|---|---|---|---|
| **Liabilities** | | | | | | |
| **Current liabilities** | | | | | | |
| Trade payables and other liabilities | 3,364,138 | (1,337) | (74,910) | 3,440,385 | (23,392) | 3,463,777 |
| There of: Contract liabilities | 253,637 | (1,337) | 17,687 | 237,287 | 237,287 | - |
| Income tax payable | 7,330 | - | (18,098) | 25,428 | - | 25,428 |
| Other taxes payable | 46,495 | - | (2,113) | 48,608 | - | 48,608 |
| Provision for liabilities and charges | 172,780 | - | 18,873 | 153,907 | - | 153,907 |
| **Total current liabilities** | 3,590,743 | (1,337) | (76,248) | 3,668,328 | (23,392) | 3,691,720 |
| **Non-current liabilities** | | | | | | |
| Other liabilities | 358,164 | (28) | (161,241) | 519,433 | 169 | 519,264 |
| There of: Contract liabilities | 141 | (28) | - | 169 | 169 | - |
| Deferred income tax liabilities | 143,670 | 667 | (20,055) | 163,058 | 34,130 | 128,928 |
| Provision for liabilities and charges | 27,815 | - | (29,525) | 57,340 | - | 57,340 |
| **Total non-current liabilities** | 529,649 | 639 | (210,821) | 739,831 | 34,299 | 705,532 |
| **Total liabilities** | 4,120,392 | (698) | (287,069) | 4,408,159 | 10,907 | 4,397,252 |
| **Equity** | | | | | | |
| Share capital | 9,583,888 | - | - | 9,583,888 | - | 9,583,888 |
| Share premium | 540,659 | - | - | 540,659 | - | 540,659 |
| Treasury shares | (3,738,358) | - | - | (3,738,358) | - | (3,738,358) |
| Other reserves | 958,389 | - | - | 958,389 | - | 958,389 |
| Retained earnings | 8,123,069 | 6,000 | (169,287) | 8,286,356 | 307,173 | 7,979,183 |
| **Total equity** | 15,467,647 | 6,000 | (169,287) | 15,630,934 | 307,173 | 15,323,761 |
| **Total equity and liabilities** | 19,588,039 | 5,302 | (456,356) | 20,039,093 | 318,080 | 19,721,013 |

The table below shows the impact from the adoption of IFRS 9 and IFRS 15 on the 2018 Statement of comprehensive income. In order to present comparable data of the Statement of comprehensive income, 2018 figures are also shown under IAS 18 and IAS 11.

| In thousands of denars | 2018 IFRS9 & IFRS 15 | 2018 Effects of IFRS9 & IFRS15 | 2018 IAS 18/IAS 11 | 2017 IAS 18/IAS 11 |
|---|---|---|---|---|
| **Revenues** | 10,535,628 | 37,191 | 10,498,437 | 10,318,376 |
| Depreciation and amortization | (2,524,799) | - | (2,524,799) | (2,410,816) |
| Personnel expenses | (1,135,017) | 11,769 | (1,146,786) | (1,090,333) |
| Payments to other network operators | (907,733) | - | (907,733) | (894,255) |
| Other operating expenses | (4,378,240) | (42,293) | (4,335,947) | (4,359,024) |
| **Operating expenses** | (8,945,789) | (30,524) | (8,915,265) | (8,754,428) |
| Other operating income | 28,900 | - | 28,900 | 49,659 |
| **Operating profit** | 1,618,739 | 6,667 | 1,612,072 | 1,613,607 |
| Finance expenses | (62,425) | - | (62,425) | (70,484) |
| Finance income | 68,334 | - | 68,334 | 45,982 |
| **Finance expense - net** | 5,909 | - | 5,909 | (24,502) |
| **Profit before income tax** | 1,624,648 | 6,667 | 1,617,981 | 1,589,105 |
| Income tax expense | (203,084) | (667) | (202,417) | (208.257) |
| **Profit for the year** | 1,421,564 | 6,000 | 1,415,564 | 1,380,848 |
| **Total comprehensive income for the year** | 1,421,564 | 6,000 | 1,415,564 | 1,380,848 |
| **Earnings per share (EPS) information:** | | | | |
| Basic and diluted earnings per share (in denars) | 16.48 | - | 16.41 | 16.01 |

## 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.

### Basis of preparation

The financial statements of Makedonski Telekom AD – Skopje have been prepared in accordance with International Financial Reporting Standards (IFRS).

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

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

### 2.1.1. Standards, amendments and interpretations effective and adopted by the Company in 2018

- IFRS 9 Financial Instruments. The standard addresses the classification, measurement and derecognition of financial assets and financial liabilities and introduces new rules for hedge accounting. In December 2011, in November 2013 and in July 2014, the IASB amended the standard in order to make further changes to the classification and measurement rules and also introduced a new impairment model. These latest amendments completed the new financial instruments standard. The adoption of the new standard and its amendments did not result in material changes in the financial statements of the Company. The new provisions on the classification of financial assets will not give rise to changes in measurement and presentation of financial assets.

As of 1 January 2018, the Company classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI.

At initial recognition, the Company measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

The new provisions on the accounting for impairment losses led to expected losses having to be expensed earlier in case of trade receivables. The changeover to the new standard resulted in a cumulative decrease in retained earnings of MKD 27 million before taxes. As a consequence, MKD 3 million deferred tax assets were recognized, which resulted in cumulative net decrease in retained earnings of MKD 24 million after taxes. The impairment losses on contract assets recognized for the first time as of 1 January 2018 in accordance with IFRS 15 is disclosed within the effects of IFRS 15.

The cumulative effect arising from the transition is recognized as adjustment to the opening balance of retained earnings in the year of initial application. Prior-year comparatives are not adjusted.

- IFRS 15 Revenue from Contracts with Customers. The core principle of the new standard is for companies to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration (that is, payment) to which the company expects to be entitled in exchange for those goods or services. The new standard will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively (for example, service revenue and contract modifications) and new guidance for multiple-element arrangements. The adoption of the new standard resulted in significant changes to the financial statements of the Company, primarily in respect of the timing of revenue recognition and in respect of capitalization of costs of obtaining a contract with a customer. The Company utilized the option for modified retrospective approach to initial application of IFRS 15, i.e., contracts that were not completed by 1 January 2018 were accounted for as if they had been recognized in accordance with IFRS 15 from the very beginning. The cumulative effect arising from the transition (catch-up) was recognized as an adjustment to the opening balance of retained earnings in 2018. Prior-year comparatives were not adjusted; however, an explanation of the reasons for the changes in items in the statement of financial position and the statement of comprehensive income for the current period are provided as a result of applying IFRS 15 for the first time. The effects were analyzed in a Company-wide project on implementation of the new standard. The changeover to the new standard resulted in a cumulative increase in retained earnings of MKD 368 million before taxes. This effect was attributable to the first-time recognition of (excluding reclassification):

- Contract assets (MKD 319 million) that, under IFRS 15, led to the earlier recognition of revenue from the sale of goods and merchandise, and

- Deferred customer acquisition costs (MKD 51 million) that, under IFRS 15, resulted in the later recognition of selling expenses. and

- Contract liability (MKD 2 million).

As a consequence, MKD 37 million deferred tax liability were recognized, which resulted in cumulative net increase in retained earnings of MKD 331 million after taxes.

At as 31 December 2017 the Company has Deferred liabilities related to the customer loyalty program, out of this MKD 25 million were reclassified to contract assets, due to the related reclassifications required by IFRS 15.

As regards to the new standard's impact on the Statement of comprehensive income, the Company's share of overall revenue from the provision of services decreased, whilst the overall share of revenue from the sale of goods and merchandise increased by about 4 percentage points. As described, IFRS 15 means revenue is recognized earlier and expenses are recognized later for contracts not yet completed concluded by 1 January 2018. However, as the accounting effects of the changeover to the new standard were recognized directly in retained earnings, the only effects on the Statement of Comprehensive Income in 2018 were related to changes in the point in time at which revenue and expenses are realized. On the assumption that business development remains unchanged, this means for a mass market characterized by a large number of customer contracts that are being concluded at different points in time the following:

- For existing contracts, lower service revenues and higher selling expenses from the amortization of capitalized contract assets and customer acquisition costs are largely compensated for by higher revenue, on the conclusion of new con tracts, from the sale of goods and lower selling expenses from the capitalization of contract assets and customer acquisition costs. Compared with the previous accounting method, major effects on earnings thus arise only if business development changes, for example, if volumes or prices change or if there are changes to business models or products offered.

- In the case of multiple-element arrangements (e.g., mobile contract plus handset) with subsidized products delivered in advance, a larger portion of the total consideration remuneration is attributable to the component delivered in advance (mobile handset), requiring earlier recognition of revenue. This led to the recognition of what is known as a contract asset - a receivable arising from the customer contract that has not yet legally come into existence - in the Statement of Financial Position.

- At the same time, it resulted in higher revenue from the sale of goods and merchandise and to lower revenue from the provision of services.

- Expenses for sales commissions (customer acquisition costs) must be capitalized in the Contract costs line of the State ment of Financial Position and recognized over the estimated customer retention period.

- On first-time application of the standard, both total assets and shareholders' equity increased due to the capitalization of contract assets and customer acquisition costs.

- Later recognition of revenue is required in cases where "material rights" are granted, such as offering additional discounts for future purchases of further products.

- Contract liabilities (which, as deferred revenue, were already recognized as liabilities in the past and with the transition reclassified) are now netted off against the contract assets for each customer contract.

- For the purposes of determining whether the Company sells products for its own account (principal = gross revenue) or for the account of others (agent = net revenue), there was no material change.

- A significant financing component is not considered for the amount and timing of revenue recognition if the period be tween when a promised good or service is transferred to the customer and when the customer pays for that good or service will be one year or less.

#### 2.1.2. Standards, amendments and interpretations that are not yet effective and have not been early adopted by the Company

- IFRS 16 Leases. In January 2016, the IASB issued IFRS 16 "Leases." The standard will be effective for the first time for financial years beginning on or after 1 January 2019. From the date of first-time adoption, the new lease standard will have a material effect on the Company financial statements, particularly on the results of operations, net cash from operating activities, total assets, and the presentation of the financial position. The Company applied the modified retrospective approach. The Company mainly leases cell sites, rooftops and retail shops, space on masts or towers that will be affected by the new standard. IFRS 16 standard will have a significant effect on the financial statements and introduces a single lease accounting model by taking right-of-use assets and lease liabilities on the balance sheet. The transitional effect on both right-of-use assets and lease liabilities will be in the range of MKD 350 and MKD 359 million. As a result of adopting IFRS 16, the 2018 operating lease expenses will be presented as depreciation and interest expense from 1 January 2019. For the agreements already concluded by the end of 2018, the expected transition effect on profit or loss is expected to be between MKD 133 and MKD 153 million in 2019, that includes the depreciation and interest expense. Details of the Company's leases (including lease commitments) are disclosed in Note 26. On the lessor side, The Company mainly analyzes the revised definition of leases including the head and sublease constructions. Other than that, The Company does not expect a considerable impact on the financial statements of the Company at this time, as lessor accounting itself is not changing significantly through the introduction of IFRS 16.

Regarding the transition to IFRS 16, the Company decided:

- not to apply the practical expedient in IFRS 16.C3 ("Grandfathering approach"). As a result, a re-assessment was performed whether existing contracts are or contain a lease at the date of initial application, i.e. as of 1 January 2019.

- not to use the low value exemption,

- to apply a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term for a similar class of underlying asset in a similar economic environment) as a lessee,

- not to apply the practical expedient regarding short-term leases except for some minor and insignificant lease arrangements with a lease term of one month or less

- to use hindsight such as in determining the lease term if the contract contains options to extend or terminate the lease.

### 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

#### 2.3.1.1 Financial assets – accounting policies relevant as of 2018

As of 1 January 2018, with the application of IFRS 9, the Company classifies its financial assets on the basis of both:

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

in the following categories:

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

For the purpose of the above classification:

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

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

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

##### 2.3.1.1.1 Impairment of financial assets

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

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

Loss allowances must also be recognized for lease receivables as defined in IAS 17 and IFRS 16, contract assets as defined in IFRS 15, financial guarantee contracts and loan commitments relating to loans bearing an off-market interest rate.

As of 1 January 2018, with the transition to IFRS 9, loss allowance is recognized in respect of not only losses already incurred as of the reporting date (incurred losses) but also losses which have not yet incurred as of the reporting date but which are expected to be incurred in the future (expected losses).

Based on the changes in credit risk, it must be assessed at each reporting date whether the current loss allowance must be measured at an amount equal to the lifetime expected credit losses or at an amount equal to the 12-month expected credit losses. If it is not possible to assess whether the credit risk has increased significantly based on the individual financial asset, it must be assessed at the portfolio level.

The simplified and the general approaches are to be applied to assess and account for credit losses.

- **Simplified approach**

All financial instruments underlying the simplified approach are measured with lifetime expected credit loss. Therefore, except for insolvency, neither any indicators for increase in credit risk nor any default events are relevant within simplified approach.

The simplified approach is applicable for trade receivables, contract assets and lease receivables.

- **General approach**

According to the expected credit loss model the financial instruments are classified into three buckets. The classification into the three buckets is based upon the changes of the credit risk for the financial asset. A relative credit risk model is used for the evaluation of an increased credit risk. The increase of credit risk in comparison to the initial recognition is reflected in the transfer of the financial instrument between the buckets.

According to the expected credit risk model the impairment is determined differently for the three buckets. The impairment for financial instruments in bucket 1 is calculated based upon the 12 months expected credit loss. The impairment for financial instruments in bucket 2 and 3 is calculated based upon the lifetime expected credit losses. Once a long-term asset has moved to bucket 3 effective interest method has to be applied to reach net value after impairment.

The general approach is applied for bank accounts.

The Company classifies its financial assets in the following categories:

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

(a) Financial assets measured at amortised cost

The following items are assigned to category financial assets measured at amortised cost:
- cash and cash equivalents;
- deposits over 3 months;
- trade receivables;
- employee loans
- other receivables.

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

**Cash and cash equivalents**

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

**Bank deposits over 3 months**

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

**Trade and other receivables**

If there is objective evidence that an impairment loss on trade 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 discounted at the receivable's original effective interest rate (i.e. the effective interest rate computed at initial recognition). In case of short-term trade receivables estimation is made on the amount of expected future cash inflows and compared to the carrying amount, the difference is accounted for as allowance for trade receivables. The carrying amount of the asset is reduced through use of an allowance account. The amount of the loss is recognized in the Profit or Loss (Other operating expenses – Impairment losses on trade and other assets).

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 assets).

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).

Impairment of trade receivables is assessed on two levels. Trade receivables that are individually significant and the ones that are not individually significant are separated. In case of individually significant items it is assessed individually whether objective evidence of impairment exists.

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

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

- for invoices which are overdue
- for invoices which are not yet due ('zero-day impairment calculation')

In case of collective assessment objective evidence of impairment exists if there are overdue items in a group of receivables. An ageing list is prepared on overdue receivables and the amount of impairment is calculated by multiplying impairment rates based on historical loss experience with the amount of receivables.

Impairment rates are calculated based on historical loss experience, however it is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. During the impairment calculation forward looking information is also considered. Such kind of information are change in debt to financial system and non-residents / GDP and Household debt-service and principal payments / disposable income.

When a trade receivable is established to be uncollectible, it is written off against the allowance for Trade and other assets. Subsequent recoveries of amounts previously written off are credited against the period's Other operating expenses.

**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).

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

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

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

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

### 2.3.1.2 Financial assets – accounting policies relevant from 2017

In 2017 and before the transition to IFRS 9, 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.

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).

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<br>Years | 2017<br>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).

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

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

The useful lives of concession and licenses are determined based on the underlying agreements and are amortized on a straight-line basis over the period from availability of the frequency for commercial use until the end of the initial concession or license term. No renewal periods are considered in the determination of useful life (see note 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<br>Years | 2017<br>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. Other 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. Revenues

Revenues for all services and equipment sales (see note 17) are shown net of VAT and discounts. The accounting policies of the Company changed regarding accounting for revenue from 2017 to 2018 with the transition from IAS 18 and IAS 11 to IFRS 15 and they are disclosed below.

Under IAS 18

Revenue from sale of goods (equipment) is recognised when risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. The timing of the transfer of risks and rewards varies depending on the individual terms of the agreement. Revenue from sale of goods is measured net of returns, trade discounts and volume rebates.

The Company recognises revenue from rendering of services in proportion to the stage of completion of the service at the reporting date. The method of assessment of the stage of completion depends on the type of the service.

Under IFRS 15

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

Revenue should be recognised if it is probable that the Company will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer.

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

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

Transition

The Company utilized the option for modified retrospective approach to initial application of IFRS 15, i.e., contracts that were not completed by 1 January 2018 were accounted for as if they had been recognized in accordance with IFRS 15 from the very beginning. The cumulative effect arising from the transition (catch-up) was recognized as an adjustment to the opening balance of retained earnings in 2018. Prior-year comparatives were not adjusted. IFRS 15 means revenue is recognized earlier and expenses are recognized later for contracts not yet concluded by 1 January 2018. However, as the accounting effects of the changeover to the new standard were recognized directly in Retain earning, the only effects on the Statement of Comprehensive Income in 2018 were related to changes in the point in time at which revenue and expenses are realized.

Main principles

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

### 2.13.1. Fixed line and mobile telecommunications revenues

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

Customer subscriber arrangements typically include an equipment sale, subscription fee and charge for the actual voice, internet, data or multimedia services used.

Airtime revenue is recognized based upon minutes of use and contracted fees less credits and adjustments for discounts, while subscription and flat rate revenues are recognized in the period they relate to.

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

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

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

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

Under IAS 18

The Company considers the various elements of these arrangements to be separate earnings processes and classifies the revenue for each of the deliverables into the categories using the residual method for each of the elements. These units are identified and separated, since they have value on a standalone basis and they 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, i.e. 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 revenue allocable to a delivered item, however, is limited to the amount that is not contingent upon the delivery of additional items (the non-contingent amount). The revenue to be recognized is therefore restricted by the amount received that is not contingent upon undelivered elements of the arrangement. Fix and mobile service revenues are recognized when the services are provided in accordance with contractual terms and conditions. Revenues and expenses associated with the sale of telecommunications equipment and accessories are recognized when the products are delivered, provided that there are no unfulfilled obligations that affect the customer's final acceptance of the arrangement. In case the equipment is sold on installments with payment terms exceeding 12 months, the amount of the revenue immediately recognized is the present value of the installments.

Under IFRS 15

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

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

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

### 2.13.2. System integration and IT revenues

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

Under IAS 18

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 receivables and other assets.

Under IFRS 15

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

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

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

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

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

## 2.14. Employee benefits

### 2.14.1. Short term employee benefits and pensions

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

### 2.14.2. Bonus plans

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

### 2.14.3. Termination benefits

Termination benefits are payable whenever an employee’s employment is terminated 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.

## 2.15. Marketing expenses

Marketing costs are expensed as incurred. Marketing expenses are disclosed in note 19.

### 2.16. Taxes

#### 2.16.1. 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.

#### 2.16.2. Deferred income tax

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

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

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

### 2.17. Leases

#### 2.17.1. 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.

#### 2.17.2. 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.

### 2.18. Earnings per share

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

### 2.19. Dividend distribution

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

### 2.20. Segments

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

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

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

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

### 2.21. Comparative information

In order to maintain consistency with the current year presentation in the Financial statements and the Notes thereto, certain items have been reclassified for comparative purposes. 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 word ing 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 guara ntees 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 |
| | 2,873,709 | 1,366,851 | 842,120 | 278,851 | 385,887 |

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 |
| | 2,435,513 | 1,032,657 | 585,055 | 261,226 | 556,575 |

### 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 16.1). 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 280,533 thousand (2017: MKD 267,868 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 changeover 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. The loss allowance is recognized in respect of not only losses already incurred as of the reporting date (incurred losses) but also losses which have not yet incurred as of the reporting date but which are expected to be incurred in the future (expected losses). For the largest customers, international customers and for customers under liquidation and bankruptcy proceedings impairment is calculated on an individual basis, while for other customers it is estimated on a portfolio basis, for which we base our estimate on the aging of our account receivables balance and our historical write-off experience, customer credit-worthiness and recent changes in our customer payment terms (see note 2.3.1). These factors are reviewed annually, and changes are made to the calculations when necessary. In addition, we consider also the nature of the business (residential, business, fixed line, mobile etc.) and the environment in which the Company operates. In 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 15 and 28).

### 4.5. Costs of obtaining contracts with customers

From 2018, by applying IFRS 15 the Company recognizes assets for costs incurred in connection with the signing of customer contracts which would not have been incurred if the customer contract had not been concluded. Capitalization is subject to the expectation that those costs will be recovered by future revenues resulting from the contract.

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

The Company decided not to use the practical expedient to expense incremental costs of obtaining a contract immediately which are amortized over a period of one year or less. See Note 1.5 for the amount of costs of obtaining contracts with customers as at 31December 2018.

Under IAS 18 and IAS 11 until 2017 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 |
| | 517,310 | 522,375 |

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 |
| | 517,310 | 522,375 |

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 | 479,831 | 472,044 |
| | 479,831 | 472,044 |

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 | 14,930 | 7,578 |
| | 32,122 | 33,086 |

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 | 492,348 | 430,465 |
| | 742,487 | 680,506 |

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 | 742,487 | 680,506 |
| | 742,487 | 680,506 |

## 7. TRADE RECEIVABLES AND OTHER ASSETS

| In thousands of denars | 2018 | 2017 |
|---|---|---|
| Trade debtors – domestic | 4,600,817 | 4,387,015 |
| Less: allowance for impairment | (1,940,280) | (1,919,797) |
| Trade debtors – domestic – net | 2,660,537 | 2,467,218 |
| Trade debtors – foreign | 162,569 | 284,730 |
| Less: allowance for impairment | (29,393) | (27,554) |
| Trade debtors – foreign – net | 133,176 | 257,176 |
| Receivables from related parties | 181,862 | 222,454 |
| Contract assets | 354,697 | - |
| Less: allowance for impairment | (84,416) | - |
| Contract assets net | 270,281 | - |
| Loans to employees | 41,461 | 56,107 |
| Other receivables | 15,757 | 17,266 |
| Financial assets | 3,303,074 | 3,020,221 |
| Contract costs | 61,546 | - |
| Advances given to suppliers | 111,165 | 117,978 |
| Less: allowance for impairment | (62,922) | (62,923) |
| Advances given to suppliers – net | 48,243 | 55,055 |
| Prepayments | 152,381 | 149,308 |
| | 3,565,244 | 3,224,584 |
| Less non-current portion: Loans to employees | (32,354) | (44,792) |
| Less non-current portion: Trade debtors – domestic | (327,071) | (285,843) |
| Les non-current portion: Contract asset | (72,219) | - |
| Les non-current portion: Contract costs | (14,778) | - |
| Current portion | 3,118,822 | 2,893,949 |

Balances in the table above for 2018 includes assets and their allowance for impairment recognized with regard to IFRS 9 and IFRS 15. The effects of the IFRS 9 and IFRS 15 transition are disclosed in Note 1.5.

Receivables from related parties represent receivables from members of Magyar Telekom Group and Deutsche Telekom Group (see note 29).

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 | 1,885,561 | 1,829,650 |
| | 2,396,028 | 2,386,311 |

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 |
| | 106,501 | 141,407 |

The total amount of the provision for domestic trade debtors is MKD 1,940,280 thousand (2017: MKD 1,919,797 thousand). Out of this amount MKD 1,719,249 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 153,340 thousand (2017: MKD 133,329 thousand).

The total amount of the provision for contract assets is MKD 84,416 thousand (2017: n.a.). 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 receivables and other assets category are as follows:

| In thousands of denars | 2018 | 2017 |
|---|---|---|
| Trade debtors – domestic | 2,660,537 | 2,467,218 |
| Trade debtors – foreign | 133,176 | 257,176 |
| Receivables from related parties | 181,862 | 222,454 |
| Contract assets | 270,281 | - |
| Loans to employees | 41,461 | 56,107 |
| Other receivables | 15,757 | 17,266 |
| | 3,303,074 | 3,020,221 |

Movement in allowance for impairment:

| In thousands of denars | 2018 | 2017 |
|---|---|---|
| Impairment losses at 1 January | 1,947,351 | 1,851,926 |
| First-time adoption of IFRS 9 & IFRS 15 | 110,352 | - |
| Charge for the year | 159,925 | 153,982 |
| Utilization | (163,539) | (58,557) |
| Impairment losses at 31 December | 2,054,089 | 1,947,351 |

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 |
| | 29,393 | 27,554 |

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 |
| | 42,513 | 42,611 |

The Company has renegotiated domestic trade receivables in carrying amount of MKD 16,900 thousand (2017: MKD 19,566 thousand). The carrying amount of trade and other 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 receivables and other assets are denominated in MKD.

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

| In thousands of denars | 2018 | 2017 |
|---|---|---|
| MKD | 2,741,134 | 2,347,174 |
| EUR | 321,335 | 435,005 |
| USD | 53,936 | 109,525 |
| Other | 2,417 | 2,245 |
| | 3,118,822 | 2,893,949 |

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 | 212,504 | 1,438,065 |
| Group 2 | - | 102,269 |
| Group 3 | - | 33,120 |
| | 212,504 | 1,573,454 |

From 1 January 2018 with the transition to IFRS 9, loss allowance is recognized in respect of not only losses already incurred as of the reporting date (incurred losses) but also losses which have not yet incurred as of the reporting date but which are expected to be incurred in the future (expected losses), which effects in impairment of invoices which are not yet due in amount of MKD 1,558,713 ('zero-day impairment calculation').

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 |
| | 6,294 | 7,780 |

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-deductable expenses and tax credits) is presented as part of income tax expense in the statement of comprehensive income (see note 2.16).

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 |
| | 14,115 | 14,175 |

## 8.2. Other taxes payable

| In thousands of denars | 2018 | 2017 |
|---|---|---|
| VAT and other tax payables | 46,495 | 48,608 |
| | 46,495 | 48,608 |

# 9. INVENTORIES

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

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 | (7,153) | (22,465) |
| Allowance at 31 December | 36,890 | 29,689 |

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 3,296 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 | 10,687 | 5,563,661 | 22,272,420 | 4,075,944 | 2,131,363 | 34,054,075 |
| 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 | - | (6,246) | (856,124) | (162,014) | - | (1,024,384) |
| Transfer to assets held for sale | - | (15,526) | - | (238) | - | (15,764) |
| At 31 December 2017 | 10,733 | 5,553,575 | 21,980,440 | 4,152,566 | 2,582,070 | 34,279,384 |
| Depreciation | | | | | | |
| At 1 January 2017 | - | 2,160,722 | 16,035,676 | 3,360,012 | - | 21,556,410 |
| Charge for the year | - | 146,044 | 1,120,375 | 285,596 | - | 1,552,015 |
| Disposals | - | (5,369) | (856,124) | (136,286) | - | (997,779) |
| Transfer to assets held for sale | - | (12,168) | - | (238) | - | (12,406) |
| Transfer between group of assets | - | - | (8) | 462 | - | 454 |
| At 31 December 2017 | - | 2,289,229 | 16,299,919 | 3,509,546 | - | 22,098,694 |
| Carrying amount | | | | | | |
| At 1 January 2017 | 10,687 | 3,402,939 | 6,236,744 | 715,932 | 2,131,363 | 12,497,665 |
| At 31 December 2017 | 10,733 | 3,264,346 | 5,680,521 | 643,020 | 2,582,070 | 12,180,690 |

| In thousands of denars | Land | Buildings | Telecommunication equipment | Other | Assets under construction | Total |
|---|---|---|---|---|---|---|
| Cost | | | | | | |
| At 1 January 2018 | 10,733 | 5,553,575 | 21,980,440 | 4,152,566 | 2,582,070 | 34,279,384 |
| 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 | - | (629) | (211,100) | (292,051) | - | (503,780) |
| At 31 December 2018 | 10,733 | 5,569,258 | 23,264,407 | 4,103,315 | 1,928,046 | 34,875,759 |
| Depreciation | | | | | | |
| At 1 January 2018 | - | 2,289,229 | 16,299,919 | 3,509,546 | - | 22,098,694 |
| Charge for the year | - | 143,315 | 1,148,531 | 280,700 | - | 1,572,546 |
| Disposals | - | (629) | (210,655) | (279,817) | - | (491,101) |
| At 31 December 2018 | - | 2,431,915 | 17,237,795 | 3,510,429 | - | 23,180,139 |
| Carrying amount | | | | | | |
| At 1 January 2018 | 10,733 | 3,264,346 | 5,680,521 | 643,020 | 2,582,070 | 12,180,690 |
| At 31 December 2018 | 10,733 | 3,137,343 | 6,026,612 | 592,886 | 1,928,046 | 11,695,620 |

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 transmitions 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 | (38,690) | (40,626) | (7,535) | 39,193 | 47,658 |
| | (38,690) | (40,626) | (7,535) | 39,193 | 47,658 |

## 12. INTANGIBLE ASSETS

| In thousands of denars | Software and software licenses | Concession license | Other | Assets under construction | Total |
|---|---|---|---|---|---|
| Cost | | | | | |
| At 1 January 2017 | 4,854,210 | 1,525,417 | 657,341 | 186,387 | 7,223,355 |
| Additions | 118,387 | - | 828,853 | 195,967 | 1,143,207 |
| Assets activation (see note 11) | 246,064 | - | - | (160,600) | 85,464 |
| Disposals | (624,130) | - | - | - | (624,130) |
| At 31 December 2017 | 4,594,531 | 1,525,417 | 1,486,194 | 221,754 | 7,827,896 |
| Amortization | | | | | |
| At 1 January 2017 | 3,757,867 | 812,023 | 332,317 | - | 4,902,207 |
| Charge for the year | 448,740 | 117,194 | 292,867 | - | 858,801 |
| Disposals | (624,130) | - | - | - | (624,130) |
| Transfer between group of assets | (454) | - | - | - | (454) |
| At 31 December 2017 | 3,582,023 | 929,217 | 625,184 | - | 5,136,424 |
| Carrying amount | | | | | |
| At 1 January 2017 | 1,096,343 | 713,394 | 325,024 | 186,387 | 2,321,148 |
| At 31 December 2017 | 1,012,508 | 596,200 | 861,010 | 221,754 | 2,691,472 |

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 21).

| In thousands of denars | Software and software licenses | Concession license | Other | Assets under construction | Total |
|---|---|---|---|---|---|
| Cost | | | | | |
| At 1 January 2018 | 4,594,531 | 1,525,417 | 1,486,194 | 221,754 | 7,827,896 |
| 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 | 5,161,593 | 1,525,417 | 1,766,624 | 287,978 | 8,741,612 |
| Amortization | | | | | |
| At 1 January 2018 | 3,582,023 | 929,217 | 625,184 | - | 5,136,424 |
| Charge for the year | 517,389 | 50,655 | 384,209 | - | 952,253 |
| Disposals | (23,842) | - | - | - | (23,842) |
| At 31 December 2018 | 4,075,570 | 979,872 | 1,009,393 | - | 6,064,835 |
| Carrying amount | | | | | |
| At 1 January 2018 | 1,012,508 | 596,200 | 861,010 | 221,754 | 2,691,472 |
| At 31 December 2018 | 1,086,023 | 545,545 | 757,231 | 287,978 | 2,676,777 |

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 21).

The reviews of the useful lives of intangible assets during 2018 affected the lives of a number of assets, mainly concessions and software. The change of the useful lives of concession contracts was due to prolongation of the validity of the licenses. 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 | После 2021 |
|---|---|---|---|---|---|
| (Decrease)/increase in amortization | (96,586) | (16,739) | 28,293 | 20,867 | 64,165 |
| | (96,586) | (16,739) | 28,293 | 20,867 | 64,165 |

## 13. TRADE PAYABLES AND OTHER LIABILITIES

| 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 | 3,401,309 | 3,537,577 |
| Contract Liability | 253,778 | - |
| Deferred revenue | 10,574 | 228,968 |
| Advances received | - | 80,709 |
| Other | 56,641 | 135,787 |
| | 3,722,302 | 3,983,041 |
| Less non-current portion: | | |
| Deferred revenue | (3,280) | (5,550) |
| Contract Liability | (141) | - |
| Other financial liabilities | (354,743) | (513,714) |
| Current portion | 3,364,138 | 3,463,777 |

Balances in the table above for 2018 includes liabilities recognized with regard to IFRS 15. The effects of the IFRS 15 transition are disclosed in Note 1.5.

Liabilities to related parties represent liabilities to members Magyar Telekom Group and Deutsche Telekom Group (see note 29).

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 21). 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 | 1,565,320 | 1,495,600 |
| EUR | 1,722,149 | 1,813,356 |
| USD | 71,526 | 148,433 |
| Other | 5,143 | 6,388 |
| | 3,364,138 | 3,463,777 |

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. DEFERRED INCOME TAX

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

| In thousands of denars | Assets | | Liabilities | | Net | |
|---|---|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| Property, plant and equipment | - | - | 108,143 | 128,123 | 108,143 | 128,123 |
| Intangible assets | - | - | 730 | 805 | 730 | 805 |
| First time adoption of IFRS9 & IFRS 15 | (1,576) | - | 36,373 | - | 34,797 | - |
| Tax (assets)/liabilities | (1,576) | - | 145,246 | 128,928 | 143,670 | 128,928 |

Movement in temporary differences during the year

| In thousands of denars | Balance 1 January 2018 | Effects on profit | Other movments | Balance 31 December 2018 |
|---|---|---|---|---|
| Property, plant and equipment | 128,123 | (19,980) | - | 108,143 |
| Intangible assets | 805 | (75) | - | 730 |
| First time adoption of IFRS 9 & IFRS 15 | - | 667 | 34,130 | 34,797 |
| | 128,928 | (19,388) | 34,130 | 143,670 |

| In thousands of denars | Balance 1 January 2017 | Recognized in income | Balance 31 December 2017 |
|---|---|---|---|
| Property, plant and equipment | 150,102 | (21,979) | 128,123 |
| Intangible assets | 1,493 | (688) | 805 |
| | 151,595 | (22,667) | 128,928 |

The temporary differences presented above relates to different carrying amount of property, plant and equipment and intangible assets as these assets were restated in accordance with statutory requirements in previous years at the year-end using official revaluation coefficients based on the general manufactured goods price increase index. Also, with the transition to the IFRS 9 and IFRS 15, the standards on Financial Instruments and Revenue from contracts with customers temporary difference arise in 2018.

Amount included in Other movements in the line First-time application of IFRS 9 & IFSR 15 in 2018 includes the effect of the transition to IFRS 9 & IFSR 15, recognised against Retain earnings.

## 15. 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 | 153,907 | 57,340 | 211,247 |

| 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 | 165,299 | 35,296 | 200,595 |

Analysis of total provisions:

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

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 2.14.1) and provision for long-term incentive programs (see note 30). The provision is recognized against Personnel expenses in the Profit or Loss.

## 16. 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 | 10 | 10 |
| | 9,583,888 | 9,583,888 |

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

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 |
| | 9,583,888 | 100.00 | 9,583,888 | 100.00 |

### 16.1. Treasury shares

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

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

## 17. REVENUES

The 2018 balances in the table below were determined with regard to IFRS 15 while the 2017 balances are shown based on IAS 18 and IAS 11. The effects of the IFRS 15 transition are disclosed in Note 1.5.

| In thousands of denars | 2018 | 2017 |
|---|---|---|
| Revenues from fixed line operations | | |
| Internet | 1,120,330 | 1,182,764 |
| Voice retail | 1,022,814 | 1,083,488 |
| TV | 755,376 | 679,485 |
| Wholesale | 378,859 | 439,034 |
| Data | 276,654 | 274,682 |
| Equipment | 79,439 | 79,692 |
| Other | 95,274 | 159,437 |
| | 3,728,746 | 3,898,582 |
| Revenues from mobile operations | | |
| Voice retail | 2,539,593 | 2,776,069 |
| Internet | 1,211,928 | 1,162,643 |
| Equipment | 1,452,005 | 888,304 |
| Wholesale | 572,726 | 632,722 |
| Data | 361,081 | 405,794 |
| Content | 95,795 | 88,037 |
| Voice visitor | 85,233 | 73,382 |
| Other | 185,468 | 179,240 |
| | 6,503,829 | 6,206,191 |
| SI/IT revenues | 303,053 | 213,603 |
| | 10,535,628 | 10,318,376 |
| Of which: | | |
| Revenue from contracts with customers | 10,439,997 | n.a. |
| Other sources | 95,631 | n.a. |

Other sources of revenue include rental fees, collocation spaces and other revenues. Out of MKD 95,631 thousand as a revenue from other sources, MKD 60,175 thousand are included in Other fixed revenues, MKD 31,152 thousand are included in Other mobile revenues and MKD 4,304 thousand are included in Wholesale fixed revenues.

### 17.1. Assets and liabilities related to the contracts with customers

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

Contract liabilities consist of advance payments and billings in excess of costs incurred and deferred revenue. The current portion of contract liabilities is included in Trade payables and other liabilities in the Statement of financial position. The non-current portion of contract liabilities is included accordingly in the non-current section of the Statement of financial position - Other liabilities.

| In thousands of denars | 2018 | 2017 |
|---|---|---|
| Contract assets – current | 198,062 | - |
| Contract assets – non current | 72,219 | - |
| Contract liabilities - current | (253,637) | - |
| Contract liabilities – non current | (141) | - |
| Net contract assets (liabilities) | 16,503 | - |
| Revenue recognized in the reporting period from amounts included in contract liability at the beginning of the period | 143,707 | - |

Impairment losses recognized on contract assets are disclosed together with trade receivables in note 7 and they amounted to MKD 84,416 thousand as at 31 December 2018.

As of 31 December 2018, the aggregate amount of the transaction price allocated to the remaining performance obligation is MKD 3,222,210 thousand and the Company will recognize this revenue as services are rendered, which is expected to occur over the next 30 months.

The Company did not account for revenue recognized in the reporting period from performance obligations satisfied (or partially satisfied) in previous periods as IFRS 15 was adopted in 2018.

## 18. 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 | (92,012) | (84,375) |
| | 1,135,017 | 1,090,333 |

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 30).

## 19. OTHER OPERATING EXPENSES

| In thousands of denars | 2018 | 2017 |
|---|---|---|
| Purchase cost of goods sold | 1,837,044 | 1,657,119 |
| Services | 570,905 | 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 | 243,024 | 229,255 |
| Energy | 205,864 | 179,505 |
| Impairment losses on trade receivables and other assets | 159,925 | 153,982 |
| Rental fees | 139,930 | 138,451 |
| Royalty payments | 125,655 | 190,864 |
| 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 |
| | 4,378,240 | 4,359,024 |

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

## 20. OTHER OPERATING INCOME

| In thousands of denars | 2018 | 2017 |
|---|---|---|
| Net (loss) /gain on sale of PPE | (1,433) | 5,157 |
| Other | 30,333 | 44,502 |
| | 28,900 | 49,659 |

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 reinvoicing and income from insurance.

## 21. 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 |
| | 62,425 | 70,484 |

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).

## 22. 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 | - |
| | 68,334 | 45,982 |

Interest income is mainly generated from financial assets classified as Financial assets measured at amortised cost. 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.

## 23. INCOME TAX EXPENSE

Recognized in the statement of comprehensive income:

| In thousands of denars | 2018 | 2017 |
|---|---|---|
| Current tax expense | | |
| Current year | 222,472 | 230,924 |
| Deferred tax expense | | |
| Origination and reversal of timing differences | (19,388) | (22,667) |
| Total income tax in the statement of comprehensive income | 203,084 | 208,257 |

Reconciliation of effective tax rate:

| In thousands of denars | | 2018 | | 2017 |
|---|---|---|---|---|
| Profit before tax | | 1,624,649 | | 1,589,105 |
| Income tax | 10.00% | 162,465 | 10.00% | 158,910 |
| Non-deductible expenses | 2.52% | 40,935 | 2.86% | 45,455 |
| Income tax increase from previous years | - | - | 0.30% | 4,831 |
| Tax exempt revenues | (0.02%) | (316) | (0.06%) | (939) |
| | 12.50% | 203,084 | 13.10% | 208,257 |

## 24. 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.

## 25. REPORTABLE SEGMENTS AND INFORMATION

### 25.1. 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.

### 25.2. 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 | 6,936,577 | 6,677,404 |
| Business segment revenues | 2,730,644 | 2,654,791 |
| Wholesale segment revenues | 839,390 | 936,436 |
| Other | 29,017 | 49,745 |
| | 10,535,628 | 10,318,376 |

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 | 4,871,613 | 4,720,100 |
| Business segment | 1,824,317 | 1,785,080 |
| Wholesale segment | 502,253 | 613,433 |
| Other | 24,805 | 43,512 |
| Total direct margin | 7,222,988 | 7,162,125 |
| Indirect costs | | |
| Personal expenses | (1,135,017) | (1,090,333) |
| Other operating expenses | (1,973,333) | (2,097,028) |
| Total Indirect costs | (3,108,350) | (3,187,361) |
| Other operating income | 28,900 | 49,659 |
| EBITDA | 4,143,538 | 4,024,423 |
| Depreciation and amortization | (2,524,799) | (2,410,816) |
| Total operating profit | 1,618,739 | 1,613,607 |
| Finance income/(expense) – net | 5,909 | (24,502) |
| Profit before tax | 1,624,648 | 1,589,105 |
| Income tax expense | (203,084) | (208,257) |
| Net profit for the year | 1,421,564 | 1,380,848 |

## 26. LEASES AND OTHER COMMITMENTS

### 26.1. 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 |
| | 401,339 | 306,292 |

### 26.2. Operating lease commitments – where the Company is the lessor:

Operating lease commitments, concluded on temporary bases – 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 |
| | 17,447 | 20,470 |

### 26.3. 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.

## 27. 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.

### 27.1. 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 | Measured at amortised cost | 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 receivables and other assets | 3,303,074 | - | 3,303,074 | 3,303,074 |
| Financial assets at fair value through profit and loss | - | 103,306 | 103,306 | 103,306 |

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 22). The cost of these equity investments is MKD 31,786 thousand (2017: MKD 31,786 thousand).

### 27.2. 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 | 3,517,852 | 3,616,087 |
| Gross amounts of financial instruments set off | (214,778) | (214,778) |
| Net amounts of recognized financial instruments | 3,303,074 | 3,401,309 |

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 receivbles | 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 | 3,020,221 | 3,537,577 |

### 27.3. 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.

## 28. 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 15).

## 29. 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 16). Apart from payment of taxes, fees to Regulatory authorities according to local legislation and dividends (see note 24), 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 | |
|---|---|---|---|---|
| | Receivables | Payables | Receivables | Payables |
| Controlling owner<br>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<br>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 Dooel | - | - | 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<br>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<br>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 |

## 30. 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 |
| | 98,167 | 152,379 |

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 18).

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 was 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 15 and 18).

## 31. EARNINGS PER SHARE

a) Basic and diluted earnings per share

| | 2018 | 2017 |
|---|---|---|
| Basic and diluted earnings per share (in denars) | 16.48 | 16.01 |

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 | 86,254,903 | 86,254,903 |

## 32. 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.

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