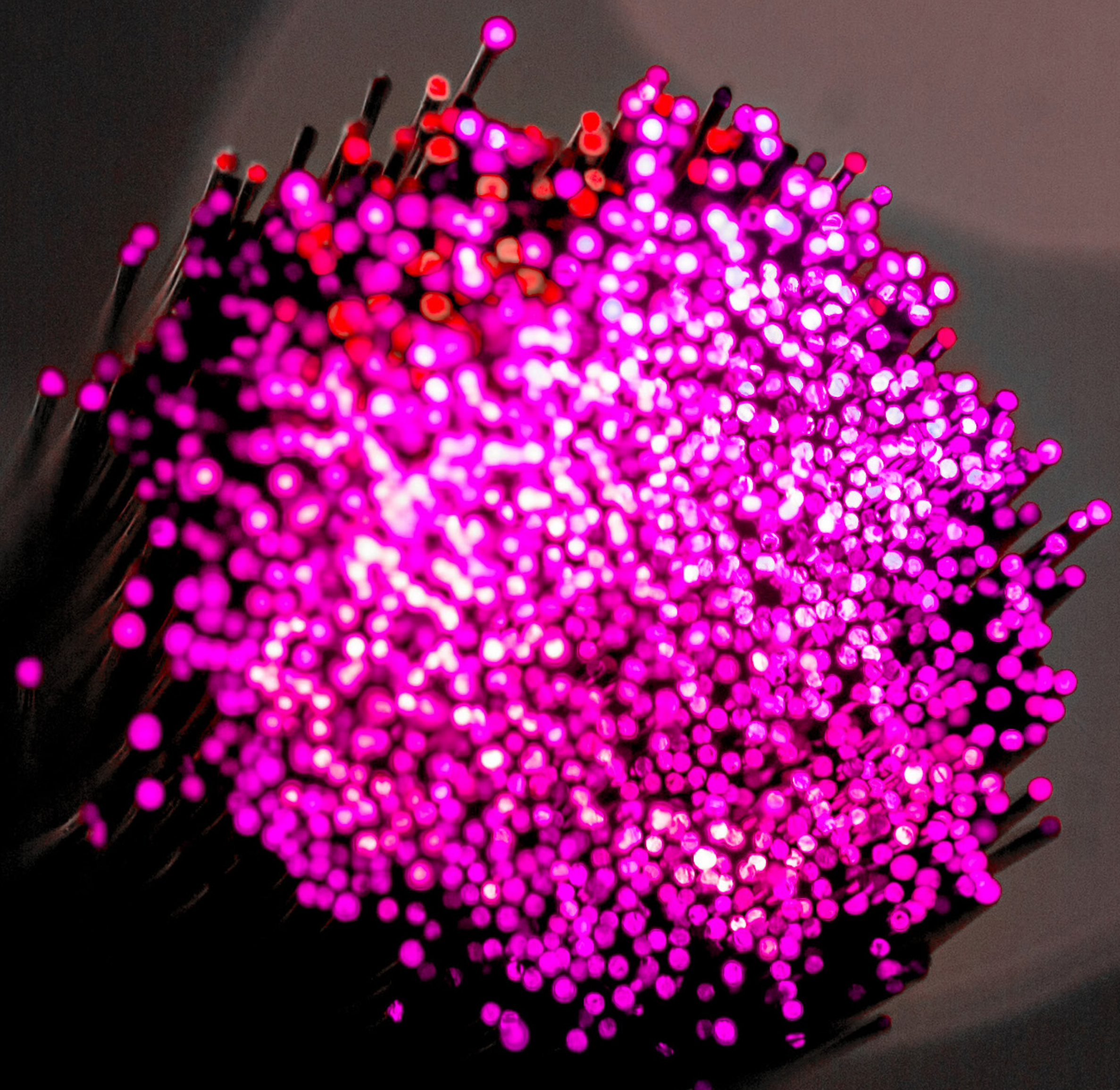


TECHNOLOGY FOR THE BENEFIT OF SOCIETY

ANNUAL REPORT 2019
MAKEDONSKI TELEKOM AD – SKOPJE

LIFE IS FOR SHARING.

INDEX

TECHNOLOGY FOR THE BENEFIT OF SOCIETY

The world no longer looks like it used to. We are changing, our habits and needs are changing... We are spending more time on the internet, browsing, getting informed, educating ourselves, communicating with the people closest to us, establishing quick connections with our business partners... From one day to another technology is becoming more modern and more sophisticated in order to keep up with our daily needs and dreams. Simply said, it is leading society to a brand new world which is functional, dynamic, open, creative, communicative, global...

Many of us did not believe that we would become obsessed with new communication technologies that would provide us with limitless possibilities to connect, work and make life easier. However, the real question imposed today is whether telecommunications will only have a social component and be comprised of talks, internet browsing, Viber communication, social networks, etc., or it will radically change our daily habits?

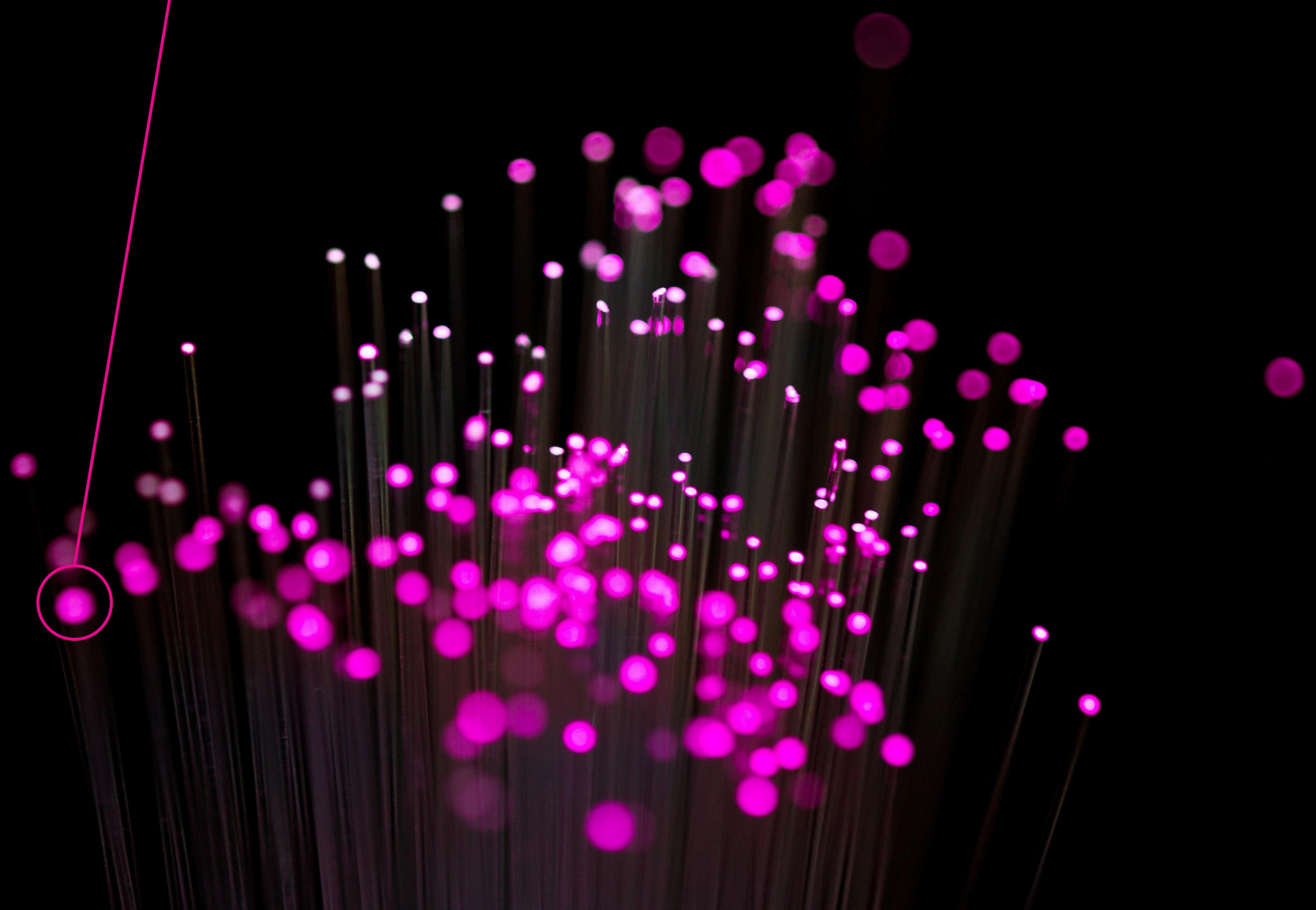
Human kind is faced with great challenges. Therefore, it is our goal to use our own potentials and, helped by technology, transform and improve the society in which we are living. Technology inspires us to create new and smart solutions by means of which we are going to digitize the world around us. The opportunities are immense, but we must primarily remain focused on the technology that is prevailingly used for good purposes.

What does it mean?

Connecting those that are not connected, opening new horizons and perspectives for businesses, facilitating the process of educating children, creating tools for medicine that will simplify and ease medical treatments, devising smart solutions for increasing the proceeds from agriculture, etc. Modern living has its advantages and disadvantages. The large concentration of people in the cities leads to a higher number of problems. Thence, technology is the key to solving issues such as water and air pollution, transport and lighting problems, etc... And that’s not all – let us use technology for personal and professional development and for becoming more efficient and useful.

There are not limits. It is all up to us and our dreams about the kind of world that we want to live in. Technology is here, within our reach, but we should use it smartly and for the good of all of us!

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:

SHAREHOLDERS' ASSEMBLY | **BOARD OF DIRECTORS** | **CHIEF EXECUTIVE OFFICER**

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 method 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-Skopje	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).

SHAREHOLDERS' STRUCTURE

SHAREHOLDERS OF MAKEDONSKI TELEKOM AD-SKOPJE BY 31.12.2019 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.

DIVIDEND CALENDAR

year	gross dividend per share in mkd	first date of payment	announcement date
2018	18.50	26.09.2019	10.05.2019
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

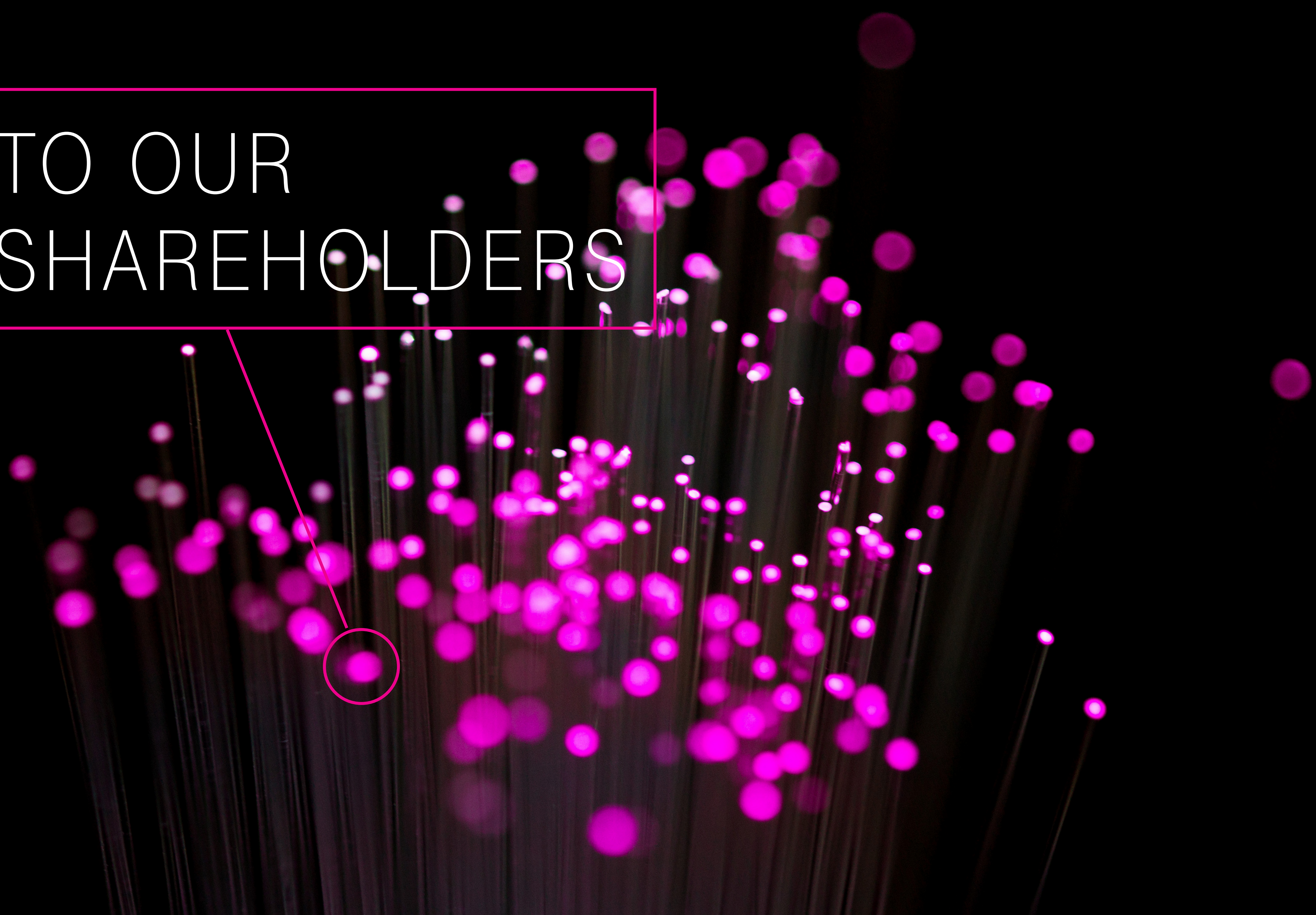
* The dividend paid in the month of December 2015 was paid from the accumulated earnings of the Company from prior periods pursuant to the Resolution of the Shareholders' Assembly of Makedonski Telekom adopted on 20.11.2015.

CALENDAR OF EVENTS

MEETINGS OF THE SHAREHOLDERS' ASSEMBLY OF MAKEDONSKI TELEKOM IN 2019

15.01.2019	SHAREHOLDERS' ASSEMBLY
09.05.2019	ANNUAL SHAREHOLDERS' ASSEMBLY
18.06.2019	SHAREHOLDERS' ASSEMBLY
24.09.2019	SHAREHOLDERS' ASSEMBLY

TO OUR SHAREHOLDERS



Mr. Nikola Ljusev,
Chief Executive Officer of Makedonski Telekom

Dear Shareholders,

In the accelerated world in which we are living, the companies that are market leaders bear a great load – remaining on the top while raising the level of success at a higher level. In the digital world this responsibility is even greater because the changes are even more rapid. This also applies to Makedonski Telekom which as a telecommunications leader feels responsible to be the leader of changes for a better and more prosperous society.

The experiences and the results from last year undoubtedly confirm that we are on the right track to improve and facilitate the life of the citizens with the help of technology. In the accelerated world in which we are living, we are aware that technology can no longer serve only for the purposes of connecting people. It has an unlimited potential and it is up to us, as a telecommunications leader, to demonstrate that we can use technology for the purposes of dealing with the major global challenges that human kind is facing.

Having analyzed what we have done so far, I am pleased that we have left an exceptionally successful year behind us. The year 2019 is a year of growth and positive results in every respect. We have grown in all the segments of our operation and we have exceeded the predetermined plans.

What is it that marked this year?

From a financial perspective, the company has achieved increased revenues, as well as growth both of the profits and of the customer base. The earnings before interest, taxes, depreciation, and amortization (EBITDA) have increased by 4.7%, while the net income has marked a growth by 6.3%.

Simplification of our offer of products and enabling digital interaction channels were our main focus in terms of the customers in 2019. We have redesigned and improved the Telekom MK application in order to provide the customers with constant availability of the services, as well as an easy and fast manner for paying the bills.

We are proud of the fact that the commitment to bring the top TV content and impeccable quality has contributed to rendering us the #1 television in our country. Our dedication to provide our customers with the best offer, higher value and flexibility of the services has resulted in the growth of the Magenta 1 family by 6.2%, as well as a continuous expansion of the optic network throughout the country. We ended the year with more than 136 thousand Max TV customers, while more than one third of the households in North Macedonia have access to optics. Our ambition is to further expand the network and, thus bring the limitless possibilities of optic technology even closer to the citizens.

We have simplified our processes, we have enriched our ICT portfolio, we have been continuously developing the Smart City concept and we have transformed our business into digital operation with an absolute focus on convergence, while ensuring utmost satisfaction for the business customers.

Therefore, we are pleased with the fact that our focus on meeting the needs and requirements of each customer in 2019 has been affirmed with the highest customer satisfaction index!

All of the above-stated fills us with great enthusiasm and gives us a strong motif to continue firmly on the road to success. Undoubtedly, it does not come on its own; rather, it is the result of the commitment and it primarily relies on the dedication and professionalism of all the employees, our entire team. The best results are yielded by employees who are competent, professional, who constantly upgrade themselves and continue learning, but mostly by people who believe in the vision of the company.

And our vision, following the dynamics of the changes around us, is to be a company from the future which stands for technology innovations, while also being appreciated by society. Therefore, our focus remains on digitization. We have opened the doors to new access and operation by putting technology for the benefit of the citizens in order to build a new and progressive society.

Digitization and transformation of society may seem like fiction to a lot of people. Nevertheless, the sooner we comprehend that this is our future, the better for us. We should be aware that artificial intelligence, robots and virtual reality will slowly but surely fit into our everyday lives and be widely used. Thence, Makedonski Telekom remains a loyal partner in the commitment to digital transformation, a partner that creates advanced smart solutions in a world that is rapidly changing, a world in which technology will be used for humane and good purposes, for progress in all the spheres: health, education, agriculture, etc.

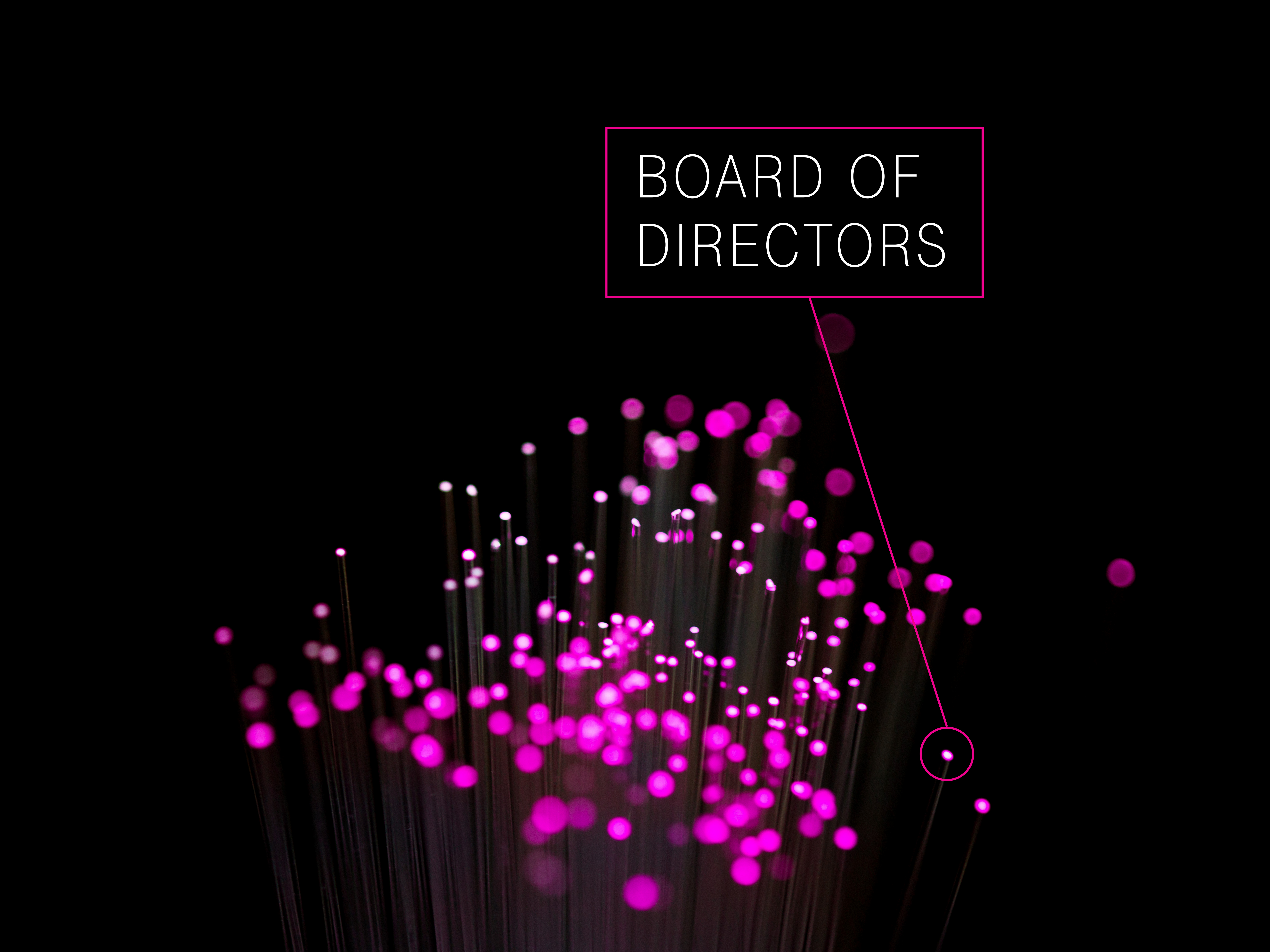
Dear shareholders, the new age brings new challenges, but also new opportunities... It is our duty to be dedicated to tracing new technological trends and using our own potential for providing innovative solutions for our customers, business partners and for all the stakeholders in society. Consequently, we aspire to be a partner in the building of a digital society and we must continuously be focused on building an impeccable network which will be the foundation of all the innovations that, conversely, guarantee a better future for all of us. I assure you that we will not stop until all the citizens are mutually connected with the best network in North Macedonia.

In order to change the world for the better we must be open to new ideas, flexible and swift. Only in that way we will be able to be the leaders of the technological revolution. The 5G technology is within our reach, we have already performed real-world testing and the only thing that is left is the practical implementation. In the future, what lies ahead of us is an interesting digital journey during which, by using the limitless possibilities offered by technology, we will enhance the urban living and contribute to economic development and a progressive society for all citizens!

Yours faithfully,
Nikola Ljusev


MANAGEMENT

Miroslav Jovanovic, Nikola Ljushev, Branko Stanchev, Slavko Projkoski, Goce Mitevski (from left to right)


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 31.12.2019

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

MEMBERS OF THE BOD OF MAKEDONSKI TELEKOM AD – SKOPJE WHOSE MANDATE HAS EXPIRED/WHO RESIGNED/WERE RELEASED DURING 2019:

Released:

Andrea Sághy, from the position of a Non-Executive member of the Board of Directors of the Company, as of 1 July 2019

MARKET ENVIRONMENT

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

Total revenues in 2019 has increased driven by the continued expansion of the customer base across all segments. The higher mobile revenues are driven by mobile non-voice services (mobile internet) while mobile voice revenues show download trend. Fixed revenues are stable, and the decrease of the fixed voice revenues is compensated by IPTV revenues growth trend. To sustain the positive performance recorded in 2019, MKT intends to further leverage integrated Magenta offer, high network quality and market position as a premium provider.

At the end of 2019, MKT had 215,810 voice access fixed lines compared to 212,356 at the end of 2018. The number of total BB accesses has increase with 204,247 at the end of 2019, compared to 196,263 at the end of 2018. The number of IPTV customers at the end of 2019 reached 136,372 customers (including Magenta1, 3 Play and other TV services), marking 6.2% increase from the end of 2018. The number of Fibre to the Home (FTTH) customers reached 60,172 at the end of 2019, marking 24% increase from the end of 2018.

MKT had 1,219,797 mobile subscribers at the end of 2019, compared to 1,205,728 at the end of 2018. The mobile market penetration in Republic of North Macedonia is 103.8% , 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.

MKT registered customer growth in all three focus segments – postpaid, BB internet and TV customers. And as of the end of Q2 2019, MKT become single largest TV operator (in terms of TV customer base) in North Macedonia.

MAGENTA 1 continued to be MKT's main product offering both in Business and the Consumers segment. Simplification of product propositions and digital customer experience were main guiding directions in 2019.

TRANSACTION WITH AN INTERESTED PARTY

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

a) At its extraordinary meeting dated 29 October 2018, MKT's Board of Directors adopted a Resolution for concluding a Lease Contract for Business Premises with the Operational-Technical Agency (herinafter referred to as: "OTA"), 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.

   The Contract is concluded for a period of 5 years by 31 December 2023 inclusive, and the subject of the lease are premises that are owned by the MKT 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).

b) Additionally, at its regular meeting held on 21 March 2019, MKT's Board of Directors adopted a Resolution for concluding an Annex to the Lease Contract for Business Premises with OTA, as a transaction with an interested party due to the fact explained above.

   The Annex to the Contract expands the subject of the lease with additional space owned by MKT, equipped with furniture and IT equipment, which is located within the already leased business premises in the office building - TC Centre - Skopje, located at ul. Orce Nikolov bb Skopje, for a monthly lease in the amount of EUR 2,583 (VAT excluded).

REGULATION AND PRICING

The Law on Electronic Communications - "LEC" of North Macedonia was enacted in March 2014 as primary legislation, followed by rulebooks adopted as secondary legislation in order to align with the EU Framework Directives 2009.

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.

In March 2019, article 75-a was changed in order to enable extension of the RLAH regulation. On 5 April 2019, six Western Balkan countries signed an agreement aimed at gradually abolishing the retail roaming surcharges by 1 July 2021. The Western Balkan regional roaming rules were inspired by the EU Roaming Regulation. In particular, the agreement includes a "roam like at home" principle: from 1 July 2021 the roaming services within the region should be provided at domestic retail prices without surcharges for international roaming. The agreement applies only on the territories of the Western Balkan countries and has no impact on the users in the European Union. The Western Balkan countries comprise Albania, Bosna and Hercegovina, Kosovo, North Macedonia ,Montenegro and Serbia. The agreement replaces the previous agreement of 29 September 2014 signed by the four countries of Bosnia and Herzegovina, North Macedonia, Montenegro and Serbia.

In July 2019, the LEC was changed once again, and article 29-a was added in order to enable the financing of the Operational-Technical Agency. With this regulation, the Agency is obliged to transfer part of its funds to finance the activity of the Operational -Technical Agency, as follows:

- 50% of the total revenue generated by the Agency for the preceding calendar year from the annual fees paid by the operators for market surveillance, set out in the Agency's annual performance report for the previous calendar year, adopted by the Commission of the Agency, and

- 10% of the total revenue generated by the Agency for the previous calendar year from the revenues from the annual fees for radio frequency utilization by the holders of authorizations for radiofrequency utilization, set out in the Agency's annual report for the previous calendar year, adopted by the Commission of the Agency.

The Agency is obliged to pay the amounts to the Operational-Technical Agency no later than April 15 of the current year.

New articles 71-a 71-b, 71-c, 71-d and 71-e were added requiring the establishment of a National Broadband Competence Office as an expert and advisory body to support the investment in Broadband Networks.

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.

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

- By the end of 2023, at least one major city should be covered with 5G signal;
- By the end of 2025, the regional highways and state highways defined by the Agency should be covered by a continuous 5G signal;

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

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, A1 Macedonia (formerly known as one.Vip) was designated as an SMP operator for the first time, with same regulatory obligations as MKT. A1 Macedonia is obliged to offer wholesale broadband services on DOCSIS technology.

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

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, 2 x 12.5 MHz in the 900 MHz are prolonged until 2028 and 2x10 MHz on 1800 MHz band is prolonged until 2029.

The competitor A1 Macedonia 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 A1 Macedonia 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 A1 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 ex-ante 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 A1 Macedonia 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). In January 2019, the Agency approved the new decreased wholesale prices for mobile origination services (MVNO).

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). MKT 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 of 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. Since the new members of the Council have not been elected so far, the above amendment is not implemented in practice, yet.

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 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. In September 2019 the company was rebranded as 'A1'.

A1 Macedonia, 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, A1 Macedonia's contract ratio reached 63% by Q3 2019. The total mobile base increased by 3.3 % year over year, as a result of new product logic introduced in Q2 2019, which stipulates reporting the WiFi routers in mobile post-paid (previously reported in the fixed segment, in fixed voice and Internet) (source: Telekom Austria Q3 2019 report).

In the fixed segment, A1 Macedonia offers triple play bundles (fixed voice/Internet/TV) and FMC products. They introduced broadband internet for home use over 4G routers in 2017 and significantly increasedtheir fixed BB base in 2018.

Telekabel is the biggest cable provider among around 30 active cable operators, having strong presence in the regions where MKT has low market share. They entered the mobile business in January 2019, as an MVNO on MKT's network, offeringpost-paid services. By offering all fix and mobile services, they became third fully integrated 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 Lycamobile present on the market since July 2016, on the network of A1 Macedonia, reached a low market share by year end 2019 (around 2% according to an internal estimation). They are limited to prepaid offers only, and focus on international calls and data packages.

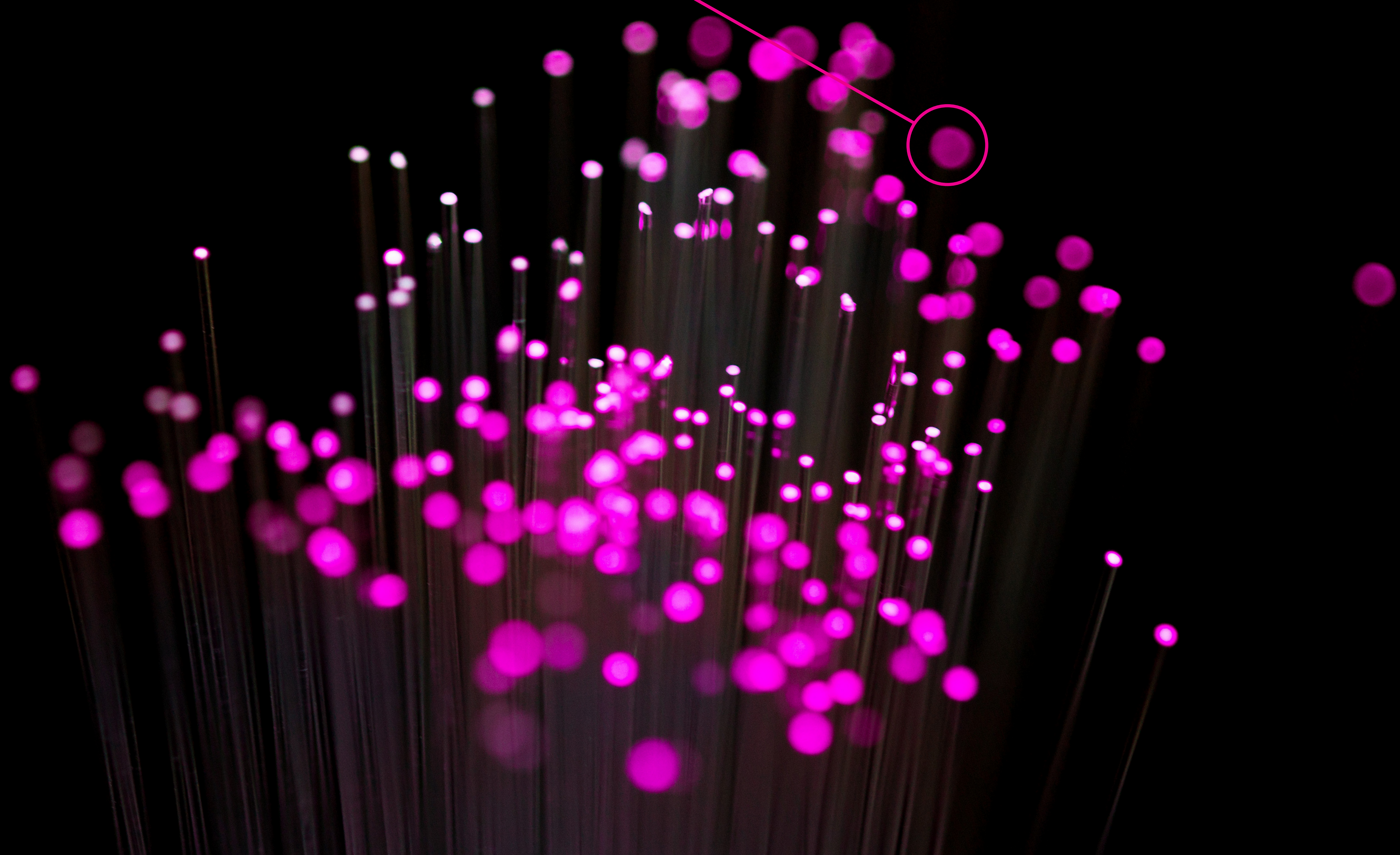
The product portfolio of all operators is driven by bundle products. The cable operators are bundling their TV offer with Internet and fixed voice services. The fixed voice service of the cable operators is usually perceived as a value added service. As the overall market is price sensitive, the price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

As at 31 December 2019, MKT has an estimated retail fixed voice market share of 62%, retail fixed broadband Internet market share of 45% and TV market share of 32% (source: internal best estimates for market development based on official Telekom Austria report Q3 2019 and AEC Q2 2019 report). In the mobile market, the market share of MKT was estimated to 48% (source: internal best estimates based on official Telekom Austria report Q3 2019, AEC Q2 2019 report and internal reports for active customers).*

*All market shares are based on the new product logic of Telekom Austria, reporting WiFi routers in mobile. (starting from Q2 2019).


i-bank
Забрането капење

SERVICES FOR OUR CUSTOMERS



DIGITAL CUSTOMER EXPERIENCE

In 2019, MKT was focused to continue the growth of its postpaid customer base, as well as the base of broadband internet and TV customers. The bundled convergent packages remained the core proposition in both the residential and the business segment. The market environment become even more competitive with the entrance of the new mobile (MVNO) operator (Jan. 2019).

SIMPLIFICATION OF THE PRODUCTS AND DIGITAL CUSTOMER EXPERIENCE

The simplification of the product propositions and the enabling of digital interaction channels were the main guiding directions in the majority of MKT offers in 2019. The Telekom app that was completely redesigned in May 2019, was continuously improved so as to offer 24/7 customer service, fast and easy bill payment and possibility to manage their own products & services for the MKT residential customers. By the end of 2019, the base of app users grew substantially from 25% to more than 46% of the base of residential smartphone users. Following this direction, a lot of novelties in the convergent services offers were implemented in the course of 2019. Below are some highlights: Magenta 1 was redesigned so as to allow bigger transparency on the prices of the individual services and benefits included in the package, as well as higher flexibility in shaping the offer for different types of families (extending the proposition even for households of one member).

A completely new web Magenta 1 configurator was introduced as part of the efforts to provide superior digital experience, supporting better transparency and easier configuration by existing and prospect customers. In September 2019, additional benefits were introduced for the new Magenta 1 proposition that are available exclusively via the Telekom App, allowing customers to choose different benefit every month according to their needs. In 2019, a special attention was paid to the introduction of products that make lives of the citizens easier and smarter, by introducing propositions such as Smarthome - home automation, services for child safety/security and before the end of 2019 also handset insurance in the portfolio. Magenta 1 has been continuously strengthening its position as the best offer on the market, reaching approx. 15% of the all households in the country. By the end of 2019, powered by the strong growth of Magenta 1 users, MKT recorded customer growth in all three focus segments – post-paid, BB internet and TV customers. As of the end of Q2 2019, MKT became the largest TV operator (according to the number of TV customers) in North Macedonia.

In the Business Segment, we drive our growth story via Digital Transformation. We try doing things in a different way, pioneering working models and digital competencies, so that our business transforms from inside out.

By introducing SFA- Sales Force Automation, as an end-to-end system that covers the entire sales portfolio, we simplify our processes, transforming our business towards digital operations with full focus on convergence, delivering highest customer satisfaction.

Magenta 1 Business (M1B) remains the focus proposition in the B2B segment, and it is used by 53% of the total SOHO and SME customers. The “Highest satisfaction index compared to competition” contributes towards long term customer retention and therefore the customers’ migration towards M1B and the revenue shift from one leg to FMCC customers remain B2B main targets.

Aiming to strengthen the market position as a service provider of everything that businesses need, the Magenta 1 Business proposition is enriched with digital services, customized for specific industry verticals. Embedding digital services in M1B, we have managed to increase the Cloud revenues in the SOHO and SME segment for 31% in 2019 compared to 2018.

FLEXIBLE, MODERN AND SIMPLE SERVICES FOR SUPERIOR DIGITAL CUSTOMER EXPERIENCE

In order to maintain a significant price premium, we have introduced new services that differentiate us as a telco provider and are unique on the market, such as 4G Back Up for Broadband services and Managed Security.

This trend is expected to continue in 2020, and even grow further, based on the strengthening of the existing portfolio of trusted services and positioning MKT as a national Certificate Authority for electronic signatures, electronic corporate seals and time stamps.

“USE THE TECHNOLOGY FOR GOOD” AND “TELEKOM – YOUR PARTNER IN DIGITAL TRANSFORMATION”

In 2019, our marketing communications activities were focused on bringing to life our re-honed brand promise - to connect everyone to the opportunities of now. Through our communication we demonstrated that using technology for good can give everyone unlimited opportunities for personal and societal improvement.

In terms of the media, following the global trends, this year was marked with expanded advertising activities on the social media, experimenting with different variables aimed at most effective budget utilization.

BEST QUALITY SERVICE

In order to provide best service quality, MKT continuously invests in the network development, widening the FTTH and VDSL coverage and providing services via 4G mobile routers in specific regions, thus reaching 100% Internet availability, country wide. In 2019, the FTTH coverage is 35% of all households in the country. In mobile communications, we differentiate ourselves from our competitors with the outstanding quality of our network. We have been regularly coming out on the top position on the independent network tests. In the last performed P3 tests (2018), MKT was rated as “best in test” by the P3 communications network experts.

EXCEL IN CUSTOMER EXPERIENCE

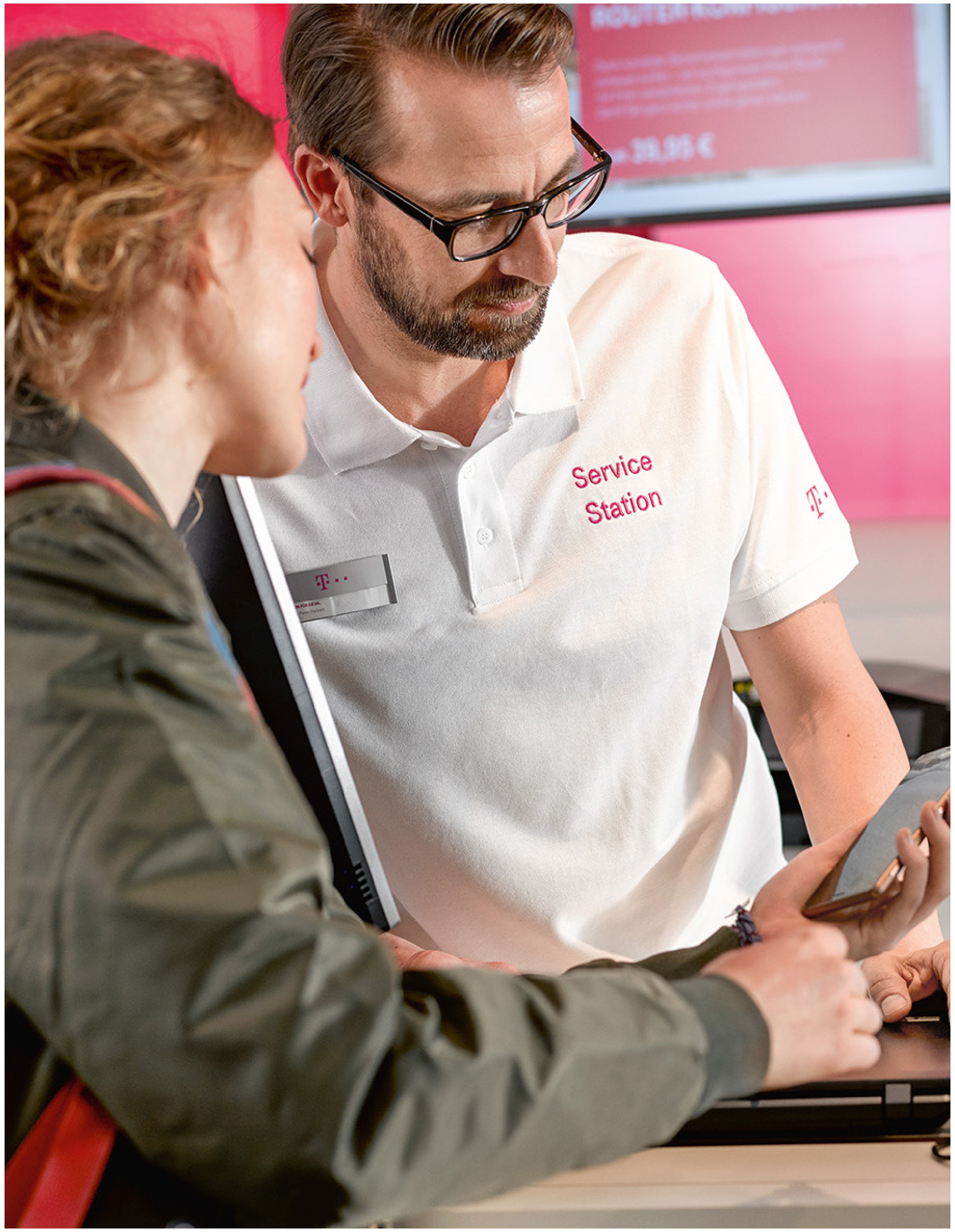
In 2019, according to our regular customer satisfaction surveys, MKT managed to remain number one operator in customer satisfaction in mobile, fixed and convergent services. Also, MKT managed to further improve its customer satisfaction vs previous year.

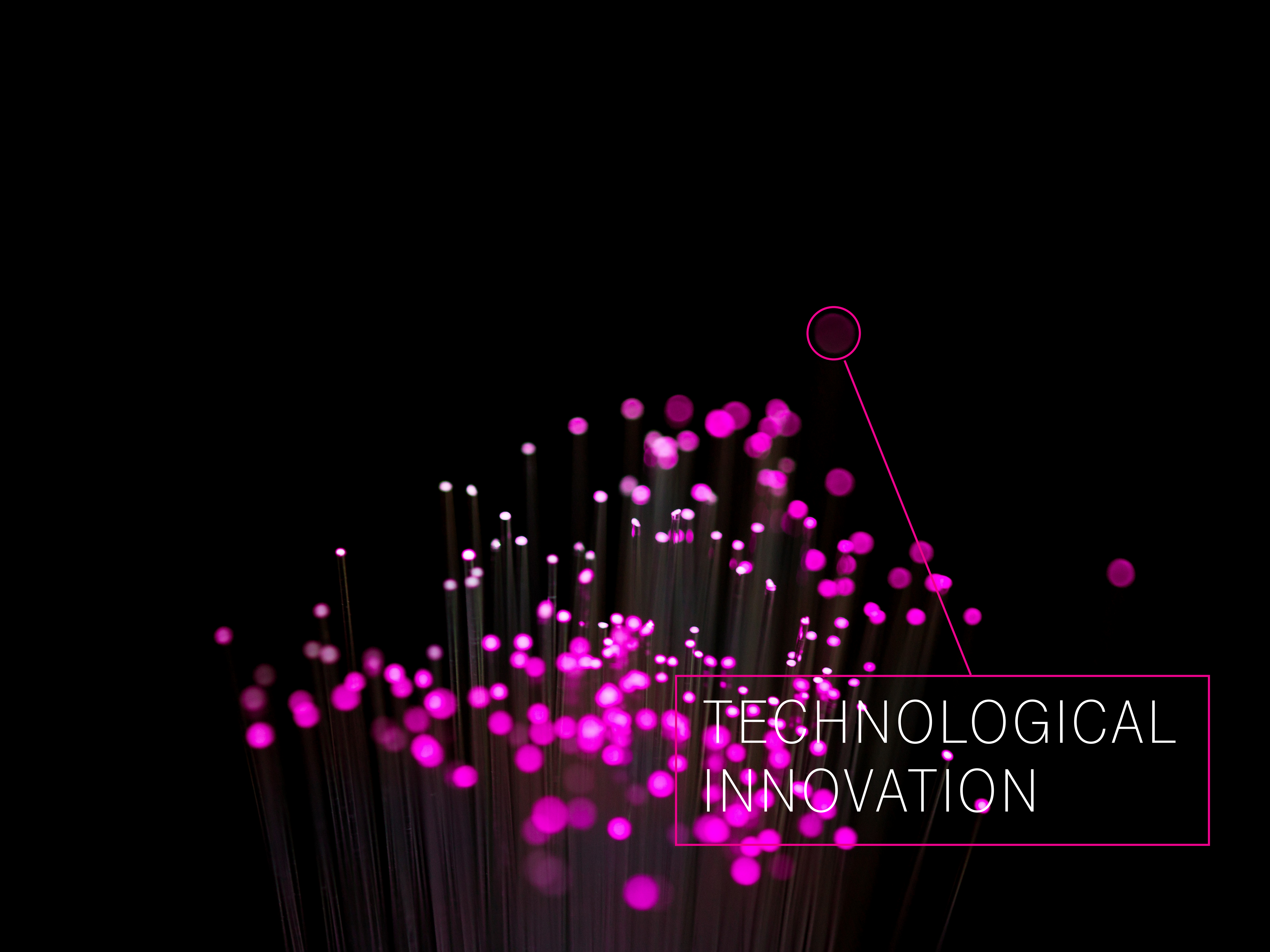
Providing simple and easy customer journey in an omnichannel approach was imperative for 2019. To achieve this, the different customer segments were addressed via the most appropriate sales channels. The Point of Sales are continuously modernised following the latest trends to provide best customer experience, where the customer can explore the products and services offered. The push sales channels like Door to Door (D2D) and telesales remained in focus with significant contribution to the overall sales results.

Customer support to MKT customers is shifting towards digital channels, especially via the Telekom app. MKT’s application should become a 24/7 available support tool, as new functionalities are added. Also, live chat is available within the web site, for those customers that prefer written communication.

With continuous improvement of the on-line shopping experience, the online sales increased by 13% in 2019 compared to 2018.

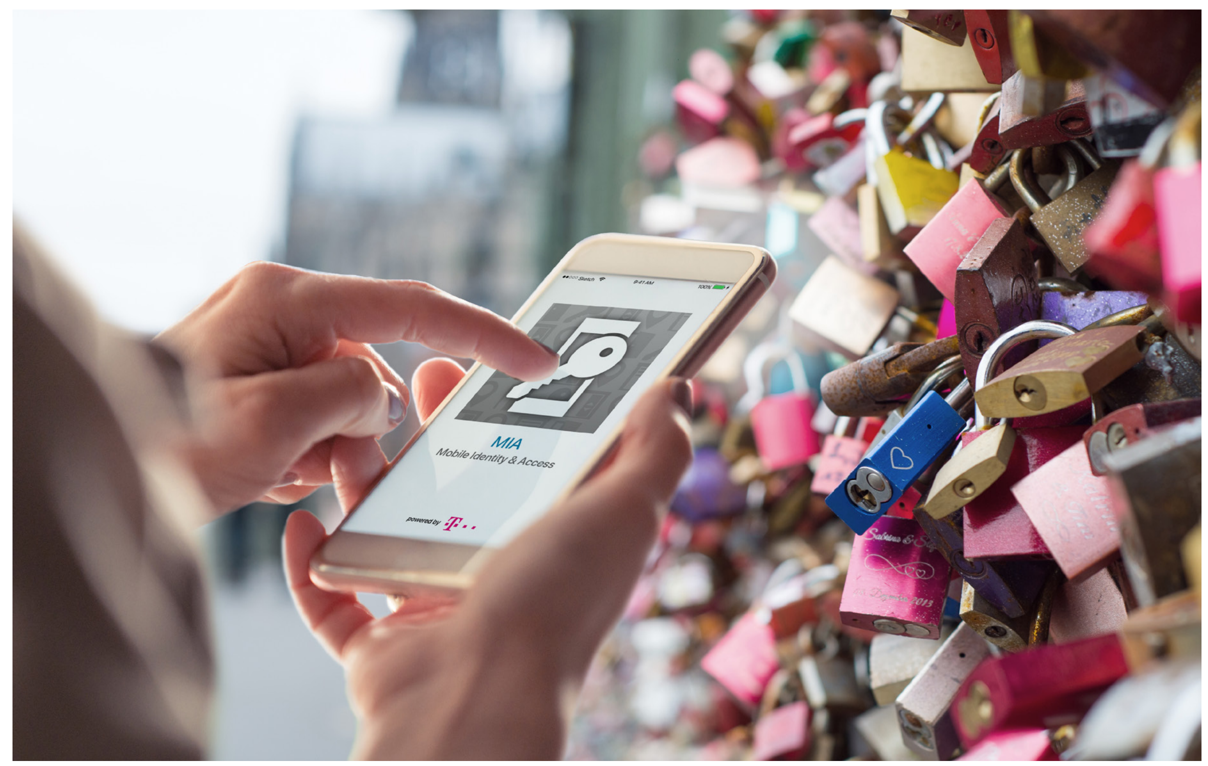
TECHNOLOGY GIVES US UNLIMITED OPPORTUNITIES FOR PERSONAL DEVELOPMENT AND ADVANCEMENT OF THE SOCIETY




TECHNOLOGICAL
INNOVATION

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, in 2019 the agreement was extended for additional 2 years, including technical support for the customer and development of the new software functionalities for improvement of the current processes in the public transport (introduction of mobile application for smart ticketing, introduction of the electronic one ride ticket, improvement of the line control and integration with Google Transit service). MKT has high probability of getting the contract for Smart City Skopje (including Smart lighting, Smart parking and Smart metering). In 2019 few offers were prepared for several municipalities regarding Smart lighting and Smart parking. From society digitalization perspective, support activities for e-health and e-education strategy preparation are ongoing.

Other important segment that was covered in 2019 is the SW development. The E-Inspector system, developed by internal resources for the Municipality of Skopje provides transparency in the work of the inspectors, efficiency and safety of the inspectors in the field, submission of digital field records, supervision of the inspectors' work in their current location and administration of the inspectors. The E-Inspector System consists of the mobile application to be developed for Android and IOS platform for the needs of field inspectors, WEB application for the needs of inspectors' dispatchers and smart phones as end user equipment. Furthermore, since Cyber security is a hot topic for organizations and businesses of all sizes across every industry, Penetration testing of the National Bank of the Republic of North Macedonia (NBRM), as a service provided by our experts and the experts of our partners, includes focused screening of their IP addresses for the purposes of assessing the infrastructure security, operating systems, databases and other system software, as well as the application security.



Moreover, collaborating with our partners MKT established a (web-based) integrated communication and data management system for documents and workflows that will digitize and automate the existing work processes and documents that are part of the work of the public services company in Skopje. The process of cloudification is finished successfully as the system is hosted on our own virtual private servers.

Moreover, MKT investigated the potential market and we made a cost analysis for the implementation of Narrowband for Internet of Things (NB-IoT). Furthermore, the utilization of 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 2019 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. We also started the process for potential cooperation with SAP. 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 which we can further leverage in our ICT business development activities.

Competitive pressure in conjunction with a saturated Telco market, complexity of the 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.

The 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 2019, MKT has made significant steps towards the achievement of targets 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 2019, installed capacity of more than 196K homes passed or 31.42% households' coverage with FTTH from MKT's network was reached. Regarding the VDSL rollout, the total numbers of VDSL CO were more than 192K and more than 19k VDSL FTTC homes passed.

At the end of 2019, there were more than 5 thousand Hybrid Access customers (aggregation of the DSL and LTE transfer links) and more than 5.3 thousand FMS customers.

Significant improvement was also achieved in terms of the LTE rollout, reaching 93% territory coverage and 99.8% population coverage outdoor. More than 99% of the total sites provide LTE services. At the end of 2019, 63.3% of BTSs were connected via optic.

During Q4 2019, MKT set up the first test 5G network in the centre of Skopje thus providing conditions for testing this new technology in real conditions. This is another step towards the introduction of 5G in North Macedonia which will provide technological advancement of the society and many new functionalities for the users. The purpose of the test 5G network is testing the performances in real conditions which would enable new services for the users, such as: super-fast fixed wireless internet, VR (Virtual Reality) 3600 live video, VR gaming in real time, ultra-HD multi video streaming, etc. The tests will be conducted during 2020 and based on them the network will be prepared for the commercial phase.

In the core domain, the emphasis was placed on the mobile voice network modernization. Several projects were initiated. The scope of the first one was HW upgrade of the existing MGWs in mobile network, in particular replacement of five obsolete MGWs with two new MRS network elements and migration of the commercial traffic. The second project was upgrade of the MSC nodes in Skopje and Veles from 16A to new SW version 18.1. The third project was related to the UDC. It was upgraded to new SW version R1 that bring new and enhanced features and also contain SW patches that will make the SW more stable and reliable.

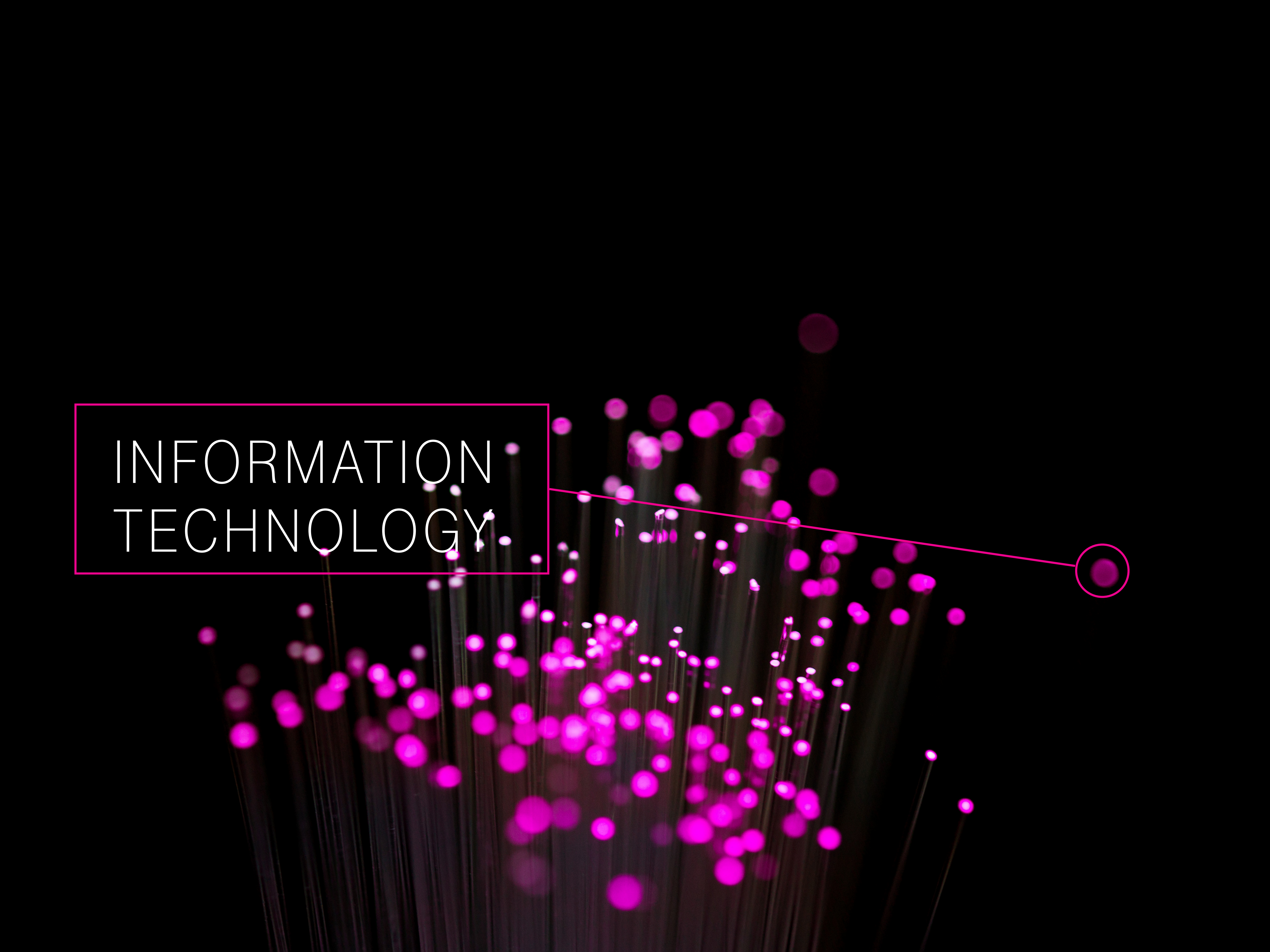
Investing in new technologies that contribute to the improvement of the services and thus the customer experience is MKT's continuous focus. In that line, at the end of 2019, MKT introduced VoLTE technology in mobile telephony (Voice over LTE) which provides number of benefits to customers during making calls and transferring data to the up-to date 4G network. The users of Samsung S9 and Samsung S9 plus are the first to access the VoLTE technology, and then the technology will be expanded to other phone models and manufacturers collaboration like Apple, Huawei, etc.

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 three 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 the IP Core implementation and integration, as well as the IP Core services migration. The plan is to continue with the second phase of HA Aggregation Network modernization and to finish 100% of the Aggregation sites by 2021.

The modernization of the SPNI segment of the network continued in the Q4 2019 and it will be finished by the end of 2020. The scope of the SPNI project is integration of the main DCs into one geographically distributed network layer, providing network connectivity to all IT and NT services, as well as laying down the foundation for Cloudification of the NT and IT production, have started.

WE ARE TRANSFORMING THE OPERATIONS AND INTRODUCING INNOVATIONS FOR A SEAMLESS DIGITAL CUSTOMER EXPERIENCE

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, during 2019, MKT joined the Mediaroom Advanced Program and performed an upgrade of the IPTV video/audio subsystem to MediaRoom 3.0. 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 in a more flexible and competitive manner.


INFORMATION
TECHNOLOGY

During 2019, MKT started the IT Transformation

- The main objective of the IT transformation is selection of a sustainable and feasible concept for the IT Operating Model, that will enable the implementation of the DT and MKT digital strategy, as a financially most efficient option within the budget
- Different IT operating models were evaluated for implementation in the 6-9 months period and used in the next 7 years that can leverage EIRA as foundational capability for the digital future
- The IT transformation model is a combination of outsourcing legacy systems and insourcing new employees that will cover the missing skillset
- Dedicated cross-functional teams are built, unifying IT, Business and Operation for improved and flexible delivery.
- The Company focused on Digitalization and building EIRA
- The transformation will allow MKT to become competitive employer, leveraging the employee performance

There were several projects that were aimed at providing efficient IT systems and solutions which will fulfil the plan and enable the realization of the strategic focuses.

In the OSS domain, the Net Cracker (NC) project was successfully completed in two phases:

- Phase 1- Set up of an NC development environment and introducing a collaboration model for imple mentation of a functional change request in the OSS NetCracker platform without NC involvement
- Phase 2 – Implementation of new functionalities in the NetCracker system with MKT partner (CGI)

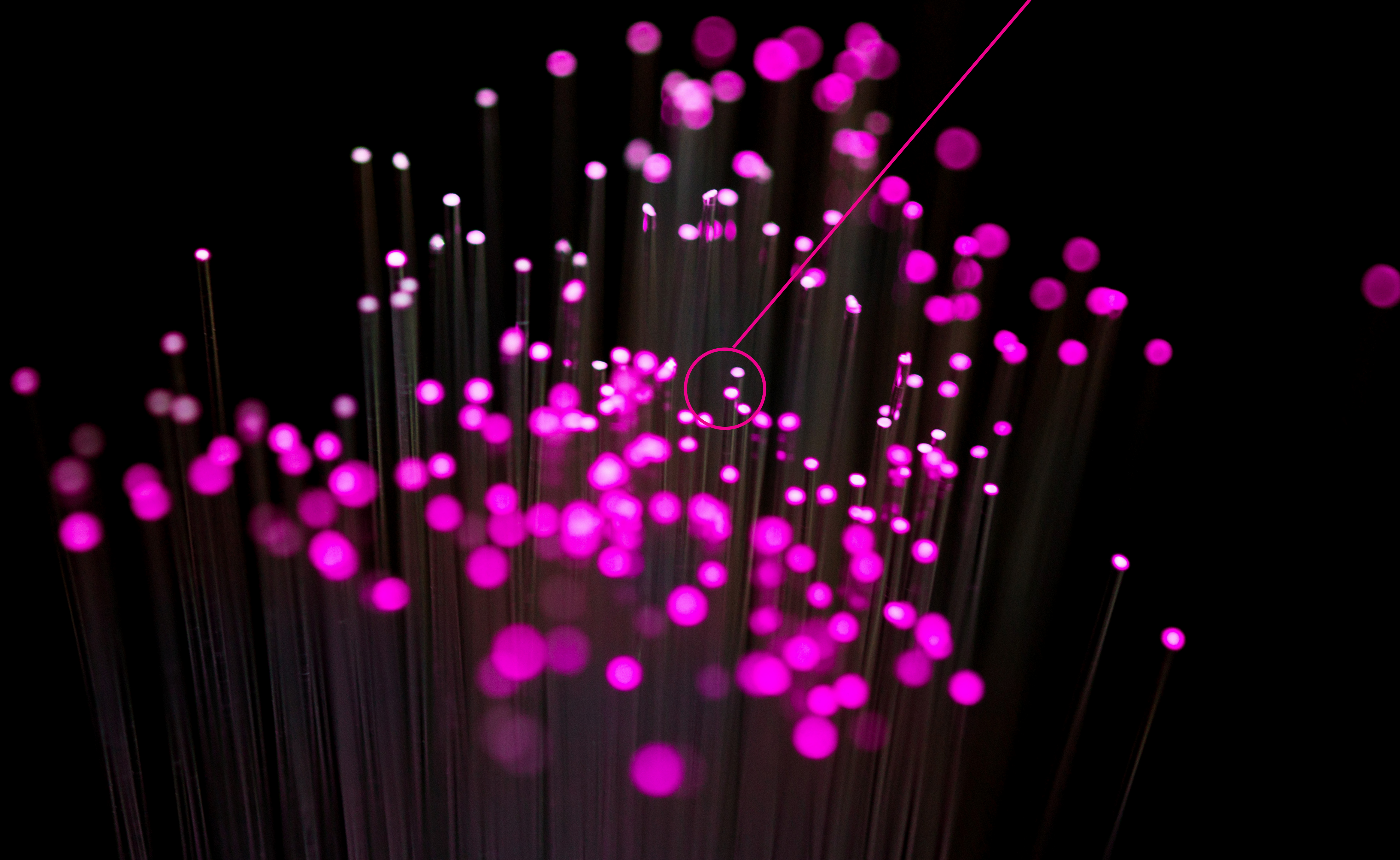
    - Optimization of the NC WorkForce Management system by simplifying the process and improving the data input
    - Introducing Employee backpack for improving the material and equipment work in WFM
    - Development of generic interface for WFM system, in order to have the possibility the system to be used by other external system without additional development on NC side
    - Additional functionalities for presenting the necessary information in Trouble Ticketing and CRM

In the CRM domain, the functionalities of the mobile segment were consolidated and Sales Force Automation functionalities for sale to business customers were implemented.

In the ERP domain, the One.ERP project started rolling out in MKT in October 2019. Standardized data, standardized processes and standardized IT based on the SAP Standard on a group-wide Enterprise Resource Planning (ERP) platform is the main core of the platform. Joining the program, MKT is gaining experience with the largest ERP project in Europe and one of the largest ERP platforms in the world. The project expected to be completed in a very short period of time of only 14 months.

DIGITIZATION OF BUSINESSES AND PROCESSES AS A PREREQUISITE FOR MAJOR SOCIAL AND ECONOMIC CHANGES

HUMAN RESOURCES



WE ARE TRANSFORMING INTO AN AGILE ORGANIZATION, A SUSTAINABLE AND MODERN COMPANY THAT IS ATTRACTIVE FOR THE BEST EMPLOYEES AND TALENTS

The business challenges that arise from our motto for 2019 are in a direct correlation with the creation and establishment of a strong, solid and positive company culture, which is a prerequisite for every success story. Our vision, aspiration, brand, organization and corporate culture are changing and keeping up with the pace of the increasing customer needs, while also responding to the new challenges. Each strategy, mission and vision, as well as every goal, idea, system or process, have to be in cohesion with a productive corporate culture. All of the afore-stated has also determined the directions for human resources management. The HR Department is promoting a service culture which will support the transformation of the Company in line with our Strategy and the dynamic market changes.

Transformation of the organizational structure

"We aspire to improve the organizational culture, raise the level of employee satisfaction, rectify any organizational dysfunctional elements. We wish to create conditions for retaining the best employees and attracting new talents and a new energy." In the spirit of these transformation directions, last year was dedicated to a diagnostics of the company weaknesses, dysfunctional elements and challenges, which, at that time, defined our corporate culture, but were not aligned with the desired conduct, action and operation. With a strong focus and under the guidance of the top management, a questionnaire was conducted by an external independent company in order to detect all the challenges and hear the opinion of each individual in the Company. The questionnaire was filled in by 90% of the employees. Under the motto "change yourself – change everything", each and every employee has a share in the transformation of the organizational culture, whose creation continues also in 2020 via numerous improvement activities which will be undertaken at all levels, in all departments and in all areas in Telekom.

We support the change process in all our activities

The intensive and dynamic market changes require the introduction of a business model which will be able to respond to the demands both of the customers and of our employees, while concurrently keeping up with the trends of operation in the country and abroad, in line with the internationally acknowledged standards.

In 2019, a new organizational structure was adopted which has been altered in order to fortify the strategic positioning of the Company on the market. In order to achieve this goal, we are working primarily on the technological and process-related transformation, whereby we will enable a superior customer experience. Therefore, it is necessary for Makedonski Telekom to have an efficient organizational structure guided by experienced employees, who have been developing professionally alongside the Company and who are prepared to introduce some freshness with their new ideas.

In that context and in order to maintain the operational efficiency, the need has arisen for a completely new and different approach towards our business activities. Thence, under a Resolution of the MKT Board of Directors, a new IT operational model was implemented, through which certain units and activities from the IT Department were transferred to external service providers – outsourced. The Infrastructure and IT Service Desk activities, as well as the Billing domain, have been outsourced, while also the process of outsourcing the CRM domain has commenced. Acting as a responsible company that looks after its employees, it was made sure that they are fully informed regarding the entire process and each of them was able to make a choice that would be the best option for them personally and for their professional engagement and development.

As a business partner of the organization, HR is closely monitoring the pace of the transformation process. In order to maintain the success, the competitiveness and the efficiency in the operation, Makedonski Telekom, in cooperation with the Trade Union Organizations, concluded a Program for a voluntary termination of the employment of the MKT employees with a financial benefit for the year 2019. The program applied to all MKT employees employed for an indefinite term, with the exception of the employees with managerial and expert contracts, and it was on an exclusively voluntary basis. The program offered an attractive financial package which, in addition to the basic offer, included also additional benefits.

Furthermore, in 2019, for the purposes of improving the balance between the private and the professional life, as an important prerequisite for the successfulness of the business operation, we introduced flexible working hours in the Company, which ensured a more efficient use of the working hours

Our employees – we learn, grow and develop together

The process of constant learning, and investing in the personal and professional development, enhances the personal responsibility for achieving both the personal goals and the Company goals. The rapid changes in our industry require a swift response, i.e. adequately trained employees, prepared to perform their tasks in a positive working environment. We provide such a response by constantly introducing various programs and practices that support the development of each individual, at each level of the organizational structure.

Let's Go beyond

In 2019, the Let's Grow program continued with new, improved initiatives for growth and development under the new name Let's Go Beyond. It is a program that motivates a different kind of a philosophy of thinking, working and behaving and that implies a process of changing the mindset of the employees. Each activity has been carefully designed according to the needs of the employees and the Company with the sole objective of changing the organizational culture.

The program entails raising the awareness of the employees for the purposes of greater self-motivation, learning, openness to changes and taking risks. Let's Go Beyond encourages us to think openly and talk about the challenges and the mistakes in our daily work, while leading us to the desired goal. In light of the foregoing, we created a group of highly motivated, successful employees, who are going to promote a culture of learning, development and successful work. We are referring to the group titled Influencers. At the very beginning, this group devised 20 creative ideas through which a change will be made in the mindset of the employees with a view to their growth and development. Furthermore, a detailed program for the development of the influencers was created, which comprises multiple trainings, working in groups, implementing projects, as well as daily activities for mindset development. The main objective is the employees' personal development, continuously learning new skills, improving the existing skills, sharing knowledge with their colleagues, creating a working atmosphere that allows for giving and receiving feedback and creating leaders that will make an impact for positive changes in the Company. Therefore, the influencers will be a part of the one-year program for personal development. The program comprises F2F and online trainings for Growth Mindset, emotional intelligence, communication skills and conflict management, agile methodology, etc.

With a view to dispersing this philosophy, we have organized various activities. We organized the workshop titled Design Thinking Growthshop. During this workshop, the participants created ideas and activities aimed at the popularization of the story behind the program through its simplified "reading". "Europe talks" is a program aimed at developing storytelling with the employees. Our colleagues from Deutsche Telekom Europe chose topics of personal interest and developed their stories which they shared with us via a livestream at an event similar to TEDx. The stories were based on a specific appeal, inspiration, motivation and impetus both for the storytellers and for the listeners. They are the new communication concept of Deutsche Telekom.

We organized two lectures, mini-trainings – one on the topic of Digitization and the other on the topic of Emotional Intelligence, while in the future more such lectures will follow since they stirred a great interest amongst the employees.

Let's Go Beyond was awarded with a national recognition in 2019. This program implemented by Makedonski Telekom won the National Award – 1st place for the best corporate social responsibility practices in 2019, in the category 'Behaviour to the Employees'. The award was presented by the Ministry of Economy of the Republic of North Macedonia.

Good motivation as the driver towards better efficiency and results

Our managers are the ones who responsibly and fully stand behind their decisions and the decisions of their team, while bearing the brunt of being role-models for the behaviour and the creation of our corporate culture. Therefore, we have put a special emphasis on the development of programs for this group of employees who directly manage the human resources.

In 2019, we started working on the productivity, the motivation and on our corporate culture, but from a slightly different perspective. It is a fact that without an efficient management strategy, the organizational strategy is dysfunctional. After the conducting of analyses in the form of a questionnaire for the employees, the results pointed to the need for introducing a new development program. Organizational transformation commenes with personal transformation and, to that end, we started developing the new Leadership Program - The Boss, which comprises the category of managers that have a direct impact on the employees. This program is focused on the further development of this category of managers into leaders who are mutually competitive in their efforts to motivate the employees, whereby we are going to increase the productivity, motivation and satisfaction of the employees in MKT.

This initiative is a part of the company project titled 'My Idea' through which, in an open call, the employees gave their proposed ideas in line with the MKT strategy. There were 98 employees who applied with 69 ideas. From amongst them, the chief officers selected 20 ideas which they classified into 5 areas and 5 functional teams. The teams presented their proposals before the Company employees, while the chief officers made a commitment in terms of their sponsorship and implementation. As a result of that, the teams, with the support of the Company, already started the more detailed development of their proposals and ideas, one of which is the new Leadership Program – The Boss.

After the implementation of the ideas and the concept for the new program, its more detailed elaboration and application will continue being developed and implemented in 2020, within the project aimed at improving the corporate culture.

WE ARE WORKING IN THE SPIRIT OF DIGITIZATION

Under the motto "Use technology for good", digitization has become a priority in all business processes and activities. The new trends require from us to be swift, more flexible and wiser in the face of the challenges. It is the way to a truly digitally oriented company driven by energetic employees who are experts in their domain. The digitization of our internal services towards the employees achieved great success with the introduction of the Employee Benefits App, which is being actively used by more than half of the employees. New benefits and information are continuously fed into the app, which, in the second stage, will be updated with more functionalities that will truly facilitate everyday life and work. This is an app that is being constantly upgraded and, already in this stage, it was also awarded at the level of Deutsche Telekom as the most innovative practice.

We are making a maximum use of the benefits from digitization also for the purposes of developing our skills, while the employees are learning digitally through the HR Suite platform. With this additional development option, we have made one more step forward in the world of electronic learning. We have noticed exceptional interest on the part of the employees in terms of using and attending the trainings that are available on this platform. In the course of the year, we recorded 2800 accesses to various trainings on the platform by our employees, who attended a training or a course on various topics relevant for the telecommunications industry. The trainings, which comprise more than 8000 various topics available on the platform, as of this year, have also been included in the annual employee evaluation. Thus, each manager may assign a training to their employees, in accordance with their needs for growth and development. In order to achieve as great as possible use of the platform, open days of digital learning are continuously being held, at which new contents are shared in terms of trainings and courses, user experiences by the employees, as well as ideas and opportunities, for the purposes of increasing the number of employees using the platform.

THE ENGAGEMENT OF THE EMPLOYEES IS OF VITAL IMPORTANCE FOR OUR WORK

We are convinced that the engagement of the employees in the organization creates an environment in which people have an impact on the decisions and the activities that affect the daily operation, as well as their job positions and environment. Therefore, we are continuously tracking the opinion of the employees via various surveys that we conduct in the course of the year. In May 2019, we conducted the Employee Opinion Survey at the level of the entire Group, which is conducted every two years. Through this research we have identified the strategic areas of activity that have an impact on the performance, such as the engagement, the health and the dedication of the employees. In November we also conducted the regular Company Pulse Check. These surveys help us identify the trends and the current mood of the employees, they show us how the employees understand the Company processes, especially under circumstances of a transformation. We identify the strengths and weaknesses in the areas where additional improvement measures are to be implemented. Generally speaking, the results from several surveys in a row have shown that our employees still highly recommend the products and the services of the Company, they are proud of our brand, they support the changes and they feel connected to the Company.

WE LOOK AFTER THE HEALTH OF OUR EMPLOYEES

We constantly follow the latest European regulations and practices and we ensure a healthy environment for our employees by implementing a Policy in the area of employee health and safety. Our objective is to provide a safe working environment and healthy working conditions for the employees.

Having regard to the nature of the working process, each employee is provided with an adequate medical examination, whereby we look after the health of each individual in the Company. Concurrently, in order to raise the awareness of the importance of our own health, we have introduced a new benefit for all employees with special extended medical examinations.

We think that continuous daily care is of vital importance for the health of each and every one of us. That is why we have introduced a new initiative – yoga at work. As of now, the employees have an opportunity, in addition to the fitness centre, to also practice yoga at our headquarters. The initiative has stirred a great interest among the employees. At the open call, 146 employees applied – some of them for starting the day with a morning yoga session, while others for ending their daily work duties by practicing afternoon yoga. The positive energy from the feedback that we obtained from the employees is one more reason for us to continue initiating activities of this sort.

SOCIAL RESPONSIBILITY

The size of successful companies implies a responsibility for supporting and stimulating various initiatives aimed at the wellbeing of the community. Our corporate social responsibility platform is focused on fostering the right principles through looking after the needs of the customers, the employees, the business partners, as well as on creating an added value for all the stakeholders in the community in which we operate.

Social responsibility has been the fundamental pillar of our overall operation for many years. Thence, we are constantly focused on investing in all social spheres within the community, as one of the key factors for creating a better and higher quality future for all of us and for the future generations.

The use of technology for good is our essential business direction along which we are moving towards complete social responsibility.

In that context, in 2019 we launched initiatives via which we conveyed the message that we can use technology for purposeful and, above all, meaningful matters both for the citizens and for society in general.

"The Voice of the Lake"

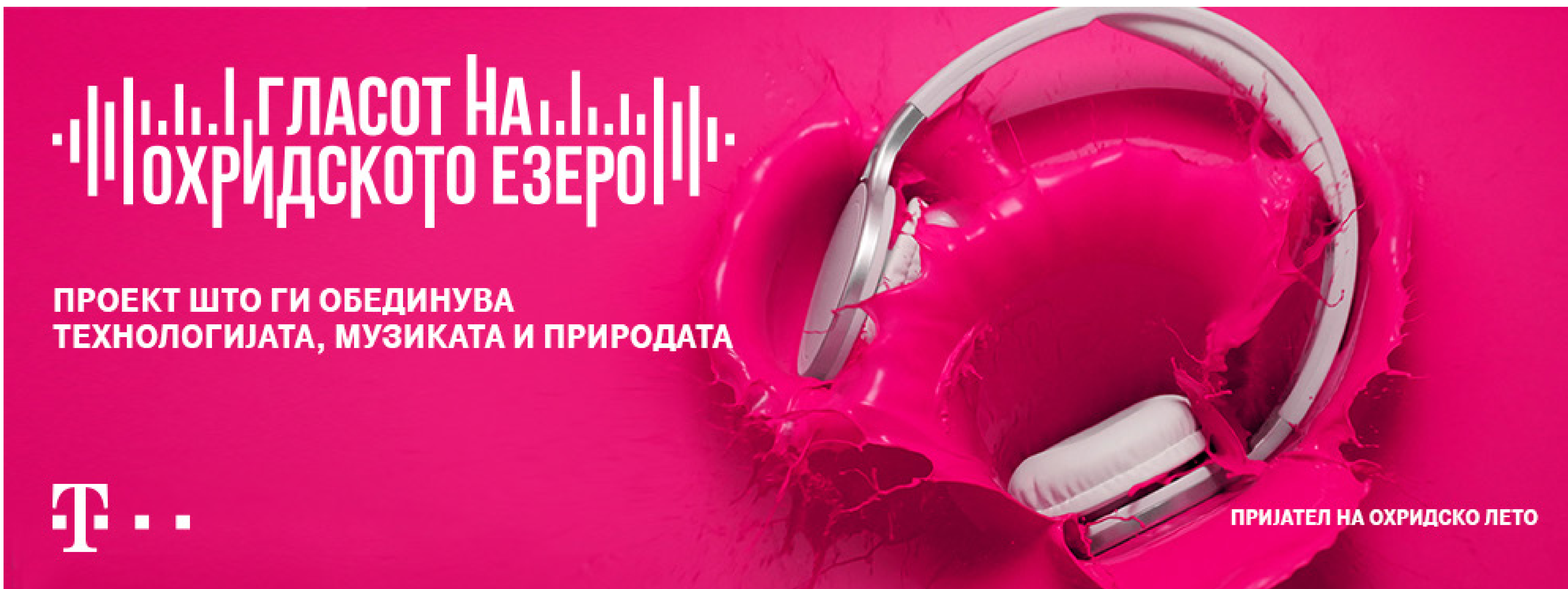
Makedonski Telekom as a proud sponsor and supporter for many years of the most prominent traditional cultural event in Macedonia – the "Ohrid Summer Festival", created its innovative musical project titled **"The Voice of the Lake"**. This unique endeavour, assisted by technology and our network, created a different and very interesting story about Lake Ohrid and it conveyed a strong message for "preserving the uniqueness and the eco-environment of this jewel of the Balkans".

"The Voice of the Lake" initiative grew into a unique and original musical-technological adventure backed up by a technology leader, luscious natural rarity and beauty, a renowned festival and a top-class artist – musician...

How does it function? It is a complex computer algorithm which feeds on active data and variables directly linked to Lake Ohrid (the weather conditions, the period of the day, the depth, the wildlife, the external factors, etc.). Concurrently, the algorithm translates all of these into audio samples, whereby, for the first time ever, this natural spectacle has been given a voice through which we can hear the magical sounds of the Macedonian natural jewel. This unique musical project implemented by Makedonski Telekom is aimed at reminding us of the beauties of Lake Ohrid, its immense significance and value and the exceptional importance of its preservation.

#ПаузаЗаПреглед (Pauzazapregled – Stop for an exam)

The micro site www.pauzazapregled.mk came to exist as a part of the #ПаузаЗаПреглед campaign, in which Makedonski Telekom was the technological partner. In the month of breast cancer awareness, this project was a positive example for corporate social responsibility and it constitutes a great manner of informing the public regarding one of the most frequent serious diseases in the world. The www.pauzazapregled.mk micro site was put into operation



OUR SUCCESS BECOMES GREATER WHEN WE INVEST IN THE SOCIETY AND MAKE THE WORLD A BETTER PLACE TO LIVE

at the beginning of October and it can be accessed solely via a smart phone in order to raise the awareness of the fight against breast cancer. Through this site, the visitors can learn the basic self-exam steps. The participation in the #ПаузаЗаПреглед campaign and the creation of the micro site are a confirmation that modern technology, in addition to providing numerous communication-related benefits, can also be used for the general good. In this case, technology provides access to information and knowledge that could save lives, as well as a reminder for women to dedicate some time to themselves, get educated, protect themselves and pay greater attention to their health.

The support for sports and culture continues…

The list of our corporate social responsibility activities for 2019 is quite extensive in our efforts to cover more and more segments of social living. We unselfishly provide our support to sports and culture. Our focus in sports is on handball via the partnership with the Macedonian Handball Federation and the support for the double European handball champion HC Vardar. We have sponsored the traditional international handball tournament held each year in Struga. We have also provided our generous assistance to the Ping-Pong Federation of the Republic of North Macedonia and we have supported several smaller sports clubs.

Culture continues to be our main priority and it is with special care that we nourish events that have a long tradition and a special place on the world cultural map. The Ohrid Summer Festival is one of the projects that we have been friends with for more than 20 years.

In addition, in the sphere of culture in 2019, apart from the Ohrid Summer Festival, we must also emphasize our cooperation with the International Theatre Festival ITF Skupi Festival, as well as the manifestation “The Sounds of the Old Bazaar”. Furthermore, as a company we have provided our support to the delivery of the premiere of the movie “Willow” in Macedonia, directed by our famous director Milcho Manchevski, as well as the Festival of the New German Film, which was held in several cities throughout our country, and the traditional manifestation Strumica Open Festival. The Summer of Tetovo Culture is also on the list of cultural events that have been provided with our assistance. As regards the projects dedicated to the youngest ones, we have supported the holding of the children’s festivals “Zlatno Slavejce” (Golden Nightingale) and “Vinozito” (Rainbow), and we have also started cooperating with the Skopje ZOO.

As a company, we have been supporting activities and international events at which numerous participants from the countries in the entire region have openly and clearly stated the need and the importance of using technology for everyone’s good, through creating services and tools for mutual connection and facilitation of the everyday life of the citizens and the business entities. In that context, we have had a part in international conferences such as the Digital Summit in Serbia, BalcanCom 2019 and the ADRIA Security Summit. In addition, we have also supported matters that are of social significance, such as the role of innovations in the environment – the topic of the Macedonia 2025 Summit. Certainly, as a tradition, also last year we were a part of the AllWeb Conference, and we have also provided internet support to the Startup community in Macedonia and to Laika Meet The Future organized by Brainster.

Donations

During 2019, Makedonski Telekom granted a donation for purchasing medical devices. At the Clinic of Oncology within the State Clinical Centre Skopje, the donation was intended for purchasing two machines for soldering foils for packing the instruments, we donated toolkits to the Special Gynaecology and Obstetrics Hospital “Mother Theresa” Skopje, and we also donated assets to the Red Cross of Macedonia in light of the earthquake in Durrës, Albania. Furthermore, we have provided our support to the Walk against Breast Cancer organized by the association BORKA.

FOUNDATION TELEKOM FOR MACEDONIA

DIGITAL INCLUSION:
PARTNERSHIP OF THE TELEKOM FOR MACEDONIA FOUNDATION AND UNICEF FOR THE INCLUSION OF CHILDREN AND YOUNG PEOPLE WITH DISABILITIES

One of the greatest challenges nowadays is how to build a fair digital society in which everyone will have a place, without any exceptions. The surpassing of the digital gap is a task for all the stakeholders in society and it is our strategic commitment. In June 2019, the Telekom for Macedonia Foundation and UNICEF concluded a partnership titled "Digital Inclusion" aimed at overcoming the barriers faced by children and young people with disabilities in the course of education and in the daily life. The purpose of the partnership is using technology in order to create innovative digital solutions for better access to education and inclusion of children with disabilities in the community.

Generation Unlimited – a Global Challenge for Young Innovators

The best way to make a change is to engage young people in the creation of solutions – a move which not only enables them to create and use technology in an innovative manner, but also inspires them to think openly and inclusively. Thence, one of the initiatives of the partnership is Generation Unlimited – a public call for young innovators for designing digital solutions. Generation Unlimited is a global youth challenge which takes place in 40 countries around the world. In our country, young people were invited to offer innovative answers to the question "How can digital technology contribute for a more active inclusion of children and young people with disabilities in education and in the daily life?".This youth challenge was implemented with the support of SmartApp and the Scout Association of Macedonia.

Co-creation with Mentors from Telekom

Fifty teams comprised of 220 young people aged 14 to 24 applied to the open call Generation Unlimited, published by UNICEF and the Telekom for Macedonia Foundation in October. Ten teams – finalists were selected and in each of the teams there was one member who is a person with disabilities in order to be able to approach the matter through someone who personally feels the obstacles of society. The ten finalist teams worked on the challenge with the help of mentors from Telekom: engineers, IT and marketing specialists, who made their expertise available for the teams, but also learned a lot from the young innovators. At the pre-workshops, held in November 2019, the young teams got to know the basis of assistive technologies and digital inclusion and, together with the mentors, they worked on developing their ideas.

TECHNOLOGY CONNECTS US AND HELPS US TO OVERCOME ALL CHALLENGES AND BARRIERS

Design Thinking Workshops for Ideas Development

In December, the ten teams worked on the development of their ideas for digital solutions aimed at overcoming the barriers faced by children and young people with disabilities in the course of education and in everyday life. The dedication, focus and positive energy of the teams yielded great results.
All the teams demonstrated that with the help of technology it is possible to create tools that will shift the boundaries and make a real difference.
From amongst the ten participating teams, five were selected that will continue developing their ideas with additional finances and mentoring support.

The First Five Innovative Solutions

1. Bionic Arm

The Bionic Team designed a robot arm at an affordable price, which reads the muscle sensors and helps people without limbs in their everyday life. Everyone will be able to choose the right size, download the free-of-charge 3D printing models from the internet, print out the structure on a 3D printer, order the remaining parts on the internet and assemble it on his/her own without any prior experience. The model will cost between USD 150 and 200 and it will be affordable also for those who are unable to allocate significant finances.

2. An Inclusive Menu

The Mind Benders team designed an inclusive digital restaurant menu, accessible for everyone, developed by means of the universal design principles. The solution will enable people with disabilities to independently review the menus at restaurants. The menu comes in various formats, suitable for impaired sight, impaired hearing, dyslexia and intellectual disability.

3. Smart Wheelchair

The Zero to Hero team designed a smart wheelchair, which operates with eye control, has sensors for tracking the physical condition of the user and sensors for detecting objects. The system can be installed in already existing wheelchairs that do not have any control system in them. With the help of this solution, an ordinary wheelchair can become a smart one with just some minor finances. The movement and the health condition of the person with disability can be remotely monitored by any member of his/her family.

4. App for Translating Spoken Language into Sign Language

The PortComSign teams designed an app that turns spoken language into sign language and vice-versa. The team was inspired to solve the problem with the communication between people with impaired hearing and all those who do not understand sign language. The app will enable translation of sign language into text and voice, so that hearing-impaired persons can be understood and, vice-versa, translation from voice into text and sign language animation.

5. App for the Socialization of Persons with Intellectual Disability

The Something Unordinary team designed a mobile application One + One which will connect volunteers with the families of children and young people with intellectual disability. Guided by the fact that persons with intellectual disability very rarely or never go out of their homes or institutions, the team created an app through which the families will be able to find a volunteer in order to organize socializing activities for their children.

Next Steps and Participation in the Global Challenge

All five finalists will work with their mentors on their solutions until April 2020, when from these five two solutions will be selected that will represent Macedonia at the global Generation Unlimited challenge, in which 40 countries from around the world will participate.

In June 2020, the two finalist solutions from our country will compete globally. The teams standing behind these solutions will have a chance to get additional finances in the amount of USD 20.000, under the global incubation program of the Generation Unlimited partners.

FINANCIAL STATEMENTS

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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 positions as of 31 December 2019 and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes, comprising 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 of 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 the Republic of North Macedonia (the „Standards“). The Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about 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 risk of material misstatement of the financial statements, whether due to fraud or error. In making those risks 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 my 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 statement present fairly, in all material respects, the financial position of Makedonski Telekom AD Skopje as of 31 December 2019, and of its financial performance and its cash flows fir the year ended in accordance with the International Financial Reporting Standards.

Dragan Davitkov
General Manager

Aleksandra Kuzmanovska
Certified Auditor

PricewaterhouseCoopers Revizija DOO

PRICEWATERHOUSECOOPERS REVIZIJA DOO
20 February 2020
Skopje, Republic of North Macedonia

STATEMENT OF FINANCIAL POSITION

As at 31 December

In thousands of denars	Note	2019	2018
Assets			
Current assets			
Cash and cash equivalents	5	1,539,722	517,310
Deposits with banks	6	-	742,487
Trade receivables and other assets	7	3,130,865	3,118,822
Other taxes receivable	8	14,293	14,115
Inventories	9	385,307	269,678
Total current assets		5,070,187	4,662,412
Non-current assets			
Property, plant and equipment	11	11,514,527	11,695,620
Rights of use assets	10	381,979	-
Advances for property, plant and equipment		5,648	2,890
Intangible assets	12	2,365,376	2,676,777
Advances for intangible assets		653	-
Trade receivables and other assets	7	429,729	446,422
Financial assets at fair value through profit and loss	28.1	131,585	103,306
Other non-current assets		612	612
Total non-current assets		14,830,109	14,925,627
Total assets		19,900,296	19,588,039
Liabilities			
Current liabilities			
Trade payables and other liabilities	13	3,459,600	3,364,138
Lease Liabilities	14	118,752	-
Income tax payable		36,270	7,330
Other taxes payable	8	42,687	46,495
Provision for liabilities and charges	16	183,453	172,780
Total current liabilities		3,840,762	3,590,743
Non-current liabilities			
Other liabilities	13	260,411	358,164
Lease liabilities	14	268,583	-
Deferred income tax liabilities	15	115,643	143,670
Provision for liabilities and charges	16	37,917	27,815
Total non-current liabilities		682,554	529,649
Total liabilities		4,523,316	4,120,392
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		8,032,402	8,123,069
Total equity	17	15,376,980	15,467,647
Total equity and liabilities		19,900,296	19,588,039

These financial statements were authorized for issue on 20 February 2020 by the Management of Makedonski Telekom AD - Skopje, and are subject to review and approval by the Board of Directors on 27 February 2020 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	2019	2018
Revenues	18	10,922,966	10,535,628
Depreciation and amortization	10,11,12	(2,746,585)	(2,524,799)
Personnel expenses	19	(1,085,398)	(1,135,017)
Payments to other network operators		(903,336)	(907,733)
Other operating expenses	20	(4,472,411)	(4,378,240)
Operating expenses		(9,207,730)	(8,945,789)
Other operating income	21	28,176	28,900
Operating profit		1,743,412	1,618,739
Finance expenses	22	(75,090)	(62,425)
Finance income	23	50,584	68,334
Finance income/(expense) - net		(24,506)	5,909
Profit before income tax		1,718,906	1,624,648
Income tax expense	24	(213,511)	(203,084)
Profit for the year		1,505,395	1,421,564
Total comprehensive income for the year		1,505,395	1,421,564
Earnings per share (EPS) information:			
Basic and diluted earnings per share (in denars)	32	17.45	16.48

STATEMENT OF CASH FLOWS

Year ended 31 December

In thousands of denars	Note	2019	2018
Operating activities			
Profit before tax		1,718,906	1,624,648
Adjustments for:			
Depreciation and amortization	10,11,12	2,746,585	2,524,799
Write down/(release) of inventories to net realizable value	20	(3,909)	4,061
Fair value gain on financial assets	23	(28,279)	(39,381)
Impairment on trade receivables and other assets	20	229,390	159,925
Net increase of provisions	16	27,332	12,068
Net (gain)/loss on disposal of property, plant and equipment	21	(1,101)	1,433
Dividend income	23	(7,073)	(3,159)
Interest expense	22	58,313	39,556
Interest income	23	(15,232)	(22,893)
Other non-cash items		(79,322)	(47,577)
Effect of foreign exchange rate changes on cash and cash equivalents		3,739	1,862
Cash generated from operations before changes in working capital		4,649,349	4,255,342
(Increase)/decrease in inventories		(111,720)	64,382
Increase in trade receivables and other assets		(156,069)	(122,102)
Increase/(decrease) in liabilities		119,528	(154,810)
Cash generated from operations		4,501,088	4,042,812
Interest paid		(48,100)	(28,196)
Taxes paid		(212,598)	(240,571)
Cash flows generated from operating activities		4,240,390	3,774,045
Investing activities			
Acquisition of property, plant and equipment		(1,381,753)	(1,575,601)
Acquisition of intangible assets		(419,706)	(259,713)
Loans collected		10,473	12,438
Deposits collected from banks		742,487	680,506
Deposits placed with banks		-	(742,487)
Dividends received		7,073	3,159
Proceeds from sale of property, plant and equipment		3,061	11,245
Interest received		15,232	22,893
Cash flows used in investing activities		(1,023,133)	(1,847,560)
Financing activities			
Dividends paid	25	(1,595,704)	(1,584,334)
Payments for leases	14	(127,205)	-
Payments of other financial liabilities	13	(468,197)	(345,354)
Cash flows used in financing activities		(2,191,106)	(1,929,688)
Net increase/(decrease) in cash and cash equivalents		1,026,151	(3,203)
Cash and cash equivalents at 1 January		517,310	522,375
Effect of foreign exchange rate changes on cash and cash equivalents		(3,739)	(1,862)
Cash and cash equivalents at 31 December	5	1,539,722	517,310

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 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	17	9,583,888	540,659	(3,738,358)	958,389	8,123,069	15,467,647
Balance at 1 January 2019		9,583,888	540,659	(3,738,358)	958,389	8,123,069	15,467,647
Total comprehensive income for the year		-	-	-	-	1,505,395	1,505,395
Transaction with owners in their capacity of owners (dividends paid)		-	-	-	-	(1,596,062)	(1,596,062)
Balance at 31 December 2019	17	9,583,888	540,659	(3,738,358)	958,389	8,032,402	15,376,980

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 2019 was 1,060 (2018: 1,129).

1.2. Regulatory Environment - Mobile Line

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

In 2008 a decision for granting three radiofrequencies licenses was 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.

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

After the merger of One and VIP, on 18 November 2016, A1 Macedonia (former one.VIP) submitted a request to the Agency to change the licenses for using radio frequencies in land mobile service with record numbers 108269/1, 108271/1, 104068, 104069, 104711, 108269/2 and 108267/2. The Agency adopted a resolution not to approve the reshuffling request of A1 Macedonia.

On 19 December 2014, amendments of the ECL were enacted. Many significant changes were made to the ECL, with the Balkan Roaming Regulation being one of the most important changes made in line with EU Roaming III regulation. The glide path for roaming prices reduction finished on 1 July 2017. In 2019, regulatory bodies of the West Balkan countries (WB6) (North Macedonia, Montenegro, Serbia, Bosnia, Albania, Kosovo) introduced a roaming regulation, starting with RLAH+ (Roam Like At Home) surcharge model from 1 July 2019 until 30 June 2021. From 1 July 2021, the RLAH- model regulation shall be in place. With this regulation, the international termination rates between the WB6 countries were also decreased.

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

- mobile access obligation for all 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 the A1 Macedonia network entered the Macedonian market and started retail operations in July 2016 under regulated wholesale conditions.

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

Both operators, the Company and A1 Macedonia are designated as operators with an SMP status on the relevant wholesale market “Wholesale call termination on public mobile networks”. The current termination rates are symmetrical for the Company and A1 Macedonia, but as of May 2018, Lyca Mobile has high asymmetry.

The Agency made a new market analysis in mid-2018 for „Wholesale SMS termination in public mobile networks” and deregulated Telekom and A1 Macedonia, which were SMP operators on this market, and removed all obligations for both operators.

Based on a 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).

The license duration of the two licences previously owned by A1 Macedonia was until 2017, 10 MHz from 900 MHz band and 10 MHz from 1800 MHz band expired on 23 March 2017, positioned in the lower parts of the bands. At the request of A1 Macedonia for licence renewal, the Agency adopted 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, they are saved for a third entrant.

On 26 May 2017, A1 Macedonia submitted a request to the Agency to change the licence for using radio frequencies in land mobile service with registered number 108267/2, whereby the following radiofrequency block was allocated: 1770-1785/1865-1880 MHz. On 9 October 2017, the Agency issued a resolution for rejecting the A1 Macedonia's request for reshuffling on 1800 MHz.

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

In its 2020 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 the second half of 2020 with a possibility for 3.x GHz to be announced on a public tender.

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

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

1.3. Regulatory Environment - Fixed Line

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

At the beginning of 2015, the regulation for access to fibre was implemented, with Local Bitstream Access over 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 the A1 Macedonia operator as SMPs 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 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 from September 2016, with a new obligation to register the new and existing electronic networks (ATLAS), refer to the joint building and use of networks and a new obligation for the Agency to publish the received reports on the optic backbone segment measurements by all operators.

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

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

- Fixed access and access for 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).

In the middle of 2019, the Agency implemented ERT testing (margin squeeze methodology) to NGA based broadband wholesale services supplied by the two dominant operators (MKT and A1 Macedonia). The developed ERT model will test the economic replicability of the retail bundles including broadband services with access speed higher than 30 Mb/s. The Ministry for Information Society and Administration completed the National Broadband Plan and 5G strategy for fulfillment of the Digital Agenda and it is in the process of implementation.

1.4. Investigation into certain consultancy contracts

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

Based on publicly available information, as well as information obtained from Magyar Telekom and as previously disclosed, Magyar Telekom's Audit Committee conducted an internal investigation regarding certain contracts relating to the activities of Magyar Telekom and/or its affiliates in Montenegro and Republic of North Macedonia that totaled more than EUR 31 million. In particular, the internal investigation examined whether Magyar Telekom and/or its Montenegrin and Macedonian affiliates had made payments prohibited by U.S. laws or regulations, including the U.S. Foreign Corrupt Practices Act (the "FCPA"). The Company has previously disclosed the results of the internal investigation.

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

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

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

1.5. Financial information – impact of the adoption of the IFRS 16

This note explains the impact of the adoption of IFRS 16 Leases on the Company's financial statements. As indicated in note 2.1.1, the Company has adopted IFRS 16 Leases from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognized in the opening balance sheet on 1 January 2019. On adoption of IFRS 16, the Company recognized lease liabilities in relation to leases which had previously been classified as operating leases under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 5,48%.

The Company does not have leases classified as finance leases on date of transition.

Measurement of lease liabilities

In thousands of denars

Operating lease commitments as of 31 December 2018	401,339
Changes from new identified leases	-
Adjustments from changes in extension or termination options	-
Other	(1,275)
Lease liabilities (gross) as of 1 January 2019	400,064
Discount	(43,087)
Lease liabilities as of 1 January 2019	356,977

Measurement of right of use assets

In thousands of denars

Right of use assets from application of the modified retrospective method IFRS 16.C5(b) from operating leases as of 31 December 2018	356,977
Prepaid items related to leases before initial application	792
Right of Use Assets as of 1 January 2019	357,769

The tables below show the impacts of adoption on IFRS 16 on the 2019 Statement of financial position and Statements of profit or loss and other comprehensive income for the year ended 31 December 2019.

The column Catch-up & reclass of IFRS 16 includes the accumulated effect of the first-time application of IFRS 16 with the related reclassifications that were required by this standard at the adoption date, i.e. as of 1 January 1, 2019. The column IFRS 16 effects includes the impact resulting from the application of IFRS 16 throughout 2019. Other changes include the changes resulting from the usual business operations of the Company.

In thousands of denars	At 31 December 2019	IFRS 16 effects	Other changes	At 1 January 2019	Catch-up & reclass of IFRS 16	As at 31 December 2018
Total current assets	5,070,187	-	408,567	4,661,620	(792)	4,662,412
Total non-current assets	14,830,109	24,210	(477,497)	15,283,396	357,769	14,925,627
Total assets	19,900,296	24,210	(68,930)	19,945,016	356,977	19,588,039
Total liabilities	4,523,316	29,762	16,185	4,477,369	356,977	4,120,392
Total equity	15,376,980	(5,552)	(85,115)	15,467,647	-	15,467,647
Total equity and liabilities	19,900,296	24,210	(68,930)	19,945,016	356,977	19,588,039

The table below shows the impact from the adoption of IFRS 16 on the 2019 Statement of comprehensive income. In order to present comparable data of the Statement of comprehensive income, 2019 figures are also shown under IAS 17.

In thousands of denars	2019 IFRS 16	IFRS 16 effect	2019 IAS 17	2018 IAS 17
Revenues	10,922,966	-	10,922,966	10,535,628
Depreciation and amortization	(2,746,585)	(132,555)	(2,614,030)	(2,524,799)
Personnel expenses	(1,085,398)	-	(1,085,398)	(1,135,017)
Payments to other network operators	(903,336)	-	(903,336)	(907,733)
Other operating expenses	(4,472,411)	146,191	(4,618,602)	(4,378,240)
Operating expenses	(9,207,730)	13,636	(9,221,366)	(8,945,789)
Other operating income	28,176	(5)	28,181	28,900
Operating profit	1,743,412	13,631	1,729,781	1,618,739
Finance expenses	(75,090)	(19,779)	(55,311)	(62,425)
Finance income	50,584	-	50,584	68,334
Finance income/(expense) - net	(24,506)	(19,779)	(4,727)	5,909
Profit before income tax	1,718,906	(6,148)	1,725,054	1,624,648
Income tax expense	(213,511)	596	(214,107)	(203,084)
Profit for the year	1,505,395	(5,552)	1,510,947	1,421,564
Total comprehensive income for the year	1,505,395	(5,552)	1,510,947	1,421,564
Earnings per share (EPS) information:				
Basic and diluted earnings per share (in denars)	17.45	-	17.52	16.48

2. SIGNIFICANT ACCOUNTING POLICIES

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

2.1. Basis of preparation

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

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 2019

Title of standard	Nature of change	Impact on financial statements	Application date
IFRS 16 Leases	IFRS 16 requires entities when they are a lessee, to ■ recognize a right-of-use asset representing its right to use ■ the underlying leased asset and a lease liability representing its obligation to make lease pay ments on the statement of financial position, in itially measured at the present value of non-cancellable lease payments (including infla-tion-linked payments), and payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease; ■ recognize amortization of right-of-use assets and interest on lease liabilities over the lease term; and ■ separate the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the statement of cash flows.	The Company applied the modified retrospective approach. The Company mainly leases cell sites, rooftops, retail shops, space on masts or towers that will be affected by the new standard. IFRS 16 standard had a significant effect on the financial statements and introduced a single lease accounting model by taking right-of-use assets and lease liabilities on the balance sheet. The transitional effect on right-of-use assets, lease liabilities and profit or loss is disclosed in Note 1.5. As a result of adopting IFRS 16, the 2018 operating lease expenses were presented as depreciation and interest expense from 1 January 2019. Details of the Company's 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. 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.	An entity is required to apply IFRS 16 for annual periods beginning on or after 1 January 2019.

2.1.2. Standards, amendments and interpretations effective on or after 1 January 2019

	Standard subject of amendment	Summary on the change	Conclusion on the change
1.	IFRS 3 Business Combinations Previously held interest in a joint operation	Clarified that obtaining control of a business that is a joint operation (as defined in IFRS 11), and had rights to the assets and obligations for the liabilities relating to that joint operation immediately before the acquisition date, the transaction is a business combination achieved in stages.	The amendment of the standard does not result material changes in the financial statements of the Company
2.	IFRS 11 Joint Arrangements	A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in IFRS 3. In such cases, previously held interests in the joint operation are not remeasured.	The amendment of the standard does not result material changes in the financial statements of the Company
3.	IAS 12 Income Taxes Income tax consequences of payments on financial instruments classified as equity	An entity shall recognise the income tax consequences of dividends as defined in IFRS 9 when it recognises a liability to pay a dividend. The income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners.	The amendment of the standard does not result material changes in the financial statements of the Company
4.	IAS 23 Borrowing Costs Borrowing costs eligible for capitalisation	The Board concluded that the reference to 'borrowings made specifically for the purpose of obtaining a qualifying asset' in paragraph 14 should not apply to a borrowing originally made specifically to obtain a qualifying asset if that qualifying asset is now ready for its intended use or sale.	The amendment of the standard does not result material changes in the financial statements of the Company
5.	Amendments to IAS 19: Plan Amendment, Curtailment or Settlement (issued on 7 February 2018)	The amendments require entities to use the updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after such an event. The amendments also clarify how the requirements for accounting for a plan amendment, curtailment or settlement affect the asset ceiling requirements.	The amendment of the standard does not result material changes in the financial statements of the Company
6.	Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures (issued on 12 October 2017)	The issue relates to whether the measurement, in particular relating to impairment, of long term interests in associates and joint ventures that, in substance, form part of the 'net investment' in the associate or joint venture should be governed by IFRS 9, IAS 28 or a combination of both. In this amendment the IASB clarified that the exclusion in IFRS 9 applies only to interests a company accounts for using the equity method.	The IASB added some clarification to the wording of the standard. The amendment does not require an accounting policy change of the Company
7.	IFRIC 23 Uncertainty over Income Tax Treatments (issued on 7 June 2017)	The IFRS IC observed that entities apply diverse reporting methods when the application of tax law is uncertain. The IFRS IC developed IFRIC 23 to clarify how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. The Interpretation provides specific guidance in several areas where previously IAS 12 was silent.	The amendment of the standard does not result material changes in the financial statements of the Company
8.	Amendments to IFRS 9: Prepayment Features with Negative Compensation (issued on 12 October 2017)	The IASB ('Board') has issued a narrow-scope amendment to IFRS 9. The amendment covers two issues: ▪ What financial assets may be measured at amortised cost. ▪ How to account for the modification of a financial liability.	Employee loans with prepayment options treated as an amortized cost financial asset of the Company

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

Title	Key requirements	Impact on the financial statments	Effetive date
Definition of a Business – Amendments to IFRS 3	The amended definition of a business requires an acquisition to include an input and a substantive process that together significantly contribute to the ability to create outputs. The definition of the term 'outputs' is amended to focus on goods and services provided to customers, generating investment income and other income, and it excludes returns in the form of lower costs and other economic benefits.	The amendment has no impact in the financial statements of the Company.	1 January 2020

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:

	2019 MKD	2018 MKD
1 USD	54.95	53.69
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

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

For the purpose of the above classification:

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

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

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

- Impairment of financial assets

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

A loss allowance must be recognized for financial assets measured at amortized cost and at fair value through other comprehensive income. The loss allowance must be recognized through profit or loss and reduces the carrying amount of the relevant financial asset; 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 amortized cost

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

(a) Financial assets measured at amortized cost

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

- cash and cash equivalents;
- deposits over 3 months;
- trade receivables;
- employee loans;
- other receivables.

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

Cash and cash equivalents

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

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.

2.3.2. 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:

	2019 Years	2018 Years
Buildings	20-40	20-40
Aerial and cable lines	20-25	20-25
Telephone exchanges	7-10	7-10
Base stations	10	10
Computers	4	4-6
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:

	2019 Years	2018 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 18) are shown net of VAT and discounts.

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

Revenue should be recognized 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 graned, 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.

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.

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 20.

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

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

Under IAS 17, 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

As from 1 January 2019, the Company applies IFSR 16 and accordingly leases are recognized as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Company. Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the lease payments. The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions. The measurement includes non-cancellable lease payments (including inflation-linked payments), and also includes payments to be made in optional periods if the lessee was reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease

As a consequence, the Company recognises depreciation of the right-of-use asset and interest on the lease liability. The repayments of lease liability are separated into a principal portion and an interest portion and presented in the statement of cash flows separately as cashflows from financial and operating activates, respectively.

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

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

Recognition exemptions

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

Lease term

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

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

Options - "Reasonably certain criteria"

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

Lease payments

Lease payments are defined in the same way for both lessees and lessors. Lease payments are defined as payments made by a lessee to a lessor relating to the right to use an underlying asset during the lease term.

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

Reassessment of the lease liability

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

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

Accounting for lease modifications

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

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

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

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

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

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

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

Under IAS 17 costs in respect of operating leases were 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 2019, if MKD would have been 1% weaker or stronger against EUR, profit would have been MKD 4,747 thousand in net balance lower or higher, respectively. 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 2019, if MKD would have been 10% weaker or stronger against USD, profit would have been MKD 1,588 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.

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 1,533,218 thousand cash in banks as at 31 December 2019. 1% rise in market interest rate would have caused (ceteris paribus) the interest received to increase with approximately MKD 15,332 thousand annually, while similar decrease would have caused the same decrease in interest received. Amount of deposits is MKD 1,254,440 thousand (including call deposits) and cash in bank as at 31 December 2018, therefore 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.

c) Other price risk

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

As part of the presentation of market risks, IFRS 7 also requires disclosures on how hypothetical changes in risk variables affect the price of financial instruments. As at 31 December 2019 and 31 December 2018, the Company holds investments, which could be affected by risk variables such as stock exchange prices.

The Company had MKD 131,585 thousand investments in equity of other entities that are publicly traded on the Macedonian Stock Exchange as at 31 December 2019, 20% rise in market price would have caused (ceteris paribus) MKD 26,317 thousand gain, while similar decrease would have caused the same loss in the Profit for the year. The amount of the investments in equity of other entities that are publicly traded on the Macedonian Stock Exchange is MKD 103,306 thousand as at 31 December 2018, therefore 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 for the year.

3.1.2. Credit risk

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

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

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

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

The depositing decisions are made based on the following priorities:

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

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

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

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

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

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

As of 31 December 2019, cash and cash equivalents are not secured with guarantee from Deutsche Telekom core banks. All cash and cash equivalent are allocated in domestic banks in Republic North Macedonia based on CAEL methodology rating for purpose of credit risk diversification.

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 2019 and 2018 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 2019 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	1,116,542	673,103	442,018	1,347	74
Liabilities to related parties	436,899	435,435	1,464	-	-
Other financial liabilities	897,820	234,053	145,156	236,284	282,327
	2,451,261	1,342,591	588,638	237,631	282,401

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

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 2019, is MKD 14,239,042 thousand, in accordance with the adopted international financial reporting standards published in the "Official Gazette of the Republic of North Macedonia" (2018: MKD 14,174,620 thousand). Out of this amount MKD 9,583,888 thousand (2018: MKD 9,583,888 thousand) represent share capital and MKD 958,389 thousand (2018: 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 17.1). 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 305,176 thousand (2018: MKD 280,533 thousand). See note 11 and 12 for the changes made to useful lives in 2019.

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% (2018: 2%) to determine the terminal value after 10 years. The discount rate used was 8.07% (2018: 8.36%). 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 2019 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 2019. 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 16 and 29).

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.

5. CASH AND CASH EQUIVALENTS

In thousands of denars	2019	2018
Call deposits	-	251,007
Cash in bank	1,533,218	260,946
Cash on hand	6,504	5,357
	1,539,722	517,310

The interest rate on call deposits in banks in 2018 was 0.33% 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	2019	2018
MKD	845,342	292,341
EUR	680,859	214,011
USD	13,521	10,958
	1,539,722	517,310

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	2019	2018
Credit rating of the Guarantor: A	-	479,831
	-	479,831

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	2019	2018
Credit rating: A	446,497	-
Credit rating: A-	-	250
Credit rating: BB+	248,649	1,243
Credit rating: B+	9,024	4,317
Credit rating: CCC+	453,952	11,382
Cash/Call deposits in local banks without rating	375,096	14,930
	1,533,218	32,122

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. 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	2019	2018
MKD	-	250,139
EUR	-	492,348
	-	742,487

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	2019	2018
Credit rating of the Guarantor: A	-	742,487
	-	742,487

7. TRADE RECEIVABLES AND OTHER ASSETS

In thousands of denars	2019	2018
Trade debtors – domestic	4,684,892	4,600,817
Less: allowance for impairment	(1,976,007)	(1,940,280)
Trade debtors – domestic – net	2,708,885	2,660,537
Trade debtors – foreign	139,096	162,569
Less: allowance for impairment	(34,767)	(29,393)
Trade debtors – foreign – net	104,329	133,176
Receivables from related parties	168,476	181,862
Contract assets	363,536	354,697
Less: allowance for impairment	(98,045)	(84,416)
Contract assets net	265,491	270,281
Loans to employees	29,563	41,461
Other receivables	17,001	15,757
Financial assets	3,293,745	3,303,074
Contract costs	50,066	61,546
Advances given to suppliers	105,579	111,165
Less: allowance for impairment	(62,922)	(62,922)
Advances given to suppliers – net	42,657	48,243
Prepayments	174,126	152,381
	3,560,594	3,565,244
Less non-current portion: Loans to employees	(21,881)	(32,354)
Less non-current portion: Trade debtors – domestic	(317,413)	(327,071)
Les non-current portion: Contract asset	(80,682)	(72,219)
Les non-current portion: Contract costs	(9,753)	(14,778)
Current portion	3,130,865	3,118,822

Receivables from related parties represent receivables from members of Magyar Telekom Group and Deutsche Telekom Group (see note 30).

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. (2018: 4.55% p.a.).

The non-current portion of Loans to employees represents receivables that are due within 8 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 2019, domestic trade debtors of MKD 2,418,077 thousand (2018: MKD 2,396,028 thousand) are impaired. The aging of these receivables is as follows:

In thousands of denars	2019	2018
Less than 30 days	284,092	280,338
Between 31 and 180 days	145,831	137,965
Between 181 and 360 days	57,391	92,164
More than 360 days	1,930,763	1,885,561
	2,418,077	2,396,028

As at 31 December 2019, domestic trade receivables in amount of MKD 78,612 thousand (2018: MKD 106,501 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	2019	2018
Less than 30 days	5,868	25,952
Between 31 and 60 days	9,924	5,810
Between 61 and 90 days	13,540	5,677
Between 91 and 180 days	9,403	6,147
Between 181 and 360 days	7,552	9,602
More than 360 days	32,325	53,313
	78,612	106,501

The total amount of the provision for domestic trade debtors is MKD 1,976,007 thousand (2018: MKD 1,940,280 thousand). Out of this amount MKD 1,723,173 thousand (2018: MKD 1,719,249 thousand) relate to provision made according the aging structure of the above receivables, while the amount of MKD 94,975 thousand (2018: MKD 67,691 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 157,859 thousand (2018: MKD 153,340 thousand).

The total amount of the provision for contract assets is MKD 98,045 thousand (2018: MKD 84,416). The total amount of the provision for foreign trade debtors is MKD 34,767 thousand (2018: MKD 29,393 thousand).

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

In thousands of denars	2019	2018
Trade debtors – domestic	2,708,885	2,660,537
Trade debtors – foreign	104,329	133,176
Receivables from related parties	168,476	181,862
Contract assets	265,491	270,281
Loans to employees	29,563	41,461
Other receivables	17,001	15,757
	3,293,745	3,303,074

Movement in allowance for impairment:

In thousands of denars	2019	2018
Impairment losses at 1 January	2,054,089	1,947,351
First-time adoption of IFRS 9 & IFRS 15	-	110,352
Charge for the year	229,390	159,925
Utilization	(174,660)	(163,539)
Impairment losses at 31 December	2,108,819	2,054,089

In 2018 and 2019 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 2019, invoiced foreign trade debtors of MKD 34,767 thousand (2018: MKD 29,393 thousand) are impaired.

The aging of these receivables is as follows:

In thousands of denars	2019	2018
More than 360 days	34,767	29,393
	34,767	29,393

As at 31 December 2019, foreign trade receivables in amount of MKD 23,990 thousand (2018: MKD 42,513 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	2019	2018
Less than 30 days	4,931	4,081
Between 31 and 60 days	2,054	2,077
Between 61 and 90 days	1,654	3,745
Between 91 and 180 days	6,949	6,949
Between 181 and 360 days	785	9,419
More than 360 days	7,617	16,242
	23,990	42,513

The Company has renegotiated domestic trade receivables in carrying amount of MKD 11,315 thousand (2018: MKD 16,900 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	2019	2018
MKD	2,761,886	2,741,134
EUR	298,407	321,335
USD	69,902	53,936
Other	670	2,417
	3,130,865	3,118,822

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	2019	2018
Group 1	284,279	212,504
	284,279	212,504

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 1,586,511 ('zero-day impairment calculation'), (2018: MKD 1,558,713).

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

In thousands of denars	2019	2018
Group 1	8,404	6,294
	8,404	6,294

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 months.

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 months.

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 months.

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-deductable expenses category, changes on the tax treatment of the depreciation and changes in the transfer pricing provisions. Referring the non- deductable expenses, the bonus expenses (payments) above the maximum base for calculation and payment of social contributions will be treated as non- deductable expense. The depreciation expense is treated as tax deductable, if the expense is calculated within the statutory prescribed depreciation rates and rules. These rates and rules are defined in the Guidelines for depreciation which was enacted the end of 2019 with application as of 1 January 2019. Calculated depreciation expense above tax allowable amount is treated as non- deductable amount in the Annual Profit Tax Return. In addition, at the end of 2019 Profit Tax law was amended, allowing companies to use Tax credit in the future periods up to the amount of depreciation treated as non-deductable amount in the previous tax periods. These amendments affected tax asset base for Deferred tax calculation (see note 15). For the part of the changes regarding transfer pricing the Company has obligation to report for transfer pricing for 2019 latest by 30 September 2020.

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	2019	2018
VAT receivable	13,074	12,896
Other taxes receivable	1,219	1,219
	14,293	14,115

8.2. Other taxes payable

In thousands of denars	2019	2018
VAT and other tax payables	42,687	46,495
	42,687	46,495

9. INVENTORIES

In thousands of denars	2019	2018
Materials	122,087	99,753
Inventories for resale	303,039	206,815
Allowance for inventories	(39,819)	(36,890)
	385,307	269,678

Movement in allowance for inventories:

In thousands of denars	2019	2018
Allowance at 1 January	36,890	29,689
Write down of inventories to net realizable value	(3,909)	4,061
Write down of inventories	13,444	10,293
Write off	(6,606)	(7,153)
Allowance at 31 December	39,819	36,890

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. RIGHTS OF USE ASSETS

In thousands of denars	Leased land assets	Leased building assets	Leased technical equipment	Leased other equipment	Total
Cost					
At 1 January 2019	128,727	219,334	-	9,708	357,769
Additions	37,552	105,360	247	17,185	160,344
Disposals	(1,303)	(2,852)	-	-	(4,155)
At 31 December 2019	164,976	321,842	247	26,893	513,958
Depreciation					
At 1 January 2019	-	-	-	-	-
Charge for the year	40,799	88,588	103	3,066	132,556
Disposals	(378)	(199)	-	-	(577)
At 31 December 2019	40,421	88,389	103	3,066	131,979
Carrying amount					
At 1 January 2019	128,727	219,334	-	9,708	357,769
At 31 December 2019	124,555	233,453	144	23,827	381,979

Right of use assets resulted from the adoption of IFRS 16 Leases by the Company (see note 2.1.1). Corresponding lease liabilities are presented in the note 14.

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

The Company is subleasing part of right-of-use assets, and the income for 2019 is in amount of MKD 9,865 thousand.

11. PROPERTY, PLANT AND EQUIPMENT

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 thousands of denars	Land	Buildings	Telecommunication equipment	Other	Assets under construction	Total
Cost						
At 1 January 2019	10,733	5,569,258	23,264,407	4,103,315	1,928,046	34,875,759
Additions	-	7,554	606,959	144,800	660,227	1,419,540
Assets activation	21	(4,708)	693,693	320,943	(1,009,949)	-
Disposals	-	(281)	(1,248,000)	(724,660)	-	(1,972,941)
At 31 December 2019	10,754	5,571,823	23,317,059	3,844,398	1,578,324	34,322,358
Depreciation						
At 1 January 2019	-	2,431,915	17,237,795	3,510,429	-	23,180,139
Charge for the year	-	142,788	1,081,675	374,213	-	1,598,676
Disposals	-	(281)	(1,248,000)	(722,703)	-	(1,970,984)
Transfer between group of assets	-	(12,016)	11,715	301	-	-
At 31 December 2019	-	2,562,406	17,083,185	3,162,240	-	22,807,831
Carrying amount						
At 1 January 2019	10,733	3,137,343	6,026,612	592,886	1,928,046	11,695,620
At 31 December 2019	10,754	3,009,417	6,233,874	682,158	1,578,324	11,514,527

In 2019, the Company capitalized MKD 1,205 thousand (2018: MKD 3,650 thousand) expenditures related to obtaining complete documentation for base stations and MKD 34,355 thousand (2018: MKD 4,428 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 2019 affected the lives of a several types of assets, mainly transmitions systems, telephone lines, exchanges, 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	2019	2020	2021	2022	After 2022
(Decrease)/increase in depreciation	(18,060)	(23,051)	1,827	15,468	23,816
	(18,060)	(23,051)	1,827	15,468	23,816

12. INTANGIBLE ASSETS

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 22).

In thousands of denars	Software and software licenses	Concession license	Other	Assets under construction	Total
Cost					
At 1 January 2019	5,161,593	1,525,417	1,766,624	287,978	8,741,612
Additions	233,156	-	325,329	145,467	703,952
Assets activation	205,025	-	-	(205,025)	-
Disposals	(314,464)	-	(684,050)	-	(998,514)
At 31 December 2019	5,285,310	1,525,417	1,407,903	228,420	8,447,050
Amortization					
At 1 January 2019	4,075,570	979,872	1,009,393	-	6,064,835
Charge for the year	518,956	38,959	457,438	-	1,015,353
Disposals	(314,464)	-	(684,050)	-	(998,514)
At 31 December 2019	4,280,062	1,018,831	782,781	-	6,081,674
Carrying amount					
At 1 January 2019	1,086,023	545,545	757,231	287,978	2,676,777
At 31 December 2019	1,005,248	506,586	625,122	228,420	2,365,376

In 2019 six contracts (including the prolongation of cooperation) for TV content rights were identified as qualifying for capitalization. Accordingly, these rights were recognized in 2019 in Intangible assets, category Other, at the net present value of future payments in amount of MKD 325,329 thousand and will be amortized over the contracts term (see note 13 and 22).

The reviews of the useful lives of intangible assets during 2019 affected the lives of a number of assets, mainly license and software. 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	2019	2020	2021	2022	After 2022
(Decrease)/increase in amortization	(50,584)	(41,297)	11,183	60,121	20,577
	(50,584)	(41,297)	11,183	60,121	20,577

13. TRADE PAYABLES AND OTHER LIABILITIES

In thousands of denars	2019	2018
Trade payables - domestic	1,352,722	1,310,177
Trade payables - foreign	547,697	791,043
Liabilities to related parties	436,899	314,109
Dividends payable	3,297	2,939
Other financial liabilities	850,968	937,171
Financial liabilities	3,191,583	3,355,439
Contract Liability	262,028	253,778
Deferred revenue	16,190	10,574
Other	250,210	102,511
	3,720,011	3,722,302
Less non-current portion:		
Deferred revenue	(1,657)	(3,280)
Contract Liability	(75)	(141)
Other financial liabilities	(258,679)	(354,743)
Current portion	3,459,600	3,364,138

Balances in the table above includes liabilities (Contract liabilities) recognized with regard to IFRS 15. Liabilities to related parties represent liabilities to members Magyar Telekom Group and Deutsche Telekom Group (see note 30).

Non-current deferred revenues have maturity up to 6 years from the date of the statement of financial position.

Financial liabilities of MKD 681,418 thousand (2018: MKD 822,420 thousand) represent the carrying amount of long-term payables related to the capitalization of certain content right contracts in 2015, 2016, 2017, 2018 and 2019 (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 22). 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	2019	2018
MKD	1,905,941	1,565,320
EUR	1,453,918	1,722,149
USD	99,302	71,526
Other	439	5,143
	3,459,600	3,364,138

14. LEASE LIABILITIES

Analyses of total lease liabilities:

In thousands of denars	2019	2018
Non-current	118,752	-
Current	268,583	-
	387,335	-

Lease liabilities relates to the adoption of IFRS 16 Leases, by the Company. For the initial effects of the adoption as of 1 January 2019 see note 1.5.

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

In thousands of denars	2019	2018
EUR	358,141	-
MKD	29,194	-
	387,335	-

Future cash outflows to which the Company is potentially exposed due to the extension options in the lease contracts which are not reflected in the measurement of lease liabilities are in amount of MKD 323,188 thousand.

15. DEFERRED INCOME TAX

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

In thousands of denars	Assets		Liabilities		Net	
	2019	2018	2019	2018	2019	2018
Property, plant and equipment	-	-	89,667	108,143	89,667	108,143
Intangible assets	(9,214)	-	-	730	(9,214)	730
First time adoption of IFRS9 & IFRS 15	(1,576)	(1,576)	37,362	36,373	35,786	34,797
(Right of use asset)/Lease Liabilities of IFRS 16	(38,733)	-	38,137	-	(596)	-
Tax (assets)/liabilities	(49,523)	(1,576)	165,166	145,246	115,643	143,670

Movement in temporary differences during the year

In thousands of denars	Balance 1 January 2019	Effects on profit	Balance 31 December 2019
Property, plant and equipment	108,143	(18,476)	89,667
Intangible assets	730	(9,944)	(9,214)
First time adoption of IFRS 9 & IFRS 15	34,797	989	35,786
(Right of use asset)/Lease Liabilities of IFRS 16	-	(596)	(596)
	143,670	(28,027)	115,643

In thousands of denars	Balance 1 January 2018	Effects on profit	Other movements	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

The temporary differences presented above relates to different carrying amount of property, plant and equipment and intangible assets as these assets were restated in accordance with statutory requirements in previous years at the year-end using official revaluation coefficients based on the general manufactured goods price increase index and in addition the tax prescribed deprecation rates and rules applicable as of 1 January 2019 (see note 8). 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.

With the transition to the IFRS 16, the standard for Leases temporary difference arise in 2019.

16. PROVISION FOR LIABILITIES AND CHARGES

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

In thousands of denars	Legal cases	Other	Total
1 January 2019	165,299	35,296	200,595
Additional provision	11,310	20,226	31,536
Unused amount reversed	(4,150)	(54)	(4,204)
Used during period	-	(8,013)	(8,013)
Other changes	-	1,456	1,456
31 December 2019	172,459	48,911	221,370

Analysis of total provisions:

In thousands of denars	2019	2018
Non-current (Other)	37,917	27,815
Current	183,453	172,780
	221,370	200,595

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 2019.

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 31). The provision is recognized against Personnel expenses in the Profit or Loss.

17. CAPITAL AND RESERVES

Share capital consists of the following:

In thousands of denars	2019	2018
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 2019 and 2018, the shares of the Company were held as follows:

In thousands of denars	2019	%	2018	%
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

17.1. 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.

18. REVENUES

In thousands of denars	2019	2018
Revenues from fixed line operations		
Internet	1,130,604	1,120,330
Voice retail	965,713	1,022,814
TV	851,333	755,376
Wholesale	344,080	378,859
Data	265,178	276,654
Equipment	58,245	79,439
Other	101,043	95,274
	3,716,196	3,728,746
Revenues from mobile operations		
Voice retail	2,422,088	2,539,593
Equipment	1,552,112	1,452,005
Internet	1,412,268	1,211,928
Wholesale	544,415	572,726
Data	381,492	361,081
Content	115,170	95,795
Voice visitor	101,375	85,233
Other	241,636	185,468
	6,770,556	6,503,829
SI/IT revenues	436,214	303,053
	10,922,966	10,535,628
Of which:		
Revenue from contracts with customers	10,808,744	10,439,997
Other sources	114,222	95,631

Other sources of revenue include rental fees, collocation spaces and other revenues. Out of MKD 114,222 (2018: MKD 95,631) thousand as a revenue from other sources,76,338 MKD (2018: MKD 60,175) thousand are included in Other fixed revenues, MKD 33,958 (2018: MKD 31,152) thousand are included in Other mobile revenues and MKD 3,925 (2018: MKD 4,304) thousand are included in Wholesale fixed revenues.

18.1. 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	2019	2018
Contract assets – current	184,810	198,062
Contract assets – non current	80,682	72,219
Contract liabilities - current	(261,953)	(253,637)
Contract liabilities – non current	(75)	(141)
Net contract assets (liabilities)	3,464	16,503
Revenue recognized in the reporting period from amounts included in contract liability at the beginning of the period	165,022	143,707

Impairment losses recognized on contract assets are disclosed together with trade receivables in note 7 and they amounted to MKD 98,045 thousand as at 31 December 2019 (2018 MKD: 84,416).

As of 31 December, 2019, the aggregate amount of the transaction price allocated to the remaining performance obligation is MKD 3,534,242 (2018: MKD 3,222,210) thousand and the Company will recognize this revenue as services are rendered, which is expected to occur over the next 29 (2018: 30) months.

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

19. PERSONNEL EXPENSES

In thousands of denars	2019	2018
Salaries	648,800	692,834
Contributions on salaries	241,320	257,060
Other staff costs	184,456	212,142
Bonus payments	74,213	64,993
Capitalized personnel costs	(63,391)	(92,012)
	1,085,398	1,135,017

Other staff costs include termination benefits, holiday's allowance and other benefits for employees and managers who have left the Company in amount MKD 93,896 thousand for 76 persons (2018: MKD 152,285 thousand for 88 persons). Out of this amount MKD 55,546 thousand are presented as Other liabilities as of 31 December 2019 (see note 13).

Bonus payments also include the cost for long-term incentive programs (see note 31).

20. OTHER OPERATING EXPENSES

In thousands of denars	2019	2018
Purchase cost of goods sold	1,995,735	1,837,044
Services	594,560	570,905
Materials and maintenance	470,803	486,806
Fees, levies and local taxes	279,792	267,635
Marketing and donations	259,229	271,715
Subcontractors	251,402	243,024
Energy	233,429	205,864
Impairment losses on trade receivables and other assets	229,390	159,925
Royalty payments	108,948	125,655
Consultancy	13,771	19,806
Write down of inventories	13,444	10,294
Insurance	11,450	13,982
Write down of inventories to net realizable value	(3,909)	4,061
Rental fees	1,345	139,930
Other	13,022	21,594
	4,472,411	4,378,240

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

As a result of adopting IFRS 16, operating lease presented above as Rental fees expenses are presented as depreciation and interest expense from 1 January, 2019 (see note 10 and 22).

21. OTHER OPERATING INCOME

In thousands of denars	2019	2018
Net (loss) /gain on sale of PPE	1,101	(1,433)
Other	27,075	30,333
	28,176	28,900

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

22. FINANCE EXPENSES

In thousands of denars	2019	2018
Interest expense	58,313	39,556
Bank charges and other commissions	13,762	22,869
Net foreign exchange loss	3,015	-
	75,090	62,425

Interest expense in amount of MKD 27,129 thousand (2018: MKD 27,555 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 19,909 thousand are coming from introduction of IFRS 16 Leases in relation to the Lease labilities recognized (see note 14).

23. FINANCE INCOME

In thousands of denars	2019	2018
Fair value through profit and loss	28,279	39,381
Interest income	15,232	22,893
Dividend income	7,073	3,159
Net foreign exchange gain	-	2,901
	50,584	68,334

Interest income is mainly generated from financial assets classified as Financial assets measured at amortised cost. Dividend income is from financial asset at fair value through profit and loss.

24. INCOME TAX EXPENSE

Recognized in the statement of comprehensive income:

In thousands of denars	2019	2018
Current tax expense		
Current year	241,538	222,472
Deferred tax expense		
Origination and reversal of timing differences	(28,027)	(19,388)
Total income tax in the statement of comprehensive income	213,511	203,084

Reconciliation of effective tax rate:

In thousands of denars		2019		2018
Profit before tax		1,718,906		1,624,649
Income tax	10.00%	171,891	10.00%	162,465
Non-deductible expenses	3.44%	59,124	2.52%	40,935
Tax credit in the future periods from depreciation	(0.63%)	(10,816)	-	-
Tax credit from donations in sport	(0.35%)	(6,000)	-	-
Tax exempt revenues	(0.04%)	(688)	(0.02%)	(316)
	12.42%	213,511	12.50%	203,084

25. DIVIDENDS

The Shareholders' Assembly of the Company, at its meeting, held on 9 May 2019 adopted a Resolution for the dividend payment for the year 2018. The Resolution on dividend payment for 2018 is in the gross amount of MKD 1,596,062 thousand from the net profit generated as per the Financial Statements of the Company for the year 2018 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 2018 is MKD 18.50. The dividend was paid out in September 2019. Up to date of issuing of these financial statements, no dividends have been declared for 2019.

26. REPORTABLE SEGMENTS AND INFORMATION

26.1. 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.

26.2. 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	2019	2018
Residential segment revenues	7,131,377	6,936,577
Business segment revenues	2,880,372	2,730,644
Wholesale segment revenues	867,336	839,390
Other	43,881	29,017
	10,922,966	10,535,628

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

Segment results (Direct margin)

In thousands of denars	2019	2018
Direct margin		
Residential segment	5,030,010	4,871,613
Business segment	1,829,571	1,824,317
Wholesale segment	496,500	502,253
Other	43,108	24,805
Total direct margin	7,399,189	7,222,988
Indirect costs		
Personal expenses	(1,085,398)	(1,135,017)
Other operating expenses	(1,851,970)	(1,973,333)
Total Indirect costs	(2,937,368)	(3,108,350)
Other operating income	28,176	28,900
EBITDA	4,489,997	4,143,538
Depreciation and amortization	(2,746,585)	(2,524,799)
Total operating profit	1,743,412	1,618,739
Finance income/(expense) – net	(24,506)	5,909
Profit before tax	1,718,906	1,624,648
Income tax expense	(213,511)	(203,084)
Net profit for the year	1,505,395	1,421,564

27. LEASES AND OTHER COMMITMENTS

27.1. 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	2019	2018
Not later than 1 year	-	127,601
Later than 1 year and not later than 5 years	-	232,794
Later than 5 years	-	40,944
	-	401,339

From 1 January 2019, the Company has recognized lease liabilities for these leases, see note 1.5 and note 14 for further information.

27.2. 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	2019	2018
Not later than 1 year	26,674	6,081
Later than 1 year and not later than 5 years	54,289	10,567
Later than 5 years	31	799
	80,994	17,447

27.3. Capital commitments

The amount authorized for capital expenditure as at 31 December 2019 was MKD 408,851 thousand (2018: MKD 579,798 thousand). The amount authorized for capital expenditure as at 31 December 2018 and 2019 mainly relates to telecommunication assets.

28. 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.

28.1. Financial assets – Carrying amounts and fair values

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

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

The table below shows the categorization of financial assets as at 31 December 2019.

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	1,539,722	-	1,539,722	1,539,722
Deposits with banks	-	-	-	-
Trade receivables and other assets	3,293,745	-	3,293,745	3,293,745
Financial assets at fair value through profit and loss	-	131,585	131,585	131,585

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 131,585 thousand (2018: MKD 103,306 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 23). The cost of these equity investments is MKD 31,786 thousand (2018: MKD 31,786 thousand).

28.2. 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 2019:

In thousands of denars	Trade and other receivables	Trade payables
Gross amounts of recognized financial instruments	3,620,536	3,518,374
Gross amounts of financial instruments set off	(326,791)	(326,791)
Net amounts of recognized financial instruments	3,293,745	3,191,583

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	3,570,217
Gross amounts of financial instruments set off	(214,778)	(214,778)
Net amounts of recognized financial instruments	3,303,074	3,355,439

28.3. 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.

29. 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 16).

30. 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 17). Apart from payment of taxes, fees to Regulatory authorities according to local legislation and dividends (see note 25), in 2019 and 2018, 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	2019		2018	
	Revenues	Expenses	Revenues	Expenses
Controlling owner Magyar Telekom Plc	204	19,280	674	19,844
Subsidiaries of the controlling owner	12,847	2,958	12,857	2,855
Ultimate parent company Deutsche Telekom AG	411,387	205,341	481,946	222,200
Subsidiaries of the ultimate parent company	39,321	68,832	61,505	58,691

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

In thousands of denars	2019		2018	
	Receivables	Payables	Receivables	Payables
Controlling owner Magyar Telekom Plc	5,388	9,208	5,492	4,301
Subsidiaries of the controlling owner	4,094	752	2,833	656
Ultimate parent company Deutsche Telekom AG	103,724	325,159	121,682	235,181
Subsidiaries of the ultimate parent company	55,270	101,780	51,855	73,971

31. KEY MANAGEMENT COMPENSATION

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

In thousands of denars	2019	2018
Short-term employee benefits (including taxation)	69,454	70,964
Contributions to the state pension system on short-term employee benefits	9,196	9,499
Other state contributions on short-term employee benefits	4,604	4,090
Termination benefits	4,362	9,400
Long-term incentive programs	14,401	1,621
Other payments	2,505	2,593
	104,522	98,167

The remuneration of the members of the Company's Board of Directors and its committees, which amounted to MKD 8,962 thousand (2018: MKD 6,613 thousand) is included in Short-term employee benefits. These are included in Personnel expenses (see note 19).

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. Each year a new cycle of long-term-incentive (LTI) program is launched.

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 and 2019, but there was no interest from the executives to voluntary participates in the program.

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

The expenses incurred by the Company related to the programs described above are shown within Long-term incentive programs (see note 16 and 19).

32. EARNINGS PER SHARE

a) Basic and diluted earnings per share

	2019	2018
Basic and diluted earnings per share (in denars)	17.45	16.48

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

	2019	2018
Weighted average number of common stocks outstanding as the denominator for calculation basic and diluted earnings per share	86,254,903	86,254,903

33. EVENTS AFTER THE FINANCIAL STATEMENT DATE

There are no events after 31 December 2019 that would have impact on the 2019 profit or loss, statement of financial position or cash flows.

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PLEASE REFER ALL THE QUESTIONS RELATED TO THE FINANCIAL FISCAL YEAR 2019 AND THE COMPANY SHARES TO: **INVESTOR.RELATIONS@TELEKOM.MK** OR CONTACT AT: **+ 38923242258**