

**BALANCE SHEET**  
**(STATEMENT OF FINANCIAL POSITION)**  
on 31 December 2021

(in denars)

| No.   | POSITION  | Designation for ADP | Note number | Amount                |                       |
|-------|---|---------------------|-------------|-----------------------|-----------------------|
|       |   |                     |             | Current year          | Previous year         |
| 1     | 2   | 3                   | 4           | 5                     | 6                     |
|       | <b>ASSETS:</b>  |                     |             |                       |                       |
| 1.    | <b>A. NON-CURRENT ASSETS (002+009+020+021+031)</b>  | 001                 |             | <b>13,178,388,560</b> | <b>13,097,338,283</b> |
| 2.    | <b>I. INTANGIBLE ASSETS (003+004+005+006+007+008)</b>   | 002                 |             | <b>2,794,866,248</b>  | <b>2,633,125,655</b>  |
| 3.    | Development expenses  | 003                 |             |                       |                       |
| 4.    | Concessions, patents, licences, trade marks and similar rights  | 004                 | 7           | 2,616,697,808         | 2,525,502,043         |
| 5.    | Goodwill  | 005                 |             |                       |                       |
| 6.    | Advances for procurement of intangible assets   | 006                 |             | 0                     | 349,133               |
| 7.    | Intangible assets under construction  | 007                 | 7           | 178,168,440           | 107,274,479           |
| 8.    | Other intangible assets   | 008                 |             |                       |                       |
| 9.    | <b>II. TANGIBLE ASSETS (010+013+014+015+016+017+018+019)</b>  | 009                 |             | <b>9,779,056,131</b>  | <b>9,907,068,813</b>  |
| 10.   | Real Estate (011+012)   | 010                 |             | 2,906,184,902         | 3,048,989,673         |
| 10.a. | Land  | 011                 | 8           | 27,922,660            | 27,922,660            |
| 10.b. | Buildings   | 012                 | 8           | 2,878,262,242         | 3,021,067,013         |
| 11.   | Plants and equipment  | 013                 | 8           | 5,276,202,840         | 5,644,206,818         |
| 12.   | Means of transport  | 014                 | 8           | 70,212,607            | 91,028,997            |
| 13.   | Tools, plant and office inventory and furniture   | 015                 | 8           | 284,623,003           | 653,409,014           |
| 14.   | Biological assets   | 016                 |             |                       |                       |
| 15.   | Advances for procurement of tangible assets   | 017                 |             | 4,264,677             | 6,284,077             |
| 16.   | Tangible assets under construction  | 018                 | 8           | 1,237,568,102         | 463,150,234           |
| 17.   | Other tangible assets   | 019                 |             |                       |                       |
| 18.   | <b>III. INVESTMENT IN REAL ESTATE</b>   | 020                 |             |                       |                       |
| 19.   | <b>IV. LONG-TERM FINANCIAL ASSETS (022+023+024+025+026+030)</b>   | 021                 |             | <b>225,297,799</b>    | <b>155,136,112</b>    |
| 20.   | Investment in subsidiaries  | 022                 |             |                       |                       |
| 21.   | Investments in associated companies and participations in joint ventures  | 023                 |             |                       |                       |
| 22.   | Receivables from long-term loans to related parties   | 024                 |             |                       |                       |
| 23.   | Receivables from long-term loans  | 025                 |             | 9,765,492             | 13,643,563            |
| 24.   | Investments in long-term securities (027+028+029)   | 026                 |             | 214,919,982           | 140,880,224           |
| 24.a. | Investments in long-term securities held to maturity  | 027                 |             |                       |                       |
| 24.b. | Investments in securities available-for-sale  | 028                 |             |                       |                       |
| 24.c. | Investments in securities at fair value through profit or loss  | 029                 |             | 214,919,982           | 140,880,224           |
| 25.   | Other long-term financial assets  | 030                 |             | 612,325               | 612,325               |
| 26.   | <b>V. LONG-TERM RECEIVABLES (032+033+034)</b>   | 031                 |             | <b>379,168,382</b>    | <b>402,007,703</b>    |
| 27.   | Receivables from related parties  | 032                 |             |                       |                       |
| 28.   | Trade receivables   | 033                 | 9           | 379,168,382           | 402,007,703           |
| 29.   | Other long-term receivables   | 034                 |             |                       |                       |
| 30.   | <b>VI. DEFERRED TAX ASSETS</b>  | 035                 |             | 40,464,992            | 22,259,928            |
| 31.   | <b>B. CURRENT ASSETS (037+045+052+059)</b>  | 036                 |             | <b>5,085,169,523</b>  | <b>5,256,667,926</b>  |
| 32.   | <b>I. INVENTORIES (038+039+040+041+042+043)</b>   | 037                 |             | <b>497,730,843</b>    | <b>352,195,224</b>    |
| 33.   | Inventory of raw materials and materials  | 038                 |             | 133,211,838           | 124,676,497           |
| 34.   | Inventory of spare parts, small inventory, packaging material and car tires   | 039                 |             | 0                     | 13,759,263            |
| 35.   | Inventory of unfinished and semi-finished products  | 040                 |             |                       |                       |
| 36.   | Inventory of finished products  | 041                 |             |                       |                       |
| 37.   | Inventory of trade goods  | 042                 |             | 364,519,005           | 213,759,464           |
| 38.   | Inventory of biological assets  | 043                 |             |                       |                       |
| 39.   | <b>II. ASSETS (OR GROUPS FOR DISPOSAL) AVAILABLE FOR SALE AND DISCONTINUED OPERATIONS</b>                                 | 044                 |             |                       |                       |
| 40.   | <b>III. SHORT-TERM RECEIVABLES (046+047+048+049+050+051)</b>  | 045                 |             | <b>2,618,135,869</b>  | <b>2,774,618,533</b>  |
| 41.   | Receivables from related parties  | 046                 | 16          | 181,594,408           | 178,776,042           |
| 42.   | Trade receivables   | 047                 | 9           | 2,388,627,224         | 2,510,066,051         |
| 43.   | Receivables for advances given to vendors   | 048                 |             | 29,153,870            | 36,777,465            |
| 44.   | Receivables from the state based on taxes, contributions, custom duties, excises and for other state levies (prepayments) | 049                 |             | 930,111               | 30,514,769            |
| 45.   | Receivables from employees  | 050                 |             | 16,246,692            | 17,680,985            |
| 46.   | Other short-term receivables  | 051                 |             | 1,583,564             | 803,221               |
| 47.   | <b>IV. SHORT-TERM FINANCIAL ASSETS (053+056+057+058)</b>  | 052                 |             | <b>677,897,000</b>    | <b>494,111,627</b>    |
| 48.   | Investments in securities (054+055)   | 053                 |             |                       |                       |
| 48.a. | Investments held to maturity  | 054                 |             |                       |                       |
| 48.b. | Investments at fair value through profit or loss  | 055                 |             |                       |                       |
| 49.   | Receivables from loans to related parties   | 056                 |             |                       |                       |
| 50.   | Receivables from loans  | 057                 |             |                       |                       |
| 51.   | Other short-term financial assets   | 058                 |             | 677,897,000           | 494,111,627           |
| 52.   | <b>V. CASH AND CASH EQUIVALENTS (060+061)</b>   | 059                 |             | <b>1,291,405,811</b>  | <b>1,635,742,542</b>  |
| 52.a. | Cash  | 060                 | 10          | 1,291,405,811         | 1,635,742,542         |
| 52.b. | Cash equivalents  | 061                 |             | 0                     | 0                     |
| 53.   | <b>VI. PREPAYMENTS AND ACCRUED INCOME</b>   | 062                 |             | <b>265,021,080</b>    | <b>215,636,093</b>    |
| 54.   | <b>TOTAL ASSETS (001+035+036+044+062)</b>   | 063                 |             | <b>18,569,044,155</b> | <b>18,591,902,230</b> |
| 55.   | <b>B. OFF BALANCE RECORDS - ASSETS</b>  | 064                 |             |                       | 87,003,432            |

**BALANCE SHEET**  
**(STATEMENT OF FINANCIAL POSITION)**  
on 31 December 2021

(in denars)

| No.  | POSITION   | Designation for ADP | Note number | Amount                |                       |
|------|--|---------------------|-------------|-----------------------|-----------------------|
|      |  |                     |             | Current year          | Previous year         |
| 1    | 2  | 3                   | 4           | 5                     | 6                     |
|      | <b>LIABILITIES:</b>  |                     |             |                       |                       |
| 56.  | <b>A. CAPITAL AND RESERVES (066+067-068-069+070+071+075-076+077-078)</b>   | 065                 |             | <b>14,978,109,939</b> | <b>14,638,027,784</b> |
| 57.  | <b>I. SHARE CAPITAL</b>  | 066                 | 11          | <b>9,583,887,733</b>  | <b>9,583,887,733</b>  |
| 58.  | <b>II. SHARE PREMIUM ACCOUNT</b>   | 067                 |             | <b>540,659,375</b>    | <b>540,659,375</b>    |
| 59.  | <b>III. TREASURY SHARES (-)</b>  | 068                 | 11          | <b>3,738,357,350</b>  | <b>3,738,357,350</b>  |
| 60.  | <b>IV. CALLED-UP CAPITAL (-)</b>   | 069                 |             |                       |                       |
|      | <b>IV. REVALUATION RESERVE AND DIFFERENCES FROM VALUATION OF COMPONENTS OF OTHER COMPREHENSIVE INCOME</b>                  |                     |             |                       |                       |
| 61.  | <b>VI. RESERVES (072+073+074)</b>  | 070                 |             | <b>865,575,754</b>    | <b>865,575,754</b>    |
| 62.  | Legal reserves   | 071                 |             | <b>980,679,730</b>    | <b>980,679,730</b>    |
| 63.  | Statutory reserves   | 072                 |             | 958,388,774           | 958,388,774           |
| 64.  | Other reserves   | 073                 |             |                       |                       |
| 65.  | Other reserves   | 074                 |             | 22,290,956            | 22,290,956            |
| 66.  | <b>VI. RETAINED EARNINGS</b>   | 075                 |             | <b>5,023,684,298</b>  | <b>4,678,209,737</b>  |
| 67.  | <b>VIII. CARRIED LOSS (-)</b>  | 076                 |             |                       |                       |
| 68.  | <b>IX. PROFIT FOR THE BUSINESS YEAR</b>  | 077                 |             |                       |                       |
| 69.  | <b>X. LOSS FOR THE BUSINESS YEAR</b>   | 078                 |             | <b>1,721,980,399</b>  | <b>1,727,372,805</b>  |
| 70.  | <b>XI. SHARE CAPITAL OF THE OWNERS OF THE PARENT COMPANY</b>   | 079                 |             |                       |                       |
| 71.  | <b>XII. UNCONTROLLED SHARE</b>   | 080                 |             |                       |                       |
| 72.  | <b>B. LIABILITIES (082+085+095)</b>  | 081                 |             | <b>2,294,262,933</b>  | <b>3,074,010,400</b>  |
| 73.  | <b>I. LONG-TERM PROVISIONS FOR LIABILITIES AND EXPENSES (083+084)</b>  | 082                 |             | <b>64,281,140</b>     | <b>54,263,818</b>     |
| 74.  | Provisions for pensions, severance payments and similar liabilities towards the employees                                  | 083                 |             | 64,281,140            | 54,263,818            |
| 75.  | Other long-term provisions for liabilities and expenses  | 084                 |             |                       |                       |
| 76.  | <b>II. LONG-TERM LIABILITIES (from 086 to 093)</b>   | 085                 |             | <b>460,599,924</b>    | <b>416,916,265</b>    |
| 77.  | Liabilities to related parties   | 086                 |             |                       |                       |
| 78.  | Trade payables   | 087                 |             | 460,599,924           | 416,916,265           |
| 79.  | Liabilities for advances, deposits and bails   | 088                 |             |                       |                       |
| 80.  | Liabilities for loans and credits to related parties   | 089                 |             |                       |                       |
| 81.  | Liabilities for loans and credits  | 090                 |             |                       |                       |
| 82.  | Liabilities for securities   | 091                 |             |                       |                       |
| 83.  | Other financial liabilities  | 092                 |             |                       |                       |
| 84.  | Other long-term liabilities  | 093                 |             |                       |                       |
| 85.  | <b>III. DEFERRED TAX LIABILITIES</b>   | 094                 |             |                       |                       |
| 86.  | <b>IV. SHORT-TERM LIABILITIES (from 096 to 108)</b>  | 095                 |             | <b>1,769,381,869</b>  | <b>2,602,830,317</b>  |
| 87.  | Liabilities to related parties   | 096                 | 16          | 391,688,453           | 485,934,653           |
| 88.  | Trade payables   | 097                 | 12          | 1,171,121,655         | 1,932,743,447         |
| 89.  | Liabilities for advances, deposits and bails   | 098                 |             | 69,333,760            | 81,175,033            |
| 90.  | Liabilities for taxes and salary contributions and salary remunerations  | 099                 |             | 1,512,360             | 4,019,025             |
| 91.  | Liabilities to employees   | 100                 |             | 10,863,063            | 7,461,688             |
| 92.  | Current tax liabilities  | 101                 |             | 39,568,892            | 57,900,615            |
| 93.  | Short-term provisions for liabilities and expenses   | 102                 |             | 66,063,805            | 18,581,825            |
| 94.  | Liabilities for loans and credits to related companies   | 103                 |             |                       |                       |
| 95.  | Liabilities for loans and credits  | 104                 |             |                       |                       |
| 96.  | Liabilities for securities   | 105                 |             |                       |                       |
| 97.  | Liabilities for dividends  | 106                 |             | 4,454,247             | 3,917,932             |
| 98.  | Other financial liabilities  | 107                 |             |                       |                       |
| 99.  | Other short-term liabilities   | 108                 |             | 14,775,634            | 11,096,099            |
| 100. | <b>V. ACCRUED EXPENSES AND DEFERRED REVENUE</b>  | 109                 |             | <b>1,296,671,283</b>  | <b>879,864,046</b>    |
| 101. | <b>VI. LIABILITIES BASED ON NON-CURRENT ASSETS (OR GROUPS FOR DISPOSAL) AVAILABLE FOR SALE AND DISCONTINUED OPERATIONS</b> | 110                 |             |                       |                       |
| 102. | <b>TOTAL LIABILITIES: SHARE CAPITAL AND RESERVES AND LIABILITIES (065+081+094+109+110)</b>                                 | 111                 |             | <b>18,569,044,155</b> | <b>18,591,902,230</b> |
| 103. | <b>C. OFF BALANCE RECORDS - LIABILITIES</b>  | 112                 |             |                       | 87,003,432            |

Nikola Ljusev  
Chief Executive Officer

Slavko Projkoski  
Chief Financial Officer

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

**INCOME STATEMENT**  
**(PROFIT AND LOSS ACCOUNT)**  
for the period of 01.01 until 31.12 2021

(in denars)

| No.   | POSITION   | Designation for ADP | Note number | Amount                |                       |
|-------|--|---------------------|-------------|-----------------------|-----------------------|
|       |  |                     |             | Current year          | Previous year         |
| 1     | 2  | 3                   | 4           | 5                     | 6                     |
| 1.    | <b>I. OPERATING REVENUES (202+203+206)</b>   | 201                 |             | <b>11,218,108,597</b> | <b>11,112,423,320</b> |
| 2.    | Sales revenues   | 202                 | 13          | 11,137,470,782        | 11,013,425,223        |
| 3.    | Other income   | 203                 | 14          | 80,637,815            | 98,998,097            |
| 4.    | Change of the value of the inventories of the finished products and work in progress                 | xxx                 |             |                       |                       |
| 4.a.  | Inventories of finished products and work in progress - opening balance                              | 204                 |             |                       |                       |
| 4.b.  | Inventories of finished products and work in progress - closing balance                              | 205                 |             |                       |                       |
| 5.    | Capitalized own production and services  | 206                 |             |                       |                       |
| 6.    | <b>II. OPERATING EXPENSES (208+209+210+211+212+213+218+219+220+221+222)</b>                          | 207                 |             | <b>9,360,768,461</b>  | <b>9,367,589,701</b>  |
| 7.    | Costs for raw materials and other materials  | 208                 |             | 249,350,073           | 263,979,792           |
| 8.    | Cost of goods sold   | 209                 |             | 1,888,921,832         | 2,255,028,386         |
| 9.    | Cost of sold materials, spare parts, small inventory, packaging material and car tires               | 210                 |             |                       |                       |
| 10.   | Services with a character of material costs  | 211                 | 15          | 2,601,337,461         | 2,396,433,675         |
| 11.   | Other operating costs  | 212                 | 15          | 704,993,624           | 699,543,637           |
| 12.   | Employees related costs (214+215+216+217)  | 213                 |             | 1,018,435,723         | 1,041,447,981         |
| 12.a. | Salaries and salary remunerations (net)  | 214                 |             | 552,525,857           | 576,359,114           |
| 12.6. | Costs for taxes to salaries and salary remunerations   | 215                 |             | 49,994,381            | 53,840,518            |
| 12.b. | Contributions for mandatory social insurance   | 216                 |             | 223,774,835           | 229,950,846           |
| 12.r. | Other employees related costs  | 217                 |             | 192,140,650           | 181,297,503           |
| 13.   | Depreciation/amortisation of tangible and intangible assets  | 218                 |             | 2,745,584,265         | 2,543,658,323         |
| 14.   | Impairment of non - current assets   | 219                 |             |                       |                       |
| 15.   | Impairment of current assets   | 220                 | 15          | 149,761,097           | 130,875,573           |
| 16.   | Provisions for liabilities and expenses  | 221                 |             |                       |                       |
| 17.   | Other operating expenses   | 222                 | 15          | 2,384,386             | 36,622,334            |
| 18.   | <b>III. FINANCE INCOME (224+229+230+231+232+233)</b>   | 223                 |             | <b>89,919,364</b>     | <b>223,527,700</b>    |
| 19.   | Finance income from the operation with related parties (225+226+227+228)                             | 224                 |             |                       |                       |
| 19.a. | Income from investments in related parties   | 225                 |             |                       |                       |
| 19.b. | Interest income from the operation with related parties  | 226                 |             |                       |                       |
| 19.c. | Foreign exchange income from the operation with related parties                                      | 227                 |             |                       |                       |
| 19.d. | Other finance income from the operation with related parties   | 228                 |             |                       |                       |
| 20.   | Income from investments in unrelated parties   | 229                 |             | 9,833,080             | 9,014,750             |
| 21.   | Interest income from the operation with unrelated parties  | 230                 |             | 3,429,509             | 179,586,499           |
| 22.   | Foreign exchange income from the operation with unrelated parties                                    | 231                 |             | 2,617,017             | 25,631,218            |
| 23.   | Unrealised gains (income) from financial assets  | 232                 |             | 74,039,758            | 9,295,233             |
| 24.   | Other finance income   | 233                 |             |                       |                       |
| 25.   | <b>IV. FINANCE EXPENSES (235+239+240+241+242+243)</b>  | 234                 |             | <b>38,455,029</b>     | <b>48,889,401</b>     |
| 26.   | Finance expenses from the operation with related parties (236+237+238)                               | 235                 |             |                       |                       |
| 26.a. | Interest expenses from the operation with related parties  | 236                 |             |                       |                       |
| 26.b. | Foreign exchange expenses from the operation with related parties                                    | 237                 |             |                       |                       |
| 26.c. | Other finance expenses from the operation with related parties                                       | 238                 |             |                       |                       |
| 27.   | Interest expenses from the operation with unrelated parties  | 239                 |             | 38,455,029            | 41,007,268            |
| 28.   | Foreign exchange expenses from the operation with unrelated parties                                  | 240                 |             |                       |                       |
| 29.   | Unrealised losses (expenses) from financial assets   | 241                 |             |                       |                       |
| 30.   | Impairment of the financial assets and investments   | 242                 |             |                       |                       |
| 31.   | Other finance expenses   | 243                 |             |                       | 7,882,133             |
| 32.   | Share in the profit of the associated companies  | 244                 |             |                       |                       |
| 33.   | Share in the loss of the associated companies  | 245                 |             |                       |                       |
| 34.   | Profit from the regular operation (201+223+244) - (204-205+207+234+245)                              | 246                 |             | 1,908,804,471         | 1,919,471,918         |
| 35.   | Loss from the regular operation (204-205+207+234+245) - (201+223+244)                                | 247                 |             |                       |                       |
| 36.   | Net profit from discontinued operation   | 248                 |             |                       |                       |
| 37.   | Net loss from discontinued operation   | 249                 |             |                       |                       |
| 38.   | Profit before tax (246+248) or (246-249)   | 250                 |             | 1,908,804,471         | 1,919,471,918         |
| 39.   | Loss before tax (247+249) or (247-248)   | 251                 |             |                       |                       |
| 40.   | Income tax   | 252                 |             | 205,029,136           | 203,543,227           |
| 41.   | Deferred tax income  | 253                 |             | 18,205,064            | 11,444,114            |
| 42.   | Deferred tax expenses  | 254                 |             |                       |                       |
| 43.   | NET PROFIT FOR THE BUSINESS YEAR (250-252+253-254)   | 255                 |             | 1,721,980,399         | 1,727,372,805         |
| 44.   | NET LOSS FOR THE BUSINESS YEAR (251+252-253+254)   | 256                 |             |                       |                       |
| 45.   | Average number of employees based on the working hours in the accounting period (in absolute amount) | 257                 |             | 911                   | 951                   |
| 46.   | Number of months of operation (in absolute amount)   | 258                 |             | 12                    | 12                    |
| 47.   | PROFIT/LOSS FOR THE PERIOD   | 259                 |             | 1,721,980,399         | 1,727,372,805         |
| 47.a. | Profit that belongs to the shareholders in the parent company  | 260                 |             | 975,788,925           | 978,844,622           |
| 47.b. | Profit that belongs to the uncontrolled share  | 261                 |             | 746,191,474           | 748,528,183           |
| 47.c. | Loss that applies to the shareholders in the parent company  | 262                 |             |                       |                       |
| 47.d. | Loss that applies to the uncontrolled share  | 263                 |             |                       |                       |
| 48.   | EARNINGS PER SHARE   | 264                 |             | 20                    | 20                    |
| 48.a. | Total basic earning per share  | 265                 |             | 20                    | 20                    |
| 48.b. | Total diluted earning per share  | 266                 |             |                       |                       |
| 48.c. | Basic earning per share after discontinued operation   | 267                 |             |                       |                       |
| 48.d. | Diluted earning per share after discontinued operation   | 268                 |             |                       |                       |

**STATEMENT OF OTHER COMPREHENSIVE INCOME**  
for the period of 01.01 until 31.12 2021

(in denars)

| No.   | POSITION  | Designation for ADP | Note number | Amount        |               |
|---|---|---------------------|-------------|---------------|---------------|
|   |   |                     |             | Current year  | Previous year |
| 1   | 2   | 3                   | 4           | 5             | 6             |
| 1.  | Profit for the year   | 269                 |             | 1,721,980,399 | 1,727,372,805 |
| 2.  | Loss for the year   | 270                 |             |               |               |
| 3.  | Other comprehensive income (273+275+277+279+281+283) - (274+276+278+280+282+284)                      | 271                 |             |               |               |
| 4.  | Other comprehensive loss (274+276+278+280+282+284) - (273+275+277+279+281+283)                        | 272                 |             |               |               |
| 5.  | Gains arising from translation of foreign operations  | 273                 |             |               |               |
| 6.  | Losses arising from translation of foreign operations   | 274                 |             |               |               |
| 7.  | Gains from re-measurement of the financial assets available-for-sale                                  | 275                 |             |               |               |
| 8.  | Losses from re-measurement of the financial assets available-for-sale                                 | 276                 |             |               |               |
| 9.  | Effective part of the gains from hedging instruments for hedging of cash flows                        | 277                 |             |               |               |
| 10.   | Effective part of the losses from hedging instruments for hedging of cash flows                       | 278                 |             |               |               |
| 11.   | Changes in the revaluation reserves for non-current assets (+)  | 279                 |             |               |               |
| 12.   | Changes in the revaluation reserves for non-current assets (-)  | 280                 |             |               |               |
| 13.   | Actuarial gains from defined plans for employees' benefits  | 281                 |             |               |               |
| 14.   | Actuarial losses from defined plans for employees' benefits   | 282                 |             |               |               |
| 15.   | Share in the other comprehensive income of the associated companies (only for consolidation purposes) | 283                 |             |               |               |
| 16.   | Share in the other comprehensive loss of the associated companies (only for consolidation purposes)   | 284                 |             |               |               |
| 17.   | Profit tax on the components of the other comprehensive income  | 285                 |             |               |               |
| 18.   | Net other comprehensive income (271-285)  | 286                 |             |               |               |
| 19.   | Net other comprehensive loss (285-271) or (272+285)   | 287                 |             |               |               |
| 20.   | Total comprehensive income for the year (269+286) or (286-270)  | 288                 |             | 1,721,980,399 | 1,727,372,805 |
| 20.a.   | Comprehensive income that belongs to the shareholders in the parent company                           | 289                 |             | 975,788,925   | 978,844,622   |
| 20.b.   | Comprehensive income that belongs to the uncontrolled share   | 290                 |             | 746,191,474   | 748,528,183   |
| 21.   | Comprehensive loss for the year (270+287) or (270-286) or (287-269)                                   | 291                 |             |               |               |
| 21.a.   | Comprehensive loss that applies to the shareholders in the parent company                             | 292                 |             |               |               |
| 21.b.   | Comprehensive loss that applies to the uncontrolled share   | 293                 |             |               |               |
| <p>Nikola Ljusev<br/>Chief Executive Officer</p> <p>Slavko Projkoski<br/>Chief Financial Officer</p> <p>Goran Tilovski<br/>Controlling, Accounting and Tax Director<br/>Certified Accountant<br/>Reg. No. 0105436</p> |   |                     |             |               |               |

## Makedonski Telekom AD Skopje

Tax period: 01/01/31/12/2021

## Tax Return

| DETERMINATION OF THE INCOME TAX |  | AOP |                |
|---------------------------------|--|-----|----------------|
| I                               | Financial result in the income statement   | 01  | 1,908,804,471  |
| II                              | Unrecognized expenses for tax purposes from the current year (sum AOP 03 to AOP 39)  | 02  | 618,804,012    |
|                                 | The expenditures not being related with the performance of the activity of the entity and are not directly related to the activity of the company and not result of the performance of the company   | 03  | 6,718,498      |
| 1                               |  |     |                |
| 2                               | Payments and other personal income from employment over the limit prescribed by the law  | 04  | 657,300        |
| 3                               | Payments to the employees which has not been prescribed in Article 9 paragraph 1 item 2 of the Profit tax Law  | 05  | 87,595,874     |
| 4                               | Costs for organized food and transportation to and from work for the employees, over the amount prescribed by law  | 06  | -              |
| 5                               | Costs for accommodation and travelling for persons not employed by the Company, not documented according to article 9, paragraph 3a, from PTL  | 07  | -              |
| 6                               | Costs for food of night-time shifts employees, over the amount prescribed by law   | 08  | -              |
| 7                               | Cost paid for monthly payments to members of the governing bodies over the amount prescribed by law  | 09  | 7,300,512      |
| 8                               | Costs paid for voluntary contributions in the voluntary retirement fund above the amount determined by the Law   | 10  | -              |
| 9                               | Cost paid for premiums for life insurance above the amount determined by law   | 11  | -              |
| 10                              | Allowances for the volunteers and for the persons engaged in conducting public affairs paid over the amount prescribed by law  | 12  | -              |
| 11                              | Hidden payments of profits   | 13  | -              |
| 12                              | Shortages not caused by extraordinary events (theft, fire or other natural disasters)  | 14  | 819,911        |
| 13                              | Costs for representation   | 15  | 24,385,032     |
| 14                              | Donations expenses in relation to the Law of donations and sponsorships in public activities above 5% from the total revenue generated in the FY   | 16  | -              |
| 15                              | Sponsorships expenses in relation to the Law of Sponsorships and sponsorships in public activities above 3% from the total revenue generated in the FY   | 17  | -              |
| 16                              | Costs for donations in sports according to article 30a from PTL  | 18  | 4,305,000      |
| 17                              | Interest costs for credits which are not used for business activities of the tax payer   | 19  | -              |
| 18                              | Insurance premiums paid by the employer in favor of the members of the governing bodies and the employees  | 20  | -              |
| 19                              | Withholding taxes (deduction) paid in the name of third parties against the expenditures of the taxpayer   | 21  | 228,051        |
| 20                              | Fines and tax penalties, penalties and penalty interest on a late payment of public duties and costs of forced collection  | 22  | 2,812,308      |
| 21                              | Scholarships   | 23  | 608,645        |
| 22                              | The costs for shrinkage, loss, shambles and break-down   | 24  | -              |
| 23                              | Permanent written-off bad debt receivables   | 25  | -              |
| 24                              | Cost of net income on the basis of business performance above the amount calculated as a contribution  | 26  | 57,066,442     |
| 25                              | Cost for internship above the amounts prescribed by law for internship   | 27  | 6,623,487      |
| 26                              | Cost for practical training of students and practical teaching of students in the amount of over 8.000 den. per month  | 28  | -              |
| 27                              | Cost for depreciation of the revaluated amount of tangible and intangible assets   | 29  | -              |
| 28                              | Cost for depreciation amount of tangible and intangible assets which is higher then the depreciation calculated on the acquisition cost of the asset by applying rates above the prescribed by the nomenclature of depreciable assets      | 30  | 266,348,865    |
| 29                              | Residual present value of fixed assets not fully utilized and depreciable, for which no approval has been issued by the Public Revenue Office  | 31  | 1,366,168      |
| 30                              | Cost for impairment of outstanding claims  | 32  | 128,404,486    |
| 31                              | Amount of outstanding loans  | 33  | -              |
| 32                              | The amount of the positive difference between the costs arising from a transaction at transfer price and the costs arising from that transaction at market price established by the "arm's length" principle between related persons       | 34  | -              |
| 33                              | The amount of the positive difference between the proceeds of the "arm's length" transaction and the proceeds of the related party transfer transaction  | 35  | -              |
| 34                              | Amount of part of interest on loans received by a related party that exceeds the amount that would have been received in the case of unrelated persons   | 36  | -              |
| 35                              | The amount of default interest arising from relationships with a related person  | 37  | -              |
| 36                              | Interest on loans received from shareholders or co-owners with over 20% participation in the capital of the company  | 38  | -              |
| 37                              | Other reconciliation of expenses   | 39  | 23,563,433     |
| III                             | Tax base (I+II)  | 40  | 2,527,608,483  |
| IV                              | Tax base decreases (AOP42+AOP43+AOP44+AOP45+AOP46+AOP47+AOP48)   | 41  | 434,267,121    |
| 38                              | Amount collected loan for which in previous period the tax base was increased  | 42  | -              |
| 39                              | Amount of repayment of the loan for which the tax base has been increased in the previous tax periods  | 43  | -              |
| 40                              | Amount of depreciation expense over the amount calculated using depreciation rates governed by the nomenclature for depreciation assets and the annual depreciation rates for which the tax base has been increased in the previous period | 44  | 78,982,760     |
| 41                              | Amount of unpaid fees above the amount specified in article 9 paragraph(1) item 2, 3-b),4),5),5-a) and 6), of the PTL, for which the tax base has been increased in the previous period, if they are presented as income.                  | 45  | -              |
| 42                              | Dividend derived from ownerships rights in other tax payer, already taxed by the dividend payer  | 46  | 9,829,800      |
| 43                              | Part of loss decreased by unrecognized expenses, transferred from previous years   | 47  | -              |
| 44                              | Amount of made investments from profit (reinvestment)  | 48  | 345,474,561    |
| V                               | Tax base after deductions (III-IV)   | 49  | 2,093,341,362  |
| VI                              | Calculated profit tax (V x 10%)  | 50  | 209,334,136    |
| VII                             | Reduction of calculated profit tax (AOP52+AOP53+AOP54+AOP55)   | 51  | 4,305,000      |
| 45                              | Decrease of tax in the amount of procured 10 fiscal cash registered for cash payments  | 52  | -              |
| 46                              | Amount of tax incorporated in taxable revenue/profits from abroad (withholding tax) till the prescribed rate   | 53  | -              |
| 47                              | Paid taxes by subsidiary from abroad, for profits included in revenues of the parent company in R. Macedonia but not above the amount of prescribed tax rate   | 54  | -              |
| 48                              | Amount of calculated tax relief for given donation in accordance with article 30a from PTL   | 55  | 4,305,000      |
| VIII                            | Calculated profit tax after deductions (VI-VII)  | 56  | 205,029,136    |
| 49                              | Settled advance tax payments for the tax period  | 57  | 211,864,780    |
| 50                              | Amount of the overpaid income tax from previous periods  | 58  | -              |
| 51                              | Amount for payment/over paid amount (AOP56-AOP57-AOP58)  | 59  | 6,835,644      |
| IX                              | Special informations   |     |                |
| 52                              | Total amount of investment from the profit (reinvested profit)   | 60  | 345,474,561    |
| 53                              | Losses from previous year for which the rule for three day coverage is not expired   | 61  | -              |
| 54                              | Losses reduced for unrecognized expenses in current year which can be transfer in next 3 years   | 62  | -              |
| 55                              | Transferred unused part of right for deductions of Profit tax under article 30 from PTL  | 63  | -              |
| 56                              | Transferred unused portion of the tax deduction right paid abroad at the prescribed rate   | 64  | -              |
| 57                              | Total revenues in the year   | 65  | 11,308,027,961 |
| 58                              | Total expenses for donations in year for which the right for deduction according to Law for sponsorship and donation is used   | 66  | 2,211,500      |
| 59                              | Total expenses for donations in year for which the right for deduction according to Law for sponsorship and donation is not used   | 67  | 3,463,775      |
| 60                              | Total expenses for sponsorships in year for which the right for deduction according to Law for sponsorship and donation is used  | 68  | 5,704,185      |
| 61                              | Total expenses for sponsorships in year for which the right for deduction according to Law for sponsorship and donation is not used  | 69  | 3,553,625      |
| 62                              | Total expenses for donations in sports used for deduction of the calculated tax, according to one of the articles 30a from PTL   | 70  | 4,305,000      |

Nikola Ljushev  
Chief Executive OfficerGoran Tilovski  
Certified Accountant  
Reg. No. 0105436



LIFE IS FOR SHARING.

**Makedonski Telekom AD - Skopje**  
Explanatory Notes to the  
Annual Accounts  
For the year ended  
31 December 2021

Notes to the annual accounts

## 1. GENERAL INFORMATION

### 1.1. About the Company

These notes to the annual accounts 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.

As of 31 December 2021, shareholders structure of Company is as follows:

| Shareholders of Makedonski Telekom AD - Skopje | Number of shares  | %             |
|--|-------------------|---------------|
| Stonebridge AD Skopje                          | 48,877,780        | 51.00         |
| Government of the Republic of North Macedonia  | 33,364,875        | 34.81         |
| The Company (treasury shares)                  | 9,583,878         | 10.00         |
| International Finance Corporation (IFC)        | 1,011,204         | 1.06          |
| Other minority shareholders                    | 3,001,044         | 3.13          |
|  | <u>95,838,781</u> | <u>100.00</u> |

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

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

The Company’s registered address is “Kej 13 Noemvri” No 6, 1000, Skopje, Republic of North Macedonia. The average number of employees of the Company based on the working hours during 2021 was 911 (2020: 951).

As of 31 December 2021, structure of the employees of Company by educational attainment is as follows:

|  | %      |
|--|--------|
| University level education             | 63.41  |
| Higher education                       | 2.14   |
| 4 years secondary education/specialist | 4.05   |
| 4 years secondary education            | 28.04  |
| 3 years secondary education            | 2.36   |
| Total                                  | 100.00 |

### 1.2. Regulation environment - Mobile Line

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

## Notes to the annual accounts

In 2008 a decision for granting 2x15 MHz radiofrequencies license on 2100 MHz was announced. The validity of the license was 10 years, i.e. until 17 December 2018. The license was renewed in 2018 for 10 years, until 2028, in accordance with the ECL.

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

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

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

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

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

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

An MVNO, Lyca Mobile hosted on the A1 Macedonia network entered the Macedonian market and started retail operations in July 2016 under regulated wholesale conditions. Also, from October 2020, new MVNO (Green Mobile) started operating, hosted on A1 Macedonia network.

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

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

The license duration of the two 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, 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

## Notes to the annual accounts

licenses on 900 (2x12.5MHz), 1800 (2x10MHz) and 2100 (2x15MHz) for additional validity of 10 years (until 2028-2029) without onetime fee.

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

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

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

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

5G public tender is expected to be published by the Agency in March 2022 for the following radiofrequency bands 700 MHz, 3.X GHz. Finalization of the procedure could be expected in second or third quarter of 2022.

### 1.3. Regulation environment - Fixed Line

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

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

The final document for the wholesale central access for mass-market products provided at a fixed location market analyses (Market 6) was published in April 2017. For the first time, the Agency imposed a regulation on the access to Hybrid Fibre Coaxial Access (HFC). All existing obligations for the copper and fibre network remain unchanged. All obligations apply to the Company and to the A1 Macedonia operator as SMPs on the broadband market.

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

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

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

A1 Macedonia was designated for Public payphones. R3 Infomedia signed a contract with the Agency for the Telephone Directory and Directory Inquiry universal services.

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

Notes to the annual accounts

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

#### **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 against former managers of the company is still ongoing at first instance criminal court.

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

#### **1.5. COVID-19 impact on the business and on the financial statements**

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

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

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

During 2021, the inflation rates has increased globally, resulting in a local inflation rate of 3.2% for 2021 (2020: 1.2%). However, based on the inflation forecasts of the National Bank of North Macedonia for 2022, it is expected to slowly decrease to the level of 2.4%. The global rise of energy cost will result in significant increase of the company's energy costs; however, the

Notes to the annual accounts

Management believes that such negative trend may be compensated as much as possible with a set of measures and better commercial results.

## 2. BASIS OF PREPARATION OF ANNUAL ACCOUNTS

These Annual accounts are prepared, in all material respects, in accordance with the Company Law (published in Official Gazette No. 28/04, 84/05, 25/07, 87/08, 42/10, 48/10, 24/11, 166/12, 70/13, 119/13, 120/13, 187/13, 38/14, 41/14, 138/14, 88/15, 192/15, 6/16, 30/16, 61/16, 64/18, 120/18) and Rule Book for Accounting (published in Official Gazette No.159/2009 and No.164/2010 and No. 107/2011), whereby the International Financial Reporting Standards (IFRS) comprising IFRS 1 to IFRS 8, International Accounting Standards (IAS) comprising IAS 1 to IAS 41, International Financial Reporting Interpretations Committee (IFRIC) comprising IFRIC 1 to IFRIC 17 and Standing Interpretations Committee (SIC) Interpretations comprising SIC 7 to SIC 32, were published. IFRS 9, IFRS 10, IFRS 11, IFRS 12, IFRS 13, IFRIC 18, IFRS 15, IFRS 16 IFRIC 19, IFRIC 20 and IFRIC 21 are not included in the Rule Book for Accounting and are not applied by the Company. IFRS (including IFRS 1), were initially published in the Official Gazette in 1997, and since then several updates have followed. The last update was in December 2010.

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

The Annual accounts are presented in Macedonian denars.

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

## 3. SIGNIFICANT ACCOUNTING POLICIES

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

### 3.1. Foreign currency translation

#### 3.1.1. Functional and presentation currency

The Annual accounts are presented in Macedonian denars, which is the Company's functional and presentation currency.

#### 3.1.2. 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 balance sheet date are translated to denars at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognized in the Income statement (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:

|       | 2021  | 2020  |
|-------|-------|-------|
|       | MKD   | MKD   |
| 1 USD | 54.37 | 50.24 |
| 1 EUR | 61.63 | 61.69 |

### 3.2. 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.

## Notes to the annual accounts

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 6.

### 3.2.1. Financial assets

The Company classifies its financial assets in the following categories:

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

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

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

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

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

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

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

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

Financial assets at fair value through profit or loss' are subsequently carried at fair value. Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are recognized in the Income statement (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 Income statement when the Company's right to receive payments is established and inflow of economic benefits is probable.

- (b) Loans and receivables

## Notes to the annual accounts

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

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

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

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

### **Cash and cash equivalents**

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

Should impairment on cash and cash equivalents occur, it would be recognized in the Income statement (Finance expenses).

### **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**

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

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

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

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

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

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

## Notes to the annual accounts

impairment is reversed. The amount of the reversal shall be recognized in the Income statement as a reduction to Other operating expenses (Impairment losses on trade and other receivables).

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

### **Employee loans**

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

Difference between the nominal value of the loan granted and the initial fair value of the employee loan is recognized as prepaid employee benefits, which reduces Loans and receivables from employees. Interest income on the loan granted calculated by using the effective interest method is recognized as finance income, while the prepaid employee benefits are amortized to Personnel expenses evenly over the term of the loan. The program is not active in terms of granted new loans. In 2013, the last loan was granted. The Company stopped providing employee loans in 2013.

Impairment losses on Employee loans, if any, are recognized in the Income statement.

### **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.

### **3.3. Inventories**

Inventories are stated at the lower of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated selling expenses.

The cost of inventories is based on weighted average cost formula and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition.

Phone sets are often sold for less than cost in connection with promotions to obtain new contracts with minimum commitment periods. 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 Operating expenses (Impairment of current assets).

### **3.4. 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 Income statement (Depreciation and amortization) as an impairment loss.

### **3.5. Tangible assets**

Tangible assets are stated at cost less accumulated depreciation and impairment losses (see note 3.7).

The cost of an item of tangible assets 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.

Notes to the annual accounts

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 Tangible assets (see note 8).

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

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the Income statement 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 Income statement 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 Income statement (Other income/Other operating expenses accordingly).

Depreciation is charged to the Income statement on a straight-line basis over the estimated useful lives of items of tangible assets. 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 8).

The estimated useful lives are as follows:

|                        | 2021<br>Years | 2020<br>Years |
|------------------------|---------------|---------------|
| Buildings              | 20-40         | 20-40         |
| Aerial and cable lines | 20-25         | 20-25         |
| Telephone exchanges    | 7-10          | 7-10          |
| Base stations          | 10            | 10            |
| Computers              | 4             | 4             |
| Furniture and fittings | 4-10          | 4-10          |
| Vehicles               | 5-10          | 5-10          |
| Other                  | 2-15          | 2-15          |

### 3.6. Intangible assets

Intangible assets that are acquired by the Company are stated at cost less accumulated amortization and impairment losses (see note 3.7).

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

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

Notes to the annual accounts

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 costs) 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 7).

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.

The estimated useful lives are as follows:

|                       | 2021  | 2020  |
|-----------------------|-------|-------|
|                       | Years | Years |
| Software and Licenses | 2-5   | 2-5   |
| Concession            | 18    | 18    |
| 3G and 2G Licenses    | 10    | 10    |
| 4G License            | 7-20  | 20    |

The change in category 4G License, an addition of 7 years in 2021 is due to new license bough - 2100 MHz (2x15 MHz). License validity is until end of 2028.

Amortization is charged to the Income statement 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 7).

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

### 3.7. Impairment of tangible 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 Income statement (Other operating expenses). Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

### 3.8. 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 balance sheet 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 Income statement (Provisions for liabilities and charges).

Notes to the annual accounts

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.

### **3.9. Share capital**

Ordinary shares are classified as equity.

### **3.10. 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.

### **3.11. Statutory reserves**

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

### **3.12. Revaluation reserves**

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

### **3.13. Revenues**

Revenues for all services and equipment sales (see note 13) are shown net of VAT and discounts. Revenue is recognized when the amount of the revenue can be reliably measured, and when it is probable that future economic benefits will flow to the Company and all other specific recognition criteria of IAS 18 on the sale of goods and rendering of services are met for the provision of each of the Company's services and sale of goods.

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

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

#### **3.13.1. 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. The Company considers the various elements of these arrangements to be separate earnings processes and recognizes the revenue for each of the deliverables using the residual method. These units are identified and separated, since they have value on a standalone basis and are sold not only in a bundle, but separately as well.

## Notes to the annual accounts

Therefore the Company recognizes revenues for all of these elements using the residual method that is the amount of consideration allocated to the delivered elements of the arrangements equals the total consideration less the fair value of the undelivered elements.

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

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

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

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

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

### **3.13.2. 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.

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

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

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

## **3.14. Employee benefits**

### **3.14.1. 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 Income statement 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 annual accounts

Notes to the annual accounts

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.

**3.14.2. 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.

**3.14.3. 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.

**3.15. Marketing expenses**

Marketing costs are expensed as incurred. Marketing expenses are disclosed in note 15.

**3.16. Income tax**

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

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

**3.16.1. 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.

**3.17. Leases**

**3.17.1. Operating leases –Company as a lessor**

Assets leased to customers under operating leases are included in tangible assets in the Balance sheet. 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.

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### **3.17.2. Operating lease –Company as a lessee**

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

### **3.18. 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.

### **3.19. Dividend distribution**

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

### **3.20. 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 3).

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

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

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

## **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 305,064,918 (2020: MKD 285,203,644). See notes 7 and 8 for the changes made to useful lives in 2021.

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

### **4.2. Estimated impairment of tangible and intangible assets**

We assess the impairment of identifiable tangibles 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

## Notes to the annual accounts

amounts are primarily determined by value in use calculations, which use a broad range of estimates and factors affecting those. Among others, we typically consider future revenues and expenses, technological obsolescence, discontinuance of services and other changes in circumstances that may indicate impairment. If impairment is identified using the value in use calculations, we also determine the fair value less cost to sell (if determinable), to calculate the exact amount of impairment to be charged. As this exercise is highly judgmental, the amount of a potential impairment may be significantly different from that of the result of these calculations. Management has performed an impairment test based on a 10 years cash flow projection and used a perpetual growth rate of 1% (2020: 2%) to determine the terminal value after 10 years. The discount rate used was 7.42% (2020: 7.42%). 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 (b)). These factors are reviewed annually, and changes are made to the calculations when necessary. In addition, we consider also the nature of the business (residential, business, fixed line, mobile etc.) and the environment in which the Company operates. Management paid particular attention to the solvency of customers due to COVID-19 however, based on experiences of last months and expectations considering the future COVID effects, no material effects on bad debt rate. In 2021 the Company carried out regular detailed analysis on the portfolio of customers on which collective assessment of impairment is performed which resulted in changes in the related impairment rates due to different payment behavior, resulting in new impairment rates of trade and other receivables in 2021. 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 6.1.2).

### **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.

### **4.5. Subscriber acquisition costs**

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

## **5. CHANGE IN ACCOUNTING POLICY AND ERRORS**

Accounting policy is consistently applied in periods presented in these annual accounts.

## **6. FINANCIAL RISK MANAGEMENT**

### **6.1. Financial risk factors**

The Company does not apply hedge accounting for its financial instruments, all gains and losses are recognized in the Income statement. 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

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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.

### 6.1.1. 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 balance sheet 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 2021, if MKD would have been 1% weaker or stronger against EUR, profit before tax would have been MKD 857,714 in net balance higher or lower, respectively. At 31 December 2020, if MKD would have been 1% weaker or stronger against EUR, profit would have been MKD 3,291,710 in net balance lower or higher, respectively. At 31 December 2021, if MKD would have been 10% weaker or stronger against USD, profit before tax would have been MKD 2,674,447 in net balance lower or higher, respectively. At 31 December 2020, if MKD would have been 10% weaker or stronger against USD, profit would have been MKD 8,788,169 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.

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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 1,954,581,416 deposits (only deposits with maturity more than 3 months) and cash in bank as at 31 December 2021, 1% rise in market interest rate would have caused (ceteris paribus) the interest received to increase with approximately MKD 17,591,233 annually, resulting in increase of profit after tax, by same amount while similar decrease would have caused the same decrease in profit after tax. The Company had MKD 2,123,540,768 cash in banks as at 31 December 2020, 1% rise in market interest rate would have caused (ceteris paribus) the interest received to increase with approximately MKD 21,235,408 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 2021 and 31 December 2020, the Company holds investments, which could be affected by risk variables such as stock exchange prices.

The Company had MKD 214,919,982 investments in equity of other entities that are publicly traded on the Macedonian Stock Exchange as at 31 December 2021, 20% rise in market price would have caused (ceteris paribus) MKD 42,983,996 gain, while similar decrease would have caused the same loss in the profit before tax. The Company had MKD 140,880,224 investments in equity of other entities that are publicly traded on the Macedonian Stock Exchange as at 31 December 2020, 20% rise in market price would have caused (ceteris paribus) MKD 28,176,045 gain, while similar decrease would have caused the same loss in the Income statement.

### 6.1.2. Credit risk

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

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

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

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

The depositing decisions are made based on the following priorities:

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

As of 31 December 2021, and 31 December 2020, cash and cash equivalents are not secured with guarantees. All cash and cash equivalent are allocated in four big domestic banks in Republic North Macedonia based on CAEL methodology rating for purpose of credit risk diversification and upon harmonization and agreement with the parent and ultimate parent companies.

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

## Notes to the annual accounts

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 Balance sheet. 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 balance sheet date.

### 6.1.3. 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.

### 6.2. 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 2021, is MKD 14,978,109,939, in accordance with the adopted international financial reporting standards published in the "Official Gazette of the Republic of North Macedonia" (2020: MKD 14,638,027,784). Out of this amount MKD 9,583,887,733 (2020: MKD 9,583,887,733) represent share capital and MKD 958,388,774 (2020: MKD 958,388,774) represent statutory reserves, which are not distributable (see note 3.11). The Company has also acquired treasury shares (see notes 3.10 and 11.1). The transaction is in compliance with the local legal requirements that by as a result of acquiring treasury shares the total equity of the Company shall not be less than the amount of the share capital and reserves which are not distributable to shareholders by law or by Company's statute. Part of the net profit generated as per the Financial Statements of the Company for the year 2020 in accordance with the adopted international financial reporting standards published in the "Official Gazette of the Republic of North Macedonia", in amount of MKD 345,474,561 (2019: MKD 332,096,849) were transferred in retained earnings, presented in same line in Statement of financial position, for investments in qualified tangible and intangible assets for purpose of tax reliefs utilization in 2021, in accordance with Income tax law.

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 annual accounts 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.

### 6.3. 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.

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

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

Financial liabilities included in the Balance sheet 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.

**7. INTANGIBLE ASSETS**

| In denars                             | Software<br>and licenses | Concession,<br>2G 3G and<br>4G license | Other                | Assets under<br>construction | Total                |
|---------------------------------------|--------------------------|--|----------------------|------------------------------|----------------------|
| <b>Cost</b>                           |                          |  |                      |                              |                      |
| At 1 January 2021                     | 5,395,407,122            | 1,525,417,256                          | 1,769,775,057        | 107,274,479                  | 8,797,873,914        |
| Additions                             | 385,318,272              | 185,085,000                            | 497,598,413          | 145,619,806                  | 1,213,621,491        |
| Assets activation (see note 8)        | 65,290,732               | -                                      | -                    | (65,290,732)                 | -                    |
| Disposals                             | (218,944,136)            | -                                      | (656,217,216)        | -                            | (875,161,352)        |
| Correction in the initial<br>balances | (9,481,569)              | -                                      | -                    | (9,435,113)                  | (18,916,682)         |
| At 31 December 2021                   | <u>5,617,590,421</u>     | <u>1,710,502,256</u>                   | <u>1,611,156,254</u> | <u>178,168,440</u>           | <u>9,117,417,371</u> |
| <b>Amortization</b>                   |                          |  |                      |                              |                      |
| At 1 January 2021                     | 4,216,112,022            | 1,063,988,782                          | 884,996,588          | -                            | 6,165,097,392        |
| Charge for the year                   | 469,687,703              | 40,362,784                             | 531,002,883          | -                            | 1,041,053,370        |
| Disposals                             | (218,944,136)            | -                                      | (656,217,216)        | -                            | (875,161,352)        |
| Correction in the initial<br>balances | (8,438,287)              | -                                      | -                    | -                            | (8,438,287)          |
| At 31 December 2021                   | <u>4,458,417,302</u>     | <u>1,104,351,566</u>                   | <u>759,782,255</u>   | <u>-</u>                     | <u>6,322,551,123</u> |
| <b>Carrying amount</b>                |                          |  |                      |                              |                      |
| At 1 January 2021                     | <u>1,179,295,100</u>     | <u>461,428,474</u>                     | <u>884,778,469</u>   | <u>107,274,479</u>           | <u>2,632,776,522</u> |
| At 31 December 2021                   | <u>1,159,173,119</u>     | <u>606,150,690</u>                     | <u>851,373,999</u>   | <u>178,168,440</u>           | <u>2,794,866,248</u> |

In 2021 two contracts (including the prolongation of cooperation) for TV content rights were identified as qualifying for capitalization. Accordingly, these rights were recognized in 2021 in Intangible assets, category TV content rights and other, at the net present value of future payments in amount of MKD 497,598,413 and will be amortized over the contracts term (see note 12).

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| In denars                      | Software and licenses | Concession, 2G 3G and 4G license | Other                | Assets under construction | Total                |
|--------------------------------|-----------------------|----------------------------------|----------------------|---------------------------|----------------------|
| <b>Cost</b>                    |                       |                                  |                      |                           |                      |
| At 1 January 2020              | 5,291,698,036         | 1,525,417,256                    | 1,407,903,256        | 228,420,163               | 8,453,438,711        |
| Additions                      | 527,060,434           | -                                | 793,810,273          | 105,811,341               | 1,426,682,048        |
| Assets activation (see note 8) | 230,055,939           | -                                | -                    | (226,957,025)             | 3,098,914            |
| Disposals                      | (653,407,287)         | -                                | (431,938,472)        | -                         | (1,085,345,759)      |
| At 31 December 2020            | <u>5,395,407,122</u>  | <u>1,525,417,256</u>             | <u>1,769,775,057</u> | <u>107,274,479</u>        | <u>8,797,873,914</u> |
| <b>Amortization</b>            |                       |                                  |                      |                           |                      |
| At 1 January 2020              | 4,285,969,361         | 1,025,829,390                    | 782,780,877          | -                         | 6,094,579,628        |
| Charge for the year            | 582,736,771           | 38,159,392                       | 534,154,183          | -                         | 1,155,050,346        |
| Disposals                      | (652,594,110)         | -                                | (431,938,472)        | -                         | (1,084,532,582)      |
| At 31 December 2020            | <u>4,216,112,022</u>  | <u>1,063,988,782</u>             | <u>884,996,588</u>   | <u>-</u>                  | <u>6,165,097,392</u> |
| <b>Carrying amount</b>         |                       |                                  |                      |                           |                      |
| At 1 January 2020              | <u>1,005,728,675</u>  | <u>499,587,866</u>               | <u>625,122,379</u>   | <u>228,420,163</u>        | <u>2,358,859,083</u> |
| At 31 December 2020            | <u>1,179,295,100</u>  | <u>461,428,474</u>               | <u>884,778,469</u>   | <u>107,274,479</u>        | <u>2,632,776,522</u> |

In 2020 seven contracts (including the prolongation of cooperation) for TV content rights were identified as qualifying for capitalization. Accordingly, these rights were recognized in 2020 in Intangible assets, category Other, at the net present value of future payments in amount of MKD 793,810,274 and will be amortized over the contracts term (see note 12).

The reviews of the useful lives of intangible assets during 2021 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 denars                           | 2021                | 2022                | 2023             | 2024              | After 2024        |
|-------------------------------------|---------------------|---------------------|------------------|-------------------|-------------------|
| (Decrease)/increase in amortization | <u>(64,555,596)</u> | <u>(50,286,379)</u> | <u>1,518,404</u> | <u>90,224,778</u> | <u>23,098,793</u> |
|                                     | <u>(64,555,596)</u> | <u>(50,286,379)</u> | <u>1,518,404</u> | <u>90,224,778</u> | <u>23,098,793</u> |

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**8. TANGIBLE ASSETS**

| In denars                             | Land              | Buildings            | Telecom equipment     | Other                | Assets under construction | Total                 |
|---------------------------------------|-------------------|----------------------|-----------------------|----------------------|---------------------------|-----------------------|
| <b>Cost</b>                           |                   |                      |                       |                      |                           |                       |
| At 1 January 2021                     | 27,922,660        | 6,244,249,776        | 25,383,020,615        | 3,461,342,640        | 463,150,234               | 35,579,685,925        |
| Additions                             | -                 | 89,026               | 640,134,273           | 37,465,959           | 898,148,483               | 1,575,837,741         |
| Assets activation (see note 7)        | -                 | -                    | 204,427,956           | (71,319,010)         | (133,108,946)             | -                     |
| Disposals                             | -                 | -                    | (97,823,074)          | (162,274,258)        | (56,782)                  | (260,154,114)         |
| Correction in the initial balance     | -                 | 27,207,668           | 645,975,349           | (663,701,448)        | 9,435,113                 | 18,916,682            |
| Transfer from/to assets held for sale | -                 | (5,425,937)          | -                     | -                    | -                         | (5,425,937)           |
| At 31 December 2021                   | <u>27,922,660</u> | <u>6,266,120,533</u> | <u>26,775,735,119</u> | <u>2,601,513,883</u> | <u>1,237,568,102</u>      | <u>36,908,860,297</u> |
| <b>Depreciation</b>                   |                   |                      |                       |                      |                           |                       |
| At 1 January 2021                     | -                 | 3,223,182,763        | 19,738,813,797        | 2,716,904,629        | -                         | 25,678,901,189        |
| Charge for the year                   | -                 | 152,864,834          | 1,396,843,873         | 154,822,187          | -                         | 1,704,530,894         |
| Disposals                             | -                 | -                    | (97,666,883)          | (156,279,454)        | -                         | (253,946,337)         |
| Transfer between the groups           | -                 | -                    | 62,443,443            | (62,443,443)         | -                         | -                     |
| Correction in the initial balance     | -                 | 15,665,884           | 492,081,569           | (499,309,166)        | -                         | 8,438,287             |
| Transfer from/to assets held for sale | -                 | (3,855,190)          | -                     | -                    | -                         | (3,855,190)           |
| At 31 December 2021                   | <u>-</u>          | <u>3,387,858,291</u> | <u>21,592,515,799</u> | <u>2,153,694,753</u> | <u>-</u>                  | <u>27,134,068,843</u> |
| <b>Carrying amount</b>                |                   |                      |                       |                      |                           |                       |
| At 1 January 2021                     | <u>27,922,660</u> | <u>3,021,067,013</u> | <u>5,644,206,818</u>  | <u>744,438,011</u>   | <u>463,150,234</u>        | <u>9,900,784,736</u>  |
| At 31 December 2021                   | <u>27,922,660</u> | <u>2,878,262,242</u> | <u>5,183,219,320</u>  | <u>447,819,130</u>   | <u>1,237,568,102</u>      | <u>9,774,791,454</u>  |

In 2021 and 2020, the Company has no capitalized expenditures related to obtaining complete documentation for base stations. In 2021, the Company has no capitalized expenditures related to obtaining complete documentation for fixed line infrastructure in accordance to applicable laws in Republic of North Macedonia (2020: MKD 156,260) (see note 3.5).

Notes to the annual accounts

| In denars                         | Land              | Buildings            | Telecom.<br>equipment | Other                | Assets under<br>construction | Total                 |
|-----------------------------------|-------------------|----------------------|-----------------------|----------------------|------------------------------|-----------------------|
| <b>Cost</b>                       |                   |                      |                       |                      |                              |                       |
| At 1 January 2020                 | 27,899,358        | 6,253,726,524        | 24,458,951,946        | 3,863,208,346        | 1,578,377,681                | 36,182,163,855        |
| Additions                         | 23,302            | 3,616,905            | 649,873,421           | 157,859,071          | (83,792,549)                 | 727,580,150           |
| Assets activation (see<br>note 7) | -                 | 33,031,347           | 757,166,121           | 238,138,516          | (1,031,434,898)              | (3,098,914)           |
| Disposals                         | -                 | (46,125,000)         | (482,970,873)         | (797,863,293)        | -                            | (1,326,959,166)       |
| At 31 December 2020               | <u>27,922,660</u> | <u>6,244,249,776</u> | <u>25,383,020,615</u> | <u>3,461,342,640</u> | <u>463,150,234</u>           | <u>35,579,685,925</u> |
| <b>Depreciation</b>               |                   |                      |                       |                      |                              |                       |
| At 1 January 2020                 | -                 | 3,080,034,060        | 19,305,885,796        | 3,187,882,711        | -                            | 25,573,802,567        |
| Charge for the year               | -                 | 189,273,703          | 916,222,098           | 306,286,649          | -                            | 1,411,782,450         |
| Disposals                         | -                 | (46,125,000)         | (482,970,873)         | (777,587,955)        | -                            | (1,306,683,828)       |
| Transfer between the<br>groups    | -                 | -                    | (323,224)             | 323,224              | -                            | -                     |
| At 31 December 2020               | <u>-</u>          | <u>3,223,182,763</u> | <u>19,738,813,797</u> | <u>2,716,904,629</u> | <u>-</u>                     | <u>25,678,901,189</u> |
| <b>Carrying amount</b>            |                   |                      |                       |                      |                              |                       |
| At 1 January 2020                 | <u>27,899,358</u> | <u>3,173,692,464</u> | <u>5,153,066,150</u>  | <u>675,325,635</u>   | <u>1,578,377,681</u>         | <u>10,608,361,288</u> |
| At 31 December 2020               | <u>27,922,660</u> | <u>3,021,067,013</u> | <u>5,644,206,818</u>  | <u>744,438,011</u>   | <u>463,150,234</u>           | <u>9,900,784,736</u>  |

In 2021 and 2020, the Company has no capitalized expenditures related to obtaining complete documentation for base stations. In 2021, the Company has no capitalized expenditures related to obtaining complete documentation for fixed line infrastructure in accordance to applicable laws in Republic of North Macedonia (see note 3.5) (2020: MKD 156,260).

Regular reviews of the useful lives and residual values of property, plant and equipment during 2021 affected the lives of a several types of assets, mainly transmission systems, telephone lines, exchanges 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 Company has started the Radio access network (RAN) modernization project in 2021, which scope includes modernization (swap) of existing 2G, 3G, 4G network, technology upgrades to 5G and rollout of new 4G/5G base stations. The scope modernization relates to swap of RAN and MW (microwave) hardware equipment (base stations hardware, licenses and antennas, RAN controllers, RAN OSS elements). Due to the earlier replacement of the existing equipment, initially defined useful life has been shortened and result in accelerated depreciation in 2021 and 2022 compared to initially scheduled depreciation. The split of additional accelerated depreciation per years is calculated based on the dynamic of the replacement and in line with best available information. The reviews resulted in the following change in the original trend of depreciation in the current and future years.

| In denars                            | 2021               | 2022              | 2023                 | 2024                | After 2024           |
|--------------------------------------|--------------------|-------------------|----------------------|---------------------|----------------------|
| (Decrease)/ increase in depreciation | 402,042,248        | 34,152,006        | (115,657,239)        | (77,589,149)        | (286,877,352)        |
|                                      | <u>402,042,248</u> | <u>34,152,006</u> | <u>(115,657,239)</u> | <u>(77,589,149)</u> | <u>(286,877,352)</u> |

## 9. TRADE RECEIVABLES

| In denars                    | 2021                   | 2020                   |
|------------------------------|------------------------|------------------------|
| Trade receivables – domestic | 4,660,400,955          | 4,882,392,219          |
| Trade receivables – foreign  | 69,056,141             | 54,655,240             |
| Impairment of receivables    | <u>(1,961,661,490)</u> | <u>(2,024,973,705)</u> |
|                              | <u>2,767,795,606</u>   | <u>2,912,073,754</u>   |

Notes to the annual accounts

**10. CASH**

| In denars                         | 2021                 | 2020                 |
|-----------------------------------|----------------------|----------------------|
| Cash in banks – domestic currency | 482,721,014          | 1,142,254,073        |
| Cash in banks – foreign currency  | 793,963,402          | 487,175,068          |
| Cash on hand – domestic currency  | 14,721,395           | 6,132,922            |
| Cash on hand – foreign currency   | -                    | 180,479              |
|                                   | <u>1,291,405,811</u> | <u>1,635,742,542</u> |

**11. SHARE CAPITAL**

| In denars         |                  |                      |               |                  |                    |                      |               |
|-------------------|------------------|----------------------|---------------|------------------|--------------------|----------------------|---------------|
| Type of shares    | Ownership        | 1 January 2021       | %             | Increase         | Decrease           | 31 December 2021     | %             |
| Ordinary shares   | Private persons  | 178,599,500          | 1.87          | -                | (1,605,700)        | 176,993,800          | 1.85          |
|                   | Legal entities   | 5,110,403,300        | 53.32         | 1,605,700        | -                  | 5,112,009,000        | 53.34         |
|                   | Treasury shares  | 958,387,800          | 10.00         | -                | -                  | 958,387,800          | 10.00         |
|                   | Government of RM | 3,336,487,400        | 34.81         | -                | -                  | 3,336,487,400        | 34.81         |
| Preference shares | Government of RM | 9,733                | 0.00          | -                | -                  | 9,733                | 0.00          |
| <b>Total</b>      |                  | <b>9,583,887,733</b> | <b>100.00</b> | <b>1,605,700</b> | <b>(1,605,700)</b> | <b>9,583,887,733</b> | <b>100.00</b> |

| In denars         |                  |                      |               |                  |                    |                      |               |
|-------------------|------------------|----------------------|---------------|------------------|--------------------|----------------------|---------------|
| Type of shares    | Ownership        | 1 January 2020       | %             | Increase         | Decrease           | 31 December 2020     | %             |
| Ordinary shares   | Private persons  | 182,282,700          | 1.9           | -                | (3,683,200)        | 178,599,500          | 1.87          |
|                   | Legal entities   | 5,106,720,100        | 53.29         | 3,683,200        | -                  | 5,110,403,300        | 53.32         |
|                   | Treasury shares  | 958,387,800          | 10.00         | -                | -                  | 958,387,800          | 10.00         |
|                   | Government of RM | 3,336,487,400        | 34.81         | -                | -                  | 3,336,487,400        | 34.81         |
| Preference shares | Government of RM | 9,733                | 0.00          | -                | -                  | 9,733                | 0.00          |
| <b>Total</b>      |                  | <b>9,583,887,733</b> | <b>100.00</b> | <b>3,683,200</b> | <b>(3,683,200)</b> | <b>9,583,887,733</b> | <b>100.00</b> |

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

Notes to the annual accounts

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.

**11.1. 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 3,843,504,722. The shares are held as treasury shares.

As a result of the findings of the Investigation, for one consultancy contract, the payments of which was derecognized from treasury shares (see note 1.4).

The amount of treasury shares of MKD 3,738,357,350 (after derecognition), has been deducted from shareholders' equity. The Company has the right to reissue these shares at a later date. All shares issued by the Company were fully paid.

**11.2. Statutory reserves**

The Shareholders' Assembly of the Company, at its meeting, held on 12 April 2016 adopted a Resolution for distribution of MKD 279,145,260, which exceeds the legally defined obligatory general reserve of the Company as a result of the accession of TMMK towards the Company, in the retained earnings of the Company.

**12. CURRENT TRADE PAYABLES**

| In denars                            | 2021                 | 2020                 |
|--------------------------------------|----------------------|----------------------|
| Trade payables – domestic            | 866,426,079          | 1,506,110,642        |
| Trade payables – foreign             | 304,695,576          | 351,767,731          |
| Trade payables for un-invoiced goods | -                    | 74,865,074           |
|                                      | <u>1,171,121,655</u> | <u>1,932,743,447</u> |

The amount of MKD 477,311,811 (2020: MKD 526,065,368) represent the carrying amount of short term payables related to the capitalization of certain content right contracts in 2018, 2019, 2020 and 2021 (see note 7). The long term part of the liabilities related to this transaction is presented as long - term trade payables in the Balance sheet in amount of MKD 460,599,924 (2020: MKD 416,360,070). 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 expenses in Income statement. The carrying amount of these liabilities approximates their fair value as the related cash flows are discounted with an interest rate of 3.25% p.a. which is 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.

**13. SALES REVENUES**

| In denars                 | 2021                  | 2020                  |
|---------------------------|-----------------------|-----------------------|
| Sales revenues – domestic | 10,636,322,089        | 10,551,865,344        |
| Sales revenues – foreign  | 501,148,693           | 461,559,879           |
|                           | <u>11,137,470,782</u> | <u>11,013,425,223</u> |

Notes to the annual accounts

#### 14. OTHER INCOME

| In denars                                  | 2021              | 2020              |
|--|-------------------|-------------------|
| Income from penalties                      | 57,566,778        | 46,051,519        |
| Net gain on disposal of non-current assets | 5,739,400         | 7,350,515         |
| Income from insurance compensation         | 494,131           | 1,184,453         |
| Collected written off receivables          | -                 | 3,132,915         |
| Written off liabilities                    | 489,138           | 101,211           |
| Other income                               | 16,348,368        | 41,177,484        |
|  | <u>80,637,815</u> | <u>98,998,097</u> |

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

#### 15. SERVICES WITH CHARACTER OF MATERIAL COST AND OTHER COSTS AND EXPENSES

| In denars   | 2021                 | 2020                 |
|---|----------------------|----------------------|
| Payment to network operators                                | 1,062,732,037        | 946,311,082          |
| Maintenance   | 593,145,613          | 619,691,708          |
| Services  | 572,195,741          | 441,807,345          |
| Subcontractors  | 343,380,768          | 350,356,516          |
| Fees, levies and local taxes                                | 252,144,977          | 272,847,774          |
| Marketing and donations                                     | 173,197,616          | 211,912,445          |
| Rental fees   | 155,125,672          | 149,633,489          |
| Impairment losses on trade receivables                      | 119,489,643          | 120,879,982          |
| Royalty payments  | 87,462,944           | 82,401,439           |
| Legal cost  | 29,325,328           | 4,077,276            |
| Write down of inventories                                   | 25,893,523           | 11,528,123           |
| Insurance   | 12,634,829           | 12,145,829           |
| Consultancy   | 10,944,656           | 12,581,382           |
| Write down (release) of inventories to net realizable value | 3,740,727            | -                    |
| Scraping of non-current assets                              | -                    | 23,174,473           |
| Other   | 17,062,494           | 4,126,356            |
|   | <u>3,458,476,568</u> | <u>3,263,475,219</u> |

#### 16. TRANSACTIONS WITH RELATED PARTIES

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 1.1). Apart from payment of taxes, fees to Regulatory authorities according to local legislation and dividends, in 2021 and 2020, the Company did not execute transactions with the Government of Republic of North Macedonia, or any companies controlled or significantly influenced by it, that were outside normal day-to-day business operations of the Company. In tender procedure in 2021, new license in 2100 MHz (2x15 MHz) was issued to the Company in amount of MKD 185 million. License validity is until end of 2028. The license is recognized as intangible assets (see note 12).

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

Transactions with related parties mainly include provision and supply of telecommunication services, services for support and maintenance and cross charges.

Notes to the annual accounts

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

| In denars                                      | 2021        |             | 2020        |             |
|--|-------------|-------------|-------------|-------------|
|  | Revenues    | Expenses    | Revenues    | Expenses    |
| Controlling owner<br>Magyar Telekom Plc        | 124,564     | 16,192,497  | 54,229      | 18,032,045  |
| Subsidiaries of the controlling<br>owner       | 9,677,838   | 3,879,084   | 12,434,435  | 3,552,946   |
| Ultimate parent company<br>Deutsche Telekom AG | 432,408,820 | 278,876,883 | 334,071,949 | 179,089,228 |
| Subsidiaries of the ultimate<br>parent company | 46,099,495  | 37,107,047  | 17,656,846  | 42,362,060  |

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

| In denars                                      | 2021        |             | 2020        |             |
|--|-------------|-------------|-------------|-------------|
|  | Receivables | Payables    | Receivables | Payables    |
| Controlling owner<br>Magyar Telekom Plc        | 5,229,993   | 3,015,479   | 5,451,171   | 11,715,696  |
| Subsidiaries of the controlling owner          | 2,233,230   | 961,200     | 8,899,347   | 4,832,902   |
| Ultimate parent company<br>Deutsche Telekom AG | 132,023,549 | 310,194,079 | 130,241,045 | 390,622,883 |
| Subsidiaries of the ultimate parent<br>company | 42,107,636  | 77,517,695  | 34,184,479  | 78,763,172  |

## 17. EARNINGS PER SHARE

Basic and diluted earnings per share

|   | 2021              | 2020              |
|---|-------------------|-------------------|
| Basic and diluted earnings per share (in denars)  | <u>19.96</u>      | <u>20.03</u>      |
| b) Weighted average number of common stocks outstanding as the denominator  |                   |                   |
| Weighted average number of common stocks outstanding as the<br>denominator for calculation basic and diluted earnings per share | <u>86,254,903</u> | <u>86,254,903</u> |

Notes to the annual accounts

#### **18. EVENTS AFTER THE BALANCE SHEET DATE**

There are no events after 31 December 2021 that would have impact on the 2021 Income statement and Balance sheet.

Social responsibility is an important part of the Strategy and the Company as part of DT Group is taking part of the Environmental, Social, and (Corporate) Governance (ESG) Agenda through different initiatives for impact on climate changes and better resource efficiency.

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Nikola Ljushev  
Chief Executive Officer

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Slavko Projkoski  
Chief Financial Officer

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