

M-NAV AD, Skopje
Joint Stock Company in State ownership

Financial Statements for the
Year Ended 31 December 2019
in accordance with International Financial
Reporting Standards

and

Independent Auditor's Report

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To the Management of
M-NAV AD, Skopje

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of a Shareholder Company M-NAV AD, Skopje (hereinafter the "Company"), which comprise the statement of financial position as of 31 December 2019, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Audit Law and the International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



To the Management of
M-NAV AD, Skopje

INDEPENDENT AUDITOR'S REPORT (Continued)

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of 31 December 2019, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report of other legal and regulatory requirement

Management of the Company is also responsible for preparation of the annual statement of operating in accordance with article 384 of the Company Trade Law. Our responsibility in accordance with the Audit Law is to express an opinion whether the annual statement is consistent with the financial statements for the year ended 31 December 2019, in accordance with ISA 720.

We are not able to express an opinion whether the annual statement is consistent with the audited financial statements of M-NAV AD, Skopje for the year ended 31 December 2019, because the audit completion date preceded the date of annual statement.

Skopje, 9 April 2020

Zvonko Kocovski,
Certified Auditor



Dragan Dimitrov, Certified Auditor
Manager

STATEMENT OF COMPREHENSIVE INCOME
For the Period Ended 31 December 2019
In MKD thousand

	Note	2019	2018
OPERATING INCOME			
Sales	4	1.087.589	1.048.396
Other operating income	5	4.368	5.500
Total operating income		1.091.957	1.053.896
OPERATING COSTS			
Cost of material and maintaince	6	(64.507)	(47.246)
Salaries and other personnel expenses	7	(853.790)	(698.196)
Amortization	8	(40.676)	(47.503)
Other operating costs	9	(92.948)	(79.494)
Total operating costs		(1.051.921)	(872.439)
OPERATING PROFIT		40.036	181.457
FINANCIAL INCOME/EXPENSES			
Financial income	10	649	619
Financial expenses	11	(8.605)	(4.251)
		(7.956)	(3.632)
PROFIT BEFORE TAX		32.080	177.825
Income tax	12	(3.286)	(19.471)
PROFIT FOR THE YEAR		28.794	158.354
TOTAL COMPREHENSIVE PROFIT FOR THE YEAR		28.794	158.354

The accompanying notes form an integral part of these financial statements.

The accompanying financial statements were authorised for issue by the management of the Company on 16 March 2020 and were signed on its behalf by:


 Migjen Salmani
 Executive Director of
 sector for finance, legal, development and
 investments
 And Member of Management Board

STATEMENT OF FINANCIAL POSITION
As of 31 December 2019
In MKD thousand

	<u>Notes</u>	<u>31 December 2019</u>	<u>31 December 2018</u>
ASSETS			
Non-current assets			
Intangible assets	13	1.782	1.489
Property, plant and equipment	14	532.791	409.904
		<u>534.573</u>	<u>411.393</u>
Current assets			
Inventories	15	7.127	7.526
Accounts receivable	16	130.289	123.699
Other current assets and prepayments	17	33.196	26.438
Cash and cash equivalents	18	792.452	753.593
		<u>963.064</u>	<u>911.256</u>
TOTAL ASSETS		<u><u>1.497.637</u></u>	<u><u>1.322.649</u></u>
EQUITY AND LIABILITIES			
Equity			
Shareholders capital	19	1.264.052	1.264.052
Discount of shared capital		(388.141)	(388.141)
Reserves		10.117	10.117
Accumulated profit / loss		303.140	144.787
Current profit		28.794	158.354
		<u>1.217.962</u>	<u>1.189.169</u>
Non-current liabilities			
Long-term financial liabilities	20	150.101	45.056
Deferred donations	21	11.316	13.096
Reservations	22	5.581	5.128
		<u>166.998</u>	<u>63.280</u>
Current liabilities			
Accounts payable	23	49.723	18.632
Other current liabilities	24	62.954	51.568
		<u>112.677</u>	<u>70.200</u>
TOTAL EQUITY AND LIABILITIES		<u><u>1.497.637</u></u>	<u><u>1.322.649</u></u>

The accompanying notes form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
For the Year Ended 31 December 2019
In MKD thousand

	Shareholders capital	Discount on share capital	Reserves	Retained Earnings	Total
Balance as of 1 January 2018	1.264.052	(388.141)	9.281	163.350	1.048.542
Transfer to reserves	-	-	836	(836)	-
Dividend Total	-	-	-	(17.727)	(17.727)
comprehensive income for the year	-	-	-	158.354	158.354
Balance 31 December 2018	1.264.052	(388.141)	10.117	303.141	1.189.169
Dividend Total	-	-	-	-	-
comprehensive income for the year	-	-	-	28.794	-
Balance 31 December 2019	1.264.052	(388.141)	10.117	331.934	1.217.962

The accompanying notes form an integral part of these financial statements.

STATEMENT OF CASH FLOWS
For the Year Ended 31 December 2019
In MKD thousand

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	32.080	177.824
<i>Adjustment to reconcile profit to net cash provided by operating activities:</i>		
Depretiation	40.676	47.503
Reservation for employee benefits	602	505
Donations income	(1.355)	(1.355)
Write offs of receivables	12.171	4.587
Interest income	(642)	-
Interest expenses	8.104	3.182
Income fom operating activities before changes in the working capital	<u>91.636</u>	<u>232.246</u>
Changes in operating assets and liabilities :		
<i>Increase / (decrease) in current assets:</i>		
Restricted cash	26	(12)
Accounts receivable and other receivables	(25.519)	(32.977)
Inventories	399	(1.322)
Accounts payables and other liabilities	41.901	8.830
Cash derivated from operating activites :	<u>108.443</u>	<u>206.765</u>
Paid profit tax	(3.286)	(19.471)
Interest received	642	563
Paid interest	(8.104)	(3.745)
Net cash flows from operating activities	<u>97.695</u>	<u>184.112</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of intangible assets	(545)	-
Purchase of property, plant and equipment	(163.310)	(33.216)
Net cash flows from investing activities	<u>(163.855)</u>	<u>(33.216)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Long term financial liabilities	105.044	16.859
Dividend	-	(17.726)
Net cash flows from financing activities	<u>105.045</u>	<u>(867)</u>
Net increase / (decrease) in cash and cash equivalents	38.885	150.029
Cash and cash equivalents, beginning of year	<u>581.379</u>	<u>431.350</u>
Cash and cash equivalents, end of year	<u>620.264</u>	<u>581.379</u>

The accompanying notes form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2019

All amounts are expressed in MKD thousand, unless otherwise stated

1. CORPORATE INFORMATION

M-NAV AD, Skopje (further referred to as "the Company") is joint stock company in state ownership for providing air navigation services, founded by the Government of the Republic of North Macedonia on 4 June 2009.

The Company is located in str.Bosfor num.7, Mralino, Ilinden, Republic of North Macedonia.

At 31 December 2019, the Company had 307 employees (31 December 2018: 298 employees). In accordance with the provisions of the Aviation Law, the Company is an authorized provider of air navigation services.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1. Basis of Preparation and Presentation of the Financial Statements

Pursuant to the provisions of the Trade Companies Law (Official Gazette of the Republic of North Macedonia no. 28/04, 84/05, 71/06, 25/07, 87/08, 17/09, 23/09, 42/10, 48/10, 8/11,21/11, 24/11, 166/12, 70/13, 119/13, 120/13, 187/13), legal entities in Macedonia are required to maintain their books of account and to prepare their financial statements in conformity with the International Financial Reporting Standards officially adopted in the Republic of North Macedonia and published in the Official Gazette of the Republic of North Macedonia.

The accompanying financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), published in Republic of North Macedonia in the Rulebook for accounting (Official Gazette no.159/2009) effective from 1 January, including International Accounting Standards (IAS) and Interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC), respectively.

The financial statements have been prepared under the historical cost convention and going concern principle.

These financial statements include receivables, liabilities, operating results, changes in equity and cash flows of the Company as a separate entity.

In the preparation of these financial statements, the Company has adhered to the accounting policies described in Note 2. The accounting policies applied to these financial statements are consistent with those used in the annual financial statements for fiscal year 2018.

The Company's financial statements are stated in thousands of Denars (MKD). The denar is the functional and official reporting currency of the Company. All transactions in currencies that are not functional currency are considered to be transactions in foreign currency.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 2.2.

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2019

All amounts are expressed in MKD thousand, unless otherwise stated

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2. Use of Estimates

The preparation of the financial statements in accordance with IFRS requires the Company's management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, as well as income and expenses for the reporting period. These estimations and assumptions are based on information available as of the statement of financial position date. Actual results could differ from those estimates.

These estimates are reviewed periodically and changes in estimates are recognized in the periods in which they become known.

The most significant use of judgments and estimates, which are set out in the summary of significant accounting policies and the respective explanatory notes, relate to impairment of financial and non-financial assets, financial liabilities and assessment of provision for litigation.

2.3. Comparative Figures

Comparative figures represent the audited financial statements for the year ended 31 December 2018.

2.4 Income

Income is measured at the fair value of the consideration received or receivable, net of discounts and value added tax. Income is recognized and recorded at the moment that the contracted services have been provided or the goods have been sold.

2.5. Expenses

Expenses are recognized according the accrual basis of accounting.

2.6. Operating Leases

Leases where the Company does not transfer substantially all the risks and rewards incidental to ownership of a leased asset to the lessee are classified as operating leases. Revenues and expenses based on operating leases are recognized in the period to which they relate.

2.7. Maintenance and Repairs

The maintenance and repair of property, plant and equipment are expensed as incurred at the effective amounts, and recognized in the Company's statement of comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2019

All amounts are expressed in MKD thousand, unless otherwise stated

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.8. Borrowing costs

The costs of borrowing are stated as expenses in the period in which they arise except those capitalized.

Cost of borrowings are directly attributable to the buying, construction or production of the assets which qualify under IAS 23, are capitalized as part of the purchase value or the cost of the asset.

Capitalisation of borrowing costs is done in case of construction of a facility or any other asset which needs considerable time to be ready for use or sale.

Capitalization of borrowing costs is made at the beginning of the period of investment in the asset until when completed all activities necessary to prepare the asset for intended use or sale.

2.9. Foreign Currency Translation and Accounting Treatment of Exchange Gains/Losses and Effects of Foreign Currency Clause Application

The items of the Statement of financial position and Statement of comprehensive income are stated in the financial statements by using the currency of primary economic environment (functional currency). As disclosed in Note 2.1, the accompanying financial statements are stated in thousands of Denars (MKD), which represents the functional and official reporting currency of the Company.

Assets and liabilities' components denominated in foreign currencies are translated into MKD at the official exchange rates prevailing at the balance sheet date (Note 3.1). Foreign currency transactions in the financial statements are denominated into MKD using the official exchange rate at the day of each transaction.

Foreign exchange gains or losses arising upon the denomination of assets, liabilities and transactions are stated as income/expense, to the Statement of comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2019

All amounts are expressed in MKD thousand, unless otherwise stated

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.10. Property, Plant and Equipment

Property, plant and equipment of the Company at 31 December 2019 are stated at cost less accumulated depreciation.

Cost comprises the purchase price including all directly-attributable costs of bringing the asset to working condition for its intended use. Any trade discounts and/or rebates received are deducted in arriving at the purchase price.

Gains from the disposal of property and equipment are credited directly to "Other revenues", whereas any losses arising on the disposal of property and equipment are charged to "Other expenses."

Capital improvements, renewals and repairs that extend the useful life of an asset are capitalized. Repairs and maintenance are expensed as incurred and are shown as operating expenses.

The useful live is reviewed at least at each financial year-end and, if there is a significant change in the expected pattern of consumption of the future economic benefits embodied in the asset, the depreciation rate is changed to reflect the changed pattern.

2.11. Intangible assets

Intangible assets of the Company are consisted of licenses stated at cost, depreiated proportionally with annual rate of 20% of the estimated useful live. Costs associated with maintaining of the assets are recognized as expenses when they occur.

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2019

All amounts are expressed in MKD thousand, unless otherwise stated

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.12. Depreciation

Depreciation of property, plant and equipment and intangible assets is provided on a straight-line basis in order to fully write off the cost of the assets over their estimated useful lives. Depreciation is not calculated for the construction in progress. Depreciation of other items of property, plant and equipment is calculated proportionally in order to allocate cost to their residual values over the estimated useful lives as follows:

	31 December 2019	31 December 2018
Buildings	40 years	40 years
Radar, navigation and power equipment	4-29 years	4-29 years
Furniture and office equipment	5-16 years	5-16 years

Depreciation and amortization on property and equipment and intangible assets begins when the related assets are placed in service.

2.13. Impairment of Non-Financial Assets

In accordance with adopted accounting policy, at each balance sheet date, the Company's management reviews the carrying amounts of the Company's intangible assets and property and equipment. If there is any indication that such assets have been impaired, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying value, the carrying amount of the asset is reduced to its recoverable amount, being the higher of the asset's net selling price and value in use. Impairment losses, representing a difference between the carrying amount and the recoverable amount of tangible and intangible assets, are recognized in the Statement of Comprehensive Income as required by IAS 36 "Impairment of Assets".

Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2019

All amounts are expressed in MKD thousand, unless otherwise stated

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**2.14. Inventories**

Inventories are primarily stated at the lower of cost and net realizable value. Cost includes the invoiced value, transport and other attributable expenses. Cost is computed using the weighted-average method.

The net realizable value is the price at which inventories may be realized in the normal course of business, after allowing for the costs of realization.

2.15. Financial Instruments

All financial instruments are initially recognized at fair value (usually equal to the consideration paid) including any directly attributable incremental costs of acquisition or issue of the financial asset or financial liability, except for financial assets and financial liabilities at fair value through profit and loss. All regular way purchases and sales of financial assets are recognized on the settlement date. Financial assets and financial liabilities are recognized in the Company's statement of financial position on the date upon which the Company becomes counterparty to the contractual provisions of a specific financial instrument. Management determines the classification of its financial assets at initial recognition. The classification depends on the purpose for which the financial assets were acquired.

Financial assets cease to be recognized when the Company loses control of the contractual rights governing such instruments; which occurs when the rights of use of such instruments have been realized, expired, abandoned, and/or ceded. Financial liabilities cease to be recognized when the Company fulfils the obligations, or when the contractual repayment obligation has either been cancelled or has expired.

(a) *Accounts Receivable*

Accounts receivable are stated at their nominal values as reduced by appropriate allowances for estimated irrecoverable amounts. An allowance for impairment of receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the receivable is impaired.

A provision for impairment is made on the basis of the ageing of the receivables balances and historical experience, and when the partial or full collection of an account receivable is deemed to be no longer probable. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of loss is recognised in the the Statement of comprehensive income within "Other expenses "(Note 10). When a receivable is uncollectible, it is written off against the allowance account for accounts receivable. Subsequent recoveries of amounts previously written off and reversal of the impairment are credited to "Other revenues".

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2019

All amounts are expressed in MKD thousand, unless otherwise stated

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.15 Financial Instruments (Continued)

(b) *Loans Received from Banks and Suppliers*

Loans received from banks and suppliers are initially measured at the amount of the loan disbursements received (i.e. nominal value). Subsequently they are measured at depreciated cost based on effective interest rate.

Liability is classified as short-term if it expected to be settled in the Company's normal operating cycle, i.e. which matures in the period up to 12 months from the Statement of financial position date. All other liabilities are classified as long term.

(c) *Operating Liabilities*

Obligations towards suppliers and other short-term liabilities are measured at the amount of the consideration received.

2.16. Cash and Cash Equivalents

Cash and cash equivalents include cash on current accounts held with banks, cash on hand and any other highly-liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash, and are subject to an insignificant risk of changes in value.

2.17. Employee Benefits

Contributions for pension insurance

The Company has pension plans in accordance with the domestic legislation for social insurance, under which pays contributions for pension insurance for their employees. Contributions, based on salaries, are paid in the first and second pillar, which are responsible for the payment of pensions. There are no further obligations related to these pension plans.

Post - retirement obligations for employees

The Company provides its retirees an amount according to the related local regulations and the provision has been made at the Statement of financial position date. The Company, in accordance with the relevant domestic legal clauses, pays the employees a separate minimum amount of jubilee awards. The Company makes provisions for separate minimum amount for jubilee awards to employees.

2.18. Provisions

A provision is recognised when there is a present obligation as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each Statement of financial position date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of provision is the present value of the expenditures expected to be required to settle the obligation. Provisions are not recognised for future operating losses.

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2019

All amounts are expressed in MKD thousand, unless otherwise stated

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**2.19. Income tax**

Current income tax represents an amount that is calculated and paid in accordance with the effective Profit Tax Law of the Republic of North Macedonia. Income tax is payable at the rate of 10% (2018: 10%) on the tax base reported in the annual corporate income tax return as reduced by any applicable tax credits. The taxable base stated in the income tax return includes profit for the year increased by the unrecognized expenses and less declared revenues that are specifically defined under statutory tax rules and decreased by tax relief.

Deferred taxes

Deferred taxes are recognized in cases of differences between the carrying amounts of assets and the liabilities in the financial statements and the carrying amounts as per tax regulations and are reported using the balance sheet liability method. Deferred tax liabilities are recognised for all deductible temporary differences given that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. In these financial statements, there are no temporary tax differences.

2.20. Commitments and contingencies

Contingent liabilities are not recognized in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognized in the financial statements but disclosed when an inflow of economic benefits is probable.

The amount of a contingent loss is recognized as a provision if it is probable that future events will confirm that, a liability incurred as at the Statement of financial position date and a reasonable estimate of the amount of the resulting loss can be made.

2.21 Related party Disclosures

Related legal entities are those entities when one legal entity has a possibility to control another entity or have the right to govern the financial and business operations of the entity, as defined by IAS 24 "Related Party Disclosures".

The Company has no related parties therefore the related parties' transactions are not disclosed in these financial statements.

2.22 Events after reporting date

Events after the reporting date that provide additional information about a Company's position at the Statement of financial position date (adjusting events) are reflected in the financial statements. Events after the reporting date that are not adjusting events are disclosed in the notes when material.

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2019

All amounts are expressed in MKD thousand, unless otherwise stated

3. FINANCIAL RISK MANAGEMENT

In the ordinary course of business, the Company is exposed to a different extent to a variety of financial risks: market risk (including currency risk, interest rate risk and price risk), liquidity risk and credit risk.

The Company's overall risk management focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance.

3.1. Market risk

(a) Currency Risk

The Company is directly exposed to foreign exchange risk because most of the business activities of the company with external business partners. The Company does not use any instrument to hedge the foreign exchange risk.

The official exchange rates for major currencies used in the translation of Statement of financial position items denominated in foreign currencies as of 31 December 2019 and 2018 into Macedonian Denars (MKD) were as follows:

	<u>2019</u>	<u>2018</u>
EUR	61,4856	61,4950
USD	54,9518	53,6887
CHF	<u>56,5593</u>	<u>54,7742</u>

(b) Interest Rate Risk

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

The Company's exposure to the risk of changes in market interest rates relates primarily to the Company's long-term debt obligation with floating interest rate.

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2019

All amounts are expressed in MKD thousand, unless otherwise stated

3. FINANCIAL RISK MANAGEMENT (Continued)**3.2. Liquidity Risk**

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, then, availability of funds through adequate credit facilities and ability to collect timely, within the terms established the amounts due from the customers.

The Company manages its assets and liabilities in such a way that it can fulfill its due obligations at all times.

The Company has sufficient highly liquid funds (cash and cash equivalents), as well as a continuous inflow of cash from products sold and services rendered, to meet its commitments on due dates.

The Company does not use financial derivatives.

3.3. Credit risk

The Company's exposure to credit risk arises from inability to collect receivables from customers on time. The credit risk of the company is limited due to the fact that the Company has regulated operations.

3.4. Capital risk management

The Company has adopted a financial capital concept and its maintenance pursuant to which the capital has been defined on the basis of nominal cash units.

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to maintain an optimal capital structure to reduce the cost of capital and to provide returns for owners.

3.5. Fair Value Estimation

It is a policy of the Company to disclose the fair value information of those components of assets and liabilities for which published or quoted market prices are readily available, and of those for which the fair value may be materially different than their recorded amounts. In the Republic of North Macedonia, sufficient market experience, stability and liquidity do not exist for the purchase and sale of receivables and other financial assets or liabilities, for which published market prices are presently not readily available. As a result, fair value cannot readily or reliably be determined in the absence of an active market. The Company's management assesses its overall risk exposure, and in instances in which it estimates that the value of assets stated in its books may not have been realized, it recognizes a provision.

The Company's management considers that the reported carrying amounts are the most valid and useful reporting values under the present market conditions.

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2019

All amounts are expressed in MKD thousand, unless otherwise stated

4. SALES

	<u>2019</u>	<u>2018</u>
Income from flights over	927.391	904.194
Income from landing, flight control and lighting	150.895	133.754
Income from other services	<u>9.303</u>	<u>10.448</u>
Total	<u>1.087.589</u>	<u>1.048.396</u>

5. OTHER OPERATING INCOME

	<u>2019</u>	<u>2018</u>
Income from previous years	2.048	1.090
Income from donations	1.355	1.355
Rent	66	125
Compensation for damages from insurance companies	638	255
Other income	<u>261</u>	<u>2.675</u>
Total	<u>4.368</u>	<u>5.500</u>

6. COST OF MATERIALS AND MAINTAINCE

	<u>2019</u>	<u>2018</u>
Materials	4.048	3.357
Energy	8.755	9.225
Costs for fuel	4.253	3.829
Telecommunication and transport	7.814	5.350
Wires	12.300	12.360
Maintaince expenses	26.585	10.921
Communal servises	278	279
Small inventory	<u>474</u>	<u>1.925</u>
Total	<u>64.507</u>	<u>47.246</u>

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2019

All amounts are expressed in MKD thousand, unless otherwise stated

7. WAGES, SALARIES AND OTHER PERSONNEL EXPENSES

	<u>2019</u>	<u>2018</u>
Net salaries	500.567	422.632
Salaries contributions and taxes	314.991	234.751
Daily and other travel expenses	22.433	24.403
Provision for employees contribution	602	505
Other personnel expenses	15.197	15.905
Total	<u>853.790</u>	<u>698.196</u>

8. DEPRECIATION

	<u>2019</u>	<u>2018</u>
Tangible assets	40.423	45.065
Intangible assets	253	2.438
Total	<u>40.676</u>	<u>47.503</u>

9. OTHER OPERATING EXPENSES

	<u>2019</u>	<u>2018</u>
Expense for directly written off receivables	12.171	4.587
Representation cost	2.649	1.596
Licences for the Aviation Agency	10.686	10.472
Bank provisions	1.301	1.235
Insurance premiums	9.853	10.441
Seminars	15.918	20.979
Intellectual services	11.608	11.768
Rent expenses	395	966
Donations in the country	19.521	879
Memberships for associations	27	2.613
Expenses for legal procession	2.978	4.667
Fees for Supervisory Board	365	292
Consulting services	-	2.455
Other expenses	5.476	6.544
Total	<u>92.948</u>	<u>79.494</u>

10. FINANCE INCOME

	<u>2019</u>	<u>2018</u>
INTEREST INCOME		
Interests from Eurocontrol	642	563
Total	<u>642</u>	<u>563</u>
FOREIGN EXCHANGE GAINS		
Foreign exchange gains	7	56
Total	<u>7</u>	<u>56</u>
Total finance income	<u>649</u>	<u>619</u>

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For the Year Ended 31 December 2019

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11. FINANCE EXPENSES

	<u>2019</u>	<u>2018</u>
INTEREST EXPENSES		
Front-end commission EBRD	3.552	2.546
EBRD loan Interest	4.422	1.164
Default interest	131	35
Total	<u>8.104</u>	<u>3.745</u>
FOREIGN EXCHANGE LOSSES		
Foreign exchange losses	501	506
Total	<u>501</u>	<u>506</u>
Total finance expenses	<u><u>8.605</u></u>	<u><u>4.251</u></u>

12. INCOME TAX

Numerical Reconciliation of Income Tax and Profit Before
Tax multiplied by the Statutory Income Tax Rate

	<u>2019</u>	<u>2018</u>
Profit before tax	32.080	177.825
Non-deductible expenses	33.642	16.883
Tax base	65.722	194.708
Decrease of tax base	-	-
Tax base after decrease	65.722	194.708
Income tax	6.572	19.471
Decrease of income tax	<u>(3.286)</u>	<u>-</u>
Income tax	<u>(3.286)</u>	<u>19.471</u>
<i>Effective tax rate</i>	<i>10,24%</i>	<i>10,95%</i>

Income tax is paid at a rate of 10% applied to the tax base shown in the annual tax return after reduction of certain tax credit. The tax base in the tax return shows a profit for the year, increased for the tax unrecognized expenses and understated revenues, according the regulations in the Income tax Law, decreased for of tax relief.

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13. INTANGIBLE ASSETS

	<u>Licence</u>	<u>Total</u>
Cost as of 1 January 2018	32.762	32.762
Additions		
Balance as of 31 December 2018	<u>32.762</u>	<u>32.762</u>
Additions	545	545
Balance as of 31 December 2019	<u>33.307</u>	<u>33.307</u>
Accumulated depreciation		
As of 1 January 2018	28.835	28.835
Depreciation (Note 8)	2.438	2.438
Balance as of 31 December 2018	<u>31.273</u>	<u>31.273</u>
Depreciation (Note 8)	252	232
Balance as of 31 December 2019	<u>31.525</u>	<u>31.525</u>
Net book value as of:		
- 31 December 2019	<u>1.782</u>	<u>1.782</u>
- 31 December 2018	<u>1.489</u>	<u>1.489</u>

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2019

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14. PROPERTY, PLANTY AND EQUIPMENT

	Buildings	Equipment	Construction in progress	Total
Cost as of 01.01.2018	209.358	633.900	99.578	942.836
Additions	1.297	5.665	26.255	33.217
Activation (transfer from construction in progress)	-	8.058	(8.058)	-
Balance as of 31.12.2018	210.655	647.623	117.775	976.053
Additions	-	12.977	150.333	163.310
Activation (transfer from construction in progress)	-	5.785	(5.785)	-
Balance as of 31.12.2019	210.655	666.385	262.323	1.139.363
Accumulated depreciation				
As of 01.01.2018	51.088	469.996	-	521.084
Depreciation for 2018	6.720	38.345	-	45.065
Balance as of 31.12.2018	57.808	508.341	-	566.149
Depreciation for 2019	6.806	33.617	-	40.423
Balance as of 31.12.2019	64.614	541.958	-	606.572
Net book value as of:				
- 31 December 2019	<u>146.041</u>	<u>124.427</u>	<u>262.323</u>	<u>532.791</u>
- 31 December 2018	<u>152.847</u>	<u>139.281</u>	<u>117.775</u>	<u>409.904</u>

15. INVENTORIES

	2019	2018
Materials	572	854
Spare parts	6.438	6.414
Small Inventory in use	109	250
Tires	8	8
Balance as of 31 December	<u>7.127</u>	<u>7.526</u>

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For the Year Ended 31 December 2019

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16. ACCOUNTS RECEIVABLE

	<u>2019</u>	<u>2018</u>
Domestic accounts receivable	224	145
Foreign accounts payable	<u>170.332</u>	<u>155.333</u>
Total account receivable	<u>170.556</u>	<u>155.478</u>
Allowances for impairment of accounts receivable	<u>(40.267)</u>	<u>(31.779)</u>
Balance as of 31 December	<u>130.289</u>	<u>123.699</u>

Trade receivables are predominantly non-interest bearing.

17. OTHER CURRENT ASSETS AND PREPAYMENTS

	<u>2019</u>	<u>2018</u>
Receivables from employees	236	278
Receivables for overpaid taxes	<u>23.820</u>	<u>8.918</u>
	<u>24.056</u>	<u>9.197</u>
Prepayments:	<u>9.140</u>	<u>17.242</u>
	<u>9.140</u>	<u>17.242</u>
Balance as of 31 December	<u>33.196</u>	<u>26.438</u>

18. CASH AND CASH EQUIVALENTS

	<u>2019</u>	<u>2018</u>
Current account	4.563	2.262
Foreign exchange account	615.087	578.619
Cash on hand	7	9
Cash on hand in foreign currency	232	99
Other	375	390
Total cash and cash equivalents	<u>620.264</u>	<u>581.379</u>
Restricted cash and cash equivalents	<u>172.188</u>	<u>172.214</u>
Balance as of 31 December	<u>792.452</u>	<u>753.593</u>

The restricted cash and cash equivalents in total amount of MKD 172.188 thousand of denars refer to cash transferred to special account of the Company, due to the loan agreement with EBRD for the long term borrowing (Note 20).

19. CAPITAL

As of 31 December 2019 the equity of the Company amounts EUR 20.553.691,06, i.e. MKD 1.264.052.000 and it is divided into 1.264.052 shares with nominal value of MKD 1.000. Owner of the Company is the Government of RM - 100%

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For the Year Ended 31 December 2019

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20. LONG-TERM/SHORT-TERM FINANCIAL LIABILITIES

	<u>2019</u>	<u>2018</u>
Long-term loan from EBRD	150.101	45.056
Balance as of 31 December	<u>150.101</u>	<u>45.056</u>

On 24 September 2013 the Company has signed a long-term loan from the EBRD at total amount of 11.150 thousand euros and interest rate EURIBOR01 + 3.75% with repayment period of 12 years from the date of signing the contract. Under the agreement the Company is obliged to open a separate account as a guarantee, in which for insurance will keep cash. As of December 31 2019 the Company has transferred funds to the special account in the amount of 172.188 thousand (Note 18).

As of December 31 2019, the Company has withdrawn cash on the basis of this agreement in the amount of 150.101 thousand of mkd (2.411 thousand of euros). Company pays 0,5% commission on the undisbursed loan.

21. DEFERRED DONATIONS

	<u>2019</u>	<u>2018</u>
Equipment	11.316	13.096
Balance as of 31 December	<u>11.316</u>	<u>13.096</u>

During 2012, the Company has received a donation of navigation equipment for the airports in Skopje and Ohrid TAV Tepe Akfen Inc. in state ownership at the amount of 22.007 thousand of denars.

As of 31 December 2019, the assets have a net carrying amount of 11.316 thousand.

22. PROVISIONS

	<u>2019</u>	<u>2018</u>
At 1 january	5.128	4.718
Provisions for employees contributions	602	505
Release of provision for employees contribution	(149)	(95)
Balance as of 31 December	<u>5.581</u>	<u>5.128</u>

As of 31 December 2019, the Company has provisions for retirement of the employees and jubilee awards at the amount of MKD 5.581 thousands (2018: MKD 5.128 thousand).

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23. ACCOUNTS PAYABLE

	<u>2019</u>	<u>2018</u>
Domestic trade payables	7.205	16.909
Foreign trade payables	<u>42.518</u>	<u>1.723</u>
Balance as of 31 December	<u>49.723</u>	<u>18.632</u>

Trade payables are non-interest bearing. The Company regularly settles its due obligations to suppliers.

24. OTHER CURRENT LIABILITIES

	<u>2019</u>	<u>2018</u>
Liabilities towards employees	61.330	49.881
Taxes	<u>1.624</u>	<u>1.687</u>
Balance as of 31 December	<u>62.954</u>	<u>51.568</u>

25. RELATED PARTY DISCLOSURES

For the purposes of these financial statements have not been identified related parties with which the Company has transactions in the normal course of business.

Transactions with key management

Total expenses for the Company's key management are given in the table below:

	<u>2019</u>	<u>2018</u>
Short-term benefits for key management personnel	<u>10.618</u>	<u>10.147</u>
Total	<u>10.618</u>	<u>10.147</u>

26. SUBSEQUENT EVENTS

There are no material subsequent events that would have an impact on understanding financial statements.

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2019

All amounts are expressed in MKD thousand, unless otherwise stated

27. COMMITMENTS AND CONTINGENCIES

Litigations

As of 31 December 2019 there are no significant court litigations against the Company. Legal department does not determinate possibility for material loss. Due to that, there are no reservations.

Warranties

As of 31 December 2019 the Company has no commitments for warranties.