

**PUBLIC ENTERPRISE
FOR STATE ROADS**

**INDEPENDENT AUDITOR'S REPORT AND
FINANCIAL STATEMENTS
FOR THE YEAR ENDING
31 DECEMBER 2019**

Skopje, June 2020

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INDEPENDENT AUDITOR'S REPORT TO THE MANAGEMENT OF THE PUBLIC ENTERPRISE FOR STATE ROADS

We have audited the accompanying financial statements of the Public Enterprise for State Roads ("the Enterprise"), which comprise the Statement of Financial Position as at 31 December 2019, and the Statement of Comprehensive Income, Statement of changes in equity and Cash flow statement for the period then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Audit Law and International Standards on Auditing which are accepted and published in the Official gazette of the Republic of North Macedonia (79/2010). 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 the 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.

**INDEPENDENT AUDITOR'S REPORT (Continued)
TO THE
MANAGEMENT OF THE
PUBLIC ENTERPRISE FOR STATE ROADS**

Basis for qualified opinion

As it is described in Note 3.8. to the financial statements, the Enterprise has systematically revalued its property and equipment, in the previous years, by applying official uniformed revaluation coefficient based on the manufacturer's price increase index. In our opinion, this method of revaluation, does not comply with IAS 16, which requires property and equipment to be measured at cost less for any accumulated depreciation or by up to date fair value estimated by professional and qualified valuers. Owing to the fact that the Enterprise did not prepared the required information for the PPE fair value according to IAS, we were not able to obtain reasonable assurance as to their valuation.

As it is presented in Note 20 to the financial statements, as at 31 December 2019, the Enterprise has capitalized foreign exchange losses, arising from payment in USD currency to one of the contractors of the projects in amount of 660,833 thousands of MKD as construction in progress. This type of recording was carried out in accordance with the Report and the requirement of the State Audit Office. According to our opinion and the IAS accepted in Republic of North Macedonia (IAS 16; IAS 23 and IAS 21), there is no possibility for capitalization of foreign exchange differences arising from the settlement of liabilities in foreign currency into the cost of the assets. They should be recognized in the current profit or loss. According to the previous, the current profit is overstated for an amount of 573,595 thousands of MKD, as well as the cost of construction in progress. Our report for the financial statements for the previous year was also qualified for the same reason for the amount of 807,645 thousands of MKD.

As it is presented in Note 20 to the financial statements, as at 31 December 2019, the Enterprise has construction in progress in municipality roads in amount of 4,227,607 thousands of MKD which are financed under IBRD and EBRD Loans for the Project for improvement of current regional and municipality roads. Municipality roads which are in jurisdiction of the municipalities should be transferred to them after its construction completion and technical acceptance i.e. financial transfer of these municipality roads should be done. These roads are still recorded in the financial evidence of the Enterprise. Because of the previous, we were not able to obtain reasonable assurance as to presented construction in progress.

**INDEPENDENT AUDITOR'S REPORT (Continued)
TO THE
MANAGEMENT OF THE
PUBLIC ENTERPRISE FOR STATE ROADS**

Qualified opinion

In our opinion, except for the effects described in the preceding paragraph "Basis for qualified opinion", if any, the financial statements present fairly, in all material respects, the financial position of the Enterprise for state roads as of 31 December 2019, and of its financial performance and its cash flows for the year then ended in accounting standards which are accepted in the Republic of North Macedonia.

Emphasis of matter

Without further qualifying our opinion, we draw attention to the non-fulfillment of the requirement for an adequate ratio for servicing the debt. As it is presented in Note 27 to the financial statements, the debt service coverage ratio as at 31 December 2019 is 0.6, which is lower than the requirement for adherence with a certain financial covenants, for which required ratio is not lower than 1.

Skopje, 30 June 2020

Certified Auditor

Kostadinka Kitanoska



Manager and Certified Auditor

Antonio Veljanov




PUBLIC COMPANY FOR STATE ROADS
INCOME STATEMENT for the year ended at 31 December

	Notes	2019 (000) MKD	2018 (000) MKD
Revenues from allowances	8	7,374,323	7,030,648
Other income	9	118,952	48,853
		<u>7,493,275</u>	<u>7,079,501</u>
Costs from basic activities	10	(1,073,752)	(1,067,800)
Depreciation		(1,860,034)	(1,680,553)
Employees costs	11	(285,387)	(259,362)
Other costs	12	(539,632)	(433,673)
Provisions		(52,829)	(27,530)
OPERATING PROFIT		<u>3,681,641</u>	<u>3,610,583</u>
Financing income	13	1,090,099	574,290
Financing expenses	14	(1,840,782)	(1,685,615)
PROFIT BEFORE TAXATION		<u>2,930,958</u>	<u>2,499,258</u>
Income tax	22	(45,957)	-
NET PROFIT		<u>2,885,001</u>	<u>2,499,258</u>
Other comprehensive income		-	-
TOTAL COMPREHENSIVE INCOME		<u>2,885,001</u>	<u>2,499,258</u>

Skopje, 11.03.2020

Director
Zoran Kitanov



PUBLIC COMPANY FOR STATE ROADS
BALANCE SHEET as at 31 December

	Notes	2019 (000) MKD	2018 (000) MKD
ASSETS			
Current assets			
Cash and cash equivalents	15	2,033,771	3,036,905
Loans given (Current part)	17	13,834	13,977
Income tax receivables and other current assets	19	357,877	320,605
Accrued income		11,076	31,233
Inventories	16	1,548	1,371
Total current assets		2,418,106	3,404,091
Non-Current assets			
Loans given	17	48,910	62,894
Advances for Property and Equipment	18	2,633,129	3,317,213
Intangible assets	21	16,674	23,015
Property and Equipment	20	97,894,495	87,563,473
Total Non-current assets		100,593,208	90,966,595
TOTAL ASSETS		103,011,314	94,370,686
LIABILITIES AND EQUITY			
Current liabilities			
Trade Payables	22	1,780,737	3,681,829
Current maturities of long term interest bearing borrowings	25	3,349,457	1,964,342
Other liabilities	23	408,706	361,022
Provisions	28	153,520	136,918
Total Current liabilities		5,692,420	6,144,111
Non-Current liabilities			
Government grants (deferred income)	24	2,173,650	792,481
Long term interest bearing borrowings	25	39,831,219	35,003,070
Total Non-Current liabilities		42,004,869	35,795,551
Total liabilities		47,697,289	41,939,662
Equity			
State owned capital	26	5,000	5,000
Revaluation reserves		9,796,453	9,796,453
Accumulated profit (loss)		45,512,572	42,629,571
Total equity		55,314,025	52,431,024
TOTAL LIABILITIES AND EQUITY		103,011,314	94,370,686

PUBLIC COMPANY FOR STATE ROADS
CASH FLOW STATEMENT for the year ended at 31 December

	2019	2018
	(000) MKD	(000) MKD
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash inflows from allowances	7,394,480	7,022,730
Cash inflows from other operating activities	(9,128)	(287,500)
Payments to suppliers for basic activities	(1,056,492)	(1,043,869)
Paid wages	(285,387)	(259,362)
Payments for other operating expenses	(529,927)	(433,322)
Paid income tax	(45,957)	(167,186)
Received interest	35,061	7,549
Net cash flow from operating activities	5,502,650	4,839,040
CASH FLOWS FROM INVESTING ACTIVITIES		
Loans given/collected to other entities	14,127	13,963
Acquisition of intangible assets	(2,568)	(4,048)
Acquisition of PPE	(12,670,219)	(9,824,433)
Paid advances for PPE, net	684,084	929,237
Net cash flow from investing activities	(11,974,576)	(8,885,281)
CASH FLOWS FROM FINANCING ACTIVITIES		
Profit payouts	(2,000)	-
Paid interest	(123,801)	(22,772)
Received/Repaid long-term borrowings, net	5,594,593	4,530,215
Net cash flow from financing activities	5,468,792	4,507,443
Net increase (decrease) of cash and cash equivalents	(1,003,134)	461,202
Cash and cash equivalents at the begging of the year	3,036,905	2,575,703
Cash and cash equivalents at the end of the year	2,033,771	3,036,905

PUBLIC COMPANY FOR STATE ROADS
STATEMENT OF CHANGES IN EQUITY for the year ended at 31 December

	<u>State owned capital</u> (000) MKD	<u>Revaluation reserve</u> (000) MKD	<u>Reinvested profit</u> (000) MKD	<u>Accumulated profit (loss)</u> (000) MKD	<u>Total equity</u> (000) MKD
Balance as at 1 January 2018	5,000	9,796,453	2,067,617	38,062,696	49,931,766
Adjustments	-	-	-	-	-
Balance as at 1 January 2018 - restated	<u>5,000</u>	<u>9,796,453</u>	<u>2,067,617</u>	<u>38,062,696</u>	<u>49,931,766</u>
Profit (loss) for the year	-	-	-	2,499,258	2,499,258
Reinvested profit from previous year according to Board of Directors Decision and Government of RM approval	-	-	5,178,880	(5,178,880)	-
Utilized reinvested profit	-	-	(2,067,617)	2,067,617	-
Balance as at 31 December 2018	<u>5,000</u>	<u>9,796,453</u>	<u>5,178,880</u>	<u>37,450,691</u>	<u>52,431,024</u>
Balance as at 1 January 2019	5,000	9,796,453	5,178,880	37,450,691	52,431,024
Reconciliation	-	-	-	-	-
Balance as at 1 January 2019	<u>5,000</u>	<u>9,796,453</u>	<u>5,178,880</u>	<u>37,450,691</u>	<u>52,431,024</u>
Profit (loss) for the year	-	-	-	2,885,001	2,885,001
Reinvested profit from previous year according to Board of Directors Decision and Government of RM approval	-	-	2,499,258	(2,499,258)	-
Financial support of Agro-berza according Government of RM Decision	-	-	-	(2,000)	(2,000)
Balance as at 31 December 2019	<u>5,000</u>	<u>9,796,453</u>	<u>12,857,018</u>	<u>32,655,554</u>	<u>55,314,025</u>

1. Basic information and activity

The Public enterprise for state roads, previous Agency for state roads (“The Enterprise”) was founded according to the Law on Public Enterprises and it is engaged in managing, maintenance, repairs, development and improvement of the state (national and regional) roads in the Republic of North Macedonia.

Specifically, the Enterprise is engaged in the following activities:

- management with the state roads;
- development, maintenance, follow-up and monitoring of state roads;
- investment activities relating to public roads;
- encumber with debts in domestic and foreign financial institutions for financing of its activities and
- other activities relating to the Law.

According to the Law on Public Roads, the financing of the Enterprise activities is provided with the following allowances:

- transfers from the State Budget (part of the oil derivatives tax);
- allowances for motor vehicles utilization of public roads, which is collected by vehicles registration;
- allowances for utilization of national and regional roads (pay toll);
- allowances for advertising billboards, connecting of access roads to state roads, setting of installations on roads, construction and using of commercial premises on state roads, over usage of state roads, extraordinary transport, claims for damages on roads;
- borrowings and loans and
- other allowances according to the Law;

Total number of employees of the Enterprise as at 31 December 2019 is 447 employees (2018: 447 employees).

The Enterprise head office is at St. Dame Gruev No.14 in Skopje.

2. Basis of preparation of the financial statements

2.1. Basis of preparation

The financial statements set on pages 4 to 30 are prepared in accordance with the International Financial Reporting Standard (IFRS) which were published in the Official gazette of the Republic of North Macedonia No.159/2009 and became effective from 1 January 2010.

The financial statements were prepared for the period ending 31 December 2019 and 2018. The figures for the current and the previous period are shown in thousands of Macedonian denars (000 MKD). Where appropriate, comparative figures have been adjusted and harmonized, in order to match the current year presentation.

2.2. Basic accounting methods

The financial statements are prepared based on the principal of cost.

2.3. Accounting estimates and judgements

The Enterprise is applying certain accounting estimates and judgments during the process of preparation of the financial statements. Certain items in the financial statements, which can not to be accurately measured, are estimated. The estimation process includes judgments based on the latest available information.

Estimates are used in determining the useful life's of assets, fair value of receivables or their uncollectibility, inventory obsolesce, fair value of investments available for sale etc.

During the periods, certain estimates can be revised if there are changes in the circumstances on which the estimation was based or as a result of new information, grater experience and subsequent events.

The effects of the changes in the accounting estimates are included in the net profit or loss for the period as well as in the future periods on which the change takes effect or the both.

2.4. Going concern concept

The financial statements are prepared based on the going concern concept which means that the Enterprise will continue to operate in the future on a continuing basis. The Enterprise has neither intention nor need to liquidate or restrict significantly the scope of its operations.

3. Basic accounting policies and estimates

3.1. Recognition of revenues

Revenues are recognized when there is a probability for future inflows for the Enterprise and when it can be measured reliably. Enterprise's revenues are benefits received during the period which are provided in the normal course of business and result in equity increase.

The Enterprise revenues arise from the allowances according to the Law on Public Roads, mentioned in Note 1.

Interest income is recognized on a time basis, by reference of the principal outstanding and at the effective interest rate applicable.

3.2. Recognition of expenses

Expenses are recognized when there is a probability for future outflows, connected with decrease of certain asset or increase of liability for the Enterprise and when it can be measured reliably. Expenses are recognized on the basis of matching concept meaning connection between the realized expenses and earning of revenues.

3.3. Foreign currencies

The Enterprise is keeping records and preparing financial statements in Macedonian denars (MKD). Transactions in foreign currencies are recorded at the exchange rate ruling at the date of the transaction. All assets and liabilities in foreign currencies are translated and shown in the financial statements at exchange rate ruling at the end of the year.

Foreign exchange gains and losses arising from translation of foreign currency assets and liabilities during the year are included in the income statement as financing income or expenses.

Most of the Enterprise's transactions are in EUR and USD. The exchange rates ruling at 31 December in 2019 and 2018 for EUR and USD are as it follows:

In MKD	1 EUR	1 USD
31 December 2019	61.4856 MKD	54.9518 MKD
31 December 2018	61.4950 MKD	53.6887 MKD

3. Basic accounting policies and estimates (Continued)

3.4. Cash and cash equivalents

Cash and cash equivalents are carried out in the balance sheet at cost. For the purposes of these financial statements, cash and cash equivalents are comprised of cash in hand, cash in banks denar and foreign currency accounts, demand deposits and time deposits with maturity up to three months.

3.5. Receivables for advances

Receivables for advances are carried out at their nominal value, less for provision for bad and doubtful receivables and are consist of advances to contractors for day-to-day and investment maintenance.

3.6. Inventories

Inventories are valued at the lower of cost and net realizable value. Cost includes all costs to bring the inventories to their present condition and location.

Net realisable value is selling price less cost to complete the inventory and sell it.

3.7. Advances for property and equipment

Advances for property and equipment are comprised of payments in advance to suppliers for fixed assets (construction companies) and are stated at their nominal value, less impairment losses.

3.8. Property and equipment

(1) Basic presentation

Initially, property and equipment are carried out at cost. Cost includes invoiced value and all other costs to bring the fixed assets to their present condition and location.

Subsequently, until 2012, property and equipment were revalue at each year-end using uniformed prescribed revaluation coefficient based on the manufacturer's price increase index which is applied to historical cost or later revaluations and to the accumulated depreciation and which is published by the State statistics office. Starting form 01.01.2013 this type of revaluation is no longer calculated.

The effects of revaluation of property and equipment are credited to revaluation reserves. The depreciation is charged on the previous year's re-valued property and equipment figures commencing with the following year.

3. Basic accounting policies and estimates (Continued)

3.8. Property and equipment (Continued)

(2) Depreciation

Depreciation is charged on a straight-line basis at prescribed rates to allocate the revalue cost of the property and equipment over their estimated useful lives. Depreciation is not charge to the property and equipment in progress until they are put in to use.

The basic depreciation annual rates used in 2019 compare to 2018 are as follows:

Asset	2019	2018
Property	1 %	1 %
National Roads (motorways)	7 %	7 %
Regional Roads	3 %	3 %
Computer equipment	20 %	20 %
Other equipment	12 %	12 %
Motor vehicles	15 %	15 %

3.9. Trade payables

Trade payables are stated at their nominal value (cost).

Trade payables are written off by crediting other revenues, after the expiration of the legal maturity period or by off-court agreement between parties.

3.10. Borrowings

Borrowings represent short-term and long-term interest bearing borrowings stated at their nominal value. The amounts of the interest agreed are shown as financing expenses in the income statement and as short-term financial liabilities in the balance sheet.

Foreign interest bearing borrowings are stated at the exchange rate at 31st December, and losses or gains of exchange are stated as financial revenues or expenses.

Details of the movements on long-term interest bearing borrowings are set-out in note 25 to the financial statements.

3. Basic accounting policies and estimates (Continued)

3.11. State-owned capital

The state-owned capital as at 31 December 2012 represents the state capital of the Enterprise in amount of 38,926,796 thousands of MKD.

Changes in the state-owned capital till 31 December 2012 comprise of revaluation reserves from revaluation of the property, plant and equipment, realized profits and losses, revaluation adjustments and other corrections.

As at 01.01.2013 the former Agency for state roads has been transformed into Public Enterprise for State Roads with basic capital in amount of 5,000 thousands of MKD in cash. Based on this, adjustment in the amount of basic capital has been made.

Owner of the Enterprise is the Government of the Republic of North Macedonia. The assets for the basic capital arise from the cash on the bank accounts of the Agency for state roads which were balance on the opening date of the Enterprise account.

3.12. Provisions

Provisions (uncertain liabilities) are recognized when the Enterprise has a present obligation (legal or constructive) as a result of a past event, when it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, for example through insurance agreements, the reimbursement is recognized as an asset when, and only when, it is virtually certain that the reimbursement will be received. The expense relating to a provision is presented in the income statement net of the amount recognized for a reimbursement. Where the effect of the time value of money is material, the amount of a provision shall be the present value of the expenditures expected to be required to settle the obligation using pre-tax rates that reflects current market assessments.

3.13. Contingencies

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 Enterprise. Contingent liability is not recognized in the financial statements, only are disclosed.

Contingent asset is a possible asset 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 Enterprise. Contingent asset are recognized only when the realization of income is virtually certain.

3. Basic accounting policies and estimates (Continued)

3.14. Government grants (deferred income)

Government grants are recognized when there is reasonable assurance that the grants will be received and the entity will comply with the grant conditions. Government grants related to assets are presented in the balance sheet at the nominal value and are recognized in the income statement over the life of a depreciable asset.

3.15. Income tax (current and deferred)

Income tax for the year comprises current and deferred tax. Income tax is presented in the income statement of the Company.

Current tax is calculated and paid in accordance with Macedonian law on income tax. According to tax legislation, the current income tax is calculated at 10% rate to financial result before taxation presented in the income statement, adjusted for non-deductible expenses and less recognized revenues from related parties (2018: 10%).

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. The tax rates that are currently valid are used in determination of deferred income tax.

4. Risk management

The Enterprise is engaged in different kind of business transactions which derive from its daily activities and which are connected with the customers, suppliers and creditors. The main financial risks to which the Enterprise is exposed during its business and the policies for their management are the following:

4.1. Market risk

Foreign exchange risk

The Enterprise does enter in transactions denominated in foreign currencies, which arise from borrowings in foreign currencies and therefore the Enterprise is exposed to foreign currency risk. The Enterprise has no special policy to avoid this kind of risk as there are no financial instruments in Republic of North Macedonia. According to this, the Enterprise is exposed to possible foreign currencies rates fluctuations, whose effect is reported below.

4.2. Interest rate risk

The Enterprise is exposed to risk of interest rate fluctuation, which relates to the loans, borrowings or bank deposits concluded with variable interest rates. The Enterprise is exposed to this kind of risk through used these kinds of borrowings and loans which depends on movements on financial markets and the Enterprise does not hedge against it.

4.3. Liquidity risk

Liquidity risk includes the risk of being unable to fund its liabilities at appropriate maturities with its cash. This kind of risk is managed by maintaining sufficient cash for regular funding of its committed credit facilities.

4.4. Taxation risk

According to local legislation, the tax authorities may at any time inspect the books and records subsequent to the reported tax year, and may impose additional tax assessments. Up to the date of the Auditors report, inspection for income tax, personnel income tax and contributions on allowances for period 2019 is not yet executed and therefore additional taxes or contributions cannot be assessed reliably.

5. Fair value estimation

The Enterprise has financial assets and liabilities, as well as non-financial assets, for which large number of accounting policies and disclosures require establishing of their fair value.

The fair value of financial assets and liabilities generally approximate their carrying amount as most of them have maturity up to one year of the balance sheet date, except for the long-term borrowings, but these liabilities have variable interest rates and therefore it can be considered that their fair value generally approximate their carrying amount.

6. Financial instruments

6.1. Capital risk management

The Enterprise uses long-term loans to finance its operations, in order to provide adequate return of investments. The Enterprise reviews its leverage on a regular basis which as at 31 December 2019 and 2018 is as it follows:

In (000) MKD	2019	2018
Debt	43,180,676	36,967,412
Cash and cash equivalents	(2,033,771)	(3,036,905)
Net debt (cash)	41,146,905	33,930,507
Total equity	55,314,025	52,431,024
% of debt	74%	65%

6.2. Foreign currency risk

The Enterprise does enter into transactions in foreign currencies, by using loans in foreign currencies and therefore the Enterprise is exposed to foreign currency risk.

The carrying amount of the financial assets and liabilities denominated in foreign currencies as at 31 December 2019 and 2018 is as follows:

In (000) MKD	Assets		Liabilities	
	2019	2018	2019	2018
EUR	925,121	2,048,745	14,000,226	11,702,660
USD	734	610	29,180,450	25,264,752
other	2,426	1,969	-	-
	928,281	2,051,324	43,180,676	36,967,412

The Enterprise generally is exposed to EUR and USD. Exposure to foreign currencies at financial liabilities includes loan liabilities from banks with FX clause which repayment in MKD currency depends from the movement of the official exchange rates.

6. Financial instruments (Continued)

6.2. Foreign currency risk (Continued)

The sensitivity analysis below has been determined based on the 10% increase or decrease of the Macedonian Denar (MKD) related to the foreign currencies. The analysis has been done based on the carrying amounts of the assets and liabilities denominated in foreign currency at the balance sheet date. A positive number below indicates an increase in profit and equity and negative number below indicates a decrease.

In (000) MKD	+ 10%		- 10%	
	2019	2018	2019	2018
EUR	(1,307,511)	(965,392)	1,307,511	965,392
USD	(2,917,972)	(2,526,414)	2,917,972	2,526,414
other	243	197	(243)	(197)
Net effect	(4,225,240)	(3,491,609)	4,225,240	3,491,609

6.3. Interest rate risk

The Enterprise is exposed to interest risk arising from deposits and borrowings from banks and other entities, with a variable interest rate clause.

The carrying amount of the financial assets and liabilities according to their exposure to interest risk at the end of the year is as follows:

In (000) MKD	31 December	
	2019	2018
Financial assets		
<i>Non-interest bearing:</i>		
- Cash and cash equivalents	2,448	1,934
- Other assets	31,315	7,359
	33,763	9,293
<i>Variable interest bearing :</i>		
- Given loans	62,744	76,871
- Cash and cash equivalents	2,031,323	3,034,971
	2,094,067	3,111,842
	2,127,830	3,121,135
Financial liabilities		
<i>Non-interest bearing:</i>		
- Trade payables	1,780,737	3,681,829
- Other current liabilities	331,657	297,570
	2,112,394	3,979,399
<i>Variable interest bearing:</i>		
- Borrowings	14,000,226	11,702,660
	14,000,226	11,702,660
<i>Fixed interest bearing:</i>		
- Borrowings	29,180,450	25,264,752
	29,180,450	25,264,752
	45,293,070	40,946,811

**PUBLIC ENTERPRISE FOR STATE ROADS
NOTES TO THE FINANCIAL STATEMENTS**

6. Financial instruments (Continued)

6.3. Interest rate risk (Continued)

The sensitivity analysis below has been determined based on the exposure to interest rates as a result of a 1% points increase or decrease for the bank deposits and borrowings at the balance sheet date. A positive number below indicates an increase in profit and equity and negative number below indicates a decrease.

In (000) MKD	plus 1% points		less 1% points	
	2019	2018	2019	2018
Borrowings	(140,002)	(117,027)	140,002	117,027
Bank deposits	627	769	(627)	(769)
Net effect	(139,375)	(116,258)	139,35	116,258

6.4. Liquidity risk

The following table details the Enterprise's remaining contractual maturity for its financial assets and liabilities as at 31 December 2019:

In (000) MKD	Less than 1 month	1 to 3 month	3 to 12 month	Over 12 months	Total
Cash	2,033,771	-	-	-	2,033,771
Given loans	-	-	13,834	48,910	62,744
Other receivables	31,315	-	-	-	31,315
	2,065,086	-	13,834	48,910	2,127,830
Trade payables	1,780,737	-	-	-	1,780,737
Borrowings	938,898	321,055	2,089,504	39,831,219	43,180,676
Other payables	331,657	-	-	-	331,657
	3,051,292	321,055	2,089,504	39,831,219	45,293,070

**PUBLIC ENTERPRISE FOR STATE ROADS
NOTES TO THE FINANCIAL STATEMENTS**

6. Financial instruments (Continued)

6.4. Liquidity risk

The following table details the Enterprise's remaining contractual maturity for its financial assets and liabilities as at 31 December 2018:

In (000) MKD	Less than 1 month	1 to 3 month	3 to 12 month	Over 12 months	Total
Cash	3,036,905	-	-	-	3,036,905
Given loans	-	-	13,977	62,894	76,871
Other receivables	7,359	-	-	-	7,359
	3,044,264	-	13,977	62,894	3,121,135
Trade payables	3,681,829	-	-	-	3,681,829
Borrowings	-	221,346	1,742,996	35,003,070	36,967,412
Other payables	297,570	-	-	-	297,570
	3,979,399	221,346	1,742,996	35,003,070	40,946,811

7. Segment reporting

The Company does not have any segment reporting as it has no obligation for such reporting neither is divided in separate business or geographical segments.

8. REVENUES FROM ALLOWANCES

The revenues from allowances realized according to their types, is as follows:

	2019	2018
	(000) MKD	(000) MKD
Revenue from petrol price (State Budget transfers)	3,058,350	2,979,886
Revenue from highway utilization pay-toll	2,687,429	2,494,201
Revenue from motor vehicles registration	1,628,544	1,556,561
Total revenues from allowances	<u>7,374,323</u>	<u>7,030,648</u>

9. OTHER OPERATING INCOME

The other operating income realized according to types, is as follows:

	2019	2018
	(000) MKD	(000) MKD
Income from compensations by other entities	25,666	23,322
Income from free of charge assets (Note 20 and 24)	64,729	22,582
Income from releasing of provisions (Note 28)	26,079	-
Other income	2,478	2,949
Total other operating income	<u>118,952</u>	<u>48,853</u>

10. COST FOR BASIC ACTIVITIES

The cost for basic activities realized according to their types, is as follows:

	2019	2018
	(000) MKD	(000) MKD
Expenses for road reconstruction and maintenance	773,752	767,799
Transfer of allowances to local communities	300,000	300,001
Total cost for basic activities	<u>1,073,752</u>	<u>1,067,800</u>

PUBLIC COMPANY FOR STATE ROADS
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11. EMPLOYEES EXPENSES

The costs for employees realized according to their types, are as follows:

	2019	2018
	(000) MKD	(000) MKD
Employees wages	260,033	235,892
Severance payments and bonuses	9,051	9,224
Business travel allowances	277	307
Expenses for transport	16,026	13,939
Total	285,387	259,362

12. OTHER OPERATING EXPENSES

The other operating expenses realized according to their types, are as follows:

	2019	2018
	(000) MKD	(000) MKD
Expenses for monitoring	231,634	173,712
Bank fees	35,124	31,495
Public utility services expenses	77,516	65,446
Expenses for motor vehicles association fees	70,853	68,280
Other services	19,059	14,760
Maintenance and repairing expenses	55,697	41,198
Material costs	14,881	11,991
Insurance costs	1,292	974
Representation	965	923
Expenses for court litigations	-	-
Other operating expenses	32,611	24,894
Total other operating expenses	539,632	433,673

13. FINANCING INCOME

The financing income realized according to their types, are as follows:

	2019	2018
	(000) MKD	(000) MKD
Interest income	35,061	7,549
Gains on exchange	1,055,038	566,741
Total financing income	1,090,099	574,290

14. FINANCING EXPENSES

The financing expenses realized according to their types, are as follows:

	2019	2018
	(000) MKD	(000) MKD
Interest expenses from borrowings	153,955	61,484
Penal interest	270	12,560
Loss on exchanges	1,686,557	1,611,571
Total financing expenses	1,840,782	1,685,615

The interest expenses according to the creditors, are as follows:

	2019	2018
	(000) MKD	(000) MKD
IBRD - The World Bank	635	661
EBRD - local and regional roads	3,556	4,014
EIB I	-	1,257
EIB II	46,337	55,384
EBRD - ring road	-	168
The Export-Import Bank of China	103,427	-
Total interest expenses	153,955	61,484

15. CASH AND CASH EQUIVALENTS

The cash and cash equivalents as at 31 December consist of the following:

	2019	2018
	(000) MKD	(000) MKD
Denar accounts at domestic banks	1,165,928	1,060,631
Cash in hand	2,306	1,821
Foreign currency accounts at domestic banks	165,444	915,958
Letters of credit	-	-
Cash in hand - foreign currency	142	113
Foreign exchange accounts in Sparkasse bank	699,951	1,058,382
Total cash and cash equivalents	2,033,771	3,036,905

Foreign exchange accounts in Sparkasse Bank Macedonia AD Skopje as at 31 December 2019 are comprised of withdrawn but still not used cash from foreign creditors and are as follows:

Account (SA) for IBRD Loans	131,903	301,500
Account (SA) for EBRD Loans	568,048	756,882
Total	699,951	1,058,382

PUBLIC COMPANY FOR STATE ROADS
NOTES TO THE FINANCIAL STATEMENTS

16. INVENTORIES

Inventories as at 31 December consist of the following:

	2019 (000) MKD	2018 (000) MKD
Materials	1,548	1,371
Total inventories	1,548	1,371

17. GRANTED LOANS

Loans given to others as at 31 December consist of the following:

	2019 (000) MKD	2018 (000) MKD
<i>Loans to:</i>		
JP Macedonian Railways	23,212	28,440
Customs office of the RM	39,532	48,431
	62,744	76,871
Current portion of long term loans	(13,834)	(13,977)
Total loans given	48,910	62,894

Loans given in amount of 48,910 thousands of MKD (2018: 62,894 thousands of MKD) comprise of disbursed fund by the Enterprise from the loan IBRD 4859 MK and at the same time placed to JP Macedonian Railways and Customs Office according to the loan agreement articles.

18. ADVANCES FOR PROPERTY AND EQUIPMENT

	2019 (000) MKD	2018 (000) MKD
Advances given to:		
Sinohidro Podruznica Skopje	1,572,160	1,912,791
Konstrukciones Rubau Spain	276,734	276,735
GD Granit AD Skopje	441,231	487,439
Aselsan	11,118	56,344
Strabak AG podruznica Skopje	29,921	274,595
Tirena Skavi Italija	259,210	259,210
Alpine Podruznica Skopje	30,181	30,181
Elcom TDS Sistemi	-	2,596
Elektrosoft Skopje	9,047	9,047
DG Beton AD Skopje	3,527	8,275
Total advances for property and equipment	2,633,129	3,317,213

19. INCOME TAX RECEIVABLES AND OTHER CURRENT ASSETS

	2019 (000) MKD	2018 (000) MKD
Income tax receivables	326,644	313,240
Other current assets	31,233	7,365
Income tax receivables and other current assets	357,877	320,605

19. PROPERTY AND EQUIPMENT

Changes of property and equipment during 2019 are as follows:

	Buildings (000) MKD	Roads (000) MKD	Equipment (000) MKD	Construction in progress (000) MKD	Total (000) MKD
Cost or revaluation					
Balance as at 1 January	18,654	101,542,070	238,148	43,377,338	145,176,210
Additions	-	2,450,789	3,265	8,300,189	10,754,243
Transfer from P/E in progress	-	16,041,046	12,426	(16,053,472)	-
Disposal of fixed assets	-	(62,837)	(5,178)	-	(68,015)
Capitalized exchange rate differences	-	-	-	-	-
Free of charge additions	-	1,445,898	-	-	1,445,898
Write-off and other deductions	-	-	-	(9,882)	(9,882)
Balance as at 31 December	18,654	121,416,966	248,661	35,614,173	157,298,454
Accumulated depreciation					
Balance as at 1 January	8,939	57,419,242	184,556	-	57,612,737
Depreciation	185	1,831,475	19,465	-	1,851,125
Disposal of fixed assets	-	(55,028)	(4,875)	-	(59,903)
Write-off and other deductions	-	-	-	-	-
Balance as at 31 December	9,124	59,195,689	199,146	-	59,403,959
Carrying amount as at:					
31.December 2019	9,530	62,221,277	49,515	35,614,173	97,894,495
31.December 2018	9,715	44,122,828	53,592	43,377,338	87,563,473

Construction in progress as at 31 December 2019 in total amount of 35,614,173 thousands of MKD (2018: 43,377,338 thousands of MKD) are comprised of investments in building up to national, regional and local roads.

During 2007, the Agency has made accounting activation of investments in construction, reconstruction and upgrading of several roads in total amount of 682,141 thousands of MKD, which arise from realized projects in the previous years for construction of national and regional roads by the Ministry of transportation with transfers from the State Budget (Telekom assets).

During 2019, the Agency has made accounting activation of investments in construction of sections of Coridor 10 in total amount of 1,445,016 thousands of MKD, which arise from realized projects for construction of Coridor 10 by the Ministry of transportation with transfers from the Operational Program for Regional Development (Note 24)

20. INTANGIBLE ASSETS

Changes during 2019:

	Licenses (000) MKD	Software (000) MKD	Total (000) MKD
Cost			
Balance as at 1 January	1,634	40,510	42,144
Additions	-	2,568	2,568
Balance as at 31 December	1,634	43,078	44,712
Accumulated amortization			
Balance as at 1 January	1,634	17,495	19,129
Amortization	-	8,909	8,909
Balance as at 31 December	1,634	26,404	28,038
Carrying amount as at:			
31.December 2019	-	16,674	16,674
31.December 2018	-	23,015	23,015

21. TRADE PAYABLES

Trade payables as at 31 December consist of the following:

	2019 (000) MKD	2018 (000) MKD
Domestic payables for property, equipment and expenses	177,578	1,875,743
Domestic payables for retained deposits	1,603,159	1,806,086
Total liabilities to suppliers	1,780,737	3,681,829

Domestic payables in amount of 177,578 thousands of MKD (2018: 1,875,743 thousands of MKD) mostly include obligations related to unpaid interim statements towards contractors. In 2018 most of the trade payables arise from unpaid interim statements towards Sinohidro Podružnica Skopje in amount of 1,565,889 thousands of MKD. These liabilities are settled through borrowing from Eksport Import Bank of China (90%), and the other part of (10%) is financed by funds from the Public Enterprise.

Domestic payables for retained deposits to construction companies in amount of 1,603,159 thousands of MKD (2018: 1,806,086 thousands of MKD) arise from interim payment statement for building of roads and represent deposits to contractors as a security for quality performance, which are release at the end of the projects by adequate confirmation.

22. OTHER SHORT-TERM LIABILITIES

The other short-term liabilities as at 31 December consist of the following:

	2019	2018
	(000) MKD	(000) MKD
Liabilities for income tax	-	-
Interest liabilities	317,747	287,323
Liabilities for vehicles registration (refund)	10,246	6,583
Liabilities for concessions	-	-
Liabilities for expropriation of land	77,049	63,452
Liabilities for net wages	-	-
Other liabilities	3,664	3,664
Total other current liabilities	408,706	361,022

Income tax is calculated on financial result presented in the income statement, adjusted for non-deductible expenses and reduced by the amount of the reinvested profit in accordance with the tax regulations, by applying a tax rate of 10% (2018: 10%).

23. GOVERNMENT GRANTS (DEFERRED INCOME)

Government grants as at 31 December consist of following:

	2019	2018
	(000) MKD	(000) MKD
Balance as at 1 January	792,481	799,824
Received grants during the period	1,445,898	15,239
Released to the income statement	(64,729)	(22,582)
Balance as at 31 December	2,173,650	792,481

The government grants arise from accounting activation of investments in construction, reconstruction and upgrading of several roads realized by the Ministry of transportation with transfers from the State Budget (Telekom assets) in amount of 604,072 thousands of MKD. This deferred income is amortized as income over the life of the depreciable assets commencing from date of their activation and put into use (01.01.2008). The annual amount of deferred income is in amount of 22,852 thousands of MKD.

Grant from EIB is grant for technical assistance for the implementation of Project for construction of Corridor 10 (Demir Kapija - Smokvica road). These assets are aimed for consulting services to SAFEGE (Consulting Engineers Belgium) for implementation of project for construction of Corridor 10 (Demir Kapija - Smokvica road) in amount of 166,708 thousands of MKD (2018: 165,826 thousands of MKD). These deferred income should be amortized commencing from the date of road activation.

The government grants arise from accounting activation of investments in construction of sections of Corridor 10 realized by the Ministry of transportation with transfers from the Operational Program for Regional Development in amount of 1,402,870 thousands of MKD. This deferred income is amortized as income over the life of the depreciable assets commencing from date of their activation and put into use (01.08.2019). The annual amount of deferred income is in amount of 42,147 thousands of MKD.

24. LONG-TERM INTEREST BEARING BORROWINGS

a) Type analysis

<u>Bank or creditor</u>	<u>Currency</u>	<u>Principal outstanding 31.12.2019 in currency</u>	<u>Exchange rate 31.12.2019 MKD</u>	<u>Interest rate %</u>	<u>terms and period of repayment</u>	<u>Principal outstanding 31.12.2019 MKD (000)</u>	<u>Principal outstanding 31.12.2019 MKD (000)</u>
EIB II	EUR	15,770,391	61.4856	3.62 % p/y	36 semiannually installments 15/11/2006 - 15/05/2024	969,652	1,185,311
IBRD 4859 MK	EUR	5,492,163	61.4856	Libor	24 semiannually installments 15/12/2012 - 15/06/2024	337,689	412,794
IBRD 7532 MK	EUR	40,705,660	61.4856	Libor	30 semiannually installments 15/09/2013 - 15/03/2028	2,502,812	2,797,192
EBRD	EUR	19,032,720	61.4856	Libor +1	22 semiannually installments 05/12/2012 - 05/06/2023	1,170,238	1,504,822
of China (Miladinovci - Stip)	USD	206,576,311	54.9518	2 % p/y	repayment period	11,351,740	9,820,303
The Export-Import Bank of China (Kicevo - Ohrid)	USD	324,442,683	54.9518	2 % p/y	60 months grace period and 180 months repayment period	17,828,709	15,444,448
IBRD 8420 MK	EUR	50,318,395	61.4856	Libor	32 semiannually installments 15/10/2020 - 15/10/2036	3,093,857	2,147,506
EBRD 41981 - Project corridor X	EUR	12,018,005	61.4856	Libor +1	22 semiannually installments 20.10.2015-20.04.2026	738,934	408,918
EBRD 47955 - National roads Program	EUR	41,415,355	61.4856	Libor +1	48 months grace period and 132 months repayment period 20.02.2019 - 20.08.2029	2,546,448	1,762,877
IBRD 8525 MK	EUR	21,046,583	61.4856	Libor	35 months grace period from 31.12.2020 and 40 semi annual repayment period 15.11.2023-15.05.2043	1,294,062	828,933
EBRD 47829	EUR	19,800,000	61.4856	Libor +1	23 semiannually installments 20/03/2020 - 20/03/2031	1,217,415	654,307
EBRD 49118	EUR	2,100,000	61.4856	Libor +1	24 semiannually installments 15/04/2022-15/10/2033	129,120	-
Total foreign currency borrowings						43,180,676	36,967,412
Minus: Current portion of long-term foreign currency borrowings						(3,349,457)	(1,964,342)
Total net foreign currency borrowings						39,831,219	35,003,070
Total long - term interest bearing borrowings						39,831,219	35,003,070

24. LONG-TERM INTEREST BEARING BORROWINGS (Continued)

b) Changes during the year	2019	2018
	MKD (000)	MKD (000)
Balance as at 1 January	36,967,412	31,393,071
New borrowings	7,686,962	5,851,109
Repayment of principal of foreign borrowings	(2,092,369)	(1,320,894)
Losses (Gains) on exchange, net	618,671	1,044,126
Unused funds - repayment	-	-
Balance as at 31 December	43,180,676	36,967,412
c) Maturity of borrowings	2019	2018
	MKD (000)	MKD (000)
In period of 1 year	3,349,457	1,964,342
In period of 1 to 3 years	6,698,914	3,991,847
Over 3 years	33,132,305	31,011,223
Total	43,180,676	36,967,412

25. EQUITY

As at 31 December 2019, the total equity of the Enterprise is in amount of 5,000 thousands of MKD and it is consist of cash share. Owner of the Enterprise is the Government of the Republic of Macedonia. The assets for the basic capital arise from the cash on the bank accounts of the Agency for state roads which were balance on the opening date of the Enterprise account. The capital is registered in the Central Registry of the Republic of Macedonia.

26. COMMITMENTS FROM LOAN AGREEMENTS

According to the concluded loan agreements with IBRD and EBRD, the Company is obliged to adhere to certain financial covenants during the whole period of Project realization, such as:

- a) debt service coverage ratio - not less than 1.0

Debt service coverage ratio Means the ratio of (i) net Cash Flows Arising From Operating Activities for the 12 months preceding the date of calculation plus all interest charged on accrual basis during such period, minus those Cash Flows Arising From Operating Activities for such period which are applied during that period to acquiring long-term assets except to the extent financed by the Guarantor, to (ii) the sum of the principal repayment and all interest charged on an accruals basis on all Financial Debt during such period.

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26. COMMITMENTS FROM LOAN AGREEMENTS (Continued)

	<u>2019</u>	<u>2018</u>
Net Cash Flows Arising From Operating Activities	5,502,650	4,839,040
Plus all interest charged on accrual basis	153,955	61,484
Minus Cash Flows Arising From Operating Activities for such period which are applied during that period to acquiring long-term assets	(11,988,703)	(8,899,244)
Plus Cash Flows Arising From Operating Activities for such period which are applied during that period to acquiring long-term assets financed by the Guarantor	7,686,962	5,851,109
Total	1,354,864	1,852,389
Sum of the principal repayment during such period	2,092,369	1,320,894
Sum of all interest charged on an accruals basis on all Financial Debt during such period	153,955	61,484
Total	2,246,324	1,382,378
Debt service coverage ratio (DSCR)	0.6	1.3

b) Estimated net revenues / estimated debt service ratio - not less than 1.2

Estimated net revenues / estimated debt service ratio means the ratio of (i) net revenues as a difference between revenues from all sources related to operations plus non-operating income and all expenses related to operations, excluding depreciation, non cash operating charges and interest on debt to (ii) the aggregate amounts of repayments of, and interest and other charges, on debt.

	<u>2019</u>	<u>2018</u>
Revenues from all sources	7,374,323	7,030,648
Plus non-operating income	118,952	48,853
Minus all expenses related to operations, excluding depreciation, non cash operating charges and interest	(1,898,771)	(1,760,835)
Total	5,594,504	5,318,666
Sum of the principal repayment during such period	2,092,369	1,320,894
Sum of all interest charged on an accruals basis on all Financial Debt during such period	153,955	61,484
Total	2,246,324	1,382,378
Estimated net revenues / estimated debt service ratio	2.5	3.8

c) current ratio - not less than 1

Current ratio means the ratio of (i) current assets including estimated net revenues for the next year to (ii) the current liabilities.

	<u>2019</u>	<u>2018</u>
Current assets	2,418,106	3,404,091
Estimated net revenues for next year	4,882,200	5,055,500
Total	7,300,306	8,459,591
Current liabilities	5,692,420	6,144,111
Current ratio	1.3	1.4

27. CONTINGENCIES AND PROVISIONS

The contingencies are recorded and shown in the financial statements only if a probability for future outflows of funds that include economic benefits and a possibility for reasonable estimate of the amount exist. Provisions are liabilities with uncertain time and amount. Provisions are recognized as liabilities, while contingencies are only disclosed.

a) Court procedures (contingencies)

The Enterprise is involved in routine legal proceedings with its clients. The list of court procedures against the Enterprise are as follows:

Basis:	2019 (000) MKD	2018 (000) MKD
Debts	50,904	66,740
Expropriation of land	47,353	39,997
Claims for damages	112,704	84,015
Other	8,092	1,622
Total	219,053	192,374

Above mentioned amounts do not include interest.

b) Provisions

	2019 (000) MKD	2018 (000) MKD
Balance as at 1 January	136,918	132,440
Provision for court litigations through balance sheet	-	17,035
Provision for court litigations through income statement	52,829	27,530
Paid amount	(266)	(7,090)
Released provision for court litigations through balance sheet	(26,079)	-
Released provision for court litigations through income statement	(9,882)	(32,997)
Balance as at 31 December	153,520	136,918

28. POST BALANCE SHEET EVENTS

On March 18, 2020, a state of emergency was declared in our country on the entire territory of RNM in order to curb the spread of COVID 19, which lasted until June 23, 2020.

Given that subsequent events and circumstances related to the outbreak of COVID 19 did not exist on the date of reporting, the management of the Company considers that they do not affect the financial statements as of December 31, 2019 and as such should not correct the reported data. Management believes that the potential effects of COVID 19 on the operation of the Company in the future cannot be forecasted with certainty.