

**PUBLIC ENTERPRISE
FOR STATE ROADS**

**INDEPENDENT AUDITOR'S REPORT AND
FINANCIAL STATEMENTS
FOR THE YEAR ENDING
31 DECEMBER 2016**

Skopje, June 2017

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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 2016, 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 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 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 19 to the financial statements, as at 31 December 2016, the Enterprise has capitalized foreign exchange losses, arising from payment in USD currency to one of the contractors of the projects in amount of 1,899,723 thousands of MKD as construction in progress. Part of this amount is capitalized foreign exchange losses from previous year in amount of 840,963 thousands of MKD, while the other part in amount of 1,058,760 thousands of MKD arises from the current year. 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 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 1,058,760 thousands of MKD, as well as the cost of construction in progress for an amount of 1,899,723 thousands of MKD.

As it is presented in Note 19 to the financial statements, as at 31 December 2016, 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 the 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 2016, and of its financial performance and its cash flows for the year then ended in accounting standards which are accepted in the Republic of Macedonia.

Skopje, 30 June 2017

Certified Auditor

Goce Hristov

Manager and Certified Auditor

Antonio Veljanov



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

	Notes	2016 (000) MKD	2015 (000) MKD
Revenues from allowances	8	6,255,623	5,751,668
Other income	9	64,493	53,563
		6,320,116	5,805,231
Costs from basic activities	10	(1,172,217)	(920,386)
Depreciation		(1,542,719)	(1,561,842)
Employees costs	11	(210,003)	(199,221)
Other costs	12	(372,319)	(299,637)
Provisions		(266)	-
OPERATING PROFIT		3,022,592	2,824,145
Financing income	13	32,268	31,249
Financing expenses	14	(778,162)	(1,796,202)
PROFIT BEFORE TAXATION		2,276,698	1,059,192
Income tax	22	(209,081)	(23,319)
NET PROFIT		2,067,617	1,035,873
Other comprehensive income		-	-
TOTAL COMPREHENSIVE INCOME		2,067,617	1,035,873

Skopje, _____ 2017



Director
 Aleksandar Stojanov

PUBLIC COMPANY FOR STATE ROADS
BALANCE SHEET as at 31 December

	Notes	2016 (000) MKD	2015 (000) MKD
ASSETS			
Current assets			
Cash and cash equivalents	15	2,067,725	1,616,708
Loans given (Current part)	17	12,158	12,510
Other current assets and prepaid expenses		3,834	1,083
Accrued income		59,895	20,384
Inventories	16	1,315	1,563
Total current assets		2,144,927	1,652,248
Non-Current assets			
Loans given	17	90,827	104,994
Advances for Property and Equipment	18	5,545,552	6,321,864
Intangible assets	20	6,820	5,699
Property and Equipment	19	69,482,496	58,279,278
Total Non-current assets		75,125,695	64,711,835
TOTAL ASSETS		77,270,622	66,364,083
LIABILITIES AND EQUITY			
Current liabilities			
Trade Payables	21	1,586,375	1,555,956
Current maturities of long term interest bearing borrowings	24	1,455,742	1,414,097
Other liabilities	22	446,226	253,343
Provisions	27	139,720	137,117
Total Current liabilities		3,628,063	3,360,513
Non-Current liabilities			
Government grants (deferred income)	23	795,218	584,334
Long term interest bearing borrowings	24	28,094,455	20,394,928
Total Non-Current liabilities		28,889,673	20,979,262
Total liabilities		32,517,736	24,339,775
Equity			
State owned capital	25	5,000	5,000
Revaluation reserves		9,796,453	9,796,453
Accumulated profit (loss)		34,951,433	32,222,855
Total equity		44,752,886	42,024,308
TOTAL LIABILITIES AND EQUITY		77,270,622	66,364,083

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

	2016	2015
	(000) MKD	(000) MKD
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash inflows from allowances	6,216,112	5,746,021
Cash inflows from other operating activities	22,668	25,637
Payments to suppliers for basic activities	(1,189,695)	(851,039)
Paid wages	(210,003)	(190,396)
Payments for other operating expenses	(371,962)	(304,500)
Paid income tax	(34,765)	(94,095)
Received interest	11,149	8,013
	4,443,504	4,339,641
CASH FLOWS FROM INVESTING ACTIVITIES		
Loans given/collected to other entities	14,519	14,376
Acquisition of intangible assets	(3,756)	(2,792)
Acquisition of PPE	(11,805,813)	(7,635,390)
Paid advances for PPE, net	776,312	(195,463)
	(11,018,738)	(7,819,269)
CASH FLOWS FROM FINANCING ACTIVITIES		
Paid interest	(72,909)	(65,924)
Received/Repaid long-term borrowings, net	7,099,160	5,022,079
	7,026,251	4,956,155
Net cash flow from financing activities	7,026,251	4,956,155
Net increase (decrease) of cash and cash equivalents	451,017	1,476,527
Cash and cash equivalents at the beginning of the year	1,616,708	140,181
Cash and cash equivalents at the end of the year	2,067,725	1,616,708

PUBLIC COMPANY FOR STATE ROADS

STATEMENT OF CHANGES IN EQUITY for the year ended at 31 December

	<u>State owned capital</u>	<u>Revaluation reserve</u>	<u>Reinvested profit</u>	<u>Accumulated profit (loss)</u>	<u>Total equity</u>
	(000) MKD	(000) MKD	(000) MKD	(000) MKD	(000) MKD
Balance as at 1 January 2015	5,000	9,796,453	-	31,186,308	40,987,761
Reconciliation	-	-	-	-	-
Balance as at 1 January 2015 - restated	5,000	9,796,453	-	31,186,308	40,987,761
Profit (loss) for the year	-	-	-	1,035,873	1,035,873
Reinvested profit from previous year according to Board of Directors Decision and Government of RM approval	-	-	838,216	(838,216)	-
Other adjustments	-	-	-	674	674
Balance as at 31 December 2015	5,000	9,796,453	838,216	31,384,639	42,024,308
Balance as at 1 January 2016	5,000	9,796,453	838,216	31,384,639	42,024,308
Adjustments for exchange rate differences recorded as expenses in 2015 (capitalized according SAO Report)	-	-	-	840,963	840,963
Adjustments for reconciliation of carrying amount of PPE received as grant with deferred income (according SAO Report)	-	-	-	(180,002)	(180,002)
Balance as at 1 January 2016 - restated	5,000	9,796,453	838,216	32,045,600	42,685,269
Profit (loss) for the year	-	-	-	2,067,617	2,067,617
Reinvested profit from previous year according to Board of Directors Decision and Government of RM approval	-	-	1,035,873	(1,035,873)	-
Utilized reinvested profit	-	-	(838,216)	838,216	-
Balance as at 31 December 2016	5,000	9,796,453	1,035,873	33,915,560	44,752,886

PUBLIC ENTERPRISE FOR STATE ROADS NOTES TO THE FINANCIAL STATEMENTS

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 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 2016 is 395 employees (2015: 380 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 Macedonia No.159/2009 and became effective from 1 January 2010.

The financial statements were prepared for the period ending 31 December 2016 and 2015. 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 2016 and 2015 for EUR and USD are as it follows:

In MKD	1 EUR	1 USD
31 December 2016	61.4812 MKD	58.3258 MKD
31 December 2015	61.5947 MKD	56.3744 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 2016 compare to 2015 are as follows:

Asset	2016	2015
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 24 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 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 (2015: 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 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 2016 is not yet executed and therefore additional taxes or contributions cannot be assessed reliably.

PUBLIC ENTERPRISE FOR STATE ROADS
NOTES TO THE FINANCIAL STATEMENTS

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 2016 and 2015 is as it follows:

In (000) MKD	<u>2016</u>	<u>2015</u>
Debt	29,550,197	21,809,025
Cash and cash equivalents	<u>(2,067,725)</u>	<u>(1,616,708)</u>
Net debt (cash)	27,482,472	20,192,317
Total equity	44,752,886	42,024,308
% of debt	61%	48%

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 2016 and 2015 is as follows:

In (000) MKD	Assets		Liabilities	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
EUR	1,215,756	1,468,239	10,632,915	11,029,795
USD	131	131	18,917,282	10,930,653
other	14	14	-	-
	<u>1,215,901</u>	<u>1,468,384</u>	<u>29,550,197</u>	<u>21,960,448</u>

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.

PUBLIC ENTERPRISE FOR STATE ROADS
NOTES TO THE FINANCIAL STATEMENTS

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%	
	2015	2014	2015	2014
EUR	(941,716)	(956,156)	941,716	956,156
USD	(1,891,715)	(1,093,052)	1,891,715	1,093,052
other	1	1	(1)	(1)
Net effect	(2,833,430)	(2,049,206)	2,833,430	2,049,206

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	
	2016	2015
Financial assets		
<i>Non-interest bearing:</i>		
- Cash and cash equivalents	1,965	2,447
- Other assets	3,826	1,083
	5,791	3,530
<i>Variable interest bearing :</i>		
- Given loans	102,985	117,504
- Cash and cash equivalents	2,065,760	1,614,261
	2,168,745	1,731,765
	2,174,536	1,735,295
Financial liabilities		
<i>Non-interest bearing:</i>		
- Trade payables	1,586,375	1,555,956
- Other current liabilities	446,226	253,343
	2,032,601	1,809,299
<i>Variable interest bearing:</i>		
- Borrowings	10,632,915	10,878,372
	10,632,915	10,878,372
<i>Fixed interest bearing:</i>		
- Borrowings	18,917,282	10,930,653
	18,917,282	10,930,653
	31,582,798	23,618,324

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	
	2016	2015	2016	2015
Borrowings	(106,329)	(108,784)	106,329	108,784
Bank deposits	1,030	1,175	(1,030)	(1,175)
Net effect	(105,299)	(107,609)	105,299	107,609

6.4. Liquidity risk

The following table details the Enterprise's remaining contractual maturity for its financial assets and liabilities as at 31 December 2016:

In (000) MKD	Less than 1 month	1 to 3 month	3 to 12 month	Over 12 months	Total
Cash	2,067,725	-	-	-	2,067,725
Given loans	-	-	12,158	90,827	102,985
Other receivables	3,826	-	-	-	3,826
	2,071,551	-	12,158	90,827	2,174,536
Trade payables	1,586,375	-	-	-	1,586,375
Borrowings	-	258,750	1,196,992	28,094,455	29,550,197
Other payables	248,591	197,635	0	-	446,226
	1,834,966	456,385	1,196,992	28,094,455	31,582,798

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 2015:

In (000) MKD	Less than 1 month	1 to 3 month	3 to 12 month	Over 12 months	Total
Cash	1,616,708	-	-	-	1,616,708
Given loans	-	-	12,510	104,994	117,504
Other receivables	1,083	-	-	-	1,083
	1,617,791	-	12,510	104,994	1,735,295
Trade payables	1,555,956	-	-	-	1,555,956
Borrowings	-	260,927	1,153,170	20,394,428	21,809,025
Other payables	230,024	23,319	-	-	253,343
	1,785,980	284,246	1,153,170	20,394,428	23,618,324

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.

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

8. REVENUES FROM ALLOWANCES

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

	2016 (000) MKD	2015 (000) MKD
Revenue from petrol price (State Budget transfers)	2,481,927	2,278,569
Revenue from highway utilization pay-toll	2,311,776	2,110,815
Revenue from motor vehicles registration	1,461,920	1,362,284
Total revenues from allowances	6,255,623	5,751,668

9. OTHER OPERATING INCOME

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

	2016 (000) MKD	2015 (000) MKD
Income from compensations by other entities	21,756	22,370
Income from free of charge assets (Note 19)	22,582	22,582
Income from releasing of provisions	16,492	6,358
Other income	3,663	2,253
Total other operating income	64,493	53,563

10. COST FOR BASIC ACTIVITIES

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

	2016 (000) MKD	2015 (000) MKD
Expenses for road reconstruction and maintenance	872,217	620,386
Transfer of allowances to local communities	300,000	300,000
Total cost for basic activities	1,172,217	920,386

PUBLIC COMPANY FOR STATE ROADS
NOTES TO THE FINANCIAL STATEMENTS

11. EMPLOYEES EXPENSES

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

	2016	2015
	(000) MKD	(000) MKD
Employees wages	198,849	188,975
Severance payments and bonuses	1,374	913
Business travel allowances	743	1,421
Expenses for transport	9,037	7,912
Total	210,003	199,221

12. OTHER OPERATING EXPENSES

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

	2016	2015
	(000) MKD	(000) MKD
Expenses for monitoring and security of pay tolls	98,142	84,100
Bank fees	31,694	28,187
Public utility services expenses	72,326	47,612
Expenses for motor vehicles association fees	64,877	64,686
Other services	43,252	10,060
Maintenance and repairing expenses	18,984	29,004
Material costs	9,600	22,383
Insurance costs	1,214	1,731
Representation	752	723
Expenses for court litigations	20,097	-
Other operating expenses	11,381	11,151
Total other operating expenses	372,319	299,637

13. FINANCING INCOME

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

	2016	2015
	(000) MKD	(000) MKD
Interest income	11,149	8,013
Gains on exchange	21,119	23,236
Total financing income	32,268	31,249

14. FINANCING EXPENSES

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

	2016	2015
	(000) MKD	(000) MKD
Interest expenses from borrowings	108,578	137,016
Penal interest	376	1,186
Loss on exchanges	669,208	1,658,000
Total financing expenses	778,162	1,796,202

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

	2016	2015
	(000) MKD	(000) MKD
IBRD - The World Bank	3,913	9,804
EBRD - local and regional roads	8,678	13,794
EIB I	17,927	23,784
EIB II	73,958	82,627
Export-Import Bank of China	-	-
EBRD - ring road	4,102	7,007
Total interest expenses	108,578	137,016

15. CASH AND CASH EQUIVALENTS

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

	2016	2015
	(000) MKD	(000) MKD
Denar accounts at domestic banks	952,947	263,407
Cash in hand	1,862	2,421
Foreign currency accounts at domestic banks	404,095	175,708
Letters of credit	-	-
Cash in hand - foreign currency	103	26
Foreign exchange accounts in Sparkasse bank	708,718	1,175,146
Total cash and cash equivalents	2,067,725	1,616,708

Foreign exchange accounts in Sparkasse Bank Macedonia AD Skopje as at 31 December 2016 are comprised of withdrawn but still not used cash from foreign creditors and are as follows:

Account (SA) for IBRD Loans	115,781	268,935
Account (SA) for EBRD Loans	592,937	906,211
Total	708,718	1,175,146

PUBLIC COMPANY FOR STATE ROADS
NOTES TO THE FINANCIAL STATEMENTS

16. INVENTORIES

Inventories as at 31 December consist of the following:

	2016	2015
	(000) MKD	(000) MKD
Materials	1,315	1,563
Total inventories	1,315	1,563

17. GRANTED LOANS

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

	2016	2015
	(000) MKD	(000) MKD
<i>Loans to:</i>		
JP Macedonian Railways	38,095	43,466
Customs office of the RM	64,890	74,038
	102,985	117,504
Current portion of long term loans	(12,158)	(12,510)
Total loans given	90,827	104,994

Loans given in amount of 102,985 thousands of MKD (2015: 117,504 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

	2016	2015
	(000) MKD	(000) MKD
Advances given to:		
Sinohidro Podruznica Skopje	4,941,253	5,832,616
Konstrukciones Rubau Spain	293,589	-
GD Granit AD Skopje	112,525	152,920
Aselsan	108,646	115,212
Kompanija Eskavatori DOO	14,812	48,428
Gradezen Institut Makedonija	15,536	36,250
Alpine Podruznica Skopje	30,181	30,181
Geing	10,219	27,738
Strabag Podruznica	-	26,959
Ilinden Struga	-	25,614
Elektrosoft Skopje	9,047	9,047
Pelagonija AD Gostivar	-	8,135
DG Beton AD Skopje	9,744	7,080
Bojta Skopje	-	1,684
Total advances for property and equipment	5,545,552	6,321,864

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

19. PROPERTY AND EQUIPMENT

Changes of property and equipment during 2016 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	93,275,722	186,532	17,616,769	111,097,677
Additions	-	294,310	3,865	10,545,513	10,843,688
Transfer from P/E in progress	-	3,735,541	-	(3,735,541)	-
Disposal of fixed assets	-	-	(887)	-	(887)
Capitalized exchange rate differences	-	-	-	1,899,723	1,899,723
Free of charge additions	-	-	753	-	753
Balance as at 31 December	18,654	97,305,573	190,263	26,326,464	123,840,954
Accumulated depreciation					
Balance as at 1 January	8,384	52,644,868	165,147	-	52,818,399
Depreciation	185	1,532,848	7,051	-	1,540,084
Disposal of fixed assets	-	-	(778)	-	(778)
Free of charge additions	-	-	753	-	753
Balance as at 31 December	8,569	54,177,716	172,173	-	54,358,458
Carrying amount as at:					
31.December 2016	10,085	43,127,857	18,090	26,326,464	69,482,496
31.December 2015	10,270	40,630,854	21,385	17,616,769	58,279,278

Construction in progress as at 31 December 2016 in total amount of 26,326,464 thousands of MKD (2015: 17,616,769 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).

20. INTANGIBLE ASSETS

Changes during 2016:

	Licenses (000) MKD	Software (000) MKD	Total (000) MKD
Cost			
Balance as at 1 January	1,634	8,395	10,029
Additions	-	3,756	3,756
Balance as at 31 December	1,634	12,151	13,785
Accumulated amortization			
Balance as at 1 January	1,633	2,697	4,330
Amortization	1	2,634	2,635
Balance as at 31 December	1,634	5,331	6,965
Carrying amount as at:			
31. December 2016	-	6,820	6,820
31. December 2015	1	5,698	5,699

21. TRADE PAYABLES

Trade payables as at 31 December consist of the following:

	2016 (000) MKD	2015 (000) MKD
Domestic payables for property, equipment and expenses	620,836	1,066,449
Domestic payables for retained deposits	965,539	489,507
Total liabilities to suppliers	1,586,375	1,555,956

Domestic payables in amount of 620,836 thousands of MKD mostly include obligations related to unpaid interim statements towards contractor Sinohidro Podružnica Skopje in amount of 426,270 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 965,539 thousands of MKD (2015: 489,507 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:

	2016	2015
	(000) MKD	(000) MKD
Liabilities for income tax	197,635	23,319
Interest liabilities	187,468	151,423
Liabilities for vehicles registration	22,287	4,174
Liabilities for concessions	1	6,313
Liabilities for expropriation of land	35,073	64,295
Liabilities for net wages	-	-
Other liabilities	3,762	3,819
Total other current liabilities	446,226	253,343

Income tax liabilities in amount of 197,635 thousands of MKD (2015: 23,319 thousands of MKD) arise from calculated income tax of 10% 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 legal tax changes in 2016 (2015: 10% income tax calculated on financial result presented in the income statement, adjusted for non-deductible expenses).

23. GOVERNMENT GRANTS (DEFERRED INCOME)

Government grants as at 31 December consist of following:

	2016	2015
	(000) MKD	(000) MKD
Balance as at 1 January	584,334	582,061
Received grants during the period	53,464	24,855
Adjustments according SAO Report (changes in equity)	180,002	-
Released to the income statement	(22,582)	(22,582)
Balance as at 31 December	795,218	584,334

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 671,818 thousands of MKD.

These 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 123,400 thousands of MKD. These deferred income should be amortized commencing from the date of road activation.

24. LONG-TERM INTEREST BEARING BORROWINGS

a) Type analysis

Bank or creditor	Currency	Principal outstanding 31.12.2016 in currency	Exchange rate 31.12.2016 MKD	Interest rate %	terms and period of repayment	Principal outstanding 31.12.2016 MKD (000)	Principal outstanding 31.12.2015 MKD (000)
EIB I	EUR	7,028,571	61.4812	2.5 % p/y	30 semiannually installments 15/10/2003 - 15/04/2018	432,125	721,538
EIB II	EUR	26,283,985	61.4812	3.62 % p/y	36 semiannually installments 15/11/2006 - 15/05/2024	1,615,971	1,834,815
EBRD	EUR	5,454,545	61.4812	Libor +1	21 semiannually installments 20/09/2007 - 20/03/2018	335,352	559,952
IBRD 4859 MK	EUR	9,153,605	61.4812	Libor	24 semiannually installments 15/12/2012 - 15/06/2024	562,775	638,989
IBRD 7532 MK	EUR	55,048,159	61.4812	Libor	30 semiannually installments 15/09/2013 - 15/03/2028	3,384,427	3,727,767
EBRD	EUR	35,346,480	61.4812	Libor +1	22 semiannually installments 05/12/2012 - 05/06/2023	2,173,144	2,123,752
The Export-Import Bank of China (Miladinovci - Stip)	USD	126,393,483	58.3258	2 % p/y	60 months grace period and 180 months repayment period	7,372,001	4,221,524
The Export-Import Bank of China (Kicevo - Ohrid)	USD	197,944,658	58.3258	2 % p/y	60 months grace period and 180 months repayment period	11,545,281	6,709,130
IBRD 8420 MK	EUR	21,092,031	61.4812	Libor	32 semiannually installments 15/10/2020 - 15/10/2036	1,296,763	433,647
EBRD 41981 - Project corridor X	EUR	2,590,909	61.4812	Libor +1	22 semiannually installments 20.10.2015-20.04.2026	159,292	176,385
EBRD 47955 - National roads Program	EUR	10,740,000	61.4812	Libor +1	48 months grace period and 132 months repayment period 20.02.2019 - 20.08.2029	660,308	661,527
IBRD 8525 MK	EUR	207,500	61.4812	Libor	35 months grace period from 31.12.2020 and 40 semi annual repayment period 15.11.2023-15.05.2043	12,757	-
Total foreign currency borrowings						29,550,197	21,809,025
Minus: Current portion of long-term foreign currency borrowings						(1,455,742)	(1,414,097)
Total net foreign currency borrowings						28,094,455	20,394,928
Total long - term interest bearing borrowings						28,094,455	20,394,928

24. LONG-TERM INTEREST BEARING BORROWINGS (Continued)

b) Changes during the year	2016	2015
	MKD (000)	MKD (000)
Balance as at 1 January	21,809,025	15,995,835
New borrowings	8,558,002	6,341,828
Repayment of principal of foreign borrowings	(1,458,842)	(1,319,749)
Losses (Gains) on exchange, net	642,012	791,111
Unused funds - repayment	-	-
Balance as at 31 December	29,550,197	21,809,025

c) Maturity of borrowings	2016	2015
	MKD (000)	MKD (000)
In period of 1 year	1,455,742	1,414,097
In period of 1 to 3 years	2,804,597	2,571,895
Over 3 years	25,289,858	17,823,033
Total	29,550,197	21,809,025

25. EQUITY

As at 31 December 2016, 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.

**PUBLIC ENTERPRISE FOR STATE ROADS
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26. COMMITMENTS FROM LOAN AGREEMENTS (Continued)

	2016	2015
Net Cash Flows Arising From Operating Activities	4,443,504	4,339,641
Plus all interest charged on accrual basis	108,578	137,016
Minus Cash Flows Arising From Operating Activities for such period which are applied during that period to acquiring long-term assets	(11,033,257)	(7,833,645)
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	8,558,002	6,341,828
Total	2,076,827	2,984,840
Sum of the principal repayment during such period	1,458,842	1,319,749
Sum of all interest charged on an accruals basis on all Financial Debt during such period	108,578	137,016
Total	1,567,420	1,456,765
Debt service coverage ratio (DSCR)	1.3	2.0

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.

	2016	2015
Revenues from all sources	6,255,623	5,751,668
Plus non-operating income	64,493	53,563
Minus all expenses related to operations, excluding depreciation, non cash operating charges and interest	(1,754,539)	(1,419,244)
Total	4,565,577	4,385,987
Sum of the principal repayment during such period	1,458,842	1,319,749
Sum of all interest charged on an accruals basis on all Financial Debt during such period	108,578	137,016
Total	1,567,420	1,456,765
Estimated net revenues / estimated debt service ratio	2.9	3.0

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.

	2016	2015
Current assets	2,144,927	1,652,248
Estimated net revenues for next year	3,450,000	2,910,000
Total	5,594,927	4,562,248
Current liabilities	3,628,063	3,360,513
Current ratio	1.5	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:	2016 (000) MKD
Debts	90,353
Expropriation of land	32,914
Claims for damages	59,384
Other	440
Total	183,091

Above mentioned amounts do not include interest.

b) Provisions

During 2016, the Enterprise has made provision for court litigations in balance sheet in amount of 89,864 thousands of MKD, an amount of 58,868 thousands of MKD is paid, and released in amount of 16,492 thousands of MKD in balance sheet and amount of 11,897 thousands of MKD in income statement or balance of 139,719 thousands of MKD at 31 December. During 2015, the Enterprise has made provision for court litigations in balance sheet in amount of 27,694 thousands of MKD and released in amount of 8,539 thousands of MKD in balance sheet and amount of 6,358 thousands of MKD in income statement or balance of 137,113 thousands of MKD at 31 December 2015.

28. POST BALANCE SHEET EVENTS

There were no materially significant events after the balance sheet date that should be disclosed in the financial statements.