Makstil AD Skopje

Financial statements
for the year ended
31 December, 2023
with the Independent Auditor's
Report

Contents

Independent auditor's report

To the Board of Directors and Shareholders of Makstil AD - Skopje

Report on the financial statements

We have audited the accompanying financial statements of Makstil AD – Skopje, which comprise the statement of financial position as of 31 December 2023 and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Accounting Standards applicable in the Republic of North Macedonia and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud 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 Standards on auditing applicable in the Republic of North Macedonia (the "Standards"). The Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Basis for Qualified Opinion

As disclosed in note 15 of the accompanying financial statements, the Company did not have ownership of the land at the initial recognition. The recognition of the land, as such, is not in accordance with the asset recognition criteria as per IAS 1 - Presentation of Financial Statements and IAS 16 - Property, Plant and Equipment. In 2021 the Company legalised part of the land and increased the carrying amount of the land as at 31 December 2021 by the additional capitalised legalisation costs of MKD 33,729 thousand. The legalisation procedures for the remaining portion of the land is not finalised as at 31 December 2023. Following the above, in accordance with the requirements of IAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors, the Company should have not recognized the land as at 1 January 2022 in the amount of MKD 1,130,270 thousand and thus the carrying amount of the property, plant and equipment as at 1 January 2022 is overstated in the amount of MKD 1,130,270 thousand and the share capital and reserves as at 1 January 2022 is also overstated. In addition, we were not able to obtain appropriate audit evidence to confirm the complete land area, and consequently the corresponding value of the legalised portion of the land, which in accordance with IAS 16 - Property, Plant and Equipment should be accounted for in the financial statements of the Company.

Consequently, we were not able to determine the carrying value of the overstated property plant and equipment and the share capital and reserves as at 31 December 2023 and 31 December 2022. The auditor's report on the financial statements as of 31 December 2022 and for the year then ended, issued on 27 April 2023, was modified accordingly.

Qualified Opinion

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion section above, the financial statements present fairly, in all material respects, the financial position of Makstil AD - Skopje as of 31 December 2023, and of its financial performance and its cash flows for the year than ended in accordance with Accounting standards applicable in the Republic of North Macedonia.

Report on other legal and regulatory requirements

Annual report prepared by the Management in accordance with the requirement of the article 384 of the Company Law.

Management is also responsible for the preparation of the Annual accounts and Annual Report of Makstil AD - Skopje, which were approved by the Board of Directors of Makstil AD - Skopje.

As required by the Audit Law, we report that the historical information presented in the Annual Report prepared by Management of Makstil AD - Skopje in accordance with article 384 of the Company Law, is consistent, in all material respects, with the financial information presented in the Annual Accounts and audited financial statements of Makstil AD - Skopje as of 31 December 2023 and for the year then ended. Still, based on our opinion, the Annual Report and the Annual accounts are materially misstated for the same reasons described in the Basis for Qualified Opinion section above.

Dragan Davitkov General Manager	Dragan Davitkov Certified Auditor

PricewaterhouseCoopers Revizija DOO

30 April 2024
Skopje, Republic of North Macedonia

Statement of Financial Position

As at 31 December

in thousands of denars	Note	2023	2022
Assets			
Property, plant and equipment	15	3,814,692	3,746,509
Intangible assets		3,492	1,109
Investments in associates	16	5,182	5,182
Investments in securities	17	1,257	1,257
Total non-current assets		**3,824,623**	**3,754,057**
Inventories	18	3,147,030	2,770,408
Trade and other receivables	19	571,538	916,187
Prepayments and advances	20	204,763	159,174
Cash and cash equivalents	21	271,361	724,759
Income tax receivable	14	81,735	-
Total current assets		**4,276,427**	**4,570,528**
Total assets		**8,101,050**	**8,324,585**
Equity			
Share capital		3,948,195	3,948,195
Accumulated losses		(381,067)	(736,619)
Total equity and reserves		**3,567,128**	**3,211,576**
Liabilities			
Loans and borrowings	24	490,905	541,164
Employee benefits	25	27,244	27,047
Deferred income	28	14,755	15,998
Total non-current liabilities		**532,904**	**584,209**
Loans and borrowings	24	1,723,823	1,984,291
Trade and other payables	26	1,228,236	1,133,150
Income tax payable		11,015	39,244
Advances received	27	1,037,944	1,372,115
Total current liabilities		**4,001,018**	**4,528,800**
Total liabilities		**4,533,922**	**5,113,009**
Total equity and liabilities		**8,101,050**	**8,324,585**

The accompanying notes from page 7 to 45 are an integral part of these financial statements.

The financial statements were authorised for issue by the Board of Directors of Makstil AD, Skopje on 26 April 2024 and were signed on its behalf by:

Marija Dukovska - Pavlovska
General Manager

Louis Christian Carstens
Director of Economics

Goran Aleksovski
Accounting and Finance Manager
(Certified Accountant - Certificate No. 0105475)

Statement of profit or loss and other comprehensive income

For the year ended 31 December

in thousands of denars	**Note**	**2023**	**2022**
Operating revenues	7	8,274,591	11,106,106
Cost of goods sold	11	(7,245,376)	(9,596,652)
Gross profit		1,029,215	1,509,454
Other income	8	138,034	52,135
Administrative expenses	11	(654,269)	(351,027)
Other expenses	9	(11,851)	(8,857)
Results from operating activities		501,129	1,201,705
Finance income	12	65,504	154,896
Finance cost	13	(163,840)	(155,838)
Net finance costs		(98,336)	(942)
Profit before profit tax		402,793	1,200,763
Income tax expense	14	(47,241)	(123,527)
Profit for the year		355,552	1,077,236
Other comprehensive income for the year, net of income tax		-	-
Total comprehensive income for the year		355,552	1,077,236
Basic and diluted earnings per share (denars)	23	24,31	73,67

The accompanying notes from page 7 to 45 are an integral part of these financial statements.

Statement of changes in equity

For the year ended 31 December

in thousands of denars	**Share capital**	**Accumulated losses**	**Total**
Balance as at 1 January 2022	3,948,195	(1,813,855)	2,134,340
Total comprehensive income for the year			
Profit for the year	-	1,077,236	1,077,236
Total comprehensive income for the year	-	1,077,236	1,077,236
Balance as at 31 December 2022	3,948,195	(736,619)	3,211,576
Balance as at 1 January 2023	3,948,195	(736,619)	3,211,576
Total comprehensive income for the year			
Profit for the year	-	355,552	355,552
Total comprehensive income for the year	-	355,552	355,552
Balance as at 31 December 2023	3,948,195	(381,067)	3,567,128

The accompanying notes from page 7 to 45 are an integral part of these financial statements.

Statement of Cash Flows

For the year ended 31 December

In thousands of denars	**Note**	**2023**	**2022**
Cash flows from operating activities			
Profit/ (loss) before tax		402,793	1,200,763
Adjustment for:			
Depreciation of Property, Plant and Equipment	15	324,738	318,447
Amortization of intangibles		1,043	223
Write down of inventories	11	29,575	31,563
Capital loss/(gain) on sale of property, plant and equipment		(1,907)	(70)
Allowance for bad and doubtful receivables		-	-
Interest income	12	(261)	(36)
Interest expense	13	114,685	78,388
Government grants income	28	(1,243)	(1,278)
		869,423	1,628,000
Change in inventories		(406,197)	(160,338)
Change in trade and other receivables		346,649	(277,520)
Change in trade and other payables		95,086	(63,744)
Change in advances given		(45,589)	(3,836)
Change in advances received		(334,171)	527,569
Change in provisions and employee benefits		197	1,520
Cash flows from operating activities		**525,398**	**1,651,651**
Interest paid		(114,686)	(78,388)
Income tax paid		(157,205)	(172,716)
Net cash flows from operating activities		**253,507**	**1,400,547**
Cash flows from investment activities			
Acquisition of property, plant and equipment		(393,014)	(273,646)
Proceeds from sale of property, plant and equipment		2,000	-
Acquisition of intangible assets		(3,426)	(1,462)
Proceeds from government grants	28	-	-
Other cash flows from investing activities		(2,000)	-
Net cash flows used in investing activities		**(396,440)**	**(275,108)**
Cash flows from financing activities			
Proceeds from loans and borrowings		6,903,919	7,627,807
Repayment of loans and borrowings		(7,214,645)	(8,167,448)
Unrealized foreign exchange loss/(gain)		262	1,029
Net cash flows used in financing activities		**(310,465)**	**(538,612)**
Net increase/(decrease) in cash and cash equivalents		(453,398)	586,827
Cash and cash equivalents at 1 January		724,759	137,932
Cash and cash equivalents at 31 December	21	**271,361**	**724,759**

The accompanying notes from page 7 to 45 are an integral part of these financial statements.

Notes to the financial statements

1. General information

Makstil AD, Skopje ("the Company") is a joint stock company domiciled in the Republic of North Macedonia. The address of the Company's registered office is:

16 Makedonska Brigada No. 18, 1000

Skopje

Republic of North Macedonia

The immediate parent company of the Company is Duferco SKOP SA, owned by the Duferco International Trading Holding Group, Luxembourg. The ultimate parent company is HBIS Group Co. Limited, owned by the Supervision and Administration Commission of Hebei Province in the People's Republic of China, which represents the ultimate owner of the Company.

Main activity of the Company is processing of scrap iron and slabs into hot plates.

The shares of the Company are listed on the official market of the Macedonian Stock Exchange under ISIN MKSTIL101014.

1.1 Economic environment

2023 was the year of recovery of the global steel industry. Steel demand has started to grow again in Turkey, Europe, the United States and Brazil. Regional conflicts, inflation, and financial requirements for the transition to a low-carbon economy remain the main challenges. Steel producers will play a key role in the European Union's "Fit for 55" plan to cut greenhouse gas emissions by 55% by 2030.

Makstil, as a very significant regional producer of hot-rolled thick sheets, constantly follows global trends and continuously adjusts its business functions and manages to promptly respond to the current demand for steel. Makstil AD - Skopje in the period January - December 2023 achieved positive financial results expressed in the financial reports.

For the next period, an increase in the demand for steel is expected, accompanied by the stability of the prices of the finished product, a reduction in the existing level of inflation, a reduction in credit pressure from the banks, especially in the second half of 2024, as well as a recovery in consumption.

Our largest market, the European Union, is still expected to continue to feel the impact of the war in Ukraine, the crisis in the Middle East, the conflict in Yemen, which affects the increase in costs related to maritime transport. An increase in demand for steel products is expected on the market in Turkey. Makstil will continue with the realization of the set goals, especially in the segment of modernization of the equipment, for which it concluded a contract for the purchase of a new circular side shear for sheet metal cutting, which is expected to introduce significant changes for the improvement of the production process. Improving the health, safety and well-being of all employees is also a segment to which the company pays considerable attention.

In the area of limiting factors, challenges remain in the field of transport and logistics, especially rail transport, where the entry of a private operator is expected and where the need for the provision of adequate professional labour will inevitably be imposed. The treatment of scrap metal remains, according to which, scrap metal is still treated as waste and not as raw material.

Notes to the financial statements

2. Basis of preparation

(a) Statement of compliance

These financial statements, in all material amounts are prepared in accordance with the Law on Trade Companies (published in the Official Gazette of RM no. 28/04, 84/05, 25/07, 87/08, 42/10, 48/10,24/11, 166/12, 70/13, 119/13, 120/13, 187/13, 38/14, 41/14, 138/14, 88/15, 192/15, 6/16, 30/16, 61/16,64/18, 120/18, 290/20, 215/21 and 99/22) and the Rulebook on Accounting (Published in the Official Gazette of the Republic of North Macedonia No. 159/2009, 164/2010 and 107/2011), where the International Financial Reporting Standards (IFRS) were published, from IFRS 1 to IFRS 8, the International Accounting Standards (IAS) from IAS 1 to IAS 41, the Interpretations of the IFRS Interpretations Committe (IFRIC) from IFRIC 1 to IFRIC 17 and the Interpretations of the Standard Interpretations Committee from SIC 7 to SIC 32, which were issued. IFRS 9, IFRS 10, IFRS 11, IFRS 12, IFRS 13, IFRS 15, IFRS 16, IFRS 17, IFRIC 18, IFRIC 19, IFRIC 20, IFRIC 21, IFRIC 22 and IFRIC 23 are not included in the Rulebook on Accounting and applied by the Company. IFRS (including IFRS1) were originally published in the Official Gazette in 1997 and have been updated several times since.
The last update was in December 2010. The Company applies all the relevant standards, alterations and interpretations published in the Official Gazette.

On April 3, 2024, a new Rulebook of Accounting was published (issued in the Official Gazette of Republic of North Macedonia, No. 75/24), which includes the updated IFRS, IFRIC, and SIC, as well as IFRS, IFRIC, and SIC, for which it is stated above that are not part of the existing Rulebook of Accounting. The new Rulebook of Accounting will be applicable starting from January 1, 2025, except for the International Financial Reporting Standard 17 Insurance Contracts, which will be applicable from January 1, 2028.

The company is in the process of assessing the impact of the new Rulebook of Accounting on the financial statements.

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis except for the available-for-sale financial assets that are measured at fair value.

The methods used for measuring fair values are explained in note 4 bellow.

(c) Functional and presentation currency

These financial statements are presented in Macedonian denars ("denars" or "MKD"), which is the Company's functional currency. Unless stated otherwise, the financial information presented in Macedonian denars has been rounded to the nearest thousand.

(d) Use of estimates and judgements

The preparation of financial statements in conformity with the accounting standards that are adopted in the Republic of North Macedonia requires the management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Notes to the financial statements

2. Basis of preparation (continued)

(d) Use of estimates and judgements (continued)

Information about significant areas of estimation uncertainty and critical judgements in applying the Accounting Standards adopted in the Republic of North Macedonia that have the most significant effect on the amounts recognised in the financial statements is included in notes:

- Note 19 - Trade and other receivables
- Note 31 - Contingent liabilities
- Note 15: The useful life of Property, plant and equipment is 15 years. If the depreciation for 2023 is 10% (2022: 10%) higher or lower, then the amount recognized in the profit and loss would be higher or lower by MKD 32,473 thousand (2022: MKD 31,844 thousand)

(e) Going concern

The financial statements have been prepared on a going concern basis which means that the Company will continue operating in the near future.

The Company relies on Duferco group for ongoing contracts for manufacturing and financial support. Without this support the Company would not be able to settle its current liabilities and perform its current activities and would have to find alternative suppliers and consumers for its products. Previous experience indicates that that finding alternative suppliers and customers could be difficult under the current economic circumstances.

For the year ended 31 December 2023 the Company realised profit in the amount of MKD 355,552 thousand. As at 31 December 2023 the Company's current assets exceed its current liabilities by MKD 275,409 thousand. It should be noted that the current liabilities include payables to related parties from the Duferco Group in the amount of MKD 1,229,908 thousand. For the year ended 31 December 2023, the Company realised positive cash flows from operating activities in the amount of MKD 253,507 thousand (2022: 1,400,547 thousand). For more information on the plans and liquidity management of the Company see note 5 (b).

In terms of its operations, the Company monitors its efficiency and has made investments in new technologies which will allow the Company to have higher flexibility in the product portfolio and will also reduce costs of production.

Based on the five-year business plan the management expects further improvement of the financial performance as a result of higher quantities sold and increases in sales prices which are expected to occur as a response to the changes in the European and Global markets.The Company has a small advantage compared to its competitors due to its ability to fulfil customer orders for products with specific dimensions and quantities which larger production companies are unwilling to accept.

Due to the above identified risks as well as the dependence on the Duferco Group, the Company provided a Letter of Support from the Duferco Group dated April 19th, 2024, which confirms the following items regarding Going concern for a period of at least 12 months from the date of the Letter of Support:

- the intention and ability of the Duferco Group to continue providing sales contracts to the company;

- the absence of intention to close down the company or its operations;

- confirmation that the Duferco Group has the intention and ability to provide financial and operational support to the Company;

Notes to the financial statements

2. Basis of preparation (continued)

(e) Going concern (continued)

Taking into consideration all the above factors, the Company assesses that it is not exposed to significant risk regarding continuity of operations, which ensures the principle of continuity in the preparation of these financial statements.

3. Significant accounting policies

The accounting policies that are set below are applied consistently for all presented periods in these financial statements.

(a) Foreign currency

(i) Transactions in foreign currency

Transactions in foreign currencies are translated to Macedonian denar at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to Macedonian denar at the exchange rate at that date.

The foreign currency gain or loss on monetary items is the difference between amortised cost in Macedonian denar at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period. Foreign currency differences arising on retranslation are recognised in profit or loss in the statement of comprehensive income.

(b) Financial instruments

(i) Non-derivative financial assets

The company initially recognizes loans and receivables on the date that they are originated. All other financial assets are initially recognized on the trade date when the company becomes a party to the contractual provisions of the instrument.

The Company derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognised as a separate asset or liability.Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the recognized amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The company has the following non-derivative financial assets: investments in equity instruments, trade and other receivables, and cash and cash equivalents.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs incurred in acquiring the financial asset. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

Loans and receivables comprise trade and other receivables.

Notes to the financial statements

3. Significant accounting policies (continued)

(b) Financial instruments (continued)

Cash and cash equivalents

Cash and cash equivalents comprise bank balances, cash on hand and call deposits with maturities of three months or less from the acquisition date.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and that are not classified in any of the previous categories. The Company's investments in equity securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses (see note 3 (f) (i)), are recognised in other comprehensive income and presented within equity in the fair value reserve. When an investment is derecognised, the cumulative gain or loss in other comprehensive income is transferred to profit or loss.

(ii) Non-derivative financial liabilities

Financial liabilities are recognised initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument. The Company derecognises a financial liability when its contractual obligations are discharged or cancelled or expired.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the recognized amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The non-derivative financial liabilities of the Company include loans and borrowings and trade and other payables. Such financial liabilities are recognized initially at fair value plus any transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest method.

(iii) Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs, if any, directly attributable to issue of ordinary shares are recognised as deduction from equity, net of any tax effect.

Notes to the financial statements

3. Significant accounting policies (continued)

(c) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost, which includes capitalized borrowing costs, less accumulated depreciation and accumulated impairment losses.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment. Any gain or loss on disposal of an item of property, plant and equipment is recognized in profit or loss.

(ii) Subsequent expenditures

Subsequent expenditures are capitalized only when it is probable that the future economic benefits associated with the expenditures will flow to the Company. Ongoing repairs and maintenance of the property, plant and equipment are expensed as incurred.

(iii) Depreciation

Items of property, plant and equipment are depreciated on a straight-line basis in profit or loss and other comprehensive income over the estimated useful lives of each component. Land is not depreciated.

The estimated depreciation rates based on the estimated useful lives for the current and comparative periods are as follows:

	2023	**2022**
	%	%
Buildings	2.5- 3	2.5 - 3
Equipment	5 – 37.5	5 – 37.5

Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

(d) Intangible assets

Intangible assets consist of software. Intangible assets are measured at cost, less impairment. The cost value is the invoice value of the purchased intangible assets increased by all costs incurred up to their right of use. Amortization of intangible assets is carried out in equal annual amounts over the estimated useful life of the intangible assets.

(e) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on a weighted average cost formula, and includes expenditure incurred in acquiring, manufacturing or converting the inventories and other costs incurred in bringing them to their existing location and condition.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

Materials (scrap iron and slabs) received for processing are recorded off balance sheet since the Company does not bear the risks and rewards from these materials.

Notes to the financial statements

3. Significant accounting policies (continued)

(f) Impairment

(i) Non-derivative financial assets

A financial asset is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Company on terms that the Company would not consider otherwise, indications that a debtor or issuer will enter bankruptcy. In addition, for investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

Receivables

The Company considers evidence of impairment for receivables at both a specific asset and collective level. All individually significant receivables are assessed for specific impairment. All individually significant receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics.

In assessing collective impairment the Company uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying value and the present value of the estimated future cash flows discounted at the asset’s original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognised. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Notes to the financial statements

3. Significant accounting policies (continued)

(f) Impairment (continued)

(ii) Non-financial assets

The carrying values of the Company's non-financial assets, other than inventories, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. An impairment loss is recognized when the carrying value of an asset or its cash-generating unit exceeds its recoverable amount.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash-generating unit. For the purpose of impairment testing, assets are grouped together into smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or cash-generating unit.

An impairment loss is recognized when the carrying value of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying value of the assets in the unit (group of units) on a prorate basis.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying value does not exceed the carrying value that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(g) Employee benefits

(i) Defined contribution plans

The Company contributes to its employees' post-retirement plans as prescribed by the national legislation. Contributions, based on salaries, are made to the national organizations responsible for the payment of pensions. There is no additional liability in respect of these plans.

Liabilities for contributions to defined contribution pension plans are recognised as an employee benefit expense in the profit or loss when they are earned.

Notes to the financial statements

3. Significant accounting policies (continued)

(g) Employee benefits (continued)

(ii) Defined benefit plans

In accordance with national legislation the Company pays retirement benefits to its employees at the moment of retirement in accordance with the national legislation. The amount of retirement benefit equals to two monthly average salaries in accordance with the requirements of the local regulations. The Company has no additional liability in respect of the defined benefit plans.

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Company's net liability in respect of defined benefit plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods, that benefit is discounted to determine its present value. The Company determines the net interest expense on the defined benefit liability for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit liability.

The Company recognises gains and losses on the settlement of a defined benefit plan when the settlement occurs. The gain or loss on a settlement is the difference between the present value of the defined benefit obligation being settled as determined on the date of settlement and the settlement price, including any payments made directly by the Company in connection with the settlement.

(iii) Other long-term employee benefits

In accordance with the Macedonian legal regulations, the Company pays anniversary awards in accordance with the criteria set in the in the General Collective Agreement with the private sector of the economy. The Company presents net liability in respect of long-term employee benefits for anniversary awards for its employees. The employee benefits are discounted to determine their present value.

(iv) Short-term employee benefits

Short-term employee benefits are measured on an undiscounted basis and are expensed when the service is rendered.

The Company shall recognize the expected cost of profit-sharing and bonus payments when the Company has a present legal or constructive obligation to make such payments as a result of past service provided by the employee and a reliable estimate of the obligation can be made.

(h) Provisions

A provision is recognised if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

Notes to the financial statements

3. Significant accounting policies (continued)

(i) Government grants

Government grant is assistance from the government in the form of transfer of resources to the Company. A government grant is recognised only when there is reasonable assurance that the Company will comply with any conditions attached to the grant and the grant will be received.

Government grant is recognized in the profit or loss on a systemic basis, in the periods in which the Company recognizes as an expense the related costs that the grant should reimburse. Initially, by recognizing the asset for which government grant has been received, the Company recognizes deferred income, provided that there is reasonable assurance that it will be received and that the Company meets the conditions for providing support.The amounts of government grant are then recognized in the profit or loss on a systematic basis, proportionally distributed throughout the life of the asset that is subject to the approved government grant.

(j) Revenue recognition

(i) Goods sold

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates, if any. Revenue is recognised when persuasive evidence exists that the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. Transfer of risk and rewards vary depending on the individual terms of the contract of sale.

(ii) Services

Revenue from services rendered is recognised in the statement of comprehensive invome in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to surveys of work performed.

(k) Lease payments

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received, if any, are recognized as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

At inception of an arrangement, the Company determines whether such an arrangement is or contains a lease. This will be the case if the following two criteria are met:

1) the fulfilment of the arrangement is dependent on the use of a specific asset or assets; and

2) the arrangement contains a right to use the asset(s)

At inception or on reassessment of the arrangement, the Company separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values.

Notes to the financial statements

3. Significant accounting policies (continued)

(l) Finance income and finance costs

Finance income comprises interest income on funds invested (including available-for-sale financial assets). Interest income is recognised as it accrues in profit or loss, using the effective interest method.

Finance costs comprise interest expense on borrowings and impairment losses recognised on financial assets. Borrowing costs are recognised in profit or loss using the effective interest method, except for borrowing costs that are directly attributable to the acquisition or construction of qualifying assets, which are capitalised, up to the date the asset is ready for its intended use or sale, as part of the cost of that asset.

Foreign currency gain and losses are reported on a net basis.

(m) Income tax

Income tax comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognized directly in equity and the respective income tax is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using the applicable tax rate at the reporting date of 10%, and any adjustment to tax payable in respect of previous years.

The Law on the profit tax was amended and entered into force on 25 September 2023 and is valid throughout 2023 and after. The amendments mainly refer to expanding of the category of tax unrecognized costs, the cancelation of the tax exemption based on life insurance and changes in the preparation and delivery of the transfer pricing report to the Public Revenue Office.

Deferred tax arises from the tempory differences between the carrying value of assets and liabilities for the purposes of financial reporting and their value for tax purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets are recognized for unused tax losses, unused tax credit and deductible temporary differences to the extent for which is probable that the future taxable profits against which the asset can be utilized. Deferred tax assets are estimated at the end of each reporting period and reduced to the extent that is no longer probable that these tax revenues will be realized. Any such reduction should be reversed to the extent that it is probable that sufficient taxable profit will be available. Unrecognized deferred tax assets are assessed at the end of each reporting period and recognized to the extent it is probable that future taxable income will be sufficient against which the asset can be utilized.

Notes to the financial statements

3. Significant accounting policies (continued)

(n) Earnings per share

The Company presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic earnings per share is calculated by dividing the profits attributable to holders of ordinary shares with the weighted average number of ordinary shares outstanding during the period.

Diluted EPS is determined by adjusting the net profit attributable to holders of ordinary shares and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

(o) Operating segments

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Company's other components. The operating results of the operating segments of the Company are reviewed regularly by the Company's Management Board to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. The Company has only one reportable segment. The internal reporting within the Company that is presented to the Management is company-wide reporting as one operating segment. The decisions made by the Management are based on received reports presented as one operating segment.

4. Determination of fair values

A number of the Company's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities. The fair values are needed for measuring and/or disclosure based on the methods followed. Where applicable, the notes relating to specific assets or liabilities reveal more detailed information on the assumptions made in determining fair value.

(i) Investments in securities

The fair value of available-for-sale financial assets is determined on the basis of their bid price on the securities market on the day of reporting.

(ii) Trade and other receivables

The fair value of current trade and other receivables is estimated as the present value of future cash flows discounted at the market interest rate on the day of the reporting.

(iii) Non-derivative financial liabilities

The fair value determined for disclosure purposes in the financial statements is calculated on the basis of the present value of the future cash flows of the principal and interest, discounted at the market interest rate on the day of the reporting.

Notes to the financial statements

5. Financial risk management

Overview

The Company has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, polices and processes for measuring and managing risk and the Company's management of capital. Further quantitative disclosures are included through these financial statements.

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework.

The Company's risk management framework is established in order to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls and monitor risks and adherence to limits.

(a) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers, as well as investments in banks i.e. bank deposits, cash and cash equivalents.

(i) Trade and other receivables

Company's exposure to credit risk is influenced by the individual characteristics of each customer.

The Company realizes revenues from wholesale, which in main part is exercised with the known customers, which the Company has long term relationship with and with payment terms between 30 and 60 days. New customers pay in advance.

The Company has established a credit procedure under which each new customer is analysed for creditworthiness before the Company's standard payment and delivery terms and conditions are offered. The Company establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures.

(ii) Cash and cash equivalents

The Company limits its exposure to credit risk by investing cash in known domestic banks. Of the total amount, MKD 226,899 thousand are in large banks, (2022: MKD 635,157 thousand), MKD 42,499 thousand in medium-sized banks (2022: MKD 88,900 thousand) and MKD 1,963 thousand in small banks (2022: MKD 689 thousand) according to the definition of NBRM. The Company continuously follows its credit exposure and the performance of the banks' operations.

Notes to the financial statements

5. Financial risk management (continued)

(b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due.

For the year ended 31 December 2023 the Company realised profit in the amount of MKD 355,552 thousand.
As at 31 December 2023 the Company's current assets exceed its current liabilities by MKD 275,409 thousand. It should be noted that the current liabilities include payables to related parties from the Duferco Group in the amount of MKD 1,229,908 thousand. For the year ended 31 December 2023, the Company realised positive cash flows from operating activities in the amount of MKD 253,507 thousand (2022: 1,400,547 thousand).

The Company has several lines of credit for modernization and extension of the plant and equipment. The Company regularly settles its obligations towards the banks. As of December 31, 2023, the company has funds available from revolving credit facilities in the amount of MKD МКД 255,521 thousand (2022: 177,745 thousand), subject to prior approval, and additional approved but undrawn credits in the amount of MKD 233,452 thousand (2022: 68,112 thousand).

The Company prepares monthly cash flow plan and monitors its implementation on a daily basis. During the period the Company did not experience difficulties in realizing its cash flow plan. If additional funds are required, the Company may request financial support from the Duferco Group.

The Company's approach to managing liquidity is to ensure as far as possible, that it will always have sufficient liquidity to meet its liabilities when due. The Company ensures always that it has sufficient cash available on demand to meet the expected operational expenses including the servicing of loans and other financial obligations. This excludes the potential impact of extreme circumstances that cannot be reasonably predicted such as natural disasters or political disturbances in the region.

(c) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposure of the Group within acceptable parameters, while optimising the return.

(i) Currency risk

The Company is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than MKD. The currencies giving rise to this risk are primarily EUR and USD as operating currencies of the Company.

The trend of EUR currency during the year has been relatively stable and the Company expects that this trend will continue in the future. The volume of transactions that the Company has made in USD is relatively low and possible exchange rate fluctuations during the year, should not have significant effect on the financial results of the Company.

(ii) Interest rate risk

The Company has fixed rate financial liabilities consisted of loans and borrowings.

The Company has fixed rate financial assets consisted of cash and cash equivalents. Since these financial assets are with market interest rates which are low, increase in the interest rates should not have a significant effect on the financial results of the Company.

Notes to the financial statements

5. Financial risk management (continued)

(d) Capital management

The Company policy is to maintain stability of capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Management of the Company monitors the return on capital, which the Company defines as net operating income divided by total shareholders' equity.

There were no changes in the Company's approach to capital management during the year. The Company is not subject to externally imposed capital requirements.

6. Operating segments

The Company has only one reportable segment.

Products, services and major customers

The main activity of the Company is processing of scrap iron and slabs into hot plates. The revenue comprise of revenue from processing of scrap iron and slabs into hot plates and revenue from sale of hot plates. The management of the Company considers that the processing of scrap iron and slabs into hot plates and the production of plates represent one operating segment and all amounts included in these financial statements are part of that segment.

Of the total revenues, 31%, or MKD 3,445,529 thousand, represents sales revenues made to the Duferco Group (2022: 37%, or MKD 4,098,454 thousand)

Notes to the financial statements

6. Operating segments (continued)

Geographical areas

In presenting information on the basis of geographical areas, revenue is based on the geographical location of customers and assets are based on geographical location of the assets.

(i) Revenue

In thousands of denars	**2023**	**2022**
Republic of North Macedonia	866,968	1,060,065
Foreign countries		
Switzerland	3,446,712	4,101,746
Serbia	408,951	699,788
Romania	367,303	337,967
Turkey	2,019,354	3,312,550
Bulgaria	530,367	909,098
Albania	57,488	89,522
Kosovo	24,457	11,935
Croatia	141,949	24,813
Greece	31,490	26,181
Austria	2,975	-
Germany	4,500	196,006
Slovenia	28,356	10,484
Czech Republic	104,695	149,816
Bosnia and Herzegovina	11,195	16,449
Slovakia	144,914	159,686
United Arab Emirates	82,917	-
Total	8,274,591	11,106,106

(ii) Property, plant and equipment

In thousands of denars	**2023**	**2022**
Republic of North Macedonia	3,814,692	3,746,509
Total	3,814,692	3,746,509

7. Operating revenues

In thousands of denars	**2023**	**2022**
Sales of hot plates	4,814,831	6,998,036
Processing services	3,364,989	4,034,231
Other revenues	94,771	73,839
Total	8,274,591	11,106,106

Notes to the financial statements

8. Other operating income

In thousands of denars	**2023**	**2022**
Inventory surplus	127,338	20,350
Tax refunds	-	17,468
Insurance claims received	2,725	5,079
Unwritten value of expended assets	(93)	(120)
Other	8,064	9,358
Total	138,034	52,135

The "Other" category includes revenues from government support, rental income, discount income, and gains from forecast differences for balancing electric energy.

9. Other operating expenses

In thousands of denars	**2023**	**2022**
Paid damages and claims	2,263	1,392
Other	9,588	7,465
Total	11,851	8,857

Other operating expenses mainly consist of: vehicle maintenance, administrative expenses, security expenses and other expenses.

10. Personnel expenses

In thousands of denars	**2023**	**2022**
Net wages and salaries, and taxes	630,758	553,245
Compulsory social security contributions	258,402	229,068
Expenses related to defined benefit plans and other long-term employee benefits	4,994	4,958
Other staff related costs	155,715	122,066
Total	1,049,869	909,337

Other staff costs comprise of allowances for meals and transportation, bonuses, annual leave allowance, termination benefits to employees, etc.

Notes to the financial statements

11. Expenses by nature

In thousands of denars	**2023**	**2022**
Scrap iron used	1,287,896	1,937,511
Cost of inventories recognized as expense	2,077,683	2,054,095
Energy	1,992,499	4,165,819
Personnel expenses (note 10)	1,049,869	909,337
Depreciation of property, plant and equipment and intangible assets	325,781	318,671
Spare parts used	224,767	235,825
Maintenance and repair	162,579	179,926
Transportation	184,792	196,653
Write down of inventories	29,575	31,563
Insurance costs	54,004	47,271
Change in inventory	(38,907)	(406,105)
Costs of material quality testing and quality control certificates	107,222	94,919
Other	441,884	182,194
Total costs of sales and administrative expenses	7,899,645	9,947,679

In the "Other" category, an amount of MKD 257,293 thousand is included, which pertains to solidarity tax. Pursuant to the Solidarity Tax Law published on September 25, 2023, the tax represents a one-time public levy for the year 2023, and it does not take into account the net profit for 2023 as its basis. The calculation and payment of the solidarity tax for the fiscal year 2023 are executed by the Company in accordance with the Solidarity Tax Law. The Company considers that the solidarity tax should be presented in the section of other expenses, considering it is a one-time public levy. According to the Company's management's judgment, it does not meet the definition of income tax according to the requirements of IAS 12.

12. Finance income

In thousands of denars	**2023**	**2022**
Interest income	261	36
Foreign exchange gains	58,564	80,168
Discount for early repayment of debt to related parties (see Note 24)	6,679	74,692
Finance income	65,504	154,896

13. Finance cost

In thousands of denars	**2023**	**2022**
Interest expenses	(114,685)	(78,388)
Foreign exchange losses	(49,155)	(77,450)
Finance cost	(163,840)	(155,838)

Capitalized borrowing costs

For the year ended December 31, 2023, the Company has borrowing costs amounting to 4,315 thousand, which are capitalized as part of the acquisition cost of properties, buildings, and equipment (2022: 186 thousand).

Notes to the financial statements

14. Income tax

In thousands of denars	**2023**	**2022**
Current tax expense		
Current year	47,241	123,527
Total	47,241	123,527
Profit tax	47,241	123,527

Reconciliation of effective tax rate

In thousands of denars	**2023**	**2023**	**2022**	**2022**
Profit before tax		402,793		1,200,763
Tax using the Company's domestic tax rate	10%	40,279	10%	120,076
Tax effect of:				
Non-deductible expenses for tax purposes	2,58%	10,399	5,77%	6,931
Tax relief	(0,85%)	(3,437)	(2,89%)	(3,480)
	11,73%	47,241	12,88%	123,527

Current tax assets and liabilities

In thousands of denars	**2023**	**2022**
Income tax receivables	81,735	-
Income tax payables	11,015	39,244

Notes to the financial statements

15. Property, plant and equipment

In thousands of denars	Land	Buildings	Equipment	Other assets	Assets under construction	Total
Cost						
At 1 January 2022	1,163,999	2,751,298	8,280,044	6,618	137,798	12,339,757
Additions	-	-	-	-	286,352	286,352
Transfer	1,422	62,721	289,216	-	(353,359)	-
Disposals	-	-	(29,395)	-	(44,950)	(74,345)
At 31 December 2022	1,165,421	2,814,019	8,539,865	6,618	25,841	12,551,764
At 1 January 2023	1,165,421	2,814,019	8,539,865	6,618	25,841	12,551,764
Additions	-	-	-	-	393,014	393,014
Transfer	-	26,203	258,184	-	(284,387)	-
Disposals	-	(1,545)	(61,628)	-	-	(63,173)
At 31 December 2023	1,165,421	2,838,677	8,736,421	6,618	134,468	12,881,605
Accumulated depreciation						
At 1 January 2022	-	1,856,240	6,653,867	5,976	-	8,516,083
Depreciation for the year	-	59,563	258,884	-	-	318,447
Disposals	-	-	(29,275)	-	-	(29,275)
At 31 December 2022	-	1,915,803	6,883,476	5,976	-	8,805,255
At 1 January 2023	-	1,915,803	6,883,476	5,976	-	8,805,255
Depreciation for the year	-	52,908	271,830	-	-	324,738
Disposals	-	(1,545)	(61,535)	-	-	(63,080)
At 31 December 2023	-	1,967,166	7,093,771	5,976	-	9,066,913
Carrying value						
At 1 January 2022	1.163.999	895.058	1.626.177	642	137.798	3.823.674
At 31 December 2022	1.165.421	898.216	1.656.389	642	25.841	3.746.509
At 1 January 2023	1.165.421	898.216	1.656.389	642	25.841	3.746.509
At 31 December 2023	1.165.421	871.511	1.642.650	642	134.468	3.814.692

Title over land

According to a decision of the Agency for Transformation of the Enterprises with socially owned capital in the Republic of Macedonia the initial balance sheets of the 10 legal entities deriving from ‘Rudnici i Zelezarnica Skopje’ were finally prepared as at 30 April 1997. In particular, in the opening balance sheet, the portion of the land belonging to Makstil AD was calculated as a percentage in accordance with the proportion of Makstil's assets in the consolidated assets of ‘Rudnici i Zelezarnica Skopje’ and land in the amount of MKD 1,130,270 thousands was recognised in the property, plant and equipment. The Company does not have title over this land.

In 2021, the Company acquired the right of ownership of 108,801 m2 of construction land, which was purchased by the Republic of North Macedonia in an appropriate procedure in accordance with the provisions of the Law on Construction Land, and it is registered in property list number 47661 for CM Gazi Baba. At the same time, the Company acquired the right of ownership of 4634 m2 of construction land, which was privatized in an appropriate procedure in accordance with the provisions of the Law on Privatization and Lease of State-Owned Construction Land, and it is registered in property list number 47905 for CM Gazi Baba.

Notes to the financial statements

15. Property, plant and equipment (continued)

Security

Property, plant and equipment with a present value of MKD 1.198.682 thousands (2022: MKD 1.266.268 thousands) as at 31 December 2023 is subject to a registered mortgage to secure bank loans (see note 24).

Property, plant and equipment under construction

In thousands of denars	**2023**	**2022**
Cost		
Alternative fuel in Steel Shop	3,951	3,951
Oil heating system in Plate Mill	5,153	2,175
Reconstruction of drive shafts for HVAC	-	1,980
Automatic measurement of crystallizer level	55,547	-
Bridge crane 27 Scrap Yard	371	-
Side trimming shears for sheet metal and upgrade of frontal shears	2,123	-
Plasma cutter in plates at warehouse for shipping	26,287	-
Safety measures – Steel Shop	12,621	12,563
Safety measures – Plate Mill	2,267	-
Other	26,148	5,172
Total property, plant and equipment under construction	134,468	25,841

16. Investments in associates

The Company has investments in the following associates:

	Ownership 2023	**Ownership 2022**
RZ Ekonomika AD Skopje	20,1%	20,1%

Summary financial information for investments in associates, not adjusted for the percentage of ownership held by the Company:

In thousands of denars	**Assets**	**Liabilities**	**Capital**	**Revenues**	**Profit/ (loss)**
2023					
RZ Ekonomika AD Skopje	174,430	3,384	171,046	19,912	640
	174,430	3,384	171,046	19,912	640
2022					
RZ Ekonomika AD Skopje	174,944	4,538	170,406	18,482	(35)
	174,944	4,538	170,406	18,482	(35)

The investments in associates in these financial statements are stated at cost.

Notes to the financial statements

17. Other investments

Available for sale

In thousands of denars	**2023**	**2022**
**Non-current investments**		
Investments in Available-for-sale securities		
Listed	1,257	1,257
Total	1,257	1,257

18. Inventories

In thousands of denars	**2023**	**2022**
Raw materials and consumables	1,518,006	1,180,292
Work in progress	1,154,854	823,749
Finished goods	474,169	766,367
Total	3,147,030	2,770,408

In 2023, the reduction of inventory of materials and spare parts to their net realizable value amounted to MKD 29,575 thousand (2022: MKD 31,563 thousand). This amount is included in the cost of goods sold in the income statement.

As of December 31, 2023, the company has pledged inventory in the amount of MKD 216,155 thousand (December 31, 2022: MKD 216,234 thousand) as collateral for loans (see Note 24).

19. Trade and other receivables

In thousands of denars	**2023**	**2022**
Receivables from related parties	44,428	360,097
Receivables from domestic customers	145,971	215,875
Receivables from foreign customers	136,331	170,793
Receivables for value added tax	238,658	165,062
Other	6,150	4,360
Total	571,538	916,187
Financial assets	326,730	746,765
Non-financial assets	244,808	169,422
Total	571,538	916,187

The Company’s exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in note 29.

Notes to the financial statements

20. Receivables from given advances

In thousands of denars	2023	2022
Advances given to domestic suppliers	42,600	126,398
Advances given to foreign suppliers	162,163	32,776
Total	204,763	159,174

21. Cash and cash equivalents

In thousands of denars	2023	2022
Bank balances	235,297	637,330
Overnight deposits	36,058	87,416
Cash on hand	6	13
Total	271,361	724,759

The Company's exposure to interest rate risk and the analysis of sensitivity of financial assets and liabilities are disclosed in Note 29. The interest rate for overnight deposits is 1% (2022: 1%).

22. Capital and reserves

Share capital

In number of shares	Ordinary shares	
	2023	2022
Issued at 1 January	14,622,943	14,622,943
Issued at 31 December – fully paid	14,622,943	14,622,943

The following shareholders have an interest exceeding 5% of the Company’s issued voting share capital:

	% of voting share capital	
	2023	2022
Duferco Skop SA	83.03%	82.4

Notes to the financial statements

22. Capital and reserves (continued)

Due to the liquidation of the company Duferco Skop Investment Limited, Liechtenstein in 2020, which owned 9,125,081 ordinary shares in Makstil AD Skopje, they were transferred to the founder of the company, Duferko Skop (Cyprus) Limited, a company wholly owned by Duferco International Trading Holding, Luxembourg, DITH). Duferko Skop (Cyprus) changed its headquarters and the name of the company. The new name of the company is "Duferko Skop SA", while the new headquarters of the company is "Via Baguti no. 9, 6900, Lugano, Switzerland". The above changes are registered in the Central Securities Depository of R. of North Macedonia on 16 November 2021.

At 31 December 2023 the authorised share capital of the Company comprised 14,622,943 ordinary shares (2022: 14,622,943). All shares have a par value of EUR 5.11. The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at Shareholders' meetings of the Company. All shares rank equally with regard to the Company's residual assets.

Dividends

Until the date of the issuance of these financial statements dividends were not declared by the Board of Directors.

Notes to the financial statements

23. Earnings per share

Basic earnings per share

The calculation of basic earnings per share for the year 2023 was based on the profit for the period attributable to ordinary shareholders in the amount of MKD 355,552 thousand (2022: profit of MKD 1,077,236 thousand) and the weighted average number of ordinary shares during the year ended on December 31, 2023, of 14,622,943 (2022: 14,622,943), calculated as follows:

Net profit attributable to ordinary shareholders

In thousands of denars	**2023**	**2022**
Net profit for the year	355,552	1,077,236
Net profit attributable to ordinary shareholders	355,552	1,077,236

Weighted average number of ordinary shares

In number of shares	**2023**	**2022**
Issued ordinary shares at 1 January	14,622,943	14,622,943
Weighted average number of ordinary shares at 31 December	14,622,943	14,622,943

Diluted earnings per share

The calculation of diluted earnings per share for the year 2023 was based on the profit for the period attributable to ordinary shareholders in the amount of MKD 355,552 thousand (2022: profit of MKD 1,077,236 thousand) and the weighted average number of diluted ordinary shares during the year ended on December 31, 2023, of 14,622,943 (2022: 14,622,943), calculated as follows:

Net profit attributable to ordinary shareholders

In thousands of denars	**2023**	**2022**
Net profit for the year	355,552	1,077,236
Net profit attributable to ordinary shareholders	355,552	1,077,236

Weighted average number of ordinary shares

In number of shares	**2023**	**2022**
Issued ordinary shares at 1 January	14,622,943	14,622,943
Weighted average number of ordinary shares at 31 December	14,622,943	14,622,943

Basic and diluted earnings per share (denars)	24,31	73,67

Notes to the financial statements

24. Loans and borrowings

This note provides information about the contractual terms of the Company's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Company's exposure to interest rate, currency and liquidity risk, see note 29.

In thousands of denars	2023	2022
Non-current liabilities		
Unsecured loan from Duferco Skop SA	-	167,900
Secured bank loans	490,905	373,264
Total	490,905	541,164
Current liabilities		
Unsecured loan from Duferco Skop SA	-	167,900
Secured bank loans	1,614,160	1,692,589
Current maturity for secured bank loans	109,663	123,802
Total	1,723,823	1,984,291

Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

In thousands of denars	Currency	Interest rate	Year of maturity	31 December 2023 Carrying value	31 December 2022 Carrying value
Unsecured loan from Duferco Skop SA	MKD	12-month EURIBOR +2%	2024	-	335,800
Secured bank loans	EUR/USD /MKD	6.636% 7.555% 5.260%	2024	1,350,454	1,478,437
Secured bank loans	EUR	6.636%	2025	71,902	121,535
Secured bank loans	EUR	6.636%	2024	7,907	33,723
Secured bank loans	MKD	4.06% 3.56% 3.64%	2024	412,600	442,800
Secured bank loans	EUR	4.358%	2023	-	29,863
Secured bank loans	EUR	6.636%	2026	63,860	83,297
Secured bank loans	EUR	6.636%	2029	308,005	83,297
Total				2,214,728	2,525,455

Notes to the financial statements

24. Loans and borrowings (continued)

The company has entered into a debt settlement and restructuring agreement in the amount of MKD 1,684,486 thousand with Duferco Skop SA. The debt originates from the period of division and privatization of the former POS Rudnici i Zelezarnica Skopje and has been recorded in the company's balance sheets since its establishment in 1997.

Under the Agreement from 2021, the debt was transformed from "debt payable on call" into "debt payable on ten equal annual annuities". Additionally, the creditor Duferco Skop SA accepted: to approve a discount for each advance payment in the amount of 4% per year, with each advance payment to close the annuity that arrives at the latest, in order to maximize the effects of the approved discount. The interest for this debt will be calculated according to the following formula: 12-month EURIBOR, increased by a margin of 2% annually.

According to the provided information, subject to the fulfilment of the conditions set forth in the Agreement, on December 28, 2022, Makstil made a payment of EUR 5,352 thousand, thereby repaying 2 annuities. This includes the annuity due on December 31, 2023, as well as the annuity due on December 31, 2024. As a result the debt towards Duferco Skop SA was paid in full.

As of December 31, 2023, the company has funds available from revolving credit facilities in the amount of MKD 255,521 thousand (2022: 177,745 thousand), subject to prior approval, and additional approved but undrawn credits in the amount of MKD 233,452 thousand (2022: 68,112 thousand).

Security

The secured loans of the Company as of December 31, 2023, are secured by mortgages on property, plant, and equipment with a present value of MKD 1,198,682 thousand (2022: MKD 1,266,268 thousand) (see Note 15), as well as inventory with a present value of MKD 216,155 thousand (2022: MKD 216,234 thousand) (see Note 18).

Notes to the financial statements

25. Employee benefits

Defined benefit obligations

In thousands of denars	**2023**	**2022**
Present value of the obligation	9,911	10,643
Total	9,911	10,643

In accordance with local regulations the Company pays retirement benefits to its employees at the moment of retirement in accordance with the national legislation.

Other employee benefit liabilities

In thousands of denars	**2023**	**2022**
Present value of the obligation	17,333	16,404
	17,333	16,404

Provisions for employee benefits are comprised of provisions for severances, anniversary awards and awards according to the program for key performance indicators.

The present value of provisions for pensions and other employee benefits is determined by discounting the estimated future cash outflows.

The basic actuarial assumptions used are as follows:

	2023	**2022**
Discount rate	6.64%	4.35%

26. Trade and other payables

In thousands of denars	**2023**	**2022**
Trade payables	616,440	786,345
Payables to related parties (note 32)	484,506	236,102
Payables to employees	102,910	93,699
Other	24,380	17,004
Total	1,228,236	1,133,150
Financial liabilities	1,228,236	1,133,150
Non-financial liabilities	-	-
Total	1,228,236	1,133,150

The Company exposure to currency and liquidity risk related to trade and other payables is disclosed in note 29.

Notes to the financial statements

27. Advances received

In thousands of denars	2023	2022
Advances received from related parties for processing	747,954	939,856
Liabilities for advances received from foreign buyers	241,430	415,512
Liabilities for advances received in the country	48,560	16,747
Total	1,037,944	1,372,115

28. Long-term liabilities for deferred income

In 2021, the Company has received a government grant in the amount of 10,947 thousand, as a support of capital investments and revenues, based on properly met conditions for obtaining it. Funds received are recognized in the statement of profit and loss as income.

Long-term liabilities for deferred income

In thousands of denars	***Note***	2023	2022
Balance at 1 January		15,998	17,276
Income equal to the depreciation of assets for which Government grant has been received		(1,243)	(1,278)
Government grant received		-	-
Balance at 31 December		14,755	15,998

Long-term liabilities for deferred income refer to income equal to current depreciation of tangible assets, for which government grant has been received.

Notes to the financial statements

29. Financial instruments (a)

Credit risk

(i) *Exposure to credit risk*

The carrying value of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	Note	Carrying value	
In thousands of denars		2023	2022
Investments in Available-for-sale securities	*17*	1,257	1,257
	19	326,730	746,765
Cash and cash equivalents	*21*	271,361	724,759
Total		599,348	1,472,781

(ii) *Impairment losses*

The aging structure of receivables from domestic customers on the date of the financial statement is as follows:

In thousands of denars	Gross 2023	Impairment 2023	Gross 2022	Impairment 2022
Not past due	142,872		204,310	
Past due 0-1 month	2,263	-	9,448	-
Past due 1-3 months	24	-	1,273	-
Past due 3-6 months	-	-	-	-
Past due 6-12 months	-	-	14	-
More than one year	10,003	(9,191)	10,020	(9,191)
Total	155,162	(9,191)	225,065	(9,191)

The aging structure of receivables from foreign customers on the date of the financial statement is as follows:

In thousands of denars	Gross 2023	Impairment 2023	Gross 2022	Impairmen t 2022
Not past due	103,264		138,885	
Past due 0-1 month	28,960	-	26,475	-
Past due 1-3 months	1,308	-	3,884	-
Past due 3-6 months	1,010	-	163	-
Past due 6-12 months	348	-	332	-
More than one year	1,441	-	1,054	-
Total	136,331	-	170,793	-

Notes to the financial statements

29. Financial instruments (a)

Credit risk

(ii) Impairment losses

The aging structure of of trade receivables and receivables from related parties on the date of the financial statement is as follows:

In thousands of denars	**Gross 2023**	**Impairment 2023**	**Gross 2022**	**Impairment 2022**
Not past due	8,518		59,554	
Past due 0-1 month	4,357	-	1,969	-
Past due 1-3 months	21,305	-	290,555	-
Past due 3-6 months	-	-	1,072	-
Past due 6-12 months	10,243	-	1,372	-
More than one year	6	-	5,575	-
Total	44,429	-	360,097	-

The unmatured trade receivables are mostly secured with bank guarantees. The matured receivables are also mostly secured by bank guarantees, and the Company considers them collectible based on past experience and analysis of the customer's credit risk.

The Company deems the receivables with a present value of MKD 2,259 thousand, which are over one year old and for which no adjustment has been recognized (2022: MKD 7,459 thousand), to be fully collectible. As of December 31, 2023, receivables of MKD 44,429 thousand (2022: MKD 360,097 илјади) are due from subsidiaries of the parent company.

The accounts for the provision for doubtful and disputed receivables are used to record the adjustment of the value of doubtful and disputed receivables, except in cases where the Company believes the receivables cannot be collected and they are fully written off.

The movement in the allowance for impairment in respect of doubtful and disputed receivables during the year was as follows:

In thousands of denars	**2023**	**2022**
Balance at 1 January	9,191	9,191
Written off trade receivables	-	-
Balance at 31 December	9,191	9,191

Notes to the financial statements

29. Financial instruments (continued) (b)

Liquidity risk

The following table shows the agreed liquidity risk management measures and financial liabilities:

31 December 2023

In thousands of denars	Carrying value	Contractual cash flows	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years
Liquidity risk management funds	924,634	924,634	898,376	26,258	-	-	-
Non-derivative financial liabilities							
Secured bank loans	(2,214,728)	(2,351,981)	(1,534,519)	(216,801)	(234,997)	(328,030)	(37,634)
Unsecured loan from subsidiary of the ultimate parent	-	-	-	-	-	-	-
Trade and other payables	(1,228,236)	(1,228,236)	(1,150,958)	(77,278)	-	-	-
Total	(2,518,330)	(2,652,583)	(1,787,101)	(267,821)	(234,997)	(328,030)	(37,634)

Notes to the financial statements

29. Financial instruments (continued) (b)

Liquidity risk

31 December 2022

In thousands of denars	**Carrying amount**	**Contractual cash flows**	**6 months or less**	**6-12 months**	**1-2 years**	**2-5 years**	**More than 5 years**
Liquidity risk management funds	1.640.946	1,640,946	1,462,345	1,719	7,459	-	-
Non-derivative financial liabilities							
Secured bank loans	(2,189,655)	(2,216,259)	(1,670,524)	(163,089)	(303,100)	(66,643)	(12.903)
Unsecured loan from subsidiary of the ultimate parent	(335,800)	(373,576)	-	(188,047)	(185,529)	-	-
Trade and other payables	(1,133,150)	(1,133,150)	(1,133,150)	-	-	-	-
Total	(2,017,659)	(2,082,039)	(1,341,329)	(349,417)	(481,170)	(66,643)	(12,903)

Notes to the financial statements

29. Financial instruments (continued) (c)

Currency risk

(i) Exposure to currency risk

The Company's exposure to foreign currency risk was as follows:

	MKD	EUR	USD	Other	MKD	EUR	USD	Other
In thousands of denars	**31 December 2023**				**31 December 2022**			
Trade receivables and receivables from related parties	145,971	168,979	11,781	-	215,875	514,917	15,973	-
Cash and cash equivalents	77,677	123,784	69,900	-	14,773	643,108	66,878	-
Secured bank loans	(815,803)	(1,366,362)	(32,563)	-	(615,798)	(1,560,293)	(13,564)	-
Unsecured loan from subsidiary of the ultimate parent	-	-	-	-	-	(335,800)	-	-
Trade and other payables to related parties	(639,899)	(221,622)	(366,715)	-	(813,131)	(214,438)	(104,049)	(1,532)
Total exposure of the Statement of Financial Position	(1,232,054)	(1,295,221)	(317,597)	-	(1,198,281)	(952,506)	(34,762)	(1,532)

The following exchange rates were applied during the year:

	Average rate		Reporting date spot rate	
	2023	**2022**	**2023**	**2022**
EUR 1	61.56	61.62	61.49	61.49
USD 1	56.88	58.69	55.65	57.65

(ii) Sensitivity analysis

An 1 percent strengthening of the MKD against the following currencies at 31 December would have increased/(decreased) profit or loss for the year by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis as for 2023.

Notes to the financial statements

29. Financial instruments (continued) (c)

Currency risk (continued)

(ii) Sensitivity analysis (continued)

Effect in thousands of denars	**Profit/ (loss)**
31 December 2023	
EUR	12,952
USD	3,176
31 December 2022	
EUR	9,525
USD	348

An 1 percent weakening of the MKD against the above currencies at 31 December would have had equal but opposite effect on the above currencies to the amounts shown above, provided that all other variables remain constant.

(d) Interest rate risk

Profile

At the reporting date the interest rate risk profile of the Company's interest–bearing financial instruments was as follows:

In thousands of denars	**Carrying value**	
	2023	**2022**
Fixed rate financial instruments		
Financial assets	271,361	724,759
Financial liabilities	(2,214,728)	(2,189,655)
Total	(1,943,367)	(1,464,896)

Fair value sensitivity analysis for fixed rate financial instruments

The Company does not account for any fixed rate financial instruments at fair value through the profit or loss. Therefore a change in interest rates at the reporting date would not affect profit or loss.

Notes to the financial statements

29. Financial instruments (continued)

(i) Sensitivity analysis

The company is exposed to the risk of changes in interest rates.

The following table shows the sensitivity analysis for a 3% increase and decrease in interest rates on loans as of December 31. The analysis is conducted on the balance of outstanding loans at the reporting date. Positive amounts represent an increase in profit in the Income Statement, while negative amounts represent a decrease.

In thousands of denars	**3% increase**		**3% decrease**	
	2023	**2022**	**2023**	**2022**
Loans	66,442	65,690	(66,442)	(65,690)
Income statement	(66,442)	(65,690)	66,442	65,690

If the interest rates were higher by 3% from the current rates, the company's profit in 2023 would have been lower by MKD 66,442 thousand (2022: MKD 65,690 thousand). Conversely, if the interest rates were lower, the company's profit in 2023 would have been higher by MKD 66,442 thousand (2022: MKD 65,690 thousand).

(e) *Fair value*

(i) Fair value vs. Present value

The fair value of financial assets and liabilities, together with their present value presented in the statement of financial position, are as follows:

		2023		**2022**	
In thousands of denars	***Note***	**Present value**	**Fair value**	**Present value**	**Fair value**
Investments in Available-for-sale securities	*17*	1,257	1,257	1,257	1,257
Trade and other receivables	*19*	326,730	326,730	746,765	746,765
Cash and cash equivalents	*21*	271,361	271,361	724,759	724,759
Unsecured loan from subsidiary of the ultimate parent	*24*	-	-	(167,900)	(167,900)
Secured bank loans	*24*	(2,214,728)	(2,214,728)	(2,189,655)	(2,189,655)
Trade and other payables	*26*	(1,228,236)	(1,228,236)	(1,133,150)	(1,133,150)
Total		(2,843,616)	(2,843,616)	(2,017,924)	(2,017,924)

The basis for the determination of the fair value is disclosed in the note 4.

Notes to the financial statements

30. Capital commitments

As at 31 December 2023 The Company has capital commitments for procurment of property, plant and equipment in the amount of MKD 25,298 thousands (2022: MKD 86,582 thousands).

31. Contingencies

The Company is a defendant in a number of legal cases. The contingent liabilities in the amount of MKD 20,217 thousands represent court disputes where Makstil AD is the defendant.

In 2018, on the basis of a misdemeanour procedure initiated by the State Environmental Inspectorate, the Basic Court Skopje 1 - Skopje passed a Judgement imposing a single offense sanction fine in the amount of MKD 2,215 thousand for the legal entity and MKD 664 thousand for the responsible person, as well as an additional sanction - temporary ban on performing its business activities - production and trade with products for ferrous metallurgy for a period of one year as of the effective date of the Judgement.
On January 20, 2021, a Decision was submitted to the Company to the Appellate Court in Skopje, according to which the Company's appeal was upheld, the Judgment of the Basic Court Skopje was revoked, and the case was returned to the Basic Court Skopje for reconsideration and decision.
The Appellate Court in Skopje accepted the Company's appeals.
With the Judgement dated March 3, 2022 of the Basic Criminal Court Skopje, the defendants—the legal entity - the Company and the responsible person of the Company—were released from liability. As of the reporting date, no appeal has been filed, and the Company's management expects finality, which will formally conclude the matter in favor of the Company.

The company has liabilities based on issued bank guarantees to various creditors in the amount of MKD 48,142 thousand (2022: MKD 24,912 thousand).

Notes to the financial statements

32. Related parties

Parent and ultimate parent

The parent company of the Company is Duferco Skop SA. The ultimate parent company is HBIS Group Co. Limited, owned by the Supervision and Administration Commission of Hebei Province in the People's Republic of China.

Related party transactions

The following transactions were carried out with related parties:

(i) Sale of goods and services

In thousands of denars	**2023**	**2022**
Sale of goods and services		
Subsidiaries of the ultimate parent	3,445,529	4,098,454
Total	3,445,529	4,098,454

(ii) Purchase of goods, services and property, plant and equipment

In thousands of denars	**2023**	**2022**
Subsidiaries of the ultimate parent	703,950	543,059
Associates	12,288	11,458
Total	715,878	554,517

(iii) Transactions with key management personnel

In thousands of denars	**2023**	**2022**
Short-term employee benefits	93,849	68,751
Total	93,849	68,751

The total compensations are included in the Employee Costs (see Note 10). The key managerial personnel includes the Executive Members of the Board of Directors and the sector directors within the Company.

Notes to the financial statements

32. Related parties (continued)

(iv) Closing balances arising from sale/purchase of goods/services/ property, plant and equipment

Receivables from related parties (see note 19):

In thousands of denars	**2023**	**2022**
Subsidiaries of the ultimate parent	44,429	360,097
Total	44,429	360,097

Payables to related parties (note 26)

In thousands of denars	**2023**	**2022**
Subsidiaries of the ultimate parent	481,954	231,838
Associates	2,552	4,264
Total	484,506	236,102

Advances from related parties:

In thousands of denars	**2023**	**2022**
Subsidiaries of the ultimate parent	747,954	939,856
Total	747,954	939,856

(v) Loans from related parties

Loan from Subsidiaries of ultimate parent (see note 24).

In thousands of denars	**2023**	**2022**
As at 1 January	335,800	1,009,589
As at 31 December	-	335,800

33. Subsequent events

After the statement of financial position's date, there have not occurred material events that should have been disclosed in the financial statements.