

POPOVA KULA Winery
AD Demir Kapija
Financial Statements for the
Year Ended 31 December 2018 in
accordance with the accounting standards
accepted in the Republic of Macedonia
and
Independent Auditor's Report

February 2019

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To the shareholders of
"POPOVA KULA" Winery, AD Demir Kapija

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of "POPOVA KULA" Winery AD Demir Kapija (hereinafter the "Company"), which comprise the Statement of financial position as of 31 December 2018, and the Statement of comprehensive income, Statement of changes in equity and Statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management of the Company is responsible for the preparation and fair presentation of these financial statements in accordance with the accounting standards accepted in the Republic of 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 auditing standards accepted in the Republic of Macedonia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

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

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

To the shareholders of
"POPOVA KULA" Winery, AD Demir Kapija

INDEPENDENT AUDITOR'S REPORT (Continued)

Opinion

In our opinion, the financial statements of POPOVA KULA Winery AD Demir Kapija present fairly, in all material respects, the financial position of the Company as of 31 December 2017, and of its financial performance and its cash flows for the year then ended in accordance with the accounting standards published and accepted in Republic of Macedonia.


Report on other legal and regulatory matters

Management of the Company is responsible for preparation of the annual business report in accordance with Trade Company Law.

Our responsibility in accordance with the Audit Law is to report whether the annual business report is consistent with the annual account and financial statements for the year ended 31 December 2018. Our work referring to the annual business report is carried out in accordance with ISA 720 and it is limited to reporting whether the historical financial information presented in the annual statement are consistent with the annual accounts and audited financial statements.

The annual business report of the Company is consistent in all material aspects with the annual account and the audited financial statements of POPOVA KULA Winery AD Demir Kapija for the year ended 31 December 2018.

Skopje, 25 February 2019


Elena Petrovska-Lazarevski
Certified Auditor




Dragan Dimitrov
Manager

STATEMENT OF COMPREHENSIVE INCOME
For the year ended as of 31 December 2018
In thousands of MKD

	Note	2018	2017
OPERATING INCOME			
Sales	4	46.353	46.349
Other operating income	5	450	616
Total operating income		46.803	46.965
OPERATING EXPENSES			
Change of inventory		657	882
Costs of goods sold		(2.400)	(1.964)
Costs of material and maintenance	6	(15.785)	(17.369)
Wages, salaries and other expenses	7	(12.835)	(12.769)
Amortization/Depreciation	8	(4.544)	(5.179)
Other operating expenses	9	(9.972)	(8.736)
Total operating expenses		(44.879)	(45.135)
OPERATING PROFIT		1.924	1.830
FINANCE INCOME/(EXPENSE)			
Interest income/(expense), net	10	(1.536)	(1.411)
Foreign exchange gain/(loss), net	11	48	(2)
Finance expenses, net		(1.488)	(1.413)
PROFIT BEFORE TAX		436	417
Income tax	12	(321)	(366)
PROFIT FOR THE YEAR		115	51
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		115	51
Earnings per share (in MKD)	13	0,043	0,019

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

The accompanying financial statements were authorised for issue by the management of the Company on 22 February 2019 and were signed on its behalf by:



Jordan Trajkov
 Chief Executive Officer

STATEMENT OF FINANCIAL POSITION
as of 31 December 2018
In thousands of MKD

	Note	31 December 2018	31 December 2017
ASSETS			
Non-current assets			
Property, plant and equipment	14	116.331	119.683
Long term investments	15	2.643	2.643
		118.974	122.326
Current assets			
Inventories	16	30.905	30.454
Accounts receivable	17	14.119	13.544
Short term financial assets	18	9.084	6.662
Other current assets and prepayments	19	214	179
Cash and cash equivalents	20	1.308	1.702
		55.630	52.541
TOTAL ASSETS		174.604	174.867
EQUITY AND LIABILITIES			
Equity			
Owner's equity	21	166.050	166.050
Accumulated loss		(36.754)	(36.869)
		129.296	129.181
Non-current liabilities			
Long term financial liabilities	22	19.792	19.791
		19.792	19.791
Current liabilities			
Short-term financial liabilities	23	15.354	14.095
Accounts payable	24	8.908	10.533
Other current liabilities and accruals	25	1.254	1.267
		25.516	25.895
TOTAL EQUITY AND LIABILITIES		174.604	174.867

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

The accompanying financial statements were authorised for issue by the management of the Company on 22 February 2019 and were signed on its behalf by:



Jordan Trajkov
Chief Executive Officer

STATEMENT OF CHANGES IN EQUITY
 For the year ended as of 31 December 2018
 In thousands of MKD

	<u>Owners' Equity</u>	<u>Reserves</u>	<u>Accumulated profit/(loss)</u>	<u>Total</u>
Balance as of 1 January 2017	166.050	-	(36.920)	129.130
Total comprehensive income for the year	<u>-</u>	<u>-</u>	<u>51</u>	<u>51</u>
Balance as of 31 December 2017	<u>166.050</u>	<u>-</u>	<u>(36.869)</u>	<u>129.181</u>
Total comprehensive income for the year	<u>-</u>	<u>-</u>	<u>115</u>	<u>115</u>
Balance as of 31 December 2018	<u><u>166.050</u></u>	<u><u>-</u></u>	<u><u>(36.754)</u></u>	<u><u>129.296</u></u>

The accompanying notes form an integral part of these financial statements

STATEMENT OF CASH FLOWS
 For the year ended as of 31 December 2018
 In thousands of MKD

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before tax	436	417
Adjustment to reconcile profit to net cash provided by operating activities:		
Amortization/Depreciation	4.544	5.179
Revenues from payables write-off	-	-
Expenses of receivables write-off	142	92
Shortage/Excess	(16)	(44)
Capital gain from sold fixed assets	-	-
Adjustments of interest (expense)/ income	<u>1.536</u>	<u>1.411</u>
Operating profit before working capital changes	<u>6.642</u>	<u>7.055</u>
Changes in operating assets and liabilities:		
(Increase)/decrease in current assets:		
Inventories	(435)	(405)
Accounts receivable	(717)	(3.166)
Other current assets and prepayments	(2.458)	(2.682)
Increase/(decrease) in current liabilities:		
Accounts payable	(1.625)	1.177
Other current liabilities	(11)	(141)
Cash generated from operations	<u>1.396</u>	<u>1.838</u>
Interest paid	(1.740)	(1.648)
Income tax	(321)	(366)
Net cash flows used in operating activities	<u>(665)</u>	<u>(176)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase (sale) of property, plant and equipment	(1.191)	(2.737)
Gain from sale of property, plant and equipment	-	-
Received interest	<u>203</u>	<u>237</u>
Net cash flows used in investing activities	<u>(988)</u>	<u>(2.500)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Short-term financial liabilities	1.259	1.644
Long-term financial liabilities	<u>1</u>	<u>3</u>
Net cash flows from financing activities	<u>1.259</u>	<u>1.647</u>
Net increase/(decrease) in cash and cash equivalents	(394)	(1.029)
Cash and cash equivalents, beginning of year	<u>1.702</u>	<u>2.730</u>
Cash and cash equivalents, end of year (Note 20)	<u>1.308</u>	<u>1.702</u>

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

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2018

All amounts are expressed in MKD thousand, unless otherwise stated

1. CORPORATE INFORMATION

The Company for production and trade POPOVA KULA Winery AD Demir Kapija (in the following text "the Company") is registered according to the Trade Company's Law. The Company's main activity is wine production. The Company's majority owner of the Company is the Company for production, trade and consulting Inteko DOO Skopje, with a 50,58% ownership in the Company's capital.

The Company is registered on the following address: Wine Boulevard No.1, Demir Kapija, Republic of Macedonia.

On 31 December 2018, the Company had 35 employees (31 December 2017: 41 employees).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1. Basis of Preparation and Presentation of the Financial Statements

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

The accompanying financial statements have been prepared in accordance with accounting standards accepted in the Republic of Macedonia i.e. International Financial Reporting Standards ("IFRS"), published in Republic of Macedonia in the Rulebook for accounting (Official Gazette no. 159/2009) effective from 1 January 2010. The financial statements have been prepared under the historical cost convention and going concern principle.

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

In the preparation of these financial statements, the Company has adhered to the accounting policies described in Note 2. The accounting policies applied to these financial statements are consistent with those used in the annual financial statements for fiscal year 2017.

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

The preparation of financial statements in conformity with the accounting standards accepted in Republic of Macedonia requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 2.3.

POPOVA KULA Winery AD Demir Kapija is parent company of Stanusina DOOEL Demir Kapija (100% ownership) and has a majority share in Popova Kula SP ZOO Poland (68% ownership).

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2018

All amounts are expressed in MKD thousand, unless otherwise stated

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2. Going concern principle

The financial statements have been prepared on the assumption of continuity of operations or that the Company will continue to operate for the near future. The Company has no intention or need to liquidate or materially limit the scope of its operations.

2.3. Use of Estimates

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

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

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

2.4. Comparative Figures

Comparative figures represent the audited financial statements for the year ended 31 December 2017.

2.5. Income

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

2.6. Expenses

Expenses are recognized according the accrual basis of accounting (invoiced realization).

2.7. Operating Leases

Leases where the Company does not transfer substantially all the risks and rewards incidental to ownership of a leased asset to the lessee are classified as operating leases.

Revenues and expenses based on operating leases are recognized in the period to which they relate.

The operating lease relates to the rental of offices, warehouses and other rental costs. The expenses mentioned above are recognized in the Statement of Comprehensive income when such costs incurred in accordance with applicable operating leases.

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2018

All amounts are expressed in MKD thousand, unless otherwise stated

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.8. Maintenance and Repairs

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

2.9. Borrowing Costs

Borrowing costs are recorded as an expense during the period in which they are incurred.

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

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

Assets and liabilities' components denominated in foreign currencies are translated into MKD at the official exchange rates prevailing at the Statement of financial position date. Foreign currency transactions are translated into MKD at the official exchange rates in effect at the date of each transaction.

Foreign exchange gains or losses arising upon the translation of assets, liabilities and transactions are credited or debited as appropriate, to the Statement of comprehensive income.

2.11. Property, Plant and Equipment

Property, plant and equipment of the Company at 31 December 2018 comprise of land, property and equipment. Property and equipment are stated at cost less accumulated depreciation.

Cost comprises the purchase price including import duties, non-refundable taxes, and any directly-attributable costs of bringing the asset to working condition for its intended use. Any trade discounts and/or rebates received are deducted in arriving at the purchase price. The cost of self-constructed property and equipment is its cost at the date upon which its construction or development was completed.

Property and equipment are capitalized as tangible assets if their expected useful life exceeding one year.

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

Capital improvements, renewals and repairs that extend the useful life of an asset are capitalized. Repairs and maintenance are expensed as incurred and are shown as operating expenses. When there is a significant deviation between the carrying and fair values of the assets, the Company makes revaluation of tangible assets through assessment.

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2018

All amounts are expressed in MKD thousand, unless otherwise stated

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.12. Intangible Assets

Intangible assets are stated at cost less accumulated amortization. Costs associated with maintaining of the assets are recognised as an expense as incurred.

Subsequent additions are included in the cost of the asset, or they are recognised as separate asset, accordingly, only if related future inflows are probable and the cost of the asset can be fairly measured.

2.13. Biological Assets

Biological assets which entirely consist of perennial vineyards are recognized at their fair value less any accumulated depreciation and any accumulated impairment losses. Once the fair value of such a biological asset becomes reliably measurable, an entity shall measure the asset to its fair value less estimated costs at point of sale.

The yield of biological assets (vintage) is recognized as inventories at its fair value less estimated costs of sell at the time of the vintage.

2.14. Depreciation and Amortization

Depreciation of property and equipment and amortization of intangible assets is provided on a straight-line basis in order to fully write off the cost of the assets over their estimated useful lives. The depreciation of property and equipment and amortization of intangible assets is provided at rates based on the estimated useful life of property and equipment as estimated by the Company's management. Competent departments of the Company revise the useful life of property and equipment periodically. The principal annual depreciation/amortization rates in use for classes of property, equipment and intangible assets are as follows:

Property	2,5%-10%
Biological assets and stainless-steel equipment	2,5%
Office inventory	5%-10%
Furniture	20%
Computer equipment with software	25%
Telecommunication equipment and vehicles	25%
Other equipment	10%
Long - term intangible assets	25%

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

2.15. Impairment of Non-Financial Assets

In accordance with accepted accounting policies, at the end of each year, the Company's management assesses the carrying value of the Company's intangible assets and property and equipment. If there is any indication that those assets have been impaired, recoverable amount of the assets is calculated to determine the amount of impairment loss. If the recoverable amount of the asset is estimated as lower than its current value, the current value reduces the carrying amount to its recoverable amount, which is the higher of the asset's net selling value and value in use. Impairment losses, which represent the difference between the carrying amount and recoverable amount of tangible and intangible assets, are shown in the statement of comprehensive income in accordance with IAS 36 "Impairment of assets".

Impaired financial assets are assessed on each reporting date to determine possible impairment recoveries.

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2018

All amounts are expressed in MKD thousand, unless otherwise stated

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.16. Inventories

Inventories, except inventory yield of biological assets, are initially stated at the lower of cost and net realizable value. Cost value includes the invoiced value, transport and other attributable expenses. The carrying amount is determined by the method of planning prices. Net realizable value represents the price at which inventories could be sold in the ordinary course of business, less costs of sale. The cost of inventories includes the cost of direct materials, direct labor, other direct costs and related general production costs.

Allowances that are charged to "Other operating expenses" are made where appropriate in order to reduce the carrying value of such inventories to management's best estimate of their net realizable value. Inventories found to be damaged or of a substandard quality are written off in full.

2.17. Equity Investments

Equity investments in associates are stated at cost. Associate is a legal entity in which the Company has a significant influence (usually 20% or more of voting rights).

2.18. Financial Instruments

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

Management determines the classification of its financial assets at initial recognition. The classification depends on the purpose for which the financial assets were acquired. Financial assets cease to be recognized when the Company loses control of the contractual rights governing such instruments; which occurs when the rights of use of such instruments have been realized, expired, abandoned, and/or ceded. Financial liabilities cease to be recognized when the Company fulfils the obligations, or when the contractual repayment obligation has either been cancelled or has expired.

(a) Accounts Receivable

Accounts receivable are stated at their nominal values as reduced by appropriate allowances for estimated irrecoverable amounts. An allowance for impairment of receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to original terms of the receivables.

Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the receivable is impaired.

A provision for impairment is made on the basis of the ageing of the receivables balances and historical experience, and when the partial or full collection of an account receivable is deemed to be no longer probable. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of loss is recognised in the Statement of Comprehensive Income within "Other expenses" (Note 9). When a receivable is uncollectible, it is written off against the allowance account for accounts receivable. Subsequent recoveries of amounts previously written off and reversal of the impairment are credited to "Other income".

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2018

All amounts are expressed in MKD thousand, unless otherwise stated

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.18. Financial Instruments (Continued)

(b) Loans Received from Banks and Suppliers

Loans received from banks and suppliers are initially measured at the amount of the loan disbursements received (i.e., nominal value). Borrowings are subsequently measured at the amortized cost that is computed based on the effective interest rate. Liability is classified as short-term if it is expected to be settled in the Company's normal operating cycle, i.e. which matures in the period up to 12 months from the statement of financial position date. All other liabilities are classified as long term.

(c) Operating Liabilities

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

2.19. Cash and Cash Equivalents

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

2.20. Employee Benefits

Taxes and social security contributions of employees

In accordance with the legislation of the Republic of Macedonia, the Company is obliged to pay contributions to several state social insurance funds. The Company makes these contributions to the Government's health and retirement funds, at the statutory rates in force during the year, based on gross salary payments.

The Company is also legally obliged to retain contributions from gross wages of employees and on behalf of the employees to pay the retained amounts in the appropriate state funds. The Company has no legal obligation to pay additional contributions to the Macedonia's pension and retirement fund with retirement. These obligations are recognized as an expense at the time of their occurrence.

The Company does not operate any other pension scheme or post-retirement benefits plan and consequently, has no obligation in respect of pensions. The Company also pays an amount equal to twice the amount of an average net salary in the Republic of Macedonia as a retirement benefit.

2.21. Income tax

Current income tax

Current income tax represents an amount that is calculated and paid in accordance with the effective Profit Tax Law of the Republic of Macedonia. Income tax is payable at the rate of 10% (2016: 10%) on the tax base reported in the annual corporate income tax return as reduced by any applicable tax credits. The taxable base stated in the income tax return includes profit for the year increased by the unrecognized expenses and less declared revenues that are specifically defined under statutory tax rules and decreased by tax relief.

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2018

All amounts are expressed in MKD thousand, unless otherwise stated

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.21. Income tax (Continued)

Deferred taxes

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

2.22. Value added tax

Revenues, expenses and assets are recognized less the amount of value added tax, except when value added tax from the purchase of assets or services is not recoverable from the tax authority, in which case the VAT is recognized as part of the cost of acquisition of the asset or as part of the cost where appropriate and when receivables and payables that are stated with the amount of included VAT.

The net amount of value added tax which is reimbursed by or paid to the tax authorities is included as part of receivables or liabilities in the Statement of financial position.

2.23. Dividends

Dividends are recognized as a liability and deducted from equity in the period in which they are approved by the Company's owners. Dividends for the year that are declared after the Statement of financial position date are disclosed as an event after the Statement of financial position date.

2.24. Disclosures on related parties

For the purpose of the financial statements, related parties are those in which one entity has the ability to control another entity or has the right to govern the financial and business operations of the person, as defined by IAS 24 "Related parties' disclosure".

The relations between the Company and its related parties are set out on a contractual basis, conducted at market conditions. Balances of the liabilities and assets on the date of Statement of Financial Position, as well as transactions with related parties that occurred in the reporting period are stated separately in the notes to the financial statements (Note 26).

2.25. Government grants

Government grants, are recognized at fair value when there is reasonable assurance that the conditions attached to them are fulfilled, and that the grants will be received. Government grants are recognized in profit or loss on a systematic basis in the period in which the Company recognizes as expenses the related costs for which the grants are intended to compensate.

Government grants are present as approvals in other comprehensive income, either separately or under a general heading such as "Other income".

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2018

All amounts are expressed in MKD thousand, unless otherwise stated

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.26. Events after the reporting period

Post-year-end events that provide additional information about a company's position at the Statement of financial position (adjusting events) are reflected in the financial statements. Post-year-end events that are not adjusting events are disclosed in the notes when material.

3. FINANCIAL RISK MANAGEMENT

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

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

3.1. Market risk

(a) Currency risk

The Company is exposed to foreign exchange risk because the Company has business activities in foreign markets, i.e. receivables and liabilities stated in foreign currency. Company does not use special financial instruments to reduce this risk.

The official exchange rates for major currencies used in the translation of statement of financial position items denominated in foreign currencies as of 31 December 2018, and 2017 were as follows:

	2018	In MKD 2017
EUR	61,4950	61,4907
USD	53,6887	51,2722

b) Interest rate risk

Company is exposed to risk from changes in the interest rates which by changing the level of market interest rates affects the financial position and cash flows.

As of 31 December 2018, has interest bearing liabilities, but its expenses and operating cash flows are independent on changes in market interest rates, considering the fact that the Company's loans are with fixed interest rate.

(c) Price risk

Company is not exposed to price risk associated with initial investments since it has no investments classified in the Statement of financial position as available-for-sale or at fair value through displays of capital gain or loss.

The Company's exposure to price risk associated with the products is controlled by management that constantly monitors the competition, analyze price risk and take appropriate corrective measures.

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2018

All amounts are expressed in MKD thousand, unless otherwise stated

3. FINANCIAL RISK MANAGEMENT (Continued)

3.2. Liquidity Risk

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

Management of the Company has responsibility for providing liquidity. The Company manages liquidity risk by maintaining a certain amount of free cash and cash equivalents and performs daily monitoring of cash and projections of future cash inflows and outflows.

The Company does not use financial derivatives.

3.3. Credit risk

Credit risk arises from cash and cash equivalents, deposits in banks and financial institutions as well as credit exposure to corporate and retail clients, including the trade receivables and liabilities.

The Company's exposure to credit risk is limited. Credit risk management is performed by taking appropriate measures and activities by the Company. The Company monitors existing customers and other contracting parties and include this information in the management of credit risk, continually. Cash and cash equivalents's credit risk is considered insignificant as the Company works with reputable banks with high credit ratings.

3.4. Capital risk management

The Company has adopted the concept of financial capital and its preservation under which capital is defined on the basis of nominal monetary units.

Company in connection with the management objectives of Company's capital preservation ability to continue to operate based on the assumption of continuity to maintain an optimal capital structure that would reduce the cost of capital and would provide returns for owners.

In order to maintain or adjust the capital structure, the Company may consider the following options: to adjust the number of dividends paid to the owner, to return capital to the owner, to issue new shares or to sell assets to reduce debts.

3.5. Fair Value Estimation

It is a policy of the Company to disclose the fair value information of those components of assets and liabilities for which published or quoted market prices are readily available, and of those for which the fair value may be materially different than their recorded amounts.

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

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

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2018

All amounts are expressed in MKD thousand, unless otherwise stated

4. SALES

	<u>2018</u>	<u>2017</u>
Sales in domestic market	40.961	39.316
Sales in foreign market	4.705	6.518
Revenues of own used products	480	515
Other revenues	<u>207</u>	<u>-</u>
Total	<u><u>46.353</u></u>	<u><u>46.349</u></u>

5. OTHER OPERATING INCOME

	<u>2018</u>	<u>2017</u>
Inventory surpluses	16	44
Financial government grants	210	135
Other operating income	<u>224</u>	<u>437</u>
Total	<u><u>450</u></u>	<u><u>616</u></u>

6. COST FOR MATERIALS AND MAINTANCE

	<u>2018</u>	<u>2017</u>
Electricity and fuel	2.084	1.901
Materials	12.391	13.560
Small inventory write-off	253	275
Maintance	580	736
Transport and telecommunication services	<u>477</u>	<u>897</u>
Total	<u><u>15.785</u></u>	<u><u>17.368</u></u>

7. WAGES, SALARIES AND OTHER PERSONAL EXPENSES

	<u>2018</u>	<u>2017</u>
Gross salaries	11.728	11.962
Other reimbursements to employees	<u>1.107</u>	<u>807</u>
Total	<u><u>12.835</u></u>	<u><u>12.769</u></u>

8. DEPRECIATION/AMORTIZATION

	<u>2018</u>	<u>2017</u>
Depreciation (Note 14)	<u>4.544</u>	<u>5.179</u>
Total	<u><u>4.544</u></u>	<u><u>5.179</u></u>

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2018

All amounts are expressed in MKD thousand, unless otherwise stated

9. OTHER OPERATING EXPENCES

	<u>2018</u>	<u>2017</u>
Marketing expenses	1.620	1.313
Representation costs	495	579
Travel costs and per diems	895	1.127
Bank charges	417	373
Utilities and other services	818	854
Insurance premiums	119	133
Costs form previous years	256	190
Rents	77	792
Donations	2	26
Indirect tax	403	156
Receivables write off	142	91
Other non-material expenses	<u>4.728</u>	<u>3.102</u>
Total	<u><u>9.972</u></u>	<u><u>8.736</u></u>

10. INTEREST INCOME/(EXPENSE), NET

	<u>2018</u>	<u>2017</u>
INTEREST INCOME		
Interest income of given loans	<u>204</u>	<u>237</u>
Total income	<u>204</u>	<u>237</u>
INTEREST EXPENSE		
Interest expense from related parties	(1.597)	(1.510)
Loans' interest expense and penalties	<u>(143)</u>	<u>(138)</u>
Total expense	<u>(1.740)</u>	<u>(1.648)</u>
Net interest expense	<u><u>(1.536)</u></u>	<u><u>(1.411)</u></u>

11. FOREIGN EXCHANGE GAIN/LOSS, NET

	<u>2018</u>	<u>2017</u>
FOREIGN EXCHANGE GAIN		
Foreign exchange gain	<u>88</u>	<u>40</u>
Total	<u>88</u>	<u>40</u>
FOREIGN EXCHANGE LOSS		
Foreign exchange loss	<u>(40)</u>	<u>(42)</u>
Total	<u>(40)</u>	<u>(42)</u>
Net foreign exchange gain/(loss)	<u><u>48</u></u>	<u><u>(2)</u></u>

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2018

All amounts are expressed in MKD thousand, unless otherwise stated

12. INCOME TAXES

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

	<u>2018</u>	<u>2017</u>
Profit before tax	435	417
Unrecognized expenses	2.770	3.241
Tax base - unrecognized expenses	3.205	3.658
Income tax at the rate of 10%	321	366
Tax credit	-	-
Income tax	<u>321</u>	<u>366</u>
Effective tax rate	73.79%	87,77%

No provision for deferred tax asset has been accounted for in these financial statements, since the Company cannot determine with reasonable accuracy to what extent, the above tax asset will be utilized in the future.

13. EARNINGS PER SHARE

As of 31 December 2018, the basic earning per share was calculated by dividing the profit for the year attributable to ordinary shares holders at the amount of MKD 114.955 (2017: MKD 51.201) and the weighted average number of ordinary shares for the year ending as of 31 December 2018, at number of 2.700.000 (2017: 2.700.000), calculated as follows:

Basic and diluted earnings per share

	<u>2018</u>	<u>2017</u>
Net income for the holders of ordinary shares		
Net income for the year (in MKD)	<u>114.955</u>	<u>51.201</u>
Net income for the holders of ordinary shares	<u>114.955</u>	<u>51.201</u>
	<u>Number of shares</u>	
	<u>2018</u>	<u>2017</u>
Weighted average number of shares		
Issued number of shares on 1 January	<u>2.700.000</u>	<u>2.700.000</u>
Weighted average number of shares on 31 December	<u>2.700.000</u>	<u>2.700.000</u>
Basic earnings per share (in MKD)	<u>0,043</u>	<u>0,0190,023</u>

The Company has not issued shares that can dilute the earnings per share during 2018.

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2018

All amounts are expressed in MKD thousand, unless otherwise stated

14. PROPERTY, PLANT AND EQUIPMENT

	Land	Property	Plant, equipment, furniture, vehicles	Vineyards	Assets in progress	Total
Cost as of 1 January 2017	4.489	108.536	59.399	2.235	1.185	175.844
Additions	-	74	1.074	-	1.588	2.736
Balance as of 31 December 2017	4.489	108.609	60.473	2.235	2.774	178.580
Additions	28	79	536	-	548	1.191
Balance as of 31 December 2018	4.517	108.688	61.009	2.235	3.322	179.771
Accumulated depreciation As of 1 January 2017	-	20.732	32.230	756	-	53.718
Depreciation (Note 8)	-	2.713	2.410	56	-	5.179
Balance as of 31 December 2017	-	23.445	34.640	812	-	58.897
Depreciation (Note 8)	-	2.716	1.771	56	-	4.543
Balance as of 31 December 2018	-	26.161	36.411	868	-	63.440
Net book value as of - 31 December 2018	4.517	82.527	24.598	1.367	3.322	116.331
- 31 December 2017	4.489	85.164	25.833	1.423	2.774	119.683

As of 31 December 2018, the carrying value of Company's vineyards is MKD 1.367 thousand (2017: MKD 1.423 thousand). The vineyards are planted on 6,5 ha, and 4 ha land under vineyards is owned by the Company, and the remaining hectares are vineyards given for usage.

Part of the property and equipment of the Company with a total estimated value of MKD 51.828 thousand are under mortgage as collateral for loan agreements concluded between Sparkasse Bank AD Skopje as creditor, Stanushina DOOEL as debtor and Popova Kula AD as acceptor of the debt.

15. LONG TERM INVESTMENTS

	2018	2017
Popova Kula SP ZOO, Polska	2.631	2.631
Stanushina Dooel Demir Kapija	12	12
Balance as of 31 December 2018	2.643	2.643

As od 31 December 2018, Company has long-term investments at amount of MKD 2.643 thousand, which refer to investments in Popova Kula S.P. ZOO Poland at the amount of MKD 2.631 thousand (67,52% equity ownership) and Stanushina Dooel Demir Kapija at the amount of MKD 12 thousand (100% equity ownership).

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2018

All amounts are expressed in MKD thousand, unless otherwise stated

16. INVENTORY

	<u>2018</u>	<u>2017</u>
Raw materials	3.922	3.730
Small inventory and packaging	1.788	1.643
Decreased for: small inventory write-off	(747)	(725)
Total	<u>4.963</u>	<u>4.648</u>
Unfinished products and semiproducts	11.737	11.612
Finished products	14.018	13.878
Trade goods	187	316
Total	<u>25.942</u>	<u>25.806</u>
Balance as of 31 December	<u><u>30.905</u></u>	<u><u>30.454</u></u>

17. ACCOUNTS RECEIVABLE

	<u>2018</u>	<u>2017</u>
Domestic accounts receivable	6.898	7.628
Related parties receivable	4.495	2.908
Foreign accounts receivable	4.089	4.381
Receivables for given advance	45	35
	<u>15.527</u>	<u>14.952</u>
Less:		
Accounts receivable Allowance	<u>(1.408)</u>	<u>(1.408)</u>
Balance as of 31 December 2018	<u><u>14.119</u></u>	<u><u>13.544</u></u>

- a) The movement of trade receivables allowance in 2018 and 2017 is shown in the following preview:

	<u>Domestic accounts receivable</u>	<u>Foreign accounts receivable</u>	<u>Total</u>
Balance as of 1 January 2017	-	1.408	1.408
Receivables write off	<u>-</u>	<u>-</u>	<u>-</u>
Balance as of 31 December 2017	<u>-</u>	<u>1.408</u>	<u>1.408</u>
Receivables write off	<u>-</u>	<u>-</u>	<u>-</u>
Balance as of 31 December 2018	<u><u>-</u></u>	<u><u>1.408</u></u>	<u><u>1.408</u></u>

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2018

All amounts are expressed in MKD thousand, unless otherwise stated

18. SHORT-TERM FINANCIAL ASSETS

	<u>2018</u>	<u>2017</u>
Loans to Stanusina Dooel	8.588	6.425
Interest for loans to Stanusina Dooel	<u>496</u>	<u>237</u>
Balance as of 31 December 2018	<u><u>9.084</u></u>	<u><u>6.662</u></u>

As of 31 December 2018, the balance of short-term assets at the total amount of MKD 9.084 thousand consists of receivables for short term loans and interest to related party Stanusina Dooel Demir Kapija. The loans at the amount of 8.588 thousands of MKD consist of loans under three loan agreements, all of them with a 12-month SKIBOR +1% interest rate: a) loan agreement from 15.07.2015 at total amount of MKD 484 thousand as of 31 December 2018 b) loan agreement from 15.07.2016 at total amount of MKD 2.866 thousand as of 31 December 2018; c) loan agreement from 18.07.2017 at the total amount of 2.562 thousands of MKD as of 31 December 2018 and d) loan agreement from 18.07.2018 at total amount of MKD 2.676 thousand of MKD.

19. OTHER CURRENT ASSETS AND PREPAYMENTS

	<u>2018</u>	<u>2017</u>
Prepaid taxes	67	67
Other receivables	76	84
Rent deposit	<u>71</u>	<u>28</u>
Balance as of 31 December	<u><u>214</u></u>	<u><u>179</u></u>

20. CASH AND CASH EQUIVALENTS

	<u>2018</u>	<u>2017</u>
Current account	110	21
Cash in hand	240	341
Foreign currency account	<u>958</u>	<u>1.340</u>
Balance as of 31 December	<u><u>1.308</u></u>	<u><u>1.702</u></u>

21. EQUITY

As of 31 December 2018, and 2017, the shareholders' equity amounts 166.050 thousand of denars and is divided into 2.700.000 ordinary shares with a nominal value of 61,5 denars per share.

The Company's shareholders' equity structure as of 31 December 2018 and 2017 is as follows:

	<u>Number of shares</u>	<u>% according to Central Register of RM</u>
Inteko Doo Skopje	1.365.576	50,58%
Other minor shareholders	<u>1.334.424</u>	<u>49,42%</u>
Balance as of 31 December 2018	<u><u>2.700.000</u></u>	<u><u>100%</u></u>

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2018

All amounts are expressed in MKD thousand, unless otherwise stated

21. EQUITY (Continued)

	Number of shares	% according to Central Register of RM
Inteko Doo Skopje	1.365.576	50,58%
Other minor shareholders	1.334.424	49,42%
Balance as of 31 December 2017	<u>2.700.000</u>	<u>100%</u>

22. LONG-TERM FINANCIAL LIABILITIES

	<u>2018</u>	<u>2017</u>
Long-term loan from individual, related party	<u>19.792</u>	<u>19.791</u>
Balance as of 31 December 2018	<u><u>19.792</u></u>	<u><u>19.791</u></u>

Long term financial liabilities at the amount of MKD 19.792 thousand as of 31 December 2018 (2017: MKD 19.787 thousand) refers to financial liabilities on basis of the signed contract for loan with an individual - related party with purpose for improvement of current Company liquidity position. The interest rate amounts 5% annually, with monthly calculation.

23. SHORT-TERM FINANCIAL LIABILITIES

	<u>2018</u>	<u>2017</u>
Short-term loan to individual- related party	3.690	3.689
Short-term loan to other individuals	<u>11.664</u>	<u>10.406</u>
Balance as of 31 December	<u><u>15.354</u></u>	<u><u>14.095</u></u>

As of 31 December 2018, the short-term financial liabilities at the amount of MKD 3.690 thousand refer to liabilities on basis of signed Loan Contract No.03-362 from 01.09.2015 with an individual - related party, at the amount of 60.000 EUR and 1-year repayment period, with the possibility of extension for another year if payment is not demanded. The interest rate is calculated quarterly and amounts 5% annually, with aggred annual payment up to 15 January.

The short-term financial liabilities to other individuals at the amount of MKD 11.664 thousand refer to:

- a) Short-term financial liabilities from loans from individuals, at the amount of 2.460 thousand of MKD refer to the following contracts: (a) Contract No.03-363 from 01.09.2015 at the amount of 20.000 EUR (outstanding balance as of 31 December 2018 amounts 1.230 thousand of MKD) and (b) Contract No. 03-364 from 01.09.2015 at amount of 20.000 EUR (outstanding balance as of 31 December 2018 amounts 1.230 thousand of MKD). The loans are with 1-year repayment period, with the possibility of extension for another year if payment is not demanded. The interest rate is calculated quarterly and amounts 5% annually, with aggred annual payment up to 15 January.
- b) Short-term interest financial liabilities under loans from individuals at total amount of 9.204 thousand of MKD (31.12.2017 - 7.946 thousand of MKD).

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2018

All amounts are expressed in MKD thousand, unless otherwise stated

24. ACCOUNTS PAYABLE

	<u>2018</u>	<u>2017</u>
Domestic accounts payable	7.386	8.857
Foreign accounts payable	1.106	1.212
Received domestic advances	12	63
Received foreign advances	1	8
Unrelated parties specific working payables	<u>402</u>	<u>393</u>
Balance as of 31 December	<u>8.908</u>	<u>10.533</u>

25. OTHER CURRENT LIABILITIES AND ACCRUALS

	<u>2018</u>	<u>2017</u>
Liabilities to employees	1.040	1.014
State liabilities	209	212
Other current liabilities	<u>6</u>	<u>41</u>
Balance as of 31 December	<u>1.255</u>	<u>1.267</u>

26. RELATED PARTIES TRANSACTIONS

- (a) The balances of receivable and payable as of 31 December 2018 and 2017, refer from purchases and/or sales of goods/services from/to related parties of the Company and are presented in the table below:

	<u>2018</u>	<u>2017</u>
RECEIVABLE		
Popova Kula SP Zoo Polska	910	659
Stanusina Dooel Demir Kapija	3.585	2.908
Stanusina Dooel Demir Kapija - interests	496	237
Stanusina Dooel Demir Kapija- given loans	8.588	6.425
Inteko Doo Skopje	<u>-</u>	<u>-</u>
Total	<u>13.579</u>	<u>10.229</u>

	<u>2018</u>	<u>2017</u>
PAYABLES and LIABILITIES		
Popova Kula SP Zoo Polska	246	246
Popova Kula's shareholder-given loan	28.228	26.882
Popova Kula's shareholder- short-term payables	-	2
Popova Kula's shareholder- given loan	3.989	4.214
Inteko Doo Skopje	<u>7</u>	<u>1</u>
Total	<u>32.470</u>	<u>31.345</u>

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2018

All amounts are expressed in MKD thousand, unless otherwise stated

26. RELATED PARTIES TRANSACTIONS (Continued)

- b) Transactions with related parties for the year ended on 31 December 2018 and 2017 are provided in the review which follows:

	<u>2018</u>	<u>2017</u>
REVENUE		
Operating revenues		
Stanusina Dooel Demir Kapija	610	433
Popova Kula SP Zoo Polska	558	727
Financial income (interest and foreign currencies gains)		
Stanusina Dooel Demir Kapija	<u>259</u>	<u>237</u>
Total	<u><u>1.427</u></u>	<u><u>1.397</u></u>

	<u>2018</u>	<u>2017</u>
EXPENSES		
Operating expenses		
Inteko Doo Skopje	88	5
Financial expenses (interest and foreign currencies gains)		
Popova Kula's shareholder	1.344	1.280
Popova Kula's shareholder	253	230
PURCHASES		
Stanusina Dooel Demir Kapija	610	433
Popova Kula's shareholder	-	222
Popova Kula SP Zoo Polska	<u>370</u>	<u>381</u>
Total	<u><u>2.665</u></u>	<u><u>2.551</u></u>

27. CONTINGENT LIABILITIES

Off-balance sheet exposure

As of 31 December 2018, the Company has off-balance sheet exposure to Sparkasse Bank AD Skopje at the amount of MKD 15.540 thousand on basis of unused credit limit.

28. SUBSEQUENT EVENETS

There are subsequent events that would have a material impact on the understanding of the financial statements.

APPENDIX 1

Legal obligation to prepare annual accounts and financial statements in accordance with the regulations of the Company Law

According to article 476, paragraph 4 of the Company law, the Annual Account which is prepared by the companies shall be comprised of a balance sheet, income statement and other explanatory notes.

According to article 476, paragraph 6 of the Company law the Annual Account and financial statements that refer to the same financial year and which are prepared in accordance with the regulations of the Company Law and accounting regulations should contain identical data on the assets, liabilities, revenues, expenditure, capital and the profit or loss of the Company for the financial year.

According to article 477, paragraph 6 of the Company law, the management body of the Company shall, in addition to the annual accounts and financial statements, be obliged, following the end of each business year, to prepare a report on the operations of the Company for the preceding business year with the contents set out at article 384, paragraph 7 of the Company law.

The annual accounts of the Company (Balance sheet and Income statement) and Annual performance report are given in Appendices 2 and 3.

The board of directors of the Company has reviewed and approved the Annual performance operating report.

POPOVA KULA WINERY, AD
Demir Kapija

Chief Executive Officer

Jordan Trajkov

Annual accounts for the year 2018

- Balance Sheet (Statement of Financial Position)
- Income Statement (Statement of Comprehensive Income)

Annual business report for the year 2018