POPOVA KULA Winery AD Demir Kapija

Consolidated 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

March 2019

CONTENTS

Tel. +389 2 3117 888
Fax. +389 2 3117 999
www.bdo.mk

11 Oktomvri no. 86-1/1
1000 Skopje
Republic of Macedonia

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

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying consolidated financial statements of "POPOVA KULA" Winery AD Demir Kapija (hereinafter the "Company"), which comprise the consolidated statement of financial position as of 31 December 2018, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated 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 consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with the accounting standards, published and accepted in Republic of Macedonia and for such internal control as management determines is necessary to enable the preparation of consolidated 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 consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards which are applicable 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 shareholeders of
"POPOVA KULA" Winery, AD Demir Kapija

INDEPENDENT AUDITOR'S REPORT (Continued)

Opinion

In our opinion, the consolidated 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 2018, and of its financial performance and its cash flows for the year then ended in accordance with the accounting standards accepted in the Republic of Macedonia.

Report on other legal and regulatory matters

Management of the Company is responsible for preparation of the consolidated annual business report in accordance with the Trade Company Law. Our responsibility in accordance with the Audit Law is to report whether the consolidated annual business report is consistent with the consolidated annual account and consolidated financial statements for the year ended 31 December 2018. Our work in relation to the consolidated annual report is performed in accordance with ISA 720 and is limited to information whether historical financial information presented in the consolidated annual report is consistent with the consolidated annual account and audited consolidated financial statements.

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

Skopje, 25 March 2019

Elena Petrovska-Lazarevski
Certified Auditor

Друштво за ревизија БДО ДОО Скопје

Dragan Dimitrov
Manager

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

	Note	2018	2017
OPERATING INCOME			
Sales	4	47.036	48.438
Other operating income	5	993	922
Total operating income		48.029	49.360
OPERATING EXPENSES			
Costs of inventory change		657	882
Costs of goods sold		(2.675)	(2.782)
Costs of material and maintenance	6	(15.023)	(17.535)
Wages, salaries and other personnel expenses	7	(13.306)	(13.065)
Depreciation and amortization	8	(4.948)	(5.591)
Other operating expenses	9	(11.352)	(10.446)
Total operating expenses		(46.647)	(48.537)
OPERATING PROFIT		1.382	823
FINANCE INCOME/(EXPENSE)			
Interest income/(expenses), net	10	(1.998)	(1.848)
Foreign exchange gains/ (losses), net	11	48	(2)
Finance expenses, net		(1.950)	(1.850)
LOSS BEFORE TAX		(568)	(1.027)
Income tax	12	(335)	(376)
LOSS FOR THE YEAR		(903)	(1.403)
Loss arising from translation of foreign operations		7	(12)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		(896)	(1.415)
NET LOSS ATTRIBUTIBLE TO PARENT COMPANY SHAREHOLDERS		(678)	(1.185)
NET LOSS ATTRIBUTIBLE TO NON-CONTROLING INTERESTS		(218)	(230)
Loss per share in denars (MKD)	13	(0,332)	(0.524)

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

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

Jordan Trajkov
Cheif Executive Officer

CONSOLIDATED 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	130.167	133.046
		130.167	133.046
Current assets			
Inventories	15	31.665	31.672
Accounts receivable	16	9.638	10.196
Other current assets and prepayments	17	335	593
Cash and cash equivalents	18	2.293	2.453
		43.931	44.914
TOTAL ASSETS		174.098	177.960
EQUITY AND LIABILITIES			
Equity			
Shareholder’s equity	19	166.050	166.050
Reserves		807	831
Accumulated loss		(41.164)	(40.590)
		125.693	126.291
Non-controling interersts		1.158	1.189
		126.851	127.480
Non-current liabilities			
Long term financial liabilities	20	19.792	22.265
		19.792	22.265
Current liabilities			
Short-term financial liabilities	21	17.814	16.554
Accounts payable	22	8.104	10.121
Other current liabilities and accruals	23	1.537	1.540
		27.455	28.215
TOTAL EQUITY AND LIABILITIES		174.098	177.960

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

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

Jordan Trajkov
Cheif Executive Officer

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

	Shareholder's equity	Other capital and reserves	Acumula-ted loss	Total	Non-controling interests	Total equity
Balance as of 1 January 2017	166.050	787	(39.546)	127.291	1.377	128.668
Other increases (decreases)	-	44	141	185	42	227
Total comprehensive income for the year	-	-	(1.185)	(1.185)	(230)	(1.415)
Balance as of 31 December 2017	166.050	831	(40.590)	126.291	1.189	127.480
Other increases(decreases)	-	(24)	104	80	187	267
Total comprehensive income/(loss) for the year	-	-	(678)	(678)	(218)	(896)
Balance as of 31 December 2018	166.050	807	(41.164)	125.693	1.158	126.851

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

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

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss before tax	(568)	(1.027)
Adjustment to reconcile profit to net cash provided by operating activities:		
Depreciation/Amortization	4.948	5.591
Expenses of receivables write-off	92	92
Shortages/(Surpluses)	(44)	(44)
Adjustments of interest income/(expense)	1.947	1.947
Other adjustments	276	216
Operating profit before working capital changes	6.651	6.775
Changes in operating assets and liabilities:		
Increase/(decrease) in current assets:		
Accounts receivable	466	(2.433)
Other receivables and prepayments	270	(31)
Inventories	50	859
	(12)	-
Increase/(decrease) in current liabilities:		
Accounts payable	(2.017)	1.041
Other current liabilities and deferred income	(2)	(164)
Cash generated from operations	5.406	6.047
Interest paid	(2.185)	(2.185)
Income tax paid	(335)	(376)
Net cash flows used in operating activities	2.886	3.486
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase (sale) of property, plant and equipment	(2.069)	(3.750)
Interest received	237	237
Net cash flows used in investing activities	(1.832)	(3.513)
CASH FLOWS FROM FINANCING ACTIVITIES		
Short term financial liabilities	1.259	1.645
Long term financial liabilities	(2.473)	(2.460)
Net cash flows from financing activities	(1.214)	(815)
Net increase/(decrease) in cash and cash equivalents	(160)	(842)
Cash and cash equivalents, beginning of year	2.453	3.295
Cash and cash equivalents, end of year	2.293	2.453

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

1. CORPORATE INFORMATION

The main activity of the Company for production and trade POPOVA KULA Winery AD, Demir Kapija and its subsidiaries (the Group), is wine production from grapes and wine tourisam. The parent company POPOVA KULA Winery AD, Demir Kapija (in the following text the Company) is Shareholder's company registered under the Trade Company Law.

During 2008, the parent company has established and registered legal entity Popova Kula S.P. ZOO Poland in the Republic of Poland, with 75% ownership of the company. During 2012, the subsidiary equity was increased for additional 110 thousand of PLN, while the additionaly paid in part by POPOVA KULA Winery AD, Demir Kapija amounts 66 thousand of PLN and accordingly as of 31 December 2013 the parent equity shares in Popova Kula S.P. ZOO Poland is 67,52%. As of 31 December 2016, and 2017 the parent equity share remains the same 67,52%. Also, during 2012, POPOVA KULA Winery AD Demir Kapija acquired 100% ownership in Stanushina Dooel Demir Kapija. The ownership as of 31 December 2018 remain 100%.

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

On 31 December 2018, the Company had 38 employees (2017: 44 employees).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1. Basis of consolidation

According to the International Accounting Standard (IAS) 27 "Consolidated and Separate Financial Statements", the Company has compiled and published its consolidated financial statements for the business year 2017 in accordance with the requirements of the accounting regulations applicable in the Republic of Macedonia, which consist of the Company's financial statements and the financial statements of Stanusina DOOEL Demir Kapija (100% owned by the Company) and Popova Kula SP ZOO Poland (67,52% owned by the Company).

As necessary reclassifications are performed of the data disclosed in the financial statements of the subsidiaries, in order to align their accounting policies with the Company's policies.

2.2. Basis of Preparation and Presentation of the consolidated 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 consolidated 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 consolidated financial statements have been prepared in accordance with 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 consolidated financial statements have been prepared under the historical cost convention and going concern principle.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Basis of Preparation and Presentation of the consolidated financial statements (Continued)

In the preparation of these consolidated financial statements, the Company has adhered to the accounting policies described in Note 2.

The accounting policies applied to these consolidated financial statements are consistent with those used in the annual consolidated financial statements for the previous 2017 fiscal year by the parent company.

The Company's consolidated 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 consolidated financial statements in conformity with 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 consolidated financial statements are disclosed in Note 2.4.

2.3. Going concern

The consolidated financial statements are prepared under the assumption of going concern. This means that the company will remain to operate in future and the Company has no intention or need to liqcidate or significantly restrict its business activities in forseable future.

2.4. Use of Estimates

The preparation of the consolidated financial statements in accordance with in 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 consolidated financial statements, as well as income and expenses for the reporting period. These estimations and assumptions are based on information available as of the Consolidated Statement of financial position date. Actual results could differ from those estimates.
These estimates are reviewed periodically and changes in estimates are recognized in the periods in which they become known. The most significant use of judgments and estimates, which are set out in the summary of significant accounting policies and the respective explanatory notes, relate to impairment of financial and non-financial assets, financial liabilities and assessments for litigation' provisions.

2.5. Comparative Figures

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

2.6. 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.7. Expenses

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

2.8. 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 above-mentioned expenses are recognized in the Consolidated Statement of Comprehensive income when such costs incurred in accordance with applicable operating leases.

2.9. 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 Consolidated Statement of Comprehensive income.

2.10. Borrowing Costs

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

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

Consolidated Statement of financial position and Consolidated Statement of comprehensive income items stated in the consolidated financial statements are valued by using currency of primary economic environment (functional currency). As disclosed in Note 2.2, the accompanying consolidated financial statements are stated in thousands of Denars (MKD), which represents the functional and official reporting currency of the Company.

Assets and liabilities' components denominated in foreign currencies are translated into MKD at the official exchange rates prevailing at the Consolidated 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 Consolidated Statement of comprehensive income.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.12. Property, Plant and Equipment

Property, plant and equipment of the Company at 31 December 2018 comprise 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, company makes revaluation of tangible assets through assessments.
The useful lives are reviewed at least at each financial year-end and, if there is a significant change in the expected pattern of consumption of the future economic benefits embodied in the asset, the depreciation rate is changed to reflect the changed pattern.

2.13. 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.

2.14. 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.

2.15. Depreciation and Amortization

Depreciation of property and equipment 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 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 rates in use for classes of property, equipment are as follows:

Property	2,5%-10%
Tools	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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.16. 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 consolidated 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.

2.17. Inventories

Inventories, except for harvested proceeds from biological assets (Note 2.14), are initialy measured at the lower of cost and net realizable value. Cost includes the cost of purchase, including non-recoverable taxes, transport and handling. The carrying amount is determined by the method of planed prices. Net realizable value represents the price at which inventories could be sold in the ordinary course of business, less costs of sales. The cost value of inventories takes into account normal level of direct materials and supplies, labour and other attributable direct cost.

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.

2.18. 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 percent or more of voting rights).

2.19. Financial Instruments

All financial instruments are initially recognized at fair 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 consolidated 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.19. Financial Instruments (Continued)

(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 of 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 Consolidated 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" (Note 5).

(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 expected to be settled in the Company's normal operating cycle, i.e. which matures in the period up to 12 months from the Consolidated 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.

2.20. 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.

2.21. 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.22. 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% (2017: 10%) on the tax base reported in the annual corporate income tax return as reduced by any applicable tax credits. The taxable base stated in the income tax return includes profit for the year increased by the unrecognized expenses and less declared revenues that are specifically defined under statutory tax rules and decreased by tax relief.

Deferred taxes

Deferred taxes are recognized in cases of differences between the carrying amounts of assets and the liabilities in the consolidated 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 consolidated financial statements, there are no temporary tax differences.

2.23. 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
- 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 Consolidated Statement of financial position.

2.24. 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 Consolidated Statement of financial position date are disclosed as an event after the Consolidated Statement of financial position date.

2.25. Disclosures on related parties

For the purpose of the consolidated 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 Consolidated 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 consolidated financial statements (Note 24).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.26. Government support

Government supports are recognized at fair value when there is reasonable assurance that the related conditions and the supports will be admitted.

The government supports are recognized in the gain or loss on a systematic basis in the period in which the Company recognizes as expenses the related costs for which the supports are intended to compensate.
The government supports such approvals are presented in the Consolidated Statement of comprehensive income, either separately or under a general heading such as "Other income".

2.27. Events after the reporting period

Post-year-end events that provide additional information about a company's position at the Consolidated Statement of financial position (adjusting events) are reflected in the consolidated 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 have bussiness transactions i.e. accounts receivable and payables 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 Consolidated Statement of financial position items denominated in foreign currencies as of 31 December 2018 and 2017 were as follows:

In MKD

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

(b) Interest rate risk

Company is not exposed to risk from changes in interest rates by changing the level of market interest rates affect the financial position and cash flows

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

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Price risk

Company is not exposed to price risk associated with initial investments since it has no investments classified in the Consolidated 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 limited and controlled by the management by constantly monitoring of the competition, analyzing price risk analyses and undertaking appropriate corrective measures.

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.
The Company's management takes care of securing liquidity. Management manages the liquidity risk by maintaining a certain amount of free money and cash equivalents and performing daily monitoring of the cash position and projections for 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 payables. 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 amount 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.

All amounts are expressed in MKD thousand, unless otherwise stated

4. SALES

	2018	2017
Sales in domestic market	40.351	39.409
Sales in foreign market	5.998	8.515
Revenues of using own products	480	514
Income from the specific operation of unrelated companies	207	-
Total	47.036	48.438

5. OTHER OPERATING INCOME

	2018	2017
Inventory Surplus	16	44
Financial government support	681	415
Other operating income	296	463
Total	993	922

6. COST FOR MATERIALS AND MAINTANCE

	2018	2017
Electricity and fuel	2.085	1.900
Materials	11.629	13.727
Small inventory write-off	253	275
Maintance	579	736
Transport and telecommunication services	477	897
Total	15.023	17.535

7. WAGES, SALARIES AND OTHER PERSONAL EXPENSES

	2018	2017
Gross salaries	12.196	12.254
Other reimbursements for employees	1.110	811
Total	13.306	13.065

8. DEPRECIATION AND AMORTIZATION

	2018	2017
Depreciation (Note 14)	4.948	5.591
Total	4.948	5.591

All amounts are expressed in MKD thousand, unless otherwise stated

9. OTHER OPERATING EXPENCES

	2018	2017
Marketing expenses	1.620	1.313
Representation costs	495	579
Travel costs and per diems	895	1.127
Bank charges	424	380
Utilities and other services	2.624	2.350
Insurance premiums	119	133
Costs form previous years	256	190
Rents	303	278
Donations	2	26
Indirect taxes	411	159
Receivables write off	142	92
Other intangible expenses	4.061	3.819
Total	11.352	10.446

10. INTEREST INCOME / (EXPENSE)

	2018	2017
INTEREST INCOME		
Interest income of given loans	-	99
Total income	-	99
INTEREST EXPENSE		
Interest expense from relatied parties	(1.855)	(1.509)
Loans interest expense and penalty interest	(143)	(438)
Total expense	(1.998)	(1.947)
Net interest expense	(1.998)	(1.848)

11. FOREIGN EXCHANGE GAINS/ (LOSSES), NET

	2018	2017
FOREIGN EXCHANGE GAINS		
Foreign exchange gains	88	40
Total	88	40
FOREIGN EXCHANGE LOSSES		
Foreign exchange losses	(40)	(42)
Total	(40)	(42)
Net foreign exchange gains/(losses)	48	(2)

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

	2018	2017
Profit/(loss) before tax	(568)	(1.027)
Income tax	(335)	(376)
Efective tax rate	-	-

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

13. EARNIGNS/(LOSS) PER SHARE

As of 31 December 2018, the basic earnings per share was calculated by dividing the profit/(loss) for the year attributable to ordinary shares holders at the amount of -896.674 denars (2017: loss of MKD -1.415.422 denars) and the weighted average number of ordinary shares outstanding during the year ended 31 December 2018 is 2.700.000 (2017: 2.700.000), calculated as follows:

Basic earnings per share

	2018	2017
Net loss for the holders of ordinary shares		
Net loss for the year (in MKD)	(896.674)	(1.415.422)
Net loss for the holders of ordinary shares	(896.674)	(1.415.422)

	Number of shares	
	2018	2017
Weighted average number of shares		
Issued number of shares on 1 January	2.700.000	2.700.000
Weighted average number of shares on 31 December	2.700.000	2.700.000
Basic loss per share (in denars)	(0,332)	(0,524)

The Company has not issued shares that can dilueted the earnings/(loss) per shares during 2018.

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	62.327	13.634	2.116	191.102
Additions	-	74	1.074	-	2.647	3.795
Balance as of 31 December 2017	4.489	108.610	62.967	13.634	4.763	194.897
Additions	28	79	536	-	1.426	2.069
Balance as of 31 **декември** 2018	4.517	108.689	63.503	13.949	6.189	196.845
Accumulated depreciation As of 1 January 2017	-	20.732	33.849	1.560	-	56.141
Depreciation (Note 8)	-	2.713	2.529	349	-	5.591
Balance as of 31 December 2017	-	23.445	36.378	1.909	-	61.732
Depreciation (Note 8)		2.716	1.883	349		4.948
Balance as of 31 December 2018		26.161	38.261	2.258		66.680
Net book value as of - 31 December 2018	4.517	82.528	25.242	11.691	6.189	130.167
- 31 December 2017	4.489	85.165	26.589	12.040	4.763	133.046

As of 31 December 2018, the carrying value of Company's vineyards is 11.691 thousand of MKD (2017: 12.040 thousand of MKD). The vineyards are planted on 4 ha, and 1.6 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 the loan liabilities used by the Company from Sparkasse Bank AD Skopje (see note 21).

15. INVENTORY

	2018	2017
Raw materials	3.922	3.730
Small inventory and packing	1.788	1.643
Decreased for: small inventory write off	(747)	(725)
Total	4.963	4.648
Unfinished products and semiproducts	11.737	11.612
Finished products	14.018	13.878
Trade goods	947	1.534
Balance as of 31 December	31.665	31.672

16. ACCOUNTS RECEIVABLE

	2018	2017
Domestic accounts receivable	6.895	7.628
Foreign accounts receivable	4.106	3.941
Receivables for given advance	45	35
	11.046	11.604
Minusc: Allowance of Accounts receiivable	(1.408)	(1.408)
Balance as of 31 December	9.638	10.196

(a) Movements in impairment of trade receivables in 2018 and 2017 are shown in the following overview:

	Claims from buyers in the country	Foreign trade receivables	Total
Balance as of 01 January 2017	-	1.408	1.408
Write-off of receivables	-	-	-
Balance as of 31 December 2017	-	1.408	1.408
Write-off of receivables	-	-	-
Balance as of 31 December 2018	-	1.408	1.408

17. OTHER CURRENT ASSETS AND PREPAYMENTS

	2018	2017
Prepaid taxes	127	109
Other Receivables	76	84
Rent deposit	132	400
Balance as of 31 December	335	593

18. CASH AND CASH EQUIVALENTS

	2018	2017
Current account	1.095	772
Cash in hand	240	341
Foreign currency account	958	1.340
Balance as of 31 December	2.293	2.453

19. EQUITY

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

	Number of shares	% according to CDHV
Ordinary shares		
Inteko Doo Skopje	1.365.576	50,58%
Other minor shareholders	1.334.424	49,42%
Balance as of 31 December 2017 and 2018	2.700.000	100%

20. LONG-TERM FINANCIAL LIABILITIES

	2018	2017
Long-term loan from individual- related party	19.792	19.791
Long-term loan – Sparkasse Bank AD Skopje	2.460	4.933
Current portion of long-term financial liabilities	(2.460)	(2.459)
Balance as of 31 December	19.792	22.265

The long term financial liabilities at the amount of MKD 19.792 thousand (2017: MKD 19.791 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 6% annually, with monthly calculation.

The long-term financial liabilities in the total amount of MKD 2,460 thousand entirely refer to a long-term loan concluded between Shaprakse Bank AD Skopje and Stanushina DOOEL Demir Kapija under Contract no. 2463 from 21.02.2011 with a repayment period until 20.07.2019 and 4% annual interest. Total financial liabilities represent an ongoing part of long-term loans and are due for payment in the course of 2019. (see note 22).

Part of the land and the equipment of an estimated value of MKD 51.828 thousand are placed under mortgage as a collateral for the financial liabilities toward Sparkasse Bank AD Skopje (see Note 14).

21. SHORT-TERM FINANCIAL LIABILITIES

	2018	2017
Short-term loan to individual- related party	3.690	3.689
Short-term loan to other individuals	11.664	10.406
Current portion of long-term fin. liabilities	2.460	2.459
Balance as of 31 December	17.814	16.554

Short-term financial liabilities as at 31 December 2018 in the amount of Denar 3.690 thousand relate to borrowings from natural persons - related party, on the basis of concluded Contract No. 03-362 from 01.09.2015 in the amount of 60,000 EUR and repayment period of one year, with the possibility of extension for another year if no payment is requested. The interest rate is 5% per annum, it is calculated quarterly, and its payment is once a year by January 15th.

21. SHORT-TERM FINANCIAL LIABILITIES (Continued)

Short-term financial liabilities in the amount of Denar 11.664 thousand refer to:

a) short-term financial liabilities for borrowings from individuals in the amount of MKD 2.460 thousand consist of liabilities under the following two contracts: 1) contract no.03-363 from 01.09.2015 in the amount of EUR 20.000 (residual liability as at 31.12. 2018 is 1.230 thousand denars); and 2) contract no. 03-364 from 01.09.2015 to the amount of 20.000 EUR (the residual obligation as of December 31, 2018 amounts to 1.230 thousand denars). Loans are with a repayment period of one year, with the option of renewal for another year if no payment is requested. The interest calculated on the basis of these contracts is 5% per annum and is calculated quarterly, and its payment is once a year by January 15th.

b) short-term financial liabilities for interest on borrowings from natural persons in the total amount of 9,204 thousand denars (December 31, 2017 – 7.946 thousand denars).

22. ACCOUNTS PAYABLE

	2018	2017
Domestic accounts payable	7.387	8.859
Foreign accounts payable	299	798
Payables for uninvoiced trade goods	12	63
Received advances	1	8
Consignation	402	393
Balance as of 31 December	8.104	10.121

23. OTHER CURRENT LIABILITIES AND ACCRUALS

	2018	2017
Liabilities to employees	1.306	1.014
Liabilities towards the country	225	212
Accruals	6	314
Balance as of 31 December	1.537	1.540

24. 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:

	2018	2017
ACCOUNT PAYABLES		
Popova Kula Winary's shareholder - Given loans	28.228	26.882
Popova Kula Winary's shareholder – Account payables	-	2
Popova Kula Winary's shareholder -Given loans	3.989	4.214
Inteko Doo Skopje	7	1
Вкупно	32.224	31.099

24. 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:

	2018	2017
EXPENSES		
Operating Expenses		
Inteko Doo Skopje	88	5
Financial expenses (Interest expenses and exchange losses)		
Popova Kula Winary Demir Kapija's shareholder	1.344	1.280
Popova Kula Winary Demir Kapija's shareholder	253	230
Purchase		
Popova Kula Winary Demir Kapija's shareholder	-	222
Total	1.685	1.737

25. 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 15.540 thousand of denars on basis of unused credit limit.

26. SUBSEQUENT EVENETS

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

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

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

According to article 476, paragraph 6 of the Company law the Consolidated Annual Account and consolidated 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 consolidated annual accounts and consolidated 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 consolidated annual accounts of the Company (Consolidated Balance sheet and Consolidated Income statement) and Consolidated Annual performance report are given in Appendices 2 and 3.

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

POPOVA KULA WINERY, AD
Demir Kapija

Chied Executive Officer

Jordan Trajkov

Consolidated Annual accounts for the year 2018

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

Consolidated Annual business report for the year 2018