

CEMENTARNICA "USJE" AD SKOPJE

**FINANCIAL STATEMENTS
FOR GROUP CONSOLIDATION REPORTING PURPOSES**

For the year ended 31 December 2018



Contents

	Pages
AUDITORS' REPORT	3
STATEMENT OF COMPREHENSIVE INCOME	5
STATEMENT OF FINANCIAL POSITION	6
STATEMENT OF CASH FLOWS	7
STATEMENT OF CHANGES IN EQUITY	8
NOTES TO THE FINANCIAL STATEMENTS	9 – 48
SUPPLEMENTARY INFORMATION CONCERNING THE CALCULATION OF EBITDA	49

Independent auditor's report

To the Board of Directors of Cementarnica Usje AD Skopje

Report on the financial statements

We have audited the accompanying financial statements of Cementarnica Usje AD Skopje, which comprise the statement of financial position as at 31 December 2018 and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information. The financial statements have been prepared by management of Cementarnica Usje AD Skopje in accordance with Titan Group Accounting Policies.

Management's responsibility for the financial statements

Management is responsible for the preparation of these financial statements in accordance with Titan Group Accounting Policies and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Standards on auditing applicable in the Republic of Macedonia. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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.

Opinion

In our opinion, the financial statements of Cementarnica Usje AD Skopje for the year ended 31 December 2018 are prepared, in all material respects, in accordance with Titan Group Accounting Policies.

Basis of accounting and restriction on distribution and use

Without modifying our opinion, we draw attention to Note 2 to the financial statements, which describes the basis of accounting. The financial statements are prepared for the purposes of providing information to the Board of Directors of Cementarnica Usje AD Skopje. As a result, the financial statements may not be suitable for another purpose. Our report is intended solely for the Board of Directors of Cementarnica Usje AD Skopje and should not be distributed to or used by parties other than Board of Directors of Cementarnica Usje AD Skopje.

PricewaterhouseCoopers Revizija doo Skopje
PRICEWATERHOUSECOOPERS REVIZIJA DOO Skopje
14 February 2019

STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2018

	Notes	2018 MKD '000	2017 MKD '000
Sales	3a	4,168,702	4,146,425
Other revenue	3b	101,090	102,314
Cost of sales	3c	(2,870,249)	(2,778,046)
Gross profit		1,399,543	1,470,693
Other operating income	3d	102,351	97,449
Other operating expenses	3e	(164,405)	(182,801)
Selling and marketing expenses	3f	(35,895)	(35,915)
Administrative expenses	3g	(168,564)	(163,467)
Operating profit		1,133,030	1,185,959
Finance income		5,698	6,791
Foreign exchange gains/ (losses) net		3,236	5,494
Finance costs		(1,041)	(1,240)
Net finance income	3h	7,893	11,045
Profit before tax		1,140,923	1,197,004
Income tax expense	4	(92,373)	(103,632)
Profit for the year		1,048,550	1,093,372
Earnings per share information:			
Basic, profit for the period attributable to ordinary equity holders	5	1.86	1.94
Net profit for the period attributable to:			
Equity holder of the ultimate parent		994,445	1,036,954
Non- controlling interest		54,105	56,418
		1,048,550	1,093,372
Other comprehensive income			
<i>Other comprehensive income not to be reclassified to profit or loss in subsequent periods:</i>			
Investment Property revaluation surplus	7	9,844	-
Total comprehensive income for the year		1,058,394	1,093,372
Earnings per share information:			
Basic, total comprehensive income for the period attributable to ordinary equity holders	5	1.88	1.94
Total Comprehensive income for the period attributable to:			
Equity holder of the ultimate parent		1,003,781	1,036,954
Non - controlling interest		54,613	56,418
		1,058,394	1,093,372

STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Notes	2018 MKD '000	2017 MKD '000
ASSETS			
Non-current assets			
Property, plant and equipment ("PPE")	6	2,411,653	2,289,939
Investment properties	7	187,396	168,498
Investment in subsidiary		14,660	157
Exploration and evaluation assets	8	4,183	4,183
		2,617,892	2,462,777
Current assets			
Inventories	9	707,936	672,241
Trade and other receivables	10	501,393	502,674
Income tax recoverable		15,562	25,060
Cash and short term deposits	11	930,564	829,324
		2,155,455	2,029,299
TOTAL ASSETS		4,773,347	4,492,076
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	12	1,747,730	1,747,730
Additional paid in capital		(14,869)	(14,869)
Retained earnings		1,124,141	1,168,963
Revaluation reserves		207,829	207,829
Revaluation reserves - investment property	7	104,669	94,825
Legal reserves		174,771	174,771
Tax exempt reserves		801,081	568,607
		4,145,352	3,947,856
Non-current liabilities			
Provision for retirement benefits	13	46,177	54,111
Provision for rehabilitation of quarries		10,612	10,612
		56,789	64,723
Current liabilities			
Trade and other payables	14	544,626	452,869
Provision for unused holidays		10,139	10,321
Current portion of retirement benefit obligations	13	6,707	5,298
Income tax payable		8,869	10,755
Dividend payable		865	254
		571,206	479,497
TOTAL EQUITY AND LIABILITIES		4,773,347	4,492,076

Authorized on behalf of the Board of Directors on 13 February 2019:

Hrisafov Boris

Chief Executive Director



Nikos Mousouras

Finance Manager

STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	Notes	2018 MKD '000	2017 MKD '000
Cash flows from operating activities			
Profit before income taxes		1,140,923	1,197,004
<i>Adjustments for:</i>			
Gain, net on disposal of property, plant and equipment		(4,925)	-
Depreciation of PPE and investment properties	6	155,383	162,586
Actuarial (gain)/losses, net		(337)	5,613
Interest income		(5,698)	(6,791)
Provision for obsolete inventory		3,152	9,991
Provision for unused holidays (net)		(183)	456
Fair value (gain)/losses, net		(9,054)	(2,150)
Reversal of accrued income for compensation vehicles at a standstill		-	(14,757)
Interest expense and bank charges		1,041	1,240
Write off trade receivables		1,654	608
NBV of disposed and written off PPE		19	-
Operating profit before working capital changes		1,281,975	1,353,800
Increase in trade and other receivables		(219)	(118,240)
Increase in inventories		(38,847)	(16,691)
Increase in trade and other payables		85,957	65,311
Cash generated from operations		1,328,866	1,284,180
Interest expense and bank charges paid		(1,041)	(1,240)
Income tax paid		(84,760)	(104,583)
Net cash flows generated from operations		1,243,065	1,178,357
Cash flows from investing activities			
Purchase of property, plant and equipment		(277,377)	(263,154)
Increase of participation in subsidiaries		(14,504)	-
Expenditures for exploration and evaluation assets		-	(15,169)
Proceeds from sale of property, plant and equipment		4,646	-
Interest income received		5,698	6,791
Loan to associate		-	10
Net cash flows (used in) generated investing activities		(281,537)	(271,522)
Cash flows from financing activities			
Dividends paid to group shareholders		(816,437)	(892,894)
Dividends paid to minority shareholders		(43,851)	(48,612)
Net cash flows (used) in financing activities		(860,288)	(941,506)
Net increase/ (decrease) in cash and cash equivalents		101,240	(34,671)
Cash and cash equivalents at 1 January	11	829,324	863,995
Cash and cash equivalents at 31 December	11	930,564	829,324

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	<i>Share capital</i>	<i>Additional paid in capital</i>	<i>Retained earnings</i>	<i>Legal reserves</i>	<i>Tax exempt reserves under special laws</i>	<i>Revaluation reserves</i>	<i>Total</i>
	<i>MKD'000</i>	<i>MKD'000</i>	<i>MKD'000</i>	<i>MKD'000</i>	<i>MKD'000</i>	<i>MKD'000</i>	<i>MKD'000</i>
At 1 January 2018	1,747,730	(14,869)	1,168,963	174,771	568,607	302,654	3,947,856
Profit for the year	-	-	1,048,550	-	-	-	1,048,550
Other Comprehensive Income (See note 6)	-	-	-	-	-	9,844	9,844
Total Comprehensive income	-	-	1,048,550	-	-	9,844	1,058,394
Dividends, net	-	-	(860,898)	-	-	-	-
Transfer to retained earnings	-	-	75,192	-	(75,192)	-	-
Reinvested profit	-	-	(307,666)	-	307,666	-	-
At 31 December 2018	1,747,730	(14,869)	1,124,141	174,771	801,081	312,498	4,145,352

On 06 June 2018, the General Assembly brought a Decision for distribution of dividend for the year ended 2017 in accordance with the Company Law. The dividend declared was in amount of MKD 860,898 thousand which consists of MKD 785,706 thousand profit from 2017 and MKD 75,192 thousand unused reinvested profit from 2016. The remaining profit from 2017 in amount of 307,666 thousand was reinvested in order to benefit from the new tax incentives available for such activities.

For the year ended 31 December 2017

	<i>Share capital</i>	<i>Additional paid in capital</i>	<i>Retained earnings</i>	<i>Legal reserves</i>	<i>Tax exempt reserves under special laws</i>	<i>Revaluation reserves</i>	<i>Total</i>
	<i>MKD'000</i>	<i>MKD'000</i>	<i>MKD'000</i>	<i>MKD'000</i>	<i>MKD'000</i>	<i>MKD'000</i>	<i>MKD'000</i>
At 1 January 2017	1,747,730	(14,869)	1,276,956	174,771	308,761	302,654	3,796,003
Profit for the year	-	-	1,093,372	-	-	-	1,093,372
Other Comprehensive Income (See note 6)	-	-	-	-	-	-	-
Total Comprehensive income	-	-	1,093,372	-	-	-	1,093,372
Dividends, net	-	-	(941,519)	-	-	-	(941,519)
Transfer to retained earnings	-	-	32,232	-	(32,232)	-	-
Reinvested profit	-	-	(292,078)	-	292,078	-	-
At 31 December 2017	1,747,730	(14,869)	1,168,963	174,771	568,607	302,654	3,947,856

The notes set out on pages 9 to 48 are an integral part of these financial statements

1. Corporate information

Cementarnica “Usje” A.D. - Skopje (“the Company”) is incorporated in the Republic of Macedonia with the registered address at Boris Trajkovski 94, Skopje.

The Company’s main activity is production and trade with cement, masonry cement, ready mix concrete, clinker and other related products.

The Company is controlled by Titan Cement Netherlands B.V. registered in Netherlands, which has 94.84% shareholding in the Company. The Company’s ultimate parent is Titan Cement Company S.A. - Greece.

The number of employees as of 31 December 2018 was 258 (31 December 2017: 275).

2. Basis of preparation and summary of significant accounting policies

The principal accounting policies adopted in the preparation of the financial statements are in accordance with Titan Group accounting and reporting requirements and are set out below. Titan Group is preparing its financial statements according to the International Financial Reporting Standards as endorsed by EU.

a. Basis of preparation

The financial statements have been prepared under the historical cost convention except for investment properties that have been measured at fair value. The presentation currency is Denar (MKD) being also the functional currency and all values are rounded to the nearest thousand (000 MKD) except when otherwise stated.

The financial statements have been prepared in accordance to the Group accounting policies which are based on the International Financial Reporting Standards as endorsed by EU.

The financial statements are prepared on accruals and going concern basis.

The purpose of the financial statements is to be used in connection and preparation of consolidated financial statements of Titan Cement Company S.A.

The Company as of 31 December 2018 has one foreign subsidiary, TROJAN CEM EOOD, Bulgaria with 100% holding. Furthermore, on 28 July 2015, the Company has registered a new warehouse in the village of Orovnik (near Ohrid) for strategic presence of its products in the South Western part of the country. For the same purpose, dated on 03 August 2017 the Company has registered a new warehouse in Bitola and on 11 June August 2018 new warehouse in Strumica was also registered. The warehouse in Bitola was terminated in January of 2018.

The Company does not prepare consolidated financial statements in accordance to the Group accounting policies as the consolidation will be followed by the Titan Group. This subsidiary is accounted for in these financial statements at cost less any impairment in value.

2. Basis of preparation and summary of significant accounting policies (continued)

New and amended standards not adopted by the Company

IFRS 16 Leases - IFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The Company has set up a project team which has reviewed all of the company's leasing arrangements over the last year in light of the new lease accounting rules in IFRS 16. The standard will affect primarily the accounting for the company's operating leases. As at the reporting date, the Company has non-cancellable operating lease commitments of 51,522 thousand denars (see Note 15).

For the lease commitments the Company expects to recognize right-of-use assets of MKD 47,032 thousand on 1 January 2019 and lease liabilities of MKD 47,032 thousand.

EBITDA results is expected to increase by approximately MKD 22,912 thousand as the operating lease payments were included in EBITDA, but the amortization of the right-of-use assets and interest on the lease liability are excluded from this measure.

Operating cash flows will increase and financing cash flows decrease by approximately MKD 22,226 thousand as repayment of the principal portion of the lease liabilities will be classified as cash flows from financing activities. The Company's activities as a lessor are not material and hence the Company does not expect any significant impact on the Financial Statements. However, some additional disclosures will be required from next year.

The Company will apply the standard from its mandatory adoption date of 1 January 2019. The Company intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.

There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

Changes in accounting policies

IFRS 15 supersedes IAS 11 “Construction Contracts”, IAS 18 “Revenue” and related Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

On 1 January 2018, the Company adopted IFRS 15 by using the modified retrospective approach, meaning that the cumulative impact of the adoption was recognized in retained earnings and comparatives were not restated. However, there is no impact on Company's profitability, liquidity or financial position by applying IFRS 15 for the first time. Therefore, opening retained earnings for 2018 were not adjusted.

IFRS 9 “Financial Instruments” replaces IAS 39 “Financial Instruments: Recognition and Measurement” for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting.

2. Basis of preparation and summary of significant accounting policies (continued)

Changes in accounting policies (continued)

On 1 January 2018 (the date of initial application of IFRS 9), the Company's management has assessed which business models apply to the financial assets held by the Company and has classified its financial assets into the appropriate IFRS 9 categories. There are no effects resulting from assessment.

In addition, the Company applied the IFRS 9 simplified approach to measure expected credit losses (ECLs) on the trade and other receivables balances at the date of initial application. The result of the new requirements had not effect on Company's impairment allowances.

IFRS 9 was adopted without restating comparative information since no adjustments arising from the new classification and impairment rules were required to be recognised in the opening statement of financial position on 1 January 2018.

Based on the analysis of the Company's financial assets and financial liabilities as at 31 December 2017 and on the basis of the facts and circumstances that exist at that date, the management of the Company has not identified any significant impact on its financial statements from the adoption of the new standard on 1 January 2018.

The following table reconciles the carrying amounts of each class of financial assets as previously measured in accordance with IAS 39 and the new amounts determined upon adoption of IFRS 9 on 1 January 2018.

	Measurement category		Carrying value under IAS 39 - 31 December 2017	Effect of adopting IFRS 9				Carrying value under IFRS 9 - 1 January 2018
	IAS 39	IFRS 9		Reclassification		Remeas urement		
<i>In euro</i>				Mandat ory	Voluntar y	ECL	Other	
Cash and cash equivalents	L&R	AC	829,324	-	-	-	-	829,324
Trade receivables and other receivables	L&R	AC	501,393	-	-	-	-	501,393
Total financial assets			1,330,717					1,330,717

All classes of financial assets were reclassified from loans and receivables (“L&R”) measurement category under IAS 39 to AC measurement category under IFRS 9 at the adoption date of the standard. The ECLs for financial asset balances were insignificant, the closing provision for impairment measured in accordance with incurred loss model under IAS 39 to the new credit loss allowance measured in accordance with expected loss model under IFRS 9 at 1 January 2018 are the same.

2. Basis of preparation and summary of significant accounting policies (continued)

Changes in accounting policies (continued)

b. Investments in subsidiaries

Subsidiaries are all entities over which the Company has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity. The cost of an acquisition is measured as the fair value of assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

c. Operating segments

Operating segments are components that engage in business activities that may earn revenues or incur expenses, whose operating results are regularly reviewed by the Management and for which discrete financial information is available. The Management is the person or group of persons who allocates resources and assesses the performance for the entity.

In the Company, the above described functions of the Management are performed by Board of the Directors of the the Company. The internal reporting within the Company presented to the Board of Directors is on a Company level and as one operating segment. The decisions brought by the Board of Directors are based on received reports presented as one operating segment.

d. Foreign currency translation

Transactions denominated in foreign currencies are recorded, on initial recognition in the reporting currency, by applying to the foreign currency amount the exchange rate between the reporting currency and the foreign currency at the date of the transaction. Monetary items of assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the reporting date. All differences arising on the settlement of monetary items at rates different from those at which they were initially recorded in the period are recognised as income or expense for the period in which they arise.

2. Basis of preparation and summary of significant accounting policies (continued)

d. Foreign currency translation (continued)

The exchange rates used for translation at 31st December 2018 and 31st December 2017 were as follows:

Exchange rate:	31st December 2018 MKD	31st December 2017 MKD
EUR	61.50	61.49
USD	53.69	51.27

g. Property, plant and equipment

Property, plant and equipment are stated as follows:

- those assets acquired up to 31 December 1998, the revaluation under the previous GAAP at the date of transition of the Company to IFRS (1 January 2004) was accepted as deemed cost since the revaluation was broadly comparable to depreciated cost under IFRS adjusted to reflect changes in general price index.
- those assets acquired after 31 December 1998 are stated at historical cost, net of accumulated depreciation and / or accumulated impairment loss, if any.

Additions are recorded at cost. Cost represents the prices by suppliers together with all costs incurred in bringing new property, plant and equipment into use.

Items of property, plant and equipment that are retired or otherwise disposed of are eliminated from the statement of financial position, along with the corresponding accumulated depreciation. Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the profit or loss.

Depreciation of property, plant and equipment, with exception of quarries, is designed to write off the cost or valuation of property, plant and equipment on the straight-line basis over their estimated useful lives. The principal depreciation rates in use are:

Buildings	2,5 -10%
Equipment	5 - 25%

Land is stated in the statement of financial position at cost less impairment and is not depreciated as it is deemed to have an infinite life, except quarries which are depreciated on a depletion basis. This depletion is recorded as the material extraction process advances based on the unit of production method.

The asset's residual values, useful lives and methods of depreciation are reviewed at each financial year end, and adjusted prospectively, if appropriate.

2. Basis of preparation and summary of significant accounting policies (continued)

h. Investment property

Investment property, comprising of land, production premises with business offices and construction object - restaurant and cafeteria room, is held for long-term rental yields and is not occupied by the Company. The investment properties are stated at fair value, which reflects the market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in the profit or loss in the period in which they arise, including the corresponding tax effect. Fair values are determined based on valuation performed by independent valuer using the income method and the market comparison method as primary valuation methods which are generally accepted in European valuation practice.

Investment properties are derecognized either when they have been disposed off or when they are permanently withdrawn from use and no future economic benefit is expected from their disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognized in the income statement in the period of de-recognition.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the cost for subsequent accounting is the fair value at the date of change in use.

If owner-occupied property becomes an investment property, the Company's accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use. Any difference at that date between the carrying amount of the property in accordance with IAS 16 and its fair value was treated in the same way as a revaluation in accordance with IAS 16.

e. Exploration and evaluation assets

Exploration and evaluation expenditure for each area of interest (geographically specific to the concession, permit or mining license granted) is carried forward as an asset if a decision has been made that a mining operation is economically feasible and can be developed for commercial production. At the end of the reporting period, these costs include costs of acquisition of rights to explore. All other exploration and evaluation expenditures are charged to the profit or loss as incurred.

Administrative and general expenses relating to exploration and evaluation activities are expensed as incurred.

2. Basis of preparation and summary of significant accounting policies (continued)

f. Financial instruments

a) Classification and measurement

The Company initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Transaction costs of financial assets carried at fair value through profit or loss are expenses. Trade receivables are initially measured at their transaction price.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Debt financial instruments are subsequently measured at amortised cost, fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVPL). The classification is based on two criteria:

- a) the business model for managing the assets and
- b) whether the instruments' contractual cash flows represent "solely payments of principal and interest" on the principal amount outstanding (the 'SPPI criterion').

The new classification and measurement of the Company's debt financial assets are, as follows:

I. Debt instruments at amortised cost for financial assets that are held within a business model with the objective to hold the financial assets in order to collect contractual cash flows that meet the SPPI criterion. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on de-recognition is recognised directly in the income statement.

II. Debt instruments at FVOCI, with gains or losses recycled to profit or loss on de-recognition. Financial assets in this category are debt instruments that meet the SPPI criterion and are held within a business model both to collect cash flows and to sell. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains or losses which are recognised in profit or loss. Interest income from these financial assets is included in finance income using the effective interest rate method. As at 31 December 2018, the Company does not have debt instruments at FVOCI.

III. Financial assets at FVPL comprise derivative instruments and equity instruments which the Company had not irrevocably elected, at initial recognition or transition, to classify at FVOCI. This category would also include debt instruments whose cash flow characteristics fail the SPPI criterion or are not held within a business model whose objective is either to collect contractual cash flows, or to both collect contractual cash flows and sell. A gain or loss on financial assets that subsequently measures at FVPL is recognized in income statement. As at 31 December 2018, the Company does not have debt instruments at FVPL.

Other financial assets are classified and subsequently measured, as follows:

IV. Equity instruments at FVOCI, with no recycling of gains or losses to profit or loss on de-recognition. This category only includes equity instruments, which the Company intend to hold for the foreseeable future and which the Company has irrevocably elected to so classify upon initial recognition or transition. Equity instruments at FVOCI are not subject to any impairment accounting. Dividends from such investments continue to be recognised in profit or loss, unless they represent a recovery of part of the cost of the investment. As at 31 December 2018, the Company does not have equity instruments.

2. Basis of preparation and summary of significant accounting policies (continued)

j. Financial instruments (continued)

V. Financial assets designated as measured at FVPL at initial recognition that would otherwise be measured subsequently at amortized cost or at FVOCI. Such a designation can only be made, if it eliminates or significantly reduces an “accounting mismatch” that would otherwise arise. As at 31 December 2018, the Company does not have financial assets designated as measured at FVPL.

(b) Impairment

The Company record an allowance for expected credit losses (ECLs) for all financial assets not held at FVPL.

ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive. The shortfall is then discounted at an approximation to the asset’s original effective interest rate.

For contract assets, trade receivables and lease receivables, the Company have applied the standard’s simplified approach and have calculated ECLs based on lifetime expected credit losses.

For other financial assets, the ECL is based on the 12-month ECL. The 12-month ECL is the portion of lifetime ECLs that results from default events on a financial instrument that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL.

Derecognition

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- The rights to receive cash flows from the asset have expired; or
- The Company has transferred its rights to receive cash flows from the asset in full without material delay to a third party under a ‘pass-through’ arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

2. Basis of preparation and summary of significant accounting policies (continued)

(ii) Financial liabilities

Initial recognition

All financial liabilities are recognized initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

The Company's financial liabilities include trade and other payables.

Subsequent measurement

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the effective interest rate method. Gains and losses are recognized in the income statement when the liabilities are derecognized as well as through the amortization process.

De-recognition

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

2. Basis of preparation and summary of significant accounting policies (continued)

k. Inventories

Inventories are valued at the lower of cost and net realisable value. Cost is determined by the weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads, excluding distribution costs and administrative expenses. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Tools and consumable stores are written-off 100% when consumed.

l. Cash and cash equivalents

Cash and cash equivalents include cash in hand, the giro account and deposits held at call with banks with original maturities of up to three months or less.

m. Share capital

Ordinary shares are classified as equity.

1. Taxation

The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the company operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax

Deferred income tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

2. Basis of preparation and summary of significant accounting policies (continued)

1. Taxation (continued)

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

m. Employee benefits

Pension

The Company, in the normal course of business, makes payments on behalf of its employees for pensions, health care, employment and personnel tax which are calculated according to the statutory rates in force during the year, based on gross salaries and wages. Food allowances travel expenses and holiday allowances are also calculated according to the local legislation. The Company makes these contributions to the Government's health and retirement funds. The cost of these payments is charged to the profit or loss in the same period as the related salary cost.

The Company does not operate any other pension scheme or post-retirement benefits plan and consequently, has no obligation in respect of pensions.

Termination and retirement benefits

Termination benefits are payable whenever an employee's employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Company recognises termination benefits when it is demonstrably committed to either terminate the employment of current employees according to a detailed formal plan without possibility of withdrawal or to provide termination benefits as a result of an offer made to encourage voluntary redundancy.

Pursuant to the Company's signed collective bargaining agreements the Company is obligated to pay retirement benefits in an amount equal to six average republic salaries and between one and three average republic salaries to be paid out as a jubilee anniversary award.

2. Basis of preparation and summary of significant accounting policies (continued)

m. Employee benefits (continued)

The number of average republic salaries for jubilee anniversary awards corresponds to the total number of years of service of the employee as presented in the table below:

Total number of service years	Number of wages
10	1
20	3
30	3
35 (women)	3
40 (men)	3

The defined benefit obligation is calculated annually by independent actuaries using the Project Unit Credit Method. According to the model, the probability of the cash outflow is estimated by calculating probabilities of three decrements: death, invalidity and turnover rate. The probability table is constructed by using assumptions about the probability of death of the employee up to the date when he/she should retire, the probability that the employee will retire earlier due to invalidity and the probability that the employee will terminate the service in the Company before the date when he/she should retire. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using the discount rate from the yields on the government bonds issued in Macedonia in 2018 and classified by maturity.

Employee's children scholarships

Starting from 31 December 2009, included in the actuarial calculation of defined benefits are allowances for scholarships of Company employees children attending graduate or post graduate studies and for deceased employee's children that are attending primary and secondary school.

Additional benefits at retirement

Starting from 31 December 2013, the actuarial calculation of defined benefits has been supplement with calculation of the present value of the newly introduced long term benefit for certain category of employees - additional benefits at retirement. The calculation is made on the basis of the average parameters of the mentioned population and total expected amount for payment, delivered by the enterprise.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to profit or loss in the period in which they arise.

n. Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The provisions comprise of provision for retirement benefits, jubilee awards, scholarships and provision for rehabilitation of quarries. Provisions are not recognised for future operating losses.

2. Basis of preparation and summary of significant accounting policies (continued)

n. Provisions (continued)

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

o. Revenue

Revenue is the amount of consideration expected to be received in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties (value-added tax, other sales taxes etc.). Variable considerations are included in the transaction price and they are estimated using either the expected value method, or the most likely amount method.

Revenue is recognized when (or as) a performance obligation is satisfied by transferring the control of a promised good or service to the customer. A customer obtains control of a good or service if it has the ability to direct the use of and obtain substantially all of the remaining benefits from that good or service. Control is transferred over time or at a point in time. Revenue from the sale of goods is recognised when control of the good is transferred to the customer, usually upon delivery and there is no unfulfilled obligation that could affect the customer's acceptance of the products. The main products of the Company are cement, clinker, ready-mix, fly ash and other cementitious products.

Revenue arising from services is recognised in the accounting period in which the services are rendered, and it is measured using either output methods or input methods, depending on the nature of service provided.

A receivable is recognised when there is an unconditional right to consideration for the performance obligations to the customer that are satisfied.

A contract asset is recognized when the performance obligation to the customer is satisfied before the customers pays or before payment is due, usually when goods or services are transferred to the customer before the Company has a right to invoice.

A contract liability is recognized when there is an obligation to transfer goods or services to a customer for which the Company has received consideration from the customer (prepayments) or there is an unconditional right to receive consideration before the Company transfers a good or a service (deferred income). The contract liability is derecognized when the promise is fulfilled and revenue is recorded in the profit or loss statement.

Revenue from rental income arising, from operating leases, is accounted for on a straight-line basis over the lease terms.

2. Basis of preparation and summary of significant accounting policies (continued)

p. Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the profit or loss on a straight-line basis over the period of the lease.

q. Dividends distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the financial statements in the period in which the dividends are approved by the Company's shareholders.

r. Subsequent events

Events after the reporting date, which provide evidence of conditions that exist as of the reporting date, are treated as adjustable events in these financial statements. Those that are indicative of conditions that arose after the reporting period have been treated as non-adjustable events.

s. Financial risk management

Accounting estimates and assumptions

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

Provisions for environmental restoration

Companies that operate quarries and processing sites are required to restore these quarries and processing sites at the end of their producing lives to a condition that is in line with the prevailing environmental legislation of the country in which the Company operates (to restore the land within 3 years after the closure of the mine site), to the level acceptable to the relevant authorities and to the level that is consistent with the Company's environmental policies and practices.

The provision for environmental restoration reflects the present value of the expected future restoration costs that are expected to be incurred for the areas that have been disturbed at the reporting date. The provision is determined as present value of expected future cash outflows to be incurred for sites rehabilitation. This includes determination of the amount based on rehabilitation project, discount rate and expected inflation rates. The provision is re-measured at every reporting date and is adjusted to reflect the present value of the future expenses required to fulfil the obligation.

The present value of estimated restoration costs (that is, original estimation as well as changes in the accounting estimates) are charged to the profit or loss unless they relate to property, plant and equipment that is on the site, in which case the costs are included within property, plant and equipment and depreciated over the useful life of the related item of property, plant and equipment. Any change in the net present value of the environmental provision due to the passing of time is included in finance costs in the profit or loss.

2. Basis of preparation and summary of significant accounting policies (continued)

s. Financial risk management (continued)

Pension benefits

The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of pension obligations.

The Company determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Company considers the discount rate of the Central Bank of Republic of Macedonia due to the absence of the market of high-quality corporate bond or government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

Other key assumptions for pension obligations are based in part on current market.

Fair value of financial instruments

Cash and cash equivalents, trade receivables and other current financial assets mainly have short term maturity. The nominal value less estimated loss due to impairment of assets and payables with maturity less than one year is approximates their fair value.

t. Determination of fair values

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

3. Critical accounting estimates and judgments

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

a. Critical accounting estimates and assumptions

The Company makes estimates and assumptions concerning the future. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The most critical estimates and assumptions are discussed below.

3. Critical accounting estimates and judgments (continued)

a. Critical accounting estimates and assumptions (continued)

(i) Useful lives of assets

The determination of the useful lives of assets is based on historical experience with similar assets as well as any anticipated technological development and changes in broad economic or industry factors. The appropriateness of the estimated useful lives is reviewed annually, or whenever there is an indication of significant changes in the underlying assumptions.

Further, due to the significant weight of depreciable assets in Company's total assets, the impact of any changes in these assumptions could be material to Company's financial position, and results of operations. If depreciation cost is decreased/increased by 5%, this would result in change of annual depreciation expense of approximately MKD 7,769 thousand (2017: MKD 8,100 thousand).

(ii) Potential impairment of property, plant and equipment and intangibles

The Company is assessing the impairment of identifiable property, plant, equipment and intangibles whenever there is a reason to believe that the carrying value may materially exceed the recoverable amount and where impairment in value is anticipated. The recoverable amounts are determined by value in use calculations, which use a broad range of estimates and factors affecting those.

Among others, the Company typically considers future revenues and expenses, macroeconomic indicators, technological obsolescence, discontinuance of operations and other changes in circumstances that may indicate impairment. If impairment is identified using the value in use calculations, the Company also determines the fair value less cost to sell (if determinable), to calculate the exact amount of impairment to be charged (if any). As this exercise is highly judgmental, the amount of potential impairment may be significantly different from that of the result of these calculations.

(iii) Impairment of trade and other receivables

The Company calculates impairment for doubtful accounts based on estimated losses resulting from the inability of its customers to make required payments as explained in section for financial assets.

(iv) Provisions

Provisions in general are highly judgmental, especially in the cases of legal disputes. The Company assesses the probability of an adverse event as a result of a past event to happen and if the probability is evaluated to be more than fifty percent, the Company fully provides for the total amount of the liability. The Company is rather prudent in these assessments, but due to the high level of uncertainty, in some cases the evaluation may not prove to be in line with the eventual outcome of the case.

Cementarnica "USJE" AD – Skopje
NOTES TO THE FINANCIAL STATEMENTS
For the period ended 31 December 2018



3. Revenue and expenses

a) Sales

	<i>2018</i> <i>MKD'000</i>	<i>2017</i> <i>MKD'000</i>
<i>Gross sales</i>		
Domestic market	2,810,809	2,741,052
Foreign market	1,357,893	1,405,373
	4,168,702	4,146,425
<i>Domestic market</i>		
Income from cement	2,565,898	2,586,245
Income from white cement	58,274	74,813
Income from RMC	35,109	68,157
Pet coke and coal	172,278	29,534
Income from limestone	19,838	18,029
Discount	(40,588)	(35,726)
	2,810,809	2,741,052
<i>Foreign market</i>		
Income from cement	891,896	854,449
Pet coke - export	380,568	374,599
Income from clinker	130,198	203,391
Income from white cement	10,857	27,787
Income from limestone	3,955	-
Discount	(59,581)	(54,853)
	1,357,893	1,405,373

b) Other revenues

	<i>2018</i> <i>MKD'000</i>	<i>2017</i> <i>MKD'000</i>
Transport of cement - intercompany	47,464	40,758
Third part freight	37,941	39,854
Transport of clinker - intercompany	14,735	18,135
Services	926	3,494
Additives	24	73
	101,090	102,314

3. Revenue and expenses (continued)

c) Cost of sales

	<i>2018</i>	<i>2017</i>
	<i>MKD'000</i>	<i>MKD'000</i>
Distribution expenses	127,130	109,893
<i>Variable costs</i>		
Kiln fuel	663,622	612,617
Electricity	382,813	320,638
Raw materials	181,505	147,308
Admixtures - additives	52,131	57,153
Refractory	38,444	47,843
Grinding media	6,207	4,177
Fuel & oil	892	1,024
Other variable cost	150,525	152,134
Total Variable costs	1,476,139	1,342,894
<i>Fixed costs</i>		
Salaries & other benefits	214,826	219,944
Third parties fees - contract labour	63,398	67,344
Maintenance & spare parts	51,671	56,188
Other plant utilities	19,417	18,189
Insurance premium	4,756	4,606
Travelling & Entertainment	3,373	3,018
IT & Telecoms	2,641	2,864
Car related expenses	2,275	2,292
Other fixed costs (quality, dispatch, etc.)	56,727	50,212
Total Fixed costs	419,084	424,657
Cost of traded goods	549,268	504,840
Depreciation	147,196	155,508
Packing expenses	162,248	178,509
Inventory change	(10,816)	61,745
	2,870,249	2,778,046

Other variable cost consist of cost of loading and transport of marl to crusher, cost of loading and transport of limestone to crusher, cost of drilling and blasting, concession fee, internal handling of materials, cost for loading of sand, internal transport of cement and other variable cost.

Other fixed costs consist of cost of security services, cost of arranging of green landscape in the plant, cost of attest and other examination, cost for quality test, outsource cleaning of streets, cost of laboratory materials, cost of HTZ and other variable cost such as cost for calibration, intellectual services, cleaning materials etc.

3. Revenue and expenses (continued)

d) Other operating income

	<i>2018</i> <i>MKD'000</i>	<i>2017</i> <i>MKD'000</i>
Revenues from sold materials	33,016	43,916
Rent income	15,879	16,712
Surpluses	12,696	7,011
Actuarial gains and reversal of unused provision	9,134	7,724
Fair value gain	9,054	6,638
Income from sold pallets in transit	5,591	7,445
Re-invoiced cost for business premises	5,482	3,818
Gain from disposed fixed assets	4,926	-
Scrap	2,478	1,345
Write off - trade creditors	383	496
Income from other services	954	28
Provision for unused vacation days, net	182	-
Others	2,576	2,316
	<u>102,351</u>	<u>97,449</u>

Income from sold materials in amount of MKD 33,016 thousand relates to sold high-burnt bricks, grinding balls as well as fire resistant concrete to Sharrcem Kosovo. The costs are recognised in other operating expenses (see Note 3 e)

Rent income in amount of MKD 15,879 thousand consist of rented business premises space in amount of MKD 10,566 thousand, land in amount of MKD 2,220 thousand and silo trucks MKD 563 thousand, all to third parties and then land in amount of MKD 2,530 thousand as intercompany.

Surplus of products in amount of MKD 12,696 thousand consist of MKD 8,754 thousand related to semi-finished and finished goods as well as surplus of fly-ash, gypsum and fe supplement recognised during inventory count as of 31 December 2018 and MKD 3,943 thousand due to regular activities.

The actuarial gains and reversal of unused provision for employee's benefits in amount of MKD 9,134 thousand relates to changes in actuarial assumptions calculated annually by independent actuaries using the projected unit credit method (See Note 13).

Fair value gain in amount of MKD 9,054 thousand relates to fair value re-measurement of the Investment property (See Note 7) as of 31 December 2018 recognised in the Company's profit and loss.

3. Revenue and expenses (continued)

e) Other operating expenses

	2018 MKD '000	2017 MKD '000
Agency fee	63,806	62,718
Cost of sold materials	31,691	42,196
HM Usage fee	16,115	-
Waste, spoilage, obsolescence and shortage of goods	12,452	1,117
Restructuring costs	9,778	13,628
Actuarial losses and provision	8,797	13,338
Write off for obsolete inventory	3,152	9,991
Business premises costs	5,599	4,007
Net book value of sold pallets in transit	5,591	7,445
Promotion and advertisement	2,864	3,074
Provision for bad and doubtful debts	1,500	-
Other non-mentioned losses	573	4,117
Write off receivables	154	608
Fair value losses	-	4,488
Withholding tax	100	97
Net book value of disposed fixed assets	19	-
Provision for unused vacation days, net	-	456
Reversal of accrued income for compensation vehicles at a standstill	-	14,757
Compensation for vehicles at a standstill	-	5
Other	2,214	759
	164,405	182,801

Agency fee of MKD 63,806 thousand represents fee for Cement Plus - agent in middlemen for selling the products on Kosovo Market.

Cost of sold materials in amount of MKD 31,691 thousand relates to sold high-burnt bricks, grinding balls as well as fire resistant concrete to Sharrcem Kosovo. The revenues are recognised in other operating income (see Note 3 d).

HM Usage fee of MKD 16,115 thousand relates to paid fee to Sharrcem Kosovo for usage of Horizontal mill for processing the pet coke.

Waste, spoilage, obsolescence and shortage of goods in amount of MKD 12,452 thousand consist of MKD 11,597 thousand recognised raw meal, pozzolana, pet coke, coal and lignite during inventory count as of 31 December 2018 and MKD 855 thousand which refers to shortage of consumables also recognised during the regular annual inventory count.

Restructuring costs in amount of MKD 9,778 thousand relates to employees who applied for the voluntary leaved scheme.

The amount of MKD 8,797 thousand represents actuarial losses, additional finance costs and current service costs related to employees benefits which arise from experience adjustments and changes in actuarial assumptions calculated annually by independent actuaries using the projected unit credit (see Note 13).

Cementarnica "USJE" AD – Skopje
NOTES TO THE FINANCIAL STATEMENTS
For the period ended 31 December 2018



3. Revenue and expenses (continued)

f) Selling and marketing expenses

	<i>2018</i> <i>MKD'000</i>	<i>2017</i> <i>MKD'000</i>
Salaries and related expenses	15,724	15,164
Promotion and advertisement	5,635	5,004
Car expenses	2,285	2,228
Depreciation	2,376	1,976
Accommodation	1,646	1,400
IT & Telecoms	1,436	1,358
Travel expenses	382	279
Other expenses	6,411	8,506
	35,895	35,915

g) Administrative expenses

	<i>2018</i> <i>MKD'000</i>	<i>2017</i> <i>MKD'000</i>
Third Party fees	78,090	88,429
Salaries and related expenses	40,957	36,704
Promotion and advertisement	14,377	11,853
Depreciation	5,811	5,102
Accommodation	4,057	3,605
IT & Telecoms	3,756	3,110
Travel expenses	4,793	2,847
Car expenses	3,704	2,335
Other expenses	13,019	9,482
	168,564	163,467

h) Net finance income

	<i>2018</i> <i>MKD'000</i>	<i>2017</i> <i>MKD'000</i>
Interest income	5,698	6,791
Bank charges	(1,024)	(1,085)
Interest expense	(17)	(155)
Net foreign exchange gain/ (losses)	3,236	5,494
	7,893	11,045

Cementarnica "USJE" AD – Skopje
NOTES TO THE FINANCIAL STATEMENTS
For the period ended 31 December 2018



4. Income tax

The income tax comprises:

	2018 MKD'000	2017 MKD'000
Current Income tax	92,373	103,632
	<u>92,373</u>	<u>103,632</u>

As of 31 December 2017, the current income tax is as follows:

	2017 MKD'000
Net profit before income tax	<u>1,197,004</u>
At statutory income tax rate of 10%	119,700
<i>Tax on non-deductible expenses:</i>	6,571
Other compensations to the employees	2,510
Expenses not related to the main activities	169
Entertainment	746
Penalties and Withholding tax	18
Sponsorship and donations	226
Scholarship	318
Other	2,584
<i>Less</i>	
Reinvested profit	(21,689)
Donations for sport activities	(950)
	<u>103,632</u>

As of 31 December 2018, the current income tax is as follows:

	2018 MKD'000
Net profit before income tax	<u>1,140,923</u>
At statutory income tax rate of 10%	114,092
<i>Tax on non-deductible expenses:</i>	4,602
Other compensations to the employees	2,454
Expenses not related to the main activities	197
Entertainment	784
Penalties and Withholding tax	11
Sponsorship and donations	260
Scholarship	303
Other	593
<i>Less</i>	
Reinvested profit	(26,321)
	<u>92,373</u>

The periods that remain open to review by the tax authorities with respect to tax liabilities is 5 to 10 years, starting from the date of the submitted tax report. The taxation system is undergoing continual revision and amendment. However there are still difference interpretation of the fiscal legislation. The tax authorities may have different approaches to certain issues in different circumstances, and assess additional tax liabilities together with additional payment interest and penalties. The Company does not expect consequences that may result in a potential material liability in this respect.

5. Earnings per share (EPS)

Basic EPS amounts are calculated by dividing the profit for the year attributable to ordinary equity holders by the weighted average of ordinary shares outstanding during the year.

The following reflects the outcome and share data used in the basic EPS computations.

	<i>31 December 2018</i>	<i>31 December 2017</i>
Profit attributable to ordinary equity holders:		
Continuing operations	1,048,550	1,093,372
Profit attributable to ordinary equity holders	1,048,550	1,093,372
Total comprehensive income attributable to ordinary equity holders:		
Continuing operations	1,058,394	1,093,372
Total comprehensive income attributable to ordinary equity holders	1,058,394	1,093,372
Weighted average number of ordinary shares for basic EPS	563,784	563,784

6. Property, plant and equipment

	<i>Land and Buildings MKD '000</i>	<i>Equipment MKD '000</i>	<i>Construction in progress MKD '000</i>	<i>Total MKD '000</i>
Cost				
At 1 January 2018	3,439,032	4,538,816	286,995	8,264,843
Additions	8,713	-	265,305	274,018
Transfers from Construction in Progress	93,109	145,683	(238,792)	-
Transfer to Investment Property	(790)	-	-	(790)
Investment in Property held by other	3,359	-	-	3,359
Disposals and write offs	(249)	(44,106)	(13)	(44,368)
At 31 December 2018	3,543,174	4,640,393	313,495	8,497,062
Depreciation				
At 1 January 2018	2,171,561	3,803,343	-	5,974,904
Charge for the period	28,088	127,295	-	155,383
Transfer to Investment Property	(790)	-	-	(790)
Disposals and write offs	-	(44,088)	-	(44,088)
At 31 December 2018	2,198,859	3,886,550	-	6,085,409
Net book value				
at 31 December 2018	1,344,315	753,843	313,495	2,411,653
Net book value				
at 1 January 2018	1,267,471	735,473	286,995	2,289,939

Cementarnica "USJE" AD – Skopje
NOTES TO THE FINANCIAL STATEMENTS
For the period ended 31 December 2018



6. Property, plant and equipment (continued)

	<i>Land and Buildings MKD '000</i>	<i>Equipment MKD '000</i>	<i>Construction in progress MKD '000</i>	<i>Total MKD '000</i>
Cost				
At 1 January 2017	3,344,009	4,411,638	236,105	7,991,752
Additions	38,187	-	215,461	253,648
Transfer from Construction in Progress	37,393	127,178	(164,571)	-
Transfer to Exploration and Evaluation assets	(5,742)	-	-	(5,742)
Transfers from Exploration and Evaluation assets	15,679	-	-	15,679
Investment in property held by other	9,506	-	-	9,506
Transfer to Investment Property	-	-	-	-
Disposals and write offs	-	-	-	-
At 31 December 2017	3,439,032	4,538,816	286,995	8,264,843
Depreciation				
At 1 January 2017	2,144,914	3,667,405	-	5,812,319
Charge for the period	26,647	135,938	-	162,585
Disposals and write offs	-	-	-	-
At 31 December 2017	2,171,561	3,803,343	-	5,974,904
Net book value at 31 December 2017	1,267,471	735,473	286,995	2,289,939
Net book value at 1 January 2017	1,199,095	744,233	236,105	2,179,433

7. Investment property

	<i>2018 MKD '000</i>	<i>2017 MKD '000</i>
Opening balance at 1 January	168,498	166,348
Transfer from PPE (Note 6)	-	-
Gain/(losses), net from fair value adjustment	9,054	2,150
Revaluation reserves from fair value re- measurement	9,844	-
Closing balance at period/year end	187,396	168,498

The investment properties are stated at fair value, which reflects the market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in the profit or loss in the period in which they arise, including the corresponding tax effect. Fair values are determined based on annual valuation performed by independent value using the income method and the market comparison method as primary valuation methods which are generally accepted in European valuation practice.

7. Investment property (continued)

Investment property principally comprise of land, production premises and construction object - restaurant, cafeteria room which is held for long-term rental yields and is not occupied by the Company.

	2018 MKD '000	2017 MKD '000
Rental income derived from investment properties	15,316	15,446
Profit arising from investment properties carried at fair value	15,316	15,446

During 2018, the Company has changed the use of part of building from owner-occupied to investment property. Prior to their reclassification, these were carried in the Company's statement of financial position at cost less accumulated depreciation for building.

As of 31 December 2018, the Company revalued its investment property on the basis of a valuation performed by an independent valuer, Grant Thornton Consulting Doo Skopje, who holds a recognized and relevant professional qualification and has recent experience in the location and category of the investment property being valued. The valuation model in accordance with that recommended by International Valuation standards Committee has been applied.

The methodology used and key inputs to the valuation of the investment properties are as follows:

	Methodology	Inputs	Ranges
Buildings plot	Income method	Vacancy rate	5%
		Landlord costs	5%
		Capitalization rate	10,79%
Land plot	Market approach - sales comparison method	Asking prices of comparable land plots in the region of Municipality Kisela Voda - Skopje and similar other locations	30 to 70euro/m2

Significant increases (decreases) in the estimated landlord costs would result in a significant lower (higher) fair value of properties. Significant increases (decreases) in the capitalization rate in isolation would result in a significant lower (higher) fair value of properties.

As a result of the valuation, as at 31 December 2018 the carrying value of the Company's investment property is adjusted / increased for the amount of MKD 18,898 thousand. Part of the gain in the amount of MKD 9,844 thousand resulting from fair value re-measurement at the moment of change of use during 2018 from owner-occupied to investment property as explained above, has been recognized in other comprehensive income and presented in the revaluation reserve (See: Statement of changes in equity).

Remaining fair value gain in amount of MKD 9,054 thousand has been recognized in the Company's profit and loss for the year ended 31 December 2018 (See Note 3d).

The fair value measurement was made using valuation techniques for which the lowest level input that is significant to the fair measurement is unobservable (level 3).

There were no transfers between Levels 1, 2 and 3 during 2018 and there were no valuation as of 31 December 2018 considering that there are no significant changes in the circumstances and the main assumptions used in the last valuation.

8. Exploration and evaluation assets

	<i>Exploration and evaluation of mineral recourses MKD '000</i>	<i>Total MKD '000</i>
Cost		
At 1 January 2018	17,796	17,796
Additions	-	-
At 31 December 2018	17,796	17,796
Depreciation		
At 1 January 2018	13,613	13,613
Charge for the period	-	-
At 31 December 2018	13,613	13,613
Net book value at 31 December 2018	4,183	4,183
Net book value at 1 January 2018	4,183	4,183

	<i>Exploration and evaluation of mineral recourses MKD '000</i>	<i>Total MKD '000</i>
Cost		
At 1 January 2017	41,393	41,393
Additions	509	509
Transfer from Property, Plant and Equipment	5,742	5,742
Transfer to Property, Plant and Equipment	(5,742)	(5,742)
Transfer to Property, Plant and Equipment	(24,106)	(24,106)
At 31 December 2017	17,796	17,796
Depreciation		
At 1 January 2017	22,041	22,041
Transfer to Property, Plant and Equipment	(8,428)	(8,428)
Charge for the period	-	-
At 31 December 2017	13,613	13,613
Net book value at 31 December 2017	4,183	4,183
Net book value at 1 January 2017	19,352	19,352

Cementarnica "USJE" AD – Skopje
NOTES TO THE FINANCIAL STATEMENTS
For the period ended 31 December 2018



9. Inventories

	2018 MKD '000	2017 MKD '000
Spare parts	268,755	267,970
Raw materials and fuel	180,620	188,981
Consumable stores	157,160	131,111
Finished goods	44,865	18,571
Semi-finished goods	43,126	50,470
Packing materials	12,081	14,943
Goods for resale	777	155
Prepayments for inventory purchase	552	40
	707,936	672,241

10. Trade and other receivables

	2018 MKD '000	2017 MKD '000
Trade debtors	446,594	434,571
Other current assets	36,478	49,158
Prepayments	18,321	18,945
	501,393	502,674

Other current assets relate to receivables from rented land and PPE, receivables from re-invoiced costs for rented premises, then accruals for receivables from vehicle at a standstill, accruals for insurance premium, accruals for receivables for interest on forex bank deposit, receivables on disposal of tangible and intangible assets and other accruals and receivables.

Trade receivables are non-interest bearing and are generally on 0 - 75 days terms.

The aging analysis of trade receivables is as follows:

	Total	Neither past due nor impaired	Past due but not impaired				
			< 30 days	30-60 days	60-90 days	90-120 days	>120 days
2018	446,594	166,597	101,100	58,838	48,114	39,589	32,356
2017	434,571	186,814	126,333	92,817	15,859	5,321	7,427

11. Cash and cash receivables

	2018 MKD '000	2017 MKD '000
Bank deposits	822,875	759,382
Cash at bank	107,683	69,938
Cash at hand	6	4
	930,564	829,324

Bank deposits are time deposits in different banks in the country with maturity less than 3 months.

Cementarnica "USJE" AD – Skopje
NOTES TO THE FINANCIAL STATEMENTS
For the period ended 31 December 2018



12. Share capital

<i>Authorized, issued and fully paid</i>	<i>Number of shares</i>	<i>% holding</i>
Titan Cement Netherlands B.V. - ordinary shares of MKD 3.100 each	534,667	94.84%
Other shareholders - ordinary shares of MKD 3,100 each	29,117	5.16%
	563,784	100%

*Amount
MKD '000*

Share capital as registered	1,747,730
Less: Additional paid in capital	(14,869)
At 31 December 2018 and 31 December 2017	<u>1,732,861</u>

Dividends paid and proposed

MKD '000

Declared and paid during the period ended 31 December 2017

Final dividend for 2016:

MKD 1,670,00 per share

Declared:

941,519

Paid:

941,506

Declared and paid during the period ended 31 December 2018

Final dividend for 2017:

MKD 1,527,00 per share

Declared:

860,898

Paid:

860,287

Dividends declared and paid for the year ended 31 December 2017 and year ended 31 December 2018 entirely relate to cash dividends on ordinary shares.

13. Provision for retirement benefits

	2018 MKD '000	2017 MKD '000
Defined retirement benefit obligations	11,206	17,731
Defined jubilee anniversary award obligations	14,508	17,994
Defined scholarship obligations	21,645	19,446
Defined retirement benefit provision - other	5,525	4,238
	52,884	59,409
<i>Analyzed as:</i>		
Non-current portion	46,177	54,111
Current portion	6,707	5,298
	52,884	59,409

The movement in the defined benefit obligation over the year is as follows:

	2018 MKD '000	2017 MKD '000
At 1 January	59,409	59,028
Current service costs	4,043	8,143
Interest cost	2,253	1,902
Recognised actuarial (gains)/losses, net	(6,632)	(1,395)
	59,073	67,678
Benefits paid during the year	(6,189)	(5,232)
(Gains)/losses, - net, from reconciling the actuarial calculation	-	403
Unused provision reversed	-	(3,440)
At 31 December	52,884	59,409

The amounts recognised in the profit and loss are as follows:

	2018 MKD '000	2017 MKD '000
Current service costs	4,043	8,143
Interest cost	2,253	1,902
Recognised actuarial (gains)/losses, net	(6,632)	(1,395)
(Gains)/losses, net, from reconciling the actuarial calculation	-	403
Unused provision reversed	-	(3,440)
	(336)	5,613

13. Provision for retirement benefits (continued)

A quantitative sensitivity analysis for change in the discount rate and wage growth as at 31 December 2018 and 2017 is as shown below:

2018

Assumptions Sensitivity Level	Discount rate		Wage growth	
	1% increase	1% decrease	1% increase	1% decrease
	In %	In %	In %	In %
<i>Retirement benefits</i>				
Impact on the net defined benefit obligations	(6.5)	7.5	9.0	(7.9)
<i>Jubilee awards</i>				
Impact on the net defined benefit obligations	(4.3)	5.0	5.6	(5.0)

2017

Assumptions Sensitivity Level	Discount rate		Wage growth	
	1% increase	1% decrease	1% increase	1% decrease
	In %	In %	In %	In %
<i>Retirement benefits</i>				
Impact on the net defined benefit obligations	(7.18)	7.06	7.64	(7.99)
<i>Jubilee awards</i>				
Impact on the net defined benefit obligations	(4.51)	4.65	4.12	(4.02)

The following payments are expected contributions to be made in the future years:

	2018 MKD'000	2017 MKD'000
Year 1	6,707	5,298
Year 2	6,589	7,966
Year 3	5,370	6,382
Year 4	6,006	6,301
Year 5	4,663	6,240
Years 6-10	20,081	26,903
Over 10 years	78,686	84,900

13. Provision for retirement benefits (continued)

The principal actuarial assumptions used in 2018 by the independent actuaries were as follows:

- a) The mortality of the employees until the date of retirement is estimated with the population mortality table of the Republic of Croatia 2010 – 2012. Although the State statistical office of the Republic in Macedonia on a regular basis issues mortality tables, these tables are not adequate for actuarial calculations due to the following reasons:
 - The Macedonian mortality tables are not graduated and do not satisfy the required actuarial properties.
 - There has not been a census conducted in Macedonia since 2002, so the methodology of how the population tables are constructed for the period 2006 – 2008 is questionable. Employee's retirement in the future will be according to the current legislative (64 for male and 62 for female);
- b) From the data analysis of the turnover scheme of all employees that were employed in the Company since 1953, the data was classified into two categories: data for employees that were employed in and after 1992 and data for employees that were employed before 1992. Namely, from the data it is observable that the employees who were employed before 1992 have tendency to cancel their employment few years before retirement (after fulfilling more than 12 years in service in the Company), thus not getting the lump sum payments on retirement, which is not the case for employees who were employed in or after 1992 who usually cancel the employment in the first 12 years of their employment in the Company. The category of employees who were employed before 1992 are modelled as a run off portfolio having regarded that out of all employees who were employed on 31.12.2013-2017, in average 7% - 10% were cancelling their employment annually. For the category of employees who were employed in or after 1992, the analysis of data shows dependences between the annual cancelation rate and the number of years in service in the Company of the employees who cancel their employment.
- c) Employee's retirement in the future will be according to the current legislative (64 for male and 62 for female);
- d) Due to unavailable data from relevant institutions for the rate of retirement due to invalidity, the model is created on a manner that the Company will pay retirement benefits only for a regular pension, i.e., the assumption used is that the retirement due to invalidity is zero. From the actuarial practice the rates that are used for invalidity as a result of accident are less than 0.01%, so including this assumption would not change the result materially.
- e) For lump sum payments on retirement, jubilee and additional benefits on retirement, for all Company's employees, a tax rate of 10% calculated on the gross amount that will be paid to the employees was used. For scholarships a tax rate of 0% was used.
- f) All of the children of the employees who will die will enrol in primary i.e., secondary school, if they fulfil the respective age constraints. 86% of the employees' children (including the employees who will die) will enrol in undergraduate studies, if they fulfil the respective age constraints. 14% of the employees' children will enrol in graduate studies, if they fulfil the respective age constraints.

The used financial assumptions were as follows:

Nominal annual increase of the average republic salary: 2%. In order to take into account, the recent changes, the base on which the percentage is applied is calculated as an average of the net monthly salaries paid per employee in the period January – October 2018;

Discount rate: 3,8%. The discount rate is derived from the yields on the government bonds issued in Macedonia in 2018 and classified by maturity. The average maturity of the Company's obligations for all types of benefit is 17 years, so the discount rate that is used in the model is calculated for this maturity from the previously obtained discount rate curve.

14. Trade and other payables

	2018 MKD'000	2017 MKD'000
Trade creditors	415,238	349,329
Tangible assets creditors	65,762	49,771
Customer prepayments	32,115	28,211
Other current liabilities	31,511	25,558
	<u>544,626</u>	<u>452,869</u>

Other current liabilities relate to liability for net payroll, payroll taxes and social securities, liabilities to employees from salaries, accrual for calculated obligation for concession fee and other sundry creditors.

15. Contingences and Commitments

Contingent liabilities

	2018 MKD'000	2017 MKD'000
Bank guarantees	33,481	26,804
	<u>33,481</u>	<u>26,804</u>

As of 31 December 2018, the Company has obtained a Bank payment guaranties from:

- Halk Banka in favour of Makpetrol Prom Gas of MKD 12,000 thousand related to the purchase of natural gas valid till 31 January 2020, in favour of Customs of MKD 15,000 valid till 1 November 2019 and in favour of OKTA AD Skopje for crude oil in amount of MKD 4,000 thousand valid until 31 January 2019.
- Ohridska Banka in favour of MEPSO AD Macedonia of MKD 2,481 thousand for transmission of electricity valid till 31 January 2019,

Lease commitments - company as lessee

The Company leases motor vehicles under lease agreements. The leases have varying terms and clauses.

	2018 MKD'000	2017 MKD'000
Up to 1 year	6,333	4,316
Later than 1 year and not later than 5 year	11,031	6,916
	<u>17,364</u>	<u>11,232</u>

In 2018 the Company leases 2 terminals (Ohrid and Strumica) under lease agreements. In 2017 was (Ohrid and Bitola). The Bitola terminal in January 2018 has been terminated. The leases have varying terms and clauses.

	2018 MKD'000	2017 MKD'000
Up to 1 year	849	2,472
Later than 1 year and not later than 5 year	1,089	7,416
	<u>1,938</u>	<u>9,888</u>

15. Contingences and Commitments

Contingent liabilities (continued)

Lease commitments - company as lessee (continued)

The Company leased Horizontal Mill from MILLKO under lease agreement.

	2018 MKD '000	2017 MKD '000
Up to 1 year	16,110	16,110
Later than 1 year and not later than 5 year	16,110	32,221
	<u>32,220</u>	<u>48,331</u>

Legal proceedings

From time to time and in the normal course of the business, claims against the Company may be received. On the basis of its own estimates and both internal and external professional advice, the management of the Company is of the opinion that no material losses will be incurred in respect of claims and accordingly no provision has been made in these financial statements.

16. Related party transactions

Titan Cement Netherlands B.V. owns 94.84% of the Company's share capital.

The following transactions were carried out with the related parties:

a) Sales of goods and services

	2018 MKD'000	2017 MKD'000
<i>Subsidiary:</i>		
Trojan Cem EOOD Sofija - cement	4,878	3,601
Trojan Cem EOOD Sofija - freight	3,512	2,804
<i>Entities under common control:</i>		
Cement Plus Ltd - cement and white cement	279,306	276,620
Cement Plus Ltd - freight revenue	43,952	37,954
Cement Plus Ltd - materials	112	-
SHARRCEM SH.P.K-pet coke	370,904	374,599
SHARRCEM SH.P.K-clinker	113,950	200,716
SHARRCEM SH.P.K-white cement	-	2,780
SHARRCEM SH.P.K- freight revenue	12,138	16,666
SHARRCEM SH.P.K- refractory	9,258	4,491
SHARRCEM SH.P.K- materials and services	22,859	39,172
SHARRCEM SH.P.K- limestone and cement	4,461	-
Titan Cementara Kosjeric - clinker	16,249	-
Titan Cementara Kosjeric – freight revenue	2,598	-
Antea Cement SHA - clinker	-	2,674
Antea Cement SHA - clinker	-	1,469
MILLKO - PCM Dooel Skopje - rent	2,530	2,534
MILLKO - PCM Dooel Skopje - other	598	-
	887,305	966,080

Other transactions

	2018 MKD'000	2017 MKD'000
SHARRCEM SH.P.K- short term loan principal	123,116	246,376
SHARRCEM SH.P.K- interest	1,175	5,749
	124,291	252,125

16. Related party transactions (continued)

Outstanding balances arising from the transactions mentioned above are presented below:

Receivables from related parties

	2018 MKD'000	2017 MKD'000
<i>Subsidiary:</i>		
Trojan Cem EOOD SOFIJA - grey cement	916	779
<i>Entities under common control:</i>		
Cement Plus Ltd - cement and white cement	10,594	-
SHARRCEM SH.P.K-pet coke	88,816	133,541
SHARRCEM SH.P.K-clinker	122,289	89,294
SHARRCEM SH.P.K-limestone and cement	2,068	-
SHARRCEM SH.P.K-white cement	-	280
SHARRCEM SH.P.K-other	19,586	23,169
MILLKO - PCM Dooel Skopje - rent	705	249
	244,974	247,312

b) Purchases of goods and services

	2018 MKD'000	2017 MKD'000
<i>Ultimate Parent:</i>		
Titan Cement Company - white cement, pet coke, other	103,635	384,718
Titan Cement Company - management fee	75,052	82,803
Titan Cement Company-silos	-	-
<i>Entities under common control:</i>		
Cement Plus Ltd - agency fee	63,806	62,718
SHARRCEM SH,P,K - cost of traded goods	-	67
SHARRCEM SH,P,K - clinker	2,555	-
SHARRCEM SH,P,K - other	4,359	173
MILLKO - PCM Dooel Skopje - services	16,115	16,132
Antea Cement SHA - clinker	1,602	-
Titan Zlatna Panega - clinker	7,647	19,736
Titan Zlatna Panega - other	-	138
Titan Zlatna Panega - cost of traded goods	9,048	16,966
	283,819	583,451

16. Related party transactions (continued)

Outstanding balances arising from the transactions mentioned above are presented below:

Payables to related parties

	2018 MKD'000	2017 MKD'000
<i>Ultimate Parent:</i>		
Titan Cement Company - management fee	11,850	21,196
Titan Cement Company - CAPEX	17,168	20,337
Titan Cement Company - WC, pet coke and services	13,244	9,257
Titan Cement Company - silos	750	-
<i>Entities under common control:</i>		
Cement Plus Ltd. - agency fee	19,930	3,616
Cement Plus Ltd. - prepayments	-	5,106
MILLKO - PCM Dooel Skopje - services	7,774	7,340
Titan Zlatna Panega - clinker	1,904	-
Titan Zlatna Panega - other	3	-
Titan Zlatna Panega - grey cement	-	503
SHARR CEM SH.P.K - other	757	173
	<u>73,380</u>	<u>67,528</u>

The Company enter into these transactions with the above related parties at mutually agreed terms.

Key management compensation

	2018 MKD'000	2017 MKD'000
Salaries and other short-term benefits	<u>82,426</u>	<u>83,400</u>
	<u>82,426</u>	<u>83,400</u>

17. Financial risk management objectives and policies

The Company's principal financial instruments comprise of trade payables. The Company has various financial assets such as trade receivables and cash and short-term deposits, which arise directly from its operations.

The main risks arising from the Company's financial instruments are interest rate risk, liquidity risk, foreign currency risk and credit risk. The management reviews and agrees policies for managing each of these risks which are summarised below.

(i) Market risk

Market risk is defined as the 'risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices' and includes interest rate risk, currency risk and other price risk. The majority of the revenues of the Company are generated on domestic market and the remaining part mainly generated on foreign market.

Expenses of the Company that arise are mainly arising from purchases on domestic and foreign markets.

Management believes that is taking all the necessary measures to support the sustainability and growth of the Company's business in the current circumstances. Nevertheless, future market fluctuations cannot be predicted with accuracy.

a) Interest risk

The Company's income and operating cash flows are substantially independent of changes in market interest rates.

Change in the interest rates and interest margins may influence financing costs and returns on financial investments.

Changes in market interest rates affect the interest income on time deposits with banks. As of 31 December 2018, the Company has time deposits in banks in amount of MKD 822,875 thousands (2017: MKD 759,382 thousands).

b) Foreign exchange risk

The Company's exposure to foreign currency risk is minimal due to the fact that the majority of foreign currency transactions relating to selling and purchases are denominated in EURO, which was stable during all 2018.

17. Financial risk management objectives and policies (continued)

For purposes of sensitivity analyses from foreign currency risk, Management used the assumption of 1% increase of Foreign exchange rate of EUR which is considered reasonable having in mind stable local currency against EUR during the past years. As of the 31 December 2018, if EUR would have been 1% (2017: 1%) weaker or stronger against MKD, profit would have been MKD 6,513 thousand (2017: MKD 8,278 thousand) after tax in net balance higher or lower, respectively.

The Company's outstanding balances was as follows:

2018	Total	MKD	EUR
Assets			
Cash and cash equivalents	930,564	352,383	578,181
Trade receivables and other current financial assets	501,393	250,605	250,788
Total assets	1,431,957	602,988	828,969
Liabilities			
Trade payables	415,238	273,173	142,065
Other payables and current liabilities	129,388	85,760	43,628
Total liabilities	544,626	358,933	185,693
Net balance sheet exposure	887,331	244,055	643,276
2017	Total	MKD	EUR
Assets			
Cash and cash equivalents	829,324	100,498	728,826
Trade receivables and other current financial assets	502,674	216,543	286,131
Total assets	1,331,998	317,041	1,014,957
Liabilities			
Trade payables	349,329	199,956	149,373
Other payables and current liabilities	103,540	65,852	37,688
Total liabilities	452,869	265,808	187,061
Net balance sheet exposure	879,129	51,233	827,896

c) Liquidity risk

Liquidity risk is defined as the risk that the Company could not be able to settle or meet its obligations on time. The Company's policy is to maintain sufficient cash and cash equivalents to meet its commitments in the foreseeable future.

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. The Company manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The table below summarises the maturity profile of the Company's financial liabilities at 31 December 2018 and 31 December 2017 based on contractual undiscounted payments.

17. Financial risk management objectives and policies (continued)

Year ended 31 December 2018

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	> 5 years	Total
Trade payables	-	341,858	-	-	-	341,858
Other payables	-	129,388	-	-	-	129,388
Payables to related parties	-	73,380	-	-	-	73,380

Year ended 31 December 2017

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	> 5 years	Total
Trade payables	-	281,801	-	-	-	281,801
Other payables	-	103,540	-	-	-	103,540
Payables to related parties	-	67,528	-	-	-	67,528

d) Credit risk

The Company has no significant concentrations of credit risk. The Company has policies in place to ensure that sales of products are made to customers with an appropriate credit history. The Company has policies that limit the amount of credit exposure to any one customer. In addition, to reduce this risk the Company has required as collateral: bank guaranties and deposits. Recognisable risks are accounted for by adequate provisions on receivables.

With respect to credit risk arising from the other financial assets of the Company, which comprise cash and cash equivalents, and other financial assets (non-current), the Company's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. Management focuses on dealing with most reputable banks in foreign and domestic ownership in the country. Even though most of the financial institutions and commercial banks in Macedonia do not have a credit rating assigned by the credit rating companies, the Company prudently chooses the banks for its placements.

Capital management

The primary objective of the Company's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value.

The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares, following shareholders' approval. No changes were made in the objectives, policies or processes during the periods ended 31 December 2018 and 31 December 2017.

17. Financial risk management objectives and policies (continued)

Capital management (continued)

The Company monitors its equity capital using earnings before interest, tax, depreciation and amortization (EBITDA) for the year.

	<i>2018</i>	<i>2017</i>
	<i>MKD '000</i>	<i>MKD '000</i>
EBITDA	<u>1,288,413</u>	<u>1,348,544</u>

The Company is not subject to any externally imposed capital requirements. The structure and management of debt capital is determined at TITAN Group level.

18. Events after the reporting period

There are no events after the reporting period that would have impact on the 2018 Statement of comprehensive income, Statement of financial position or Statement of cash flow.

Appendix A

Financial Statements for the year ended 31 December 2018

Supplementary information concerning the calculation of EBITDA

		2018 MKD'000
Sales		4,168,702
Other revenue		101,090
Cost of sales		(2,870,249)
Gross profit		1,399,543
Other operating income		102,351
Other operating expenses		(164,405)
Selling and marketing expenses		(35,895)
Administrative expenses		(168,564)
Profit from operating activities	EBIT	1,133,030
Finance income		5,698
Foreign exchange gains/ (losses) net		3,236
Finance costs		(1,041)
Net finance income		7,893
Profit before tax	EBT	1,140,923
Income tax expenses		(92,373)
Profit for the year		1,048,550
Other comprehensive income		9,844
Total comprehensive income for the year		1,058,394
EBIT		1,133,030
Depreciation and amortisation		155,383
EBITDA		1,288,413