Granolio Group

Annual Report for the Year 2018
together with the Independent Auditor's Report

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Annual Management Board report on the Business Performance and Position of the Group for the Year 2018

General information on Granolio Group

GRANOLIO d.d. ("the Company") is a joint stock company registered at the Commercial Court in Zagreb, Croatia. The Company's personal tax identification number (OIB) is 59064993527, and its company registration number (MBS) is 080111595.
The registered seat of the Company is in Zagreb, Budmanijeva 5.

The Company has a Shareholders' Assembly, a Supervisory Board and a Management Board.

The members of the Management Board are as follows: Hrvoje Filipović, President
Drago Šurina, Member
Vladimir Kalčić, Member

Members of the Supervisory Board are as follows: Franjo Filipović, President
Jurij Detiček, Deputy President
Braslav Jadrešić, Member
Davor Štefan, Member

At 31/12/2018 the total share capital of the Company amounts to HRK 19,016,430 and is divided into 1,901,643 ordinary shares, with a nominal value of HRK 10.00 each. The shares are traded under the ticker GRNL and since 23 March 2015 have been listed on the Official Market of the Zagreb Stock Exchange.
The majority shareholder, holding over 58.11% of the Company's share capital, is Mr Hrvoje Filipović.

Consolidated Financial Statements of the Group for the period from 1 January to 31 December 2018 represent the financial statements for parent company and related parties. Related parties (jointly referred to as "the Group") own and manage manufacturing facilities and activities in the food industry, agriculture industry and retail.

The consolidated financial statements comprise the financial statements of the following related parties:
1. Granolio d.d. (parent company)
2. Zdenačka farma d.o.o.
3. Prerada žitarica d.o.o. (part of the Granolio Group until 30 April 2018)
4. Zdenka – mliječni proizvodi d.o.o.
5. Žitar d.o.o.
6. Žitar konto d.o.o.

The core business of the Granolio Group is the production of wheat flour, production of milk, production of pork and beef, production of dairy products, production of animal feed, storage of grains and oilseeds, trading cereals, oilseeds and raw materials for agricultural production, and organization of agricultural production through subcontracting relationships with producers of agricultural products.
The Group could be classified into the following business segments:
1. Milling
2. Wholesale
3. Dairy and cheese production
4. Other - farming and animal husbandry, production of animal feed, service industry (drying and storage of grains and oilseeds, receipt of goods to the purchase and sales lines, lease income).

Annual Management Board Report on the Business Performance and Position of the Group for the Year 2018 (continued)

At the end of reporting period, the Group disposed with:

- 2 active mills to produce wheat flour and one inactive mill with total capacity of 645 tons per day;
- silos for storage of grains and oilseeds with a total capacity of about 160,000 tons;
- 2 dairy farms with a total capacity of 880 milking cows;
- a pig farm with the capacity of 10,000 pigs a year;
- a cattle fattening farm with 180 pieces of beef cattle;
- 63 pieces of calves for fattening with subcontractors;
- approximately 1,170 hectares of agricultural land;
- animal feed production facility with a capacity of 30,000 tons per year (given into lease);
- milk processing production capacities of 11,400 tons of finished products;

Group's mills production capacity as at 31/12/2018 are shown in the following table.

Mills production capacity as at 31 December 2017:

Mill	Tons per 24 hrs
Farina	320
Kopanica	230
Žitar	95
	645

Subsidiaries

Granolio d.d. holds the entire equity interest in Zdenačka farma d.o.o.
It exercises the controlling influence in the decision-making process at Zdenka - mliječni proizvodi d.o.o. and Žitar d.o.o. Since 2011, these companies have been consolidated as part of the Granolio Group.
Company Žitar d.o.o., has established another company, Žitar konto d.o.o., as the sole owner whose financial statements are part of the consolidated financial statements.

The owner of minority interest in Žitar d.o.o. and Zdenka – mliječni proizvodi d.o.o. is Cautio d.o.o. from Našice.

Granolio d.d. has a minority interest in companies Žitozajednica d.o.o., Zagrebačke pekarne Klara d.d., and Prehrana trgovina d.d.

Annual Management Board Report on the Business Performance and Position of the Group for the Year 2018 (continued)

Significant transactions in the current accounting period

Granolio d.d.

On 14 March 2018, the Agreement on the merger of the related company Prerada žitarica d.o.o. to the company Granolio d.d. was concluded.
On 30 April 2018, the Commercial Court in Zagreb adopted the Decision on the Merger, formally ceasing the operations of the company Prerada žitarica.

On 6 December 2018, at the hearing for the amended restructuring plan vote at the Commercial Court in Zagreb, the restructuring plan was approved. The Court's Decision confirming the pre-bankruptcy agreement entered into force on 28 December 2018. It is expected that the Company will continue its operations and pay its liabilities in line with the voted settlement.

The Company leases business premises in Osijek from affiliated persons. Annual rental value in 2018 amounted to HRK 331 thousand (2017: HRK 331 thousand).

Financial indicators for 2018 for the company Granolio d.d. are shown in the following table:

(in thousands of HRK)

	Jan-Dec 2018	Jan-Dec 2017	Changes	
Operating income	**291,448**	**397,876**	**(106,428)**	**(27%)**
EBIT	**(29,342)**	**(180,217)**	**168,496**	**93%**
Net margin %	(10%)	(45%)		
EBITDA	**2,885**	**(6,891)**	**9,776**	**(142%)**
Net margin %	1%	(2%)		
Net financial result	**91,109**	**(17,970)**	**91,458**	**509%**
Net result	**61,767**	**(198,187)**	**259,954**	**131%**
Net margin %	21.2%	(49.8%)		

Annual Management Board Report on the Business Performance and Position of the Group for the Year 2018 (continued)

Zdenačka farma d.o.o.

Sales revenues are higher compared to the previous year due to higher sales of trade goods. Milk sales revenue is approximately on the same leval as in the previous year. In 2018, the total supply of milk of the company Zdenačka farma amounted to 4.5 million kilos (2017: 4.5 million kilos). The average sales price made in 2018 exceeds the average sales price made in the previous year by 1%.

Financial indicators for 2018 for the company Zdenačka farma d.o.o. are shown in the following table.

(in thousands of HRK)

	Jan-Dec 2018	Jan-Dec 2017	Changes	
Operating income	23,460	21,208	2,252	11%
EBIT	850	(1,159)	2,009	(173%)
Net margin %	4%	(5%)		
EBITDA	3,677	3,079	598	19%
Net margin %	16%	15%		
Net financial result	(679)	(878)	199	23%
Net result	171	(2,037)	2,208	(108%)
Net margin %	1%	(10%)		

Zdenka – mliječni proizvodi d.o.o.

The total production capacity of Zdenka amounts 11.4 thousand tons of finished products (cheese). The Company's own brand is "Zdenka", but it also produces a significant number of products under brand names. Zdenka's portfolio currently includes 20 private labels.

The most significant increase in income was recorded in the sales of hard and semi-hard cheese.
In 2018, the Company achieved a better operating result than in the previous year, because of the increase in prices of a part of the range of products. In 2017, the prices of raw materials increased, and the prices of products could not change. Other than the aforementioned, the Company increased the total sales of a part of the range of products.

The total debt of the Company as at 31 December 2018 amounts to HRK 35 million (31 December 2017: HRK 46 million). The debt consists of HRK 26 million long-term liabilities to financial institutions (31 December 2017: HRK 35 million) and HRK 9 million in current liabilities to financial institutions which are due in 2019 (31 December 2017: HRK 11 million).

Financial indicators for 2018 for the company Zdenka–mliječni proizvodi d.o.o. are shown in the following table

(in thousands of HRK)

	Jan-Dec 2018	Jan-Dec 2017	Changes	
Operating income	148,587	145,105	3,482	2%
EBIT	5,802	(1,244)	7,046	566%
Net margin %	4%	(1%)		
EBITDA	20,133	11,389	8,744	77%
Net margin %	14%	8%		
Net financial result	(780)	(1,504)	724	48%
Net result	4,025	(2,748)	6,773	246%
Net margin %	3%	(2%)		

Annual Management Board Report on the Business Performance and Position of the Group for the Year 2018 (continued)

Žitar d.o.o.

The Company Žitar operates in the following business segments: agricultural production, milk production at milk farms, beef cattle fattening, providing storage services, and trade in cereals and oilseeds.

Increase in income was made in sales of trade goods (cereals and oilseeds).

The total debt of the Company as at 31 December 2018 amounts to HRK 50 million (31 December 2017: HRK 51 million). The debt consists of HRK 29 million non-current liabilities to financial institutions and HRK 21 million in current liabilities which are due by the end of 2019.

Consolidated financial indicators for 2018 for the company Žitar d.o.o. are shown in the following table.

(in thousands of HRK)

	Jan-Dec 2018	Jan-Dec 2017	Changes	
Operating income	80,750	70,207	10,543	15%
EBIT	1,033	1,891	(858)	(45%)
Net margin %	1%	3%		
EBITDA	5,880	7,042	(1,162)	(17%)
Net margin %	7%	10%		
Net financial result	(885)	(1,809)	924	51%
Net result	131	82	66	(80%)
Net margin %	0%	0%		

Prerada žitarica d.o.o.

The company Prerada žitarica d.o.o. was merged to the parent company on 30 April 2018. Financial data of the Company for the first 4 months of 2018 are provided below.

(in thousands of HRK)

	Jan-Apr 2018	Jan-Dec 2017	Changes	
Operating income	300	16,171	(15,871)	(98%)
EBIT	(119)	(355)	236	66%
Net margin %	(40%)	(2%)		
EBITDA	22	(145)	167	(115%)
Net margin %	7%	(1%)		
Net financial result	357	474	(117)	25%
Net result	238	119	119	(100%)
Net margin %	79%	1%		

Annual Management Board Report on the Business Performance and Position of the Group for the Year 2018 (continued)

Granolio Group

Operating income of the Granolio Group has decreased by 14% compared to the previous year. A more detailed analysis of income is presented below.
Net debt of the Group is lower than the previous year by HRK 27.6 million as a result of loan repayments by Zdenka and Žitar, and the write-off of a part of financial liabilities in the parent company.

Financial indicators for 2018 for the Granolio Group are shown in the following table.

(in thousands of HRK)

	Jan-Dec 2018	Jan-Dec 2017	Changes	
Operating income	**538,570**	**628,276**	**(89,706)**	**(14%)**
Operating expense	**(542,722)**	**(809,476)**	**272,903**	**34%**
EBIT	**(4,152)**	**(181,200)**	**177,048**	**(98%)**
	-1%	*(29%)*		
EBITDA	**32,599**	**15,839**	**10,594**	**67%**
EBITDA margin	*5%*	*3%*		
Net financial result	**89,105**	**(21,586)**	**110,691**	**513%**
Net result for the period	**83,940**	**(202,811)**	**286,751**	**(141%)**
Group result	81,861	(201,662)	283,523	(141%)
Minority interest	2,079	(1,149)	3,228	(281%)

Financial indicators

(in thousands of HRK)

	31/12/2018	31/12/2017	Changes	
Net assets (equity and reserves)	104,806	20,356	92,382	454%
Total debt	**516 765**	**485,138**	**31,439**	**6%**
Cash and cash equivalents	10,340	3,605	6,735	187%
Given loans, deposits and similar*	32,821	28,750	4,071	14%
Net debt	**473,604**	**452,783**	**20,633**	**5%**
Net debt/EBITDA	14.52	28.59		
EBITDA	32,599	15,839		

* Given financial loans, securities and deposits

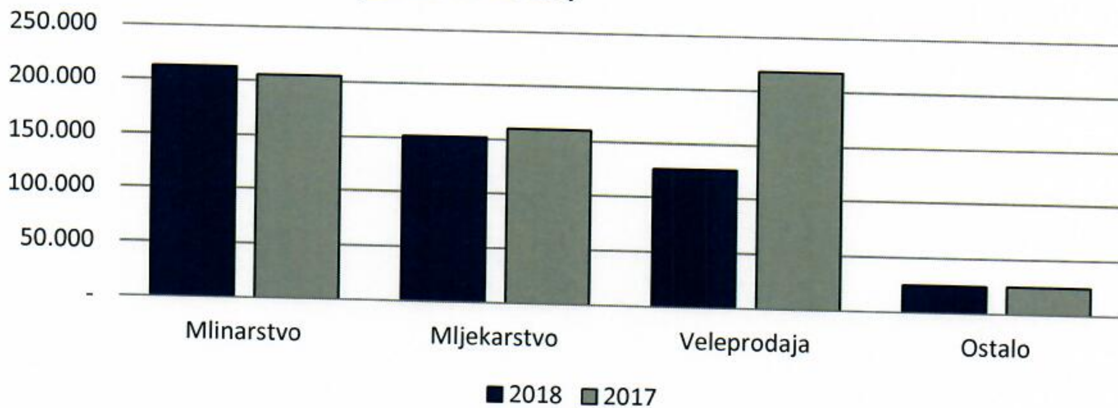
The total debt as at 31 December 2018 includes the liabilities of the parent company to financial institutions which, after the pre-bankruptcy settlement, amount to HRK 372.7 million, as well as the liabilities to suppliers which form a part of the pre-bankruptcy settlement (HRK 59.1 million). As at 31 December 2017, the total debt included only the total liabilities to financial institutions without the recourse factoring liabilities and trade payables, forming a part of the pre-bankruptcy settlement.

Annual Management Board Report on the Business Performance and Position of the Group for the Year 2018 (continued)

Income analysis – Granolio Group

Sales income of Granolio Group in 2018 amounts HRK 515 million, i.e. 15% less than the sales income made in the previous year.

Sales income generated within the Group during 2018 amounted approximately to HRK 5.9 million (2017: HRK 29 million) and it was eliminated from the total consolidated income.



Sales income are classified in several business segments: milling, dairy, wholesale and other.

The milling segment comprises the sales of flour, realised by the parent company; the dairy segment comprises the sales of milk by the company Zdenačka farma, a farm within the company Žitar; and the sales of dairy products by the company Zdenka.
Wholesale encompasses trade of cereals, oilseeds and raw materials, realised by the companies Granolio, Žitar, and Zdenačka farma. The segment Other encompasses the services of drying and storing grains and oilseeds, rendered by the companies Granolio and Žitar, sale of beef by Granolio, sale of beef and pigs by Žitar, and income from own production of agricultural products and seed processing, which is a part of Žitar's activities.

The significant decrease in income was recorded in the segment of wholesale.

Annual Management Board Report on the Business Performance and Position of the Group for the Year 2018 (continued)

Significant events after the end of the accounting period and the strategic goals of the Group

On 4 March 2019 the Company sold its shares in the company Žitar d.o.o. The transaction was entered into the court registry on 14 March 2019. The Company Granolio realised a loss of HRK 17.6 million through the sales of the shares. Since the date of sale, neither the company Žitar d.o.o. nor the company Žitar konto d.o.o. form a part of the Granolio Group.

In line with the pre-bankruptcy settlement, the first old debt liabilities, i.e. trade payables, mature in July 2019. In the first half of 2019, the Company recognises and pays only the interests for the financial debt for which the creditors are entitled to charge the interest, in line with the pre-bankruptcy settlement.

Business development and investment plan

Granolio

The Company expects to continue its operations as a going concern and to settle all liabilities determined in the pre-bankruptcy settlement procedure, in the manner agreed in the pre-bankruptcy settlement. A further investment and business plan will depend on the restructuring plan adopted under the pre-bankcrutpcy settlement.

Zdenačka farma d.o.o.

The goals of Zdenačka farma are as follows:

1. Decrease the financial liabilities to the parent company;
2. In the following period and in line with the financial circumstances, to build a stable for the dry period and heifers;
3. In the next two-year period, reach the production of 30 kilos / cows per day;
4. In the following two years reduce the inter-calving period to 400 days;
5. Reduced the age of heifers at calving to 24 months;
6. Double the calves' weight at birth within 60 days from birth;
7. In order to reduce feed cost in the long run, provide for additional arable areas, increasing their area from the existing 165 ha to 300-350 ha in the following years;
8. In accordance with the increase in arable areas during the following period, ensure the mechanization necessary for agricultural production and efficient day-to-day functioning of the farm.

Zdenka - mliječni proizvodi d.o.o.

From its privatization till today, Zdenka has invested significant resources in the modernization of production facilities and is still entering new investments in order to be able to keep up with the customers' needs and market trends.

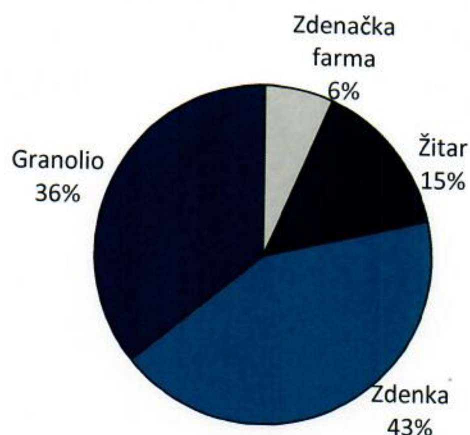
The goal is to finance a part of the investments through EU funds subsidies, as so far.

Annual Management Board Report on the Business Performance and Position of the Group for the Year 2018 (continued)

Employees

In 2018, based on working hours, the Group had 426 employees (2017: 444). The employee structure per a particular company from the Group is reported in the following graph.

Employee structure based on working hours



Research and development

In the reporting period, the Group had no research and development projects.

Purchase of own shares

As of the date of issue of the Annual Report of the Management Board, the Company did not engage in any purchases of its own shares.

Environmental protection

In the area of environmental protection, the Group applies integrated and systematic solutions and implements environmentally friendly production processes.

Risks

Details about the risks to which the Group is exposed to are presented in detail in the notes to the annual financial statements.

Corporate Governance Statement

The Corporate Governance Statement has been prepared pursuant to the provisions of Article 272.p of the Companies Act.

As a company whose shares are listed in the Official Market of the Zagreb Stock Exchange, from 2016 to 2018 the Company voluntarily applied the recommendations provided in the Code of Corporate Governance developed by the Croatian Financial Services Supervisory Agency and Zagrebačka burza d.d., with departures from certain recommendations and guidelines provided therein.

The Supervisory Board of Granolio d.d. has not established any Appointment, Bonus or Audit Committee because, according to the Statute, it should consists of three to five members and as such the Board discharges the duties and responsibilities of those bodies itself, except for those of the Audit Committee the function of which, according to the Audit Act, is discharged by the appointed Audit Committee. Departures also concern ensuring proxies for the shareholders not being able to vote in person; the date defined as the relevant reference date for establishing the right to vote in the General Shareholders' Meetings; remote voting in General Shareholder Meetings by means of modern communication technologies, the exercise of the voting rights in General Shareholder Meetings; assessment of internal control and risk management system quality; ensuring internal audit system efficiency; a long-term succession plan, rules for determining bonuses for the Supervisory Board members; public disclosure of all remuneration and other benefits provided by the company or its related parties to each individual Management and Supervisory Board member, including the remuneration structure; organisation of the Appointment and Reward Committee; independence of the members of the Audit Committee; organisation and operations of the internal audit system, designing rules on services the external audit company may provide to the Company only with the prior agreement of the Audit Committee and rules on services it may provide to the Company without the prior agreement of the Audit Committee; assessing the work of the Supervisory Board; disclosure of detailed data on all remuneration and benefits of each Management Board member or executive director of the Company in the Company's annual report; transactions involving Management Board members or executive directors and their related parties; the existence of internal auditors and internal control systems; and preparing a calendar of important events.

Further explanations regarding the 2018 departures from individual recommendations provided in the Code are presented in the Annual Questionnaire, which is an inseparable part of the Code and submitted to Zagrebačka burza d.d. for public disclosure, together with the annual financial statements. In addition to the recommendations from the Code, the Company's Management and Supervisory Board invest increasing efforts to establish adequate corporate governance taking into account the structure and organisation of the Company, its strategy and business objectives, the allocation of duties and responsibilities, with a particular emphasis on effective procedures for identifying, measuring and monitoring operational risks and reporting on those risks, as well as the establishment of appropriate internal control mechanisms.

The Company has prepared its separate financial statements as well as the consolidated financial statements for the Granolio Group, which consists of Granolio d.d. and its fully-owned subsidiaries Zdenačka farma d.o.o. and Prerada žitarica d.o.o. and associates Zdenka – mliječni proizvodi d.o.o. and Žitar d.o.o., co-owned by the Company.

Significant Shareholders and Limited Shareholders' Rights

The majority shareholder, holding over 58% of the Company's share capital and voting rights, is Mr Hrvoje Filipović.

All the shares have been fully paid in, and there are no restrictions to the rights arising from the shares.

Rules for the Appointment and Revocation of the Supervisory Board

Members of the Supervisory Board are elected by the General Assembly based on a proposal of the shareholders representing individually or in aggregate at least one-twentieth of the Company's share capital at the point of the election.

The Supervisory Board of the Company consists of three or five members. The exact number of the Supervisory Board members is determined by the decision of the Company's shareholders at their General Assembly. As long as there is a prescribed obligation, one member of the Supervisory Board is a representative of employees, who is appointed and revoked as specified in the Labour Act. One member of the Supervisory Board is appointed and revoked directly by Hrvoje Filipović, as long as he holds at least 25% of the total number of issued ordinary shares of the Company. Other Supervisory Board members are elected and revoked by the Company's General Assembly.

Rules for the Appointment and Revocation of the Management Board, Amendments to the Statute and Special Powers of the Management Board

Pursuant to the Statute of Granolio d.d., the Management Board consists of three to seven members, depending on the decision adopted by the Supervisory Board. The members and President of the Management Board are appointed by a decision of the Supervisory Board for a mandate of five years, with the possibility of re-appointment. The Supervisory Board may issue a decision revoking a member or the President of the Supervisory Board for a relevant reason.

The Statute can be amended only by a decision adopted in the General Shareholders Meeting by majority vote as defined for a particular amendment in the applicable legislation or the Statute.

The affairs and operations of the Company are managed by the President and members of the Management Board based on the principle of segregation of duties and responsibilities for individual areas of operations or scope of responsibilities. The work and segregation of duties and responsibilities are regulated by the Rules of Procedure for the Management Board, adopted by the Management Board with the consent of the Company's Supervisory Board. The President of the Management Board represents the Company solely, and the Management Board members represent the Company jointly with the President of the Management Board or another Management Board Member. The Company's Management Board must receive a consent from the Supervisory Board for, inter alia, deciding about the overall maximum indebtedness of the Company for a particular business year, maximum exposure on loans granted to related companies, maximum exposure of the Company with respect of guarantees, sureties and other security instruments issued to third legal and natural persons, about establishing and/or discontinuing any directly related companies, branch offices and business units, about purchasing or selling the shares in other companies in Croatia and abroad, about any fixed asset investments in excess of HRK 15,000,000.00, acquisition and sale of real estate with a net book value higher than HRK 5,000,000.00; establishing a charge on the real estate for purposes other than disposal in the ordinary course of business and conclusion of contracts worth in excess of HRK 5,000,000.00, with the exception of product, goods, energy, short-term debt and service sales contracts as part of the Company's ordinary business.

Composition and Operation of the Supervisory Board

Pursuant to the Companies Act and the Company's Statute, the principal responsibilities of the Supervisory Board comprise permanent supervision of the Company's operations and appointing and revoking the President and members of the Management Board. The composition of the Supervisory Board and changes of its members are presented in the accompanying financial statements.

Composition and operation of the Management Board

Pursuant to the Companies Act, the Company's Statute and the Rules of Procedure for the Management Board, the principal power of the Management Board comprises managing the operations and affairs of the Company and representing the Company before third parties. In addition, the Management Board is charged with the responsibility to undertake, autonomously or with a prior consent of the Supervisory Board, any actions and adopt any decisions it considers necessary for effective management and control of the Company's operations. This, inter alia, implies adopting Company by-laws, decisions on the business and development plans of the Company, reporting to the Supervisory Board about the business performance and position of the Company, establishing bodies or boards of the Company, as well as deciding on all other issues for which the Management Board is responsible according to the

Statute or another by-law, and those issues that, under the positive law or Statute, do not fall within the area of responsibilities of another corporate body of the Company.

Description of the Work of the General Assembly

At the General Assembly, the Company shareholders may participate and vote themselves or through their proxies, which applies to the shareholders registered at the Central Depositary and Clearing Company Inc. 21 days before the Assembly. Each ordinary share entitles to one vote at the General Assembly. The Company shareholders may participate in a General Assembly in person or through their representatives, i.e. proxies. A General Assembly is convened in cases specified by law and the Company's Statute. The Assembly is convened by the Company's Management or Supervisory Board when it is necessary for the benefit of the Company. The invitation and the agenda are published at least one month before the date of the General Assembly. Any propositions of the shareholders which counter those of the Management Board and/or Supervisory Board, containing the full name of the proposing shareholder and his or her explanation, or propositions of the shareholders regarding the appointment of the Company's auditor must be received by the Company at least 14 days prior to the General Assembly, excluding the date of receipt of the counter-proposition. Shareholders holding jointly 20th portion of the Company's share capital may require an issue to be included in the General Assembly agenda, by providing an explanation and the decision proposal. The request must be received by the Company at least 30 days in advance of the General Assembly, excluding the day of the request receipt.

The activities and decisions of the General Assembly are valid if at least 50% of the voting shares are present in a meeting. All decisions under the proposed agenda items are adopted by simple majority, except for those requiring qualified majority, i.e. three-quarters of the share capital being represented in the Assembly. Each share with a nominal amount of HRK 10.00 entitles to one vote in the Assembly.

The General Assembly is chaired by the Chairperson or Deputy Chairperson in case of the Chairperson's absence. The Chairperson and the Deputy Chairperson are elected by the General Assembly for a term of 4 (four) years based on the proposal of the Supervisory Board. The Chairperson chairs the Assembly and, before opening the discussion on the agenda items, determines the validity of proxies and the quorum. The Chairperson determines the sequence of the individual agenda item discussions, the sequence and manner of voting on the individual proposals, as well as on all procedural matters not regulated by law or the Statute. In addition, the Chairperson signs decisions adopted at the Assembly, the list of the present shareholders, the manner of voting and the voting results, makes other required notes, communicates on behalf of the Assembly with other bodies of the Company and third parties in cases stipulated by law and the Statute and performs other tasks, duties and responsibilities specified by law and the Statute.

The Members of the Management Board of Granolio d.d. in 2018 were the following:

President of the Management Board: Hrvoje Filipović (re-appointed on 23/02/2016)

Members of the Management Board: Drago Šurina (re-appointed on 23/02/2016)
Vladimir Kalčić (re-appointed on 23/02/2016)

The members of the Supervisory Board of Granolio d.d. in 2018 were the following:

President of the Supervisory Board: Franjo Filipović (re-appointed on 09/06/2016)

Members of the Supervisory Board: Braslav Jadrešić (re-appointed on 09/06/2016)
Davor Štefan (re-appointed on 09/06/2016)
Jurij Detiček (re-appointed on 09/06/2016)

This Corporate Governance Statement forms an inseparable part of the Company's Annual Report for the year 2018.

Responsibility for the Consolidated Financial Statements

Pursuant to the Accounting Act of the Republic of Croatia, the Management Board is responsible for ensuring that financial statements are prepared for each financial year in accordance with International Financial Reporting Standards ("the IFRSs") as adopted by the European Union, which give a true and fair view of the state of affairs and results of Granolio d.d. and its subsidiaries ("the Group") for that period.

After making enquiries, the Management Board has a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, the Management Board continues to accept the going concern principle when preparing the financial statements.

In preparing consolidated financial statements, the Management Board is responsible for:

- selecting and then consistently applying suitable accounting policies;
- making reasonable and prudent judgments and estimates;
- following applicable accounting standards, subject to any material departures disclosed and explained in the financial statements; and
- preparing the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Management Board is responsible for keeping proper accounting records, which shall at any time reflect with reasonable accuracy the financial position and the results of operations of the Group and their compliance with the Accounting Act. Furthermore, the Management Board is responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Management Board is also responsible for the preparation and content of the annual business and position report of the Group in accordance with the requirements of Article 18 of the Accounting Act.

Signed on behalf of and for the Management Board:

29 April 2019

Hrvoje Filipović dipl.oec.
President of the Management Board

Drago Šurina dipl.oec.
Member of the Management Board

Vladimir Kalčić dipl.oec.
Member of the Management Board

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INDEPENDENT AUDITOR'S REPORT

to the shareholders of Granolio d.d., Zagreb

Statement of Audit of the Financial Statements

Opinion

We have audited the consolidated financial statements of Granolio d.d. ("the Company") and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2018, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, except for the effects of the matter described in the *Basis for qualified opinion* section of our report, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRSs").

Basis for Qualified Opinion

On acquiring the mill operations, the Group has recognised the Mlineta and Belje brands, as disclosed in Note 14, whose value amounted to HRK 120,000 thousand in 2017. In line with the International Accounting Standard 36: "Impairment of Assets", the Group must review annually whether there are any indications that assets may be impaired. Based on the current economic situation, impairment indications are identified as existing. Significant assumptions underlying the estimated impairment loss for those assets include the realisation of the revenue from those brands on the market of the Republic of Croatia. Considering the current economic situation and the availability of information, the Management Board of the Group was not able to obtain sufficient information for making an estimate of the impairment of those assets. Therefore, we were not able to obtain sufficient appropriate audit evidence in support of the potential impairment of the brands and we could not determine if any adjustments had to be made.

We conducted our audit in accordance with the Audit Act and International Standards on Auditing ("ISAs"). Our responsibilities under those standards are described further in the *Auditor's Responsibilities for the Audit of the Annual Financial Statements* section of our Independent Auditor's Report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

The Company is registered at the Commercial Court in Zagreb under the registration number: 030022053; paid-in initial capital: HRK 44,900.00; Board Members: Branislav Vrtačnik, Marina Tonžetić, Juraj Moravek, and Dražen Nimčević; commercial bank: Zagrebačka banka d.d., Trg bana Josipa Jelačića 10, 10 000 Zagreb, bank account no. 2360000-1101896313; SWIFT Code: ZABAHR2X IBAN: HR2723600001101896313; Privredna banka Zagreb d.d., Radnička cesta 50, 10 000 Zagreb, bank account no. 2340009-1110098294; SWIFT Code: PBZGHR2X IBAN: HR3823400091110098294; Raiffeisenbank Austria d.d., Petrinjska 59, 10 000 Zagreb, bank account no. 2484008-1100240905; SWIFT Code: RZBHHR2X IBAN: HR1024840081100240905.

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INDEPENDENT AUDITOR'S REPORT (continued)

Statement of Audit of the Financial Statements (continued)

Material Uncertainty Related to Going Concern

We draw attention to Note 3.2. to the consolidated financial statements, which indicates that, based on the submitted request for pre-bankruptcy proceedings of the Company, the Commercial Court in Zagreb on 6 December 2018 adopted the final Decision on the Company's pre-bankruptcy settlement with its creditors. The Company continues to carry out measures included in the restructuring programme of the Company and the Group, maintaining the Group liquid and solvent. The Management Board of the Company believes that the Group is able to continue its operations as a going concern. Our opinion is not modified in respect of this matter.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. This matter was addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter.

Key audit matter	*How our audit addressed the key audit matter*
Income Pay attention to Notes 3.11 and 5 in the financial statements Revenue is measured at the fair value of the consideration received or receivable for products, goods or services sold in the ordinary course of the Company's operations. Revenue is recognised net of value-added tax, volume and cash discounts. Group recognises revenue when the amount of the revenue can be measured reliably, when future benefits will flow into the Group and when the specific requirements, set out below, applicable to all the activities of the Group are met. (i) Income from the wholesale of products and trade goods The Group produces and distributes own products and third-party trading (wholesale services). Wholesale revenue is recognised when the Group has delivered the goods to the wholesaler, when it no longer controls the management of the goods and when there is no outstanding liability that could affect the acceptance of the products by the wholesaler.	The procedures applied by us included inquiries of the management, testing the structure and efficiency of internal control procedures as well as tests of details to satisfy ourselves with the accuracy of the revenue transactions. >> We assessed the relevant IT systems and the design and operational effectiveness of controls over capturing and recording of revenue transactions. We involved our IT specialists to assist in the audit of the automated controls. >> We assessed the existing controls over the authorisation of sales booking and recognition. >> We tested the accuracy on a sample of invoices issued to customers. >> We tested significant adjustments made by the management in order to assess the completeness and accuracy of the revenue. >>We tested the evidence supporting journal entries made manually to revenue accounts in order to identify any unusual items.

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INDEPENDENT AUDITOR'S REPORT (continued)

Statement of Audit of the Financial Statements (continued)

Key Audit Matters (continued)

Key Audit Matter	*How our audit addressed the key audit matter*
A delivery is considered completed upon the delivery of the products to a specific location, when the risk of loss is transferred to the wholesaler and when one of the following conditions is met: the wholesaler has accepted the goods in accordance with the contract or the withdrawal period has expired or the Group has objective evidence that all the terms of delivery have been met. Products are sold at the agreed volume discounts, with the right of the customers to return faulty products and goods. Sales are recognised at prices defined in the underlying sales contracts, less any estimated volume discounts, cash discounts and returns. The discounts and returns are estimated based on past experience. Volume discounts are estimated based on the anticipated annual sales. Amounts receivable for sales made under terms and conditions that involve financing elements, i.e. where the collection period is longer than 60 days, are classified as current financial assets.	We confirmed the validity of the assumptions and key estimates made by the management in accounting for the revenue.

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INDEPENDENT AUDITOR'S REPORT (continued)

Statement of Audit of the Financial Statements (continued)

Key Audit Matters (continued)

Key Audit Matter	*How our audit addressed the key audit matter*
Pre-bankruptcy settlement debt write-off Pay attention to Notes 3.2, and 12 in the financial statements Under the pre-bankcrutpcy settlement ("PBS"), the Commercial Court in Zagreb adopted a Decision approving the pre-bankruptcy settlement for the Group on 6 December 2018. The pre-bankruptcy settlement entered into force on 28 December 2018. The PBS agreed on the requirements for writing off debts of the Company to financial institutions and suppliers in the amount of HRK 91,396 thousand. In 2018, the Group wrote off liabilities in the amount of HRK 91,396 thousand.	The procedures we applied included inquiries to the management, reading the Decision on PBS, and testing details to ascertain the accuracy of the revenue recognition. Our audit procedures which refer to liability write-off in line with the PBS by the Management of the Group entail: we determined that the effective PBS agreed on the write-off of Company's debts in the amount of HRK 91,396 thousand; we determined that, in line with the Court Decision on PBS, the Group recorded a liability write-off in the amount of HRK 91,396 thousand in 2018 as income for the period; we determined that the write-off was done in line with International Financial Reporting Standards, as adopted in the European Union; we reviewed the information disclosed in the financial statements concerning additional information on liability write-off per bonds issued in line with the approved PBS.

Other Information

Other information is the responsibility of the Management Board. The other information comprises the information included in the Annual Report, but does not include the consolidated financial statements and our auditor's report. Our opinion on the consolidated financial statements does not cover other information and we do not express any other type of conclusion with providing assurance on it.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the unconsolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. With respect to the Management Report and the Corporate Governance Statement, which are included in the "Annual Management Board report on the business performance and position of the Group for the year 2018" and "Corporate Governance Statement", we have also performed the procedures prescribed by the Accounting Act. These procedures include examination of whether the Management Report and Corporate Governance Statement include required disclosures as set out in the Articles 21 and 22 of the Accounting Act and whether the Corporate Governance Statement includes the information specified in the Article 22 of the Accounting Act.

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INDEPENDENT AUDITOR'S REPORT (continued)

Statement of Audit of the Financial Statements (continued)

Other Information (continued)

Based on the procedures performed during our audit, to the extent we are able to assess it, we report that:

1. Information included in the other information is, in all material respects, consistent with the attached consolidated financial statements;
2. Management Report of the Group has been prepared, in all material respects, in accordance with Articles 21 and 24 of the Accounting Act;
3. Corporate Governance Statement has been prepared, in all material aspects, in accordance with Article 22, paragraph 1, points 3 and 4 of the Accounting Act, and includes also the information from Article 22, paragraph 1, points 2, 5, 6 and 7 and Article 24, paragraph 2 of the same Act.

As previously described in the *Basis for Qualified Opinion* section, we were not able to obtain sufficient and appropriate evidence regarding the carrying amount of Mlineta and Belje brands, with recognised value in the amount of HRK 120,000 thousand as at 31 December 2018. Therefore, we were not able to conclude whether or not the other information were materially misstated concerning this issue.

Except for the potential effects of the matter described in the *Basis for Qualified Opinion* section of our report, and based on the knowledge and understanding of the Company and its environment, which we gained during our audit of the consolidated financial statements, we have not identified material misstatements in the other information.

Responsibilities of the Management and Those Charged with Governance for the Annual Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs and for such internal control as the Management Board determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the accompanying annual financial statements, the Management Board is responsible for assessing the Group's ability to continue as a going concern, disclosing, where appropriate, whether the use of the going concern basis of accounting is appropriate. The use of the going concern basis of accounting is appropriate unless the Management Board either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the financial reporting process established by the Group.

Auditor's Responsibilities for the Audit of the Annual Financial Statements

Our objectives are to obtain reasonable assurance about whether the annual financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

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INDEPENDENT AUDITOR'S REPORT (continued)

Statement of Audit of the Financial Statements (continued)

Auditor's Responsibilities for the Audit of the Financial Statements (continued)

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control;
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management;
- Conclude on the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements in the context of the applicable financial reporting framework. We also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial statements. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We are also required to provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we are required to determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless a law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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INDEPENDENT AUDITOR'S REPORT (continued)

Reporting in line with Other Legal and Regulatory Requirements

Other Regulatory Requirements of Regulation (EU) No. 537/2014 of the European Parliament and the Council and Audit Act

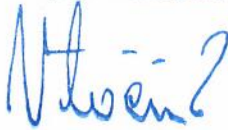
We were appointed as the statutory auditor of the Group by the General Assembly on 13 June 2018 to perform the audit of accompanying consolidated financial statements. Our total uninterrupted engagement has lasted 4 years and covers the period from 31 December 2015 to 31 December 2018.

We confirm that:

- Our audit opinion on the accompanying consolidated financial statements is consistent with the additional report issued to the Audit Committee of the Group on 29 April 2019, in accordance with the Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and the Council;
- no prohibited non-audit services referred to in the Article 5(1) of Regulation (EU) No. 537/2014 of the European Parliament and the Council were provided.

There are no services, in addition to the statutory audit, which we provided to the Group, and which have not been disclosed in the Annual Report.

The engagement partner on the audit resulting in this independent auditor's report is Vanja Vlak.



Branislav Vrtačnik
Member of the Board

Vanja Vlak
Certified Auditor

Deloitte d.o.o.

29 April 2019

Radnička cesta 80

10 000 Zagreb

Republic of Croatia

Consolidated Statement of Comprehensive Income
for the year ended 31 December 2018

	Note	2018	2017
		(in thousands of HRK)	
Income			
Sales revenue	5	515,448	608,570
Other operating income	6	23,123	19,706
Total operating income		**538,570**	**628,276**
Changes in inventories	17	102	4,106
Material expenses	7	(452,459)	(550,651)
Staff costs	8	(37,889)	(40,955)
Depreciation and amortisation	14.15	(30,585)	(31,937)
Other costs	10	(7,746)	(10,296)
Value adjustment expenses	9	(6,166)	(165,102)
Other operating expenses	11	(7,979)	(14,641)
Total operating expenses		**(542,722)**	**(809,476)**
Operating losses		**(4,152)**	**(181,200)**
Financial income	12	93,927	5,130
Financial expenses	12	(4,822)	(26,717)
Net financial result		**89,105**	**(21,587)**
Result before taxation		**84,954**	**(202,786)**
Income tax	13	(1,014)	(25)
Profit/(loss) after taxation		**83,940**	**(202,811)**
Other comprehensive income			
Items that are subsequently reclassified to profit or loss:			
- Financial assets held for sale, reclassification to profit or loss		-	-
Total comprehensive income/(loss)		**83,940**	**(202,811)**
Total comprehensive income/(loss) for the year attributable to:			
Owners of the Company		*81,861*	*(201,662)*
Non-controlling interests	23	*2,079*	*(1,149)*
Earnings per share			
Basic and diluted earnings/loss per share (in HRK and lipas)	29	43.05	(106.05)

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

Consolidated Statement of Financial Position
at 31 December 2018

(in thousands of HRK)

	Note	31 December 2018	31 December 2017
I NON-CURRENT ASSETS			
Intangible assets			
1 Goodwill		-	-
2 Trademarks, concessions, licenses		120,000	120,000
3 Customer list		2,364	4,030
4 Software and other intangible assets		453	737
	14	**122,817**	**124,767**
Property, plant and equipment			
1 Land		23,643	23,610
2 Buildings		214,789	223,325
3 Plant, equipment, vehicles and tools		50,142	59,861
4 Biological assets		9,939	10,111
5 Advance payments for tangible assets		402	355
6 Other tangible assets		80	81
7 Tangible assets under construction		11,014	10,437
8 Investment property		5,047	432
	15	**315,056**	**328,212**
Financial assets			
1 Investments at fair value through profit or loss	16a	9,870	13,496
2 Given loans, deposits and similar	16b	302	396
		10,172	**13,892**
Non-current receivables		**15**	**15**
Deferred tax assets	13	**1,103**	**2,100**
II CURRENT ASSETS			
Inventories	17	**68,515**	**74,430**
Receivables			
1 Receivables from related parties	28	665	493
2 Trade receivables	18a	95,436	112,471
3 Receivables from employees		-	4
4 Receivables from the State and other institutions	18b	5,687	8,711
5 Other receivables	18c	31,120	26,607
		132,908	**148,285**
Financial assets			
1 Loans to related parties	19b,29	10,191	14,676
2 Investments in securities	19a	178	178
3 Given loans, deposits and similar	19b	22,150	13,499
		32,520	**28,353**
Cash and cash equivalents	20	**10,340**	**3,605**
Prepaid expenses and accrued income	21	**667**	**1,279**
TOTAL ASSETS		**694,112**	**724,939**

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Consolidated Statement of Financial Position

at 31 December 2018 (continued)

(in thousands of HRK)

	Note	31 December 2018	31 December 2017
I EQUITY AND RESERVES			
1 Subscribed capital		19,016	19,016
2 Capital reserves		84,196	84,187
3 Revaluation reserves		57,678	60,117
4 Legal reserves		408	408
5 Reserves for own shares		800	800
6 Retained earnings		(199,591)	(869)
7 Profit or loss for the year		81,861	(201,662)
	22	**44,369**	**(38,003)**
Non-controlling interests	23	**60,437**	**58,359**
II NON-CURRENT LIABILITIES			
1 Deferred tax liability	13	12,661	13,196
2 Liabilities for loans, deposits and similar		11	11
3 Liabilities to banks and other financial institutions	24	385,274	71,876
4 Liabilities for securities	24	32,775	-
5 Trade payables	24a	51,906	186
		482,628	**85,269**
III CURRENT LIABILITIES			
1 Liabilities to banks and other financial institutions	24	30,536	366,511
2 Liabilities for prepayments		668	2,986
3 Trade payables	25a	48,362	102,605
4 Liabilities for securities	25b	8,870	46,741
5 Liabilities to employees		2,255	2,189
6 Taxes, contributions and similar duties payable	25c	3,909	4,014
7 Accrued interest		59	12,264
8 Accrued expenses and deferred income	26	11,141	13,379
9 Other current liabilities	25d	878	68,626
		106,679	**619,314**
TOTAL LIABILITIES		**694,112**	**724,939**

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

Consolidated Statement of Changes in Equity

(in thousands of HRK)

	Subscribed capital	Capital reserves	Legal reserves	Reserves for own shares	Revaluation reserves	Retained earnings/(transferred loss)	Profit (loss) for the year	Total for the Group	Non-controlling interest	Total
As at 1 January 2017	**19,016**	**84,187**	**283**	**800**	**61,562**	**7,812**	**772**	**174,432**	**59,507**	**233,940**
Loss for the year	-	-	-	-	-	-	(201,659)	(201,659)	(1,149)	**(202,807)**
Total other comprehensive income for the year	-	-	-	-	-	-	**(201,659)**	**(201,659)**	**(1,149)**	**(202,807)**
Transfer of revaluation reserves to retained earnings	-	-	-	-	(2,983)	2,983	-	-	-	-
Overview of results for 2016	-	-	125	-	-	647	(772)	-	-	-
Income tax transfer	-	-	-	-	1,539	655	-	**2,194**	-	**2,194**
Impairment of non-current assets	-	-	-	-	-	(13,026)	-	**(13,026)**	-	**(13,026)**
Consolidation adjustments	-	-	-	-	-	60	-	**60**	-	**60**
Balance at 31 December 2017	**19,016**	**84,187**	**408**	**800**	**60,117**	**(868)**	**(201,659)**	**(37,999)**	**58,359**	**20,360**
Balance at 1 January 2018	**19,016**	**84,187**	**408**	**800**	**60,117**	**(868)**	**(201,659)**	**(37,999)**	**58,359**	**20,360**
Profit for the year	-	-	-	-	-	9	81,861	81,870	2,079	**83,949**
Total other comprehensive income for the year	-	-	-	-	-	**9**	**81,861**	**81,870**	**2,079**	**83,949**
Transfer of revaluation reserves to retained earnings	-	-	-	-	(2,996)	2,996	-	-	-	
Overview of results for 2017	-	-	-	-	-	(201,659)	201,659	-	-	
Income tax transfer	-	-	-	-	(122)	657	-	**535**	-	**535**
	-	9	-	-	679	(727)	-	**(38)**	-	**(38)**
Balance at 31 December 2018	**19,016**	**84,196**	**408**	**800**	**57,678**	**(199,591)**	**81,861**	**44,369**	**60,437**	**104,806**

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

Consolidated Statement of Cash Flows
for the year ended 31 December 2018

	Note	2018	(in thousands of HRK) 2017
Result before taxation		**84,954**	**(202,786)**
Adjusted by:			
Depreciation and amortisation	14,15	30,585	31,937
Natural increase	14	(4,182)	(4,300)
Gains arising on the disposal or retirement of main assets, net		2,876	2,858
Value adjustment of trade and other receivables	9	521	16,377
Value adjustment of financial assets	9	-	148,725
Inventory surplus		(2,744)	(92)
Net interest cost	12	2,151	22,638
(Gains)/losses from other financial activities	9	3,626	(449)
Stock transactions		-	(771)
Pre-bankruptcy settlement debt write-off	12	(91,395)	-
Other		(3,777)	(4,838)
Operating result before changes in working capital		**22,615**	**9,300**
Decrease in inventories	17	8,758	16,363
Decrease in current receivables		22,041	124,849
(Decrease in) current liabilities		(3,105)	(104,220)
Increase/(decrease) in accruals		190	574
Increase in deferrals		612	3,322
Received/(paid) advances		(9,645)	(561)
Operating result after changes in working capital		**41,466**	**49,627**
Income taxes paid		(490)	2,248
Cash flow from operating activities		**40,975**	**51,875**
Interest received		146	1,314
Payments to acquire property, plant, equipment and intangibles		(9,671)	(7,857)
Deposits paid/(received)		37	-
Payments for given loans	19	(15,987)	(21,937)
Repayments of given loans	19	7,437	10,394
Cash generated from investing activities		**(18,036)**	**(18,086)**

Consolidated Statement of Cash Flows (continued)
for the year ended 31 December 2018

(in thousands of HRK)

	Note	2018	2017
Repayment of borrowings	24	(53,212)	(74,096)
Proceeds from borrowings	24	43,552	40,782
Net proceeds from/(payments of) securities	25b	-	6,970
Repayment of finance leases	24	(1,465)	(2,316)
Proceeds from finance leases	24	-	2,049
Interest paid		(5,079)	(13,299)
Cash flow from financial activities		**(16,204)**	**(39,909)**
Net changes in cash and cash equivalents		**6,735**	**(6,121)**
Cash at the beginning of the period		3,605	9,726
Cash at the end of the period	**21**	**10,340**	**3,605**

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

1 GENERAL INFORMATION

Granolio d.d. ('the Company') was incorporated as a Croatian joint stock company in December 1996. The registered seat of the Company is in Zagreb and its business units are located in Gornji Draganac, Slavonski Brod, Velika Kopanica, Osijek, Vinkovci and Beli Manastir.

Based on Decision No. 48. St-2021/2017 dated 27 July 2018, the Commercial Court in Zagreb has opened a pre-bancrupcy procedure against Granolio d.d. and nominated Nada Reljic at the commissioner. On 6 December 2018, at the hearing for the amended restructuring plan vote at the Commercial Court in Zagreb, the restructuring plan was approved. The Court's Decision confirming the pre-bankruptcy agreement entered into force on 28 December 2018.

At 31 December 2018 and at 31 December 2017 the Management Board of Granolio d.d. consisted of the following members:

Hrvoje Filipović - Chairman (since 23 February 2011),
Vladimir Kalčić - Member (since 23 February 2011),
Drago Šurina - Member (since 23 February 2011), and

At 31 December 2018 and at 31 December 2017 the Supervisory Board of Granolio d.d. consisted of the following members:

Franjo Filipović – Chairman (since 23 February 2011),
Jurij Detiček – Member (since 23 February 2011),
Braslav Jadrešić – Member (since 23 February 2011),
Davor Štefan – Member (since 16 January 2015).

Subsidiaries

Basic information of the Granolio Group's material subsidiaries at the end of the reporting period are as follows:

Name of subsidiary	Core activity	Place of incorporation and operation	Proportion of ownership interest and voting rights held by the Group	
			2018	2017
Zdenka - mliječni proizvodi d.o.o.	Production of dairy, trade and services	Veliki Zdenci	50%	50%
Žitar d.o.o.	Agriculture, trade and services	Donji Miholjac	49.69%	49.69%
Žitar konto d.o.o.	Services and trade	Donji Miholjac	49.69%	49.69%
Zdenačka farma d.o.o.	Production of milk, cattle breeding and farm production	Veliki Zdenci	100%	100%
Prerada žitarica d.o.o.	Production of milling products and feed	Grubišno polje	0%	100%

1 GENERAL INFORMATION (continued)

The core activities of Granolio d.d. and its subsidiaries comprise the production of food, agricultural production, warehousing of agricultural products and trade in bakery industry products, agricultural products and raw materials for agricultural production.

In mid 2007, the Company acquired the entire share in Zdenačka farma d.o.o., Veliki Zdenci, for HRK 2,820 thousand. The subsidiary produces high-quality milk produced by dairy cows of high genetic potential.

Pursuant to the decision of the Company's General Assembly dated 16 March 2015, the share capital of Zdenačka farma was increased from HRK 13,520 thousand to HRK 29,520 thousand.

In mid 2008, the Company acquired the entire equity share in Prerada žitarica d.o.o., Grubišno Polje, for HRK 5,205,983. The subsidiary's activities include grains warehousing and drying. As at 27 November 2017, the share capital of Prerada Žitarica was increased from HRK 23,121 thousand to HRK 63,821 thousand by issuing a new business share in the amount of HRK 40,700 thousand. The company Prerada žitarica d.o.o. was merged to the parent company on 30 April 2018.

In 2011, Granolio d.d. acquired a controlling interest in the subsidiary, enabling it to exercise power in making operational decisions of its subsidiaries, as well as to govern the financial and business policies, the appointment of the members of the Management Board or the majority of vote at Zdenka mliječni proizvodi d.o.o. and Žitar d.o.o.

The Company Zdenka-mliječni proizvodi d.o.o. registered on 10 April 2002 at the Commercial Court in Bjelovar pursuant to the Decision number Tt-02 / 396-2 as a limited liability company.

Management Board of the Company consists of Mr Željko Gatjal, dipl.oec., and the Chairman of the Supervisory Board is Mr Hrvoje Filipović dipl. oec. Granolio d.d. participates in the ownership structure of Zdenka – mliječni proizvodi d.o.o. with a 50% share.

The Company IPK Kapelna d.o.o. registered on 4 December 1998 in the court register as a limited liability company. In line with the Commercial Court in Osijek Decision Tt-99 / 586-4 of 7 May 1999, the Company is recorded in the general ledger of the Court Registry under the registration number (MBS): 030064710. On 1 January 2011, the company Novi Žitar d.o.o., Donji Miholjac was merged to the company Kapelna d.o.o.

According to the Decision of the Commercial Court in Osijek Tt-11 / 314-2 of 8 February 2011, the company Kapelna d.o.o. changed the company name to ŽITAR društvo s ograničenom odgovornošću za poljoprivrednu proizvodnju, trgovinu i usluge, with the TAX ID number 66951972250. Mr Željko Tadić, as a member of the Management Board and CEO, represents the company independently. Granolio d.d has a 49.690% share in the company Žitar d.o.o.

Company Granolio d.d. acquired business shares in the company Zdenka in 2010, and in the company Žitar d.o.o. in 2011.

On 4 March 2019 the Company sold its shares in the company Žitar d.o.o. The transaction was entered into the court registry on 14 March 2019.

2. APPLICATION OF NEW AND AMENDED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSS) AND INTERPRETATIONS

2.1. Initial application of new amendments to the existing standards and interpretations effective for the current financial period

The following amendments to the existing standards and new interpretation issued by the International Accounting Standards Board (IASB) and adopted by the EU are effective for the current financial period:

- **IFRS 9 "Financial Instruments"**, adopted by the EU on 22 November 2016 (effective for annual periods beginning on or after 1 January 2018),
- **IFRS 15 "Revenue from Contracts with Customers"** and amendments to IFRS 15 "Effective date of IFRS 15", adopted by the European Union on 22 September 2016 (effective for annual periods beginning on or after 1 January 2018),
- **Amendments to IFRS 2 "Share-based Payment"** – "Classification and Measurement of Share-based Payment Transactions" (effective for annual periods beginning on or after 1 January 2018),
- **Amendments to IFRS 4 "Insurance Contracts"** – "Applying IFRS 9 'Financial Instruments' with IFRS 4 "Insurance Contracts'", adopted by the European Union on 3 November 2017 (effective for annual periods beginning on or after 1 January 2018 or for periods when an entity first applies IFRS 9 "Financial Instruments"),
- **Amendments to IFRS 15 "Revenue from Contracts with Customers"** – Clarifications to IFRS 15 "Revenue from Contracts with Customers", adopted by the European Union on 31 October 2017 (effective for annual periods beginning on or after 1 January 2018),
- **Amendments to IAS 40 "Investment Property"** - "Transfers of Investment Property", adopted by the EU on 14 March 2017 (effective for annual periods beginning on or after 1 January 2018),
- **Amendments to IFRS 1 and IAS 28 "Improvements to IFRSs (cycle 2014-2016)"** resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording – adopted by the EU on 7 February 2018 (amendments to IFRS 1 and IAS 28 are to be applied for annual periods beginning on or after 1 January 2018),
- **IFRS 22 "Foreign Currency Transactions and Advance Consideration"**, adopted by the European Union on 28 March 2018 (effective for annual periods beginning on or after 1 January 2018),

The adoption of these amendments to the existing standards has not led to any material changes in the Group's financial statements.

2. APPLICATION OF NEW AND AMENDED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSS) AND INTERPRETATIONS (CONTINUED)

2.1. Initial application of new amendments to the existing standards and interpretations effective for the current financial period

Impact of initial application of IFRS 9 *Financial Instruments*

In the current year the Group applied IFRS 9 *Financial Instruments* (amended in July 2014) and the related amendments of other IFRSs that are effective for the annual period beginning on or after 1 January 2018. The transitional provisions of IFRS 9 allow subjects to not adjust comparable data, which the Group took advantage of.

In addition, the Group adopted amendments to IFRS 7 *Financial instruments*: *Disclosures applied to disclosures for 2019*.

IFRS 9 introduced new requirements for:

1) Classification and measurement of financial assets and financial liabilities,
2) Impairment of financial assets, and
3) General hedge accounting.

Below are the details of these new requirements, as well as their impact on the Company's consolidated financial statements.

The Group calculated the effect of change of IFRS 9 in line with transitional provisions provided in IFRS 9, and the effects of the change are not material.

(a) Classification and measurement of financial assets

The date of first application (i.e. the date on which the Group assessed the existing financial assets and financial liabilities in accordance with the IFRS 9 requirements) is 1 January 2018. Accordingly, the Group applied the IFRS 9 requirements to the instruments which continued to be recognised as of 1 January 2018 and did not apply requirements to the instruments that had already ceased to be recognised on 1 January 2018.

All recognised financial assets within the framework of IFRS 9 should be subsequently measured at depreciated cost, fair value through other comprehensive income or fair value through profit or loss on the basis of the business model of the subject for the management of financial assets and contractual cash flow characteristics of financial assets.

In particular:

- debt instruments held within a business model whose objective is to gather contractual cash flows, and which have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, later measured at depreciated cost;
- debt instruments held within the business model whose objective is to gather contracted cash flows and sell debt instruments, and which have contracted cash flows that are solely payments of principal and interest on the principal amount outstanding, later measured at fair value through other comprehensive income (FVTOCI);
- all other debt investments and equity investments, allocated in other models or insofar as they have not met the criteria of contractual cash flows, they are subsequently measured at fair value through profit or loss.

2. APPLICATION OF NEW AND AMENDED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSS) AND INTERPRETATIONS (CONTINUED)

2.1. First application of new amendments to existing standards and interpretations in force for the current financial period (continued)

Impact of initial application of IFRS 9 *Financial Instruments (continued)*

Despite the aforementioned, the Group may upon the initial recognition of financial assets irrevocably determine the following:

- The Group may irrevocably decide on subsequent changes to the fair value of investments in equity that are not held for trading nor as contingent amounts recognised by an acquirer in a business merger, in other comprehensive income (FVTOCI option);
- The Group may irrevocably decide on debt investments that comply with depreciated costs or FVTOCI criteria that are measured at fair value through profit or loss if this eliminates or significantly reduces accounting discrepancies (FVTPL option).

In the current year, the Group has not designated any debt investments that meet the amortised cost or FVTOCI criteria as measured at FVTPL.

In the event that recognition of debt investment measured at FVTOCI ceases, cumulative profit or loss previously recognised in other comprehensive income is reclassified from capital in profit or loss as an adjustment due to reclassification. In the event that recognition of equity investment for which the FVTOCI option has been selected ceases, cumulative profit or loss previously recognised in other comprehensive income is later transferred to retained earnings.

Debt instruments that are subsequently measured at depreciated cost or at FVTOCI, are subject to impairment (see paragraph (b)).

Management of the Group has reviewed and assessed the existing financial assets of the Group as at 1 January 2018 on the basis of facts and circumstances that existed on this date and concluded that the initial application of IFRS 9 did not have an impact on the financial assets of the Group with respect to classification and measurements.

Based on the performed analysis, the Group concluded that the given loans do not comprise clauses which would lead to contractual cash flows test failure. Given loans were contracted with a fixed interest rate reflecting the time value of money. Following the aforementioned, there are no loans which would consequently be measured at fair value through profit or loss. In particular, in line with the implemented procedures, the Group measures all of its financial assets at depreciated cost.

(b) Impairment of financial assets

In relation to impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to the incurred loan loss model according to IAS 39. The expected credit loss model requires that the Group takes into account the expected credit losses and changes in these expected credit losses on each reporting date so as to reflect changes in credit risk from the initial recognition of financial assets. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

Namely, IFRS 9 requires that the Group recognises expected credit losses on:

1) Debt instruments measured subsequently at depreciated cost or at FVTOCI;
2) Lease receivables;
3) Trade receivables and contracted assets; and

4) Financial guarantee contracts to which IFRS 9 impairment requirements apply.

2. APPLICATION OF NEW AND AMENDED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSS) AND INTERPRETATIONS (CONTINUED)

2.1. First application of new amendments to existing standards and interpretations in force for the current financial period (continued)

Impact of initial application of IFRS 9 *Financial Instruments (continued)*

(b) Impairment of financial assets (continued)

In particular, IFRS 9 requires the Group to measure provisions for expected loan losses for financial instruments in the amount equal to life-long expected credit losses (ECL) if the credit risk of the relevant financial instrument significantly increased since the initial recognition, if there is objective proof of an impairment, and in the case of purchased or incurred credit-impaired financial assets. However, if the credit risk for the financial instrument has not significantly increased since the initial recognition (aside from purchased or incurred credit-impaired financial assets), the Group shall be obliged to measure the loss for this financial instrument in the amount equal to a 12-month ECL. IFRS 9 also requires a simplified approach to measuring provisions for losses in an amount equal to life-long ECL for trade receivables, contractual assets and receivables for leases under certain circumstances. The Group applies a simplified approach for trade receivables.

(a) Classification and measurement of financial liabilities

A significant change introduced through IFRS 9 as regards the classification and measurement of financial liabilities refers to calculation of changes in the fair value of financial liabilities, measured at fair value through profit or loss, and which may be attributed to the changes in credit risk of the issuer.

Namely, IFRS 9 requires that changes in the fair value of financial liabilities that may be attributed to changes in credit risks of those liabilities are recorded in other comprehensive income, except in the case when the recognition of the impact of changes in the credit risk of liabilities in other comprehensive income would create or increase the accounting discrepancies in profit or loss. Changes in fair value that may be attributed to loan risk of financial liabilities are subsequently not reclassified to profit or loss, they are rather transferred to retained profit when the financial liability ceases to be recognised. According to IAS 39, the entire amount of changes to the fair value of financial liabilities carried measured at fair value through profit or loss was shown in the profit and loss account.

The Group has no financial liabilities that are measured at fair value through profit or loss.

2. APPLICATION OF NEW AND AMENDED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSS) AND INTERPRETATIONS (CONTINUED)

2.2. Standards and amendments to the existing standards issued by IASB and adopted by the EU but not yet effective

At the date of authorising financial statements for issue, the following new standards issued by IASB were adopted, but not yet effective in the European Union:

- **IFRS 16 "Leases"**, adopted by the European Union on 31 October 2017 (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to IFRS 9 "Financial Instruments"** – "Prepayment Features with Negative Compensation", adopted by the European Union on 22 March 2018 (effective for annual periods beginning on or after 1 January 2019),
- **IFRIC 23 "Uncertainty over Income Tax Treatments"** – adopted by the European Union on 23 October 2018 (effective for annual periods beginning on or after 1 January 2019).

The Group has decided not to adopt these new standards and amendments to existing standards in advance of their effective dates. The Management Board does not anticipate that the application of IFRS 16 will have a significant impact on the amounts recognised in the Group's assets and liabilities. However, the effect of application of IFRS 16 cannot be realistically assessed until an exhaustive review is finalised. In terms of amendments to IFRS 9 and IFRIC 23, the Group does not expect the amendments to the standards to lead to any material changes in the Group's financial statements during their initial application.

2.3 New standards and amendments to the existing standards issued by IASB but not yet adopted by the EU

IFRSs currently in effect in the European Union do not differ significantly from regulations issued by the International Accounting Standards Board (IASB), except for the following, amendments to existing standards and interpretations regarding whose adoption no decision was made by the European Union as at 21 February 2019 (effective dates listed below relate to IFRSs as a whole):

- **IFRS 14 "Regulatory Deferral Accounts"** (effective for annual periods beginning on or after 1 January 2016) – the European Commission decided to delay the adoption of this transitional standard until the issue of its final version,
- **IFRS 17 "Insurance Contracts"** (effective for annual periods beginning on or after 1 January 2021),
- **Amendments to MFSI 3 "Business Combinations"** – Defining business operations (effective for business combinations with the acquisition date on or after the start of the first annual reporting period starting on or after 1 January 2020 and obtaining funds on or after the starting date of the relevant period).
- **Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures"** – "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture" and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded), Amendments to various standards "Improvements to IFRSs (cycle 2015-2017)", resulting from the annual improvement project of IFRSs (IFRS 3, IFRS 11, IAS 12 and IAS 23) primarily with a view to remove inconsistencies and clarify wording (effective for annual periods beginning on or after 1 January 2019),

2. APPLICATION OF NEW AND AMENDED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSS) AND INTERPRETATIONS (CONTINUED)

2.3 New standards and amendments to the existing standards issued by IASB but not yet adopted by the EU (continued)

- **Amendments to IAS 1 "Presentation of financial statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors"** – Definition of Material (effective for annual periods starting on or after 1 January 2020),
- **Amendments to IAS 19 "Employee Benefits"** entitled "Plan Amendment, Curtailment or Settlement" (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to IAS 28 "Investments in Associates and Joint Ventures"** – "Long-term Interests in Associates and Joint Ventures" (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to various standards entitled "Improvements to IFRS Standards 2015-2017 Cycle"** resulting from the annual IFRS improvement project (IFRS 3, IFRS 11, IAS 12 and IAS 23) primarily aimed at eliminating inconsistencies and clarifying wording (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to Conceptual Framework for IFRS** (effective for annual periods beginning on or after 1 January 2020),

According to the Group's estimates, the adoption of relevant new accounting standards and amendments to existing standards will not materially affect the Group's financial statement in the period of their initial application. Hedge accounting in the portfolio of financial assets and liabilities whose principles were not adopted in the EU is still unregulated.

According to the Group's estimates, the application of hedge accounting to financial assets or liabilities portfolio in line with IAS 39 "Financial instruments: Recognition and Measurement" would not significantly affect the Group's financial statements at the period of their first application.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Set out below are the principal accounting policies of the Company adopted in the preparation of these consolidated financial statements. The Group and all its subsidiaries have applied the accounting policies set out below consistently to all periods presented in these consolidated financial statements.

3.1 Statement of compliance

The consolidated financial statements are prepared in accordance with the International Financial Reporting Standards ("the IFRSs") as adopted by the European Union.

3.2 Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis, except for certain properties and financial instruments that are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting policies below, and in line with the International Financial Reporting Standards ("the IFRSs") as adopted by the European Union, and Croatian laws. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

The Group keeps accounting records in Croatian, in HRK, and in line with Croatian law and regulations.

The preparation of financial statements in conformity with International Financial Reporting Standards (IFRSs) requires the use of certain key accounting estimates. It also requires the Management Board to exercise its judgement in the process of applying the Group accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

On 6 December 2018, at the hearing for the amended restructuring plan vote at the Commercial Court in Zagreb, the restructuring plan was approved. The Court's Decision confirming the pre-bankruptcy agreement entered into force on 28 December 2018. It is expected that the Company will continue its operations and pay its liabilities in line with the voted settlement.

The Company expects to continue its operations as a going concern and to settle all liabilities determined in the pre-bankruptcy settlement procedure, in the manner agreed in the pre-bankruptcy settlement. A further investment and business plan will depend on the restructuring plan adopted under the pre-bankcrutpcy settlement.

3.3 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including structured entities) controlled by the Company and its subsidiaries. Control is achieved when:

- the Company has power or has the ability to use its power over the investee;
- the Company is exposed to or has rights to variable returns from its involvement with the investee;
- the Company is capable of using its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

FWhen the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- Share of voting rights in relation to the size and distribution of the voting rights of other persons entitled to vote;
- Potential voting rights held by the Company, other vote holders or other parties;
- Rights arising from other contractual arrangements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.3 Basis of consolidation

• Any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

The subsidiary is consolidated, or cease to be consolidated from the moment in which the Company acquires or loses control over it. Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date on which the Company acquires control until the date on which the Company loses control of the subsidiary.

Profit or loss and each component of other comprehensive income are separated on the part of the owners of the parent (Company) and on the part of the owners of non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the company and the owners of non-controlling interests, even if this leads to a negative balance of non-controlling interests.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between i) the total fair value of the fee received and the fair value of eventual retained interest ii) the previous carrying amount of assets (including goodwill) and liabilities of the subsidiary, and every non-controlling interest. All figures are based on the subsidiary previously been recognized in other comprehensive income are accounted as if the Group had directly sold the assets or liabilities of that company, i.e. figures are transferred to profit or loss, or in any of the components of shareholders' equity in accordance with applicable IFRS. The fair value of the retained interest in the former subsidiary at the date of loss of control at the subsequent accounting under IAS 39, regarded as the fair value of initial recognition and, if it is applicable, as a cost during the initial recording of shares in the associate or joint venture.

3.4 Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with IAS 12 "Income Taxes" and IAS 19 "Employee benefits" respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 "Share-based Payment"at the acquisition date; and
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis.
Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.4 Business combinations (continued)

Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity.

Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IAS 39, or IAS 37 "Provisions, Contingent Liabilities and Contingent Assets", as appropriate, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to its acquisition-date fair value and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

3.5 Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see Note 3.21) less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

The Group's policy for goodwill arising on the acquisition of an associate and a joint venture is described in Note 3.21.

3.6 Interests in associates and joint ventures

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.6 3.6 Interests in associates and joint ventures (continued)

The results, assets and liabilities of associates or joint ventures are incorporated in financial statements using the equity method of accounting, except when the investment, or a portion thereof, is classified as held for sale, in which case it is accounted for in accordance with IFRS 5. Under the equity method, an investment in an associate or a joint venture is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate or joint venture. When the Group's share of losses of an associate or a joint venture exceeds the Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. On acquisition of the investment in an associate or a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The requirements of IAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate or a joint venture. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 "Impairment of Assets" as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

The Group discontinues the use of the equity method from the date when the investment ceases to be an associate or a joint venture, or when the investment is classified as held for sale. When the Group retains an interest in the former associate or joint venture and the retained interest is a financial asset, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with IAS 39. The difference between the carrying amount of the associate or joint venture at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a part interest in the associate or joint venture is included in the determination of the gain or loss on disposal of the associate or joint venture. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate or joint venture on the same basis as would be required if that associate or joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate or joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the equity method is discontinued.

The Group continues to use the equity method when an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate. There is no remeasurement to fair value upon such changes in ownership interests.

When the Group reduces its ownership interest in an associate or a joint venture, but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities. When a group entity transacts with an associate or a joint venture of the Group, profits and losses resulting from the transactions with the associate or joint venture are recognised in the Group's consolidated financial statements only to the extent of interests in the associate or joint venture that are not related to the Group.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.7 Interests in joint ventures

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

Any goodwill arising from the acquisition of the Group's shares in the common control of a given company is calculated in accordance with the Group's accounting policy for calculating of goodwill resulting from business merger.

Unrealized gains and losses from transactions between the Group and the companies over which it has joint control are eliminated in proportion to the Group's share in the joint venture. Gains and losses from transactions between the Group and jointly controlled companies in the consolidated financial statements of the Group are recognized only to the extent of interest in jointly controlled companies that are not related to the Group.

3.8 Interests in joint operations

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

When a group entity undertakes its activities under joint operations, the Group as a joint operator recognises in relation to its interest in a joint operation:

- its assets, including its share of any assets held jointly;
- its liabilities, including its share of any liabilities incurred jointly;
- its revenue from the sale of its share of the output arising from the joint operation;
- its share of the revenue from the sale of the output by the joint operation; and
- its expenses, including its share of any expenses incurred jointly.

The Group accounts for the assets, liabilities, revenues and expenses relating to its interest in a joint operation in accordance with the IFRSs applicable to the particular assets, liabilities, revenues and expenses.

When a Group entity transacts with a joint operation in which entity from Group is a joint operator (such as a sale or contribution of assets), the Group is considered to be conducting the transaction with the other parties to the joint operation, and gains and losses resulting from the transactions are recognised in the Group's consolidated financial statements only to the extent of other parties' interests in the joint operation.

When a Group entity transacts with a joint operation in which a group entity is a joint operator (such as a purchase of assets), the Group does not recognise its share of the gains and losses until it resells those assets to a third party.

3.9 Functional and presentation currency

The financial statements are prepared in the Croatian currency, the Croatian kuna (HRK), which is also the Company's functional currency, rounded to the nearest thousand.

Transactions denominated in foreign currencies are translated to the Croatian kuna by applying the exchange rates in effect at the transaction dates. Assets and liabilities denominated in a foreign currency are retranslated at the exchange rates in effect at the reporting date. Gains and losses on the retranslation from transaction dates to the reporting date are included in the statement of comprehensive income.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.10 Use of estimates and judgements

The preparation of financial statements in conformity with IFRS requires from management to make judgments, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expenses. These estimates and the underlying assumptions are based on past experience and various other pertinent factors and are believed to be reasonable under given circumstances and constitute a reliable basis for developing estimates of the carrying amounts of assets and liabilities that are not readily available from other sources. Actual results may differ from those estimates.

The estimates and underlying assumptions are regularly reviewed. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of revision and future periods if the revision affects both current and future periods.

Areas of judgement made by the Management Board in applying IFRS that have a significant impact on the financial statements as well as areas of judgement involving a risk of material adjustment in the following year are presented in Note 4.

3.11 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable for products, goods or services sold in the regular course of the Group's operations. Revenues are stated net of value added tax, quantity and sales discounts.

The Group recognises revenue when the amount of the revenue can be measured reliably, when future economic benefits will flow into the Group and when the specific criteria for all the Group's activities described below are met.

(i) Income from the wholesale of products and trade goods

The Group produces and distributes its own products as well as third-party merchandise (wholesale operations). Wholesale revenue is recognised when the Group has delivered the goods to the wholesaler, when it no longer controls the management of the goods and when there is no outstanding liability that could affect the acceptance of the products by the wholesaler.

A delivery is completed when the products are dispatched to a specific location, the risk of loss are transferred to the wholesaler and one of the following is met: the wholesaler has accepted the goods in accordance with the underlying contract; or the acceptance deadline has passed; or the Group has objective evidence that all the acceptance criteria are met.

Products are sold at the agreed volume discounts, with the right of the customers to return faulty goods. Sales revenue is recognised based on the price from the underlying sales contract, less any estimated volume and sales discounts, and returns. The discounts and returns are assessed based on past experience. Volume discounts are assessed based on anticipated annual sales. When sales are made under terms and conditions that involve financing elements, i.e. where the collection period is longer than 60 days, the receivables are classified as short-term financial assets.

(ii) Income from the retail sale of products and merchandise

Retail product and merchandise sales are recognised upon the sale to the customer. Retail sales are generated in cash. The Group does not have specific customer award schemes.

(iii) Service sales

Service sales are recognised in the accounting period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

(iv) Financial income

Financial income comprises interest income on funds invested, changes in the fair value of financial assets at fair value through profit or loss and foreign currency gains. Interest income is recognised as it accrues, using the effective interest method. Dividend income is recognised when the right to receive payment has been established.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.12 Leases

The Group as a lessor

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

The Group as a lessee

The Group leases certain property, plant and equipment. Leases of property, plant and equipment, where the Group has substantially all the risks and rewards of ownership, are classified as finance leases. Finance leases are capitalised at the inception of the lease by reference to the lower of the fair value of the leased property or the present value of the minimum lease payment. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the balance outstanding. The interest element of the finance costs is charged to the statement of comprehensive income over the lease period. Property, plant and equipment acquired under finance leases are depreciated over the shorter of the useful life of the asset and the lease term.

Leases under which the Group does not bear all the significant risks and rewards of ownership are classified as operating leases. Payments under operating leases are recognised in the statement of comprehensive income over the term of the underlying lease.

3.13 Foreign currencies

(i) Foreign-currency transactions and balances

Transactions in foreign currencies are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currency at the balance sheet date are translated into the functional currency at the foreign exchange rate ruling at the reporting date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Non-monetary assets and items denominated in foreign currencies that are measured at historical cost are not re-translated.

Foreign-currency denominated non-monetary assets and liabilities measured at historical cost are translated to the functional currency using the exchange rate list in effect at the transaction dates.

The valid exchange rate of the Croatian currency at 31 December 2018 was HRK 7.4177575 for EUR1 and at 31 December 2017 HRK 7.513648 for EUR 1.

(ii) Group members

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in the Croatian currency kuna ("HRK"), which is the Group's functional currency.

3.14 Borrowing costs

Borrowings are recognized initially at fair value, net of transaction costs incurred. In future periods, borrowings are stated at amortized cost; all differences between receivables (minus transaction costs) and surrender value are recognized in the consolidated statement of comprehensive income over the period of the borrowing period using the effective interest rate method.

Borrowing costs that can be directly linked to the acquisition, construction or production of a qualifying asset, a means that necessarily requires a considerable amount of time to be ready for intended use or sale, are attributed to the cost of purchasing that asset until the asset is largely unavailable for Intended use or sale. All other borrowing costs are included in profit or loss for the period in which they are incurred.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.15 Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received. Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred revenue in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

3.16 Employee benefits

(i) Pension obligations and other post-employment benefits

In the normal course of business the Group makes payments, through salary deductions, to mandatory pension funds on behalf of its employees, as required by law. All contributions paid to the mandatory pension funds are recognised as salary expense when accrued. The Group is not obliged to provide any other post-employment benefits.

(ii) Long-term employee benefits

The Group does not recognises obligation for long-term employee benefits (jubilee awards), as they are not included in the employment contracts or defined by other legal acts.

(iii) Short-term employee benefits

The Group recognises a provision for bonuses to employees when there is a contractual obligation or a past practice giving rise to a constructive obligation.

(iv) Share-based payments

The Company makes no share-based payments to its employees.

3.17 Dividends

Dividends payable to the Group's shareholders are recognised as a liability in the financial statements in the period in which the dividends are approved in the General Meeting of the Group's shareholders.

3.18 Operating segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing related products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

Based on the internal reporting structure, the Group monitors the performance of the following segments:

- Milling
- Dairy
- Wholesale
- Other.

The Group identifies operating segments on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segments and to assess their performance. Details about the operating segments are disclosed in Note 6 to the separate financial statements. Comparative information has been presented on the principle of comparability.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.19 Taxation

(i) Income tax

Income tax expense comprises current and deferred taxes. Income tax expense is recognised in profit or loss to the extent of the tax relating to items within equity when the expense is also recognised through other comprehensive profit.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the date of the financial statements, and any adjustment to tax payable in respect of previous years.

(ii) Deferred tax assets and liabilities

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, as well as differences which refer to investing into subsidiaries and joint undertakings when it is probable that the relevant situation will not change in the near future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilised. Deferred tax assets are recognised only to the extent that it is probable that they could be utilised as a tax benefit.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and if they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or realise them simultaneously.

(iii) Tax exposure

In determining the amount of current and deferred tax, the Group takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes the Group to change its judgement regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

(iv) Value added tax (VAT)

The Tax Authorities require that VAT is settled on a net basis. VAT on sale and purchase transactions is recognised in the statement of financial position on a net basis. Where an amount receivable is impaired, the impairment loss is recognised in the gross amount of the receivable, i.e. including VAT.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.20 Property, plant and equipment

Land and buildings used for goods or services production or delivery or administrative purposes are reported in the statement of financial position in revalued amounts, which represent their revaluation date fair value less the value adjustment (accumulated depreciation) and accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amounts do not differ materially from those that would be determined using fair values at the end of each reporting period.

Every increase resulting from land and building revaluation is reported in the statement of comprehensive income, except if it cancels the decrease resulting from the revaluation of the same asset which has been previously recognised in the statement of profit or loss, and in that case the increase is recorded in the statement of profit or loss up to the amount of the previously stated decrease. A decrease in the carrying amount arising on the revaluation of such land and buildings is recognised in profit or loss to the extent that it exceeds the balance, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. The purchase cost entails the professional services fee cost, and in case of qualifying assets, borrowing costs capitalised pursuant to the Group's accountancy policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation on revalued buildings is recognised in profit or loss. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the properties revaluation reserve is transferred directly to retained earnings.

Freehold land is not depreciated.

Fixtures and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is recognised so as to write off the cost or valuation of assets (other than freehold land and properties under construction) less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

The following useful lives are used in the calculation of depreciation:

	2018	2017
Buildings	40 years	40 years
Plants and equipment	10 years	10 years
Office equipment	4 years	4 years
Telecommunications equipment	2 years	2 years
Personal cars	2.5 years	2.5 years
Delivery vehicles	4 years	4 years

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or during the lease period, if shorter of the two. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.20 Property, plant and equipment (continued)

3.20.1 Investment property

Investment property refers to property held for the purpose of lease income or increase in property value or both. After initial recognition, the Company chose for its subsequent measurement accounting policy a purchase cost model and applies its policy to all of its investment property.

3.21 Intangible assets

Intangible assets may be acquired in exchange for a non-cash asset or for cash, or a combination of both, where the cost of such an asset is determined at the fair value unless the exchange lacks commercial substance or the fair value of the asset received or disposed of cannot be determined reliably, in which case the cost is determined as the carrying amount of the asset disposed of.

(i) Brands and contracts with customers

Trademark licences are carried at cost and have an indefinite useful life, as the analyses of all relevant factors at the reporting date do not indicate any foreseeable limit to the period over which the identified rights will generate cash inflows. Intangible assets with indefinite useful lives are tested for impairment annually and are carried at cost less accumulated impairment losses.

Contracts with customers have a finite useful life and are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is provided using the straight-line method over the useful life which is estimated at 6 years.

(ii) Computer software

Software licences are capitalised based on the cost, which includes the cost of purchase and costs incurred in bringing software into a working condition for its intended use. The cost is amortised over the useful life of software, which has been estimated at 5 years.

(iii) Goodwill and trademarks

Goodwill and any excess of the fair value of assets acquired above the cost of acquisition represent the difference between the cost of acquisition and the acquirer's share in the total fair value of assets and liabilities at the acquisition date.

Goodwill arose on the acquisition of Mlineta and Belje brands from Agrokor by the Company in 2014. The total consideration paid for the acquisition of the flour mill operations was recognised as an addition to non-current assets in the amount of HRK 193,679 thousand. The balance was allocated as follows:

- HRK 65,000 thousand for the Belje trademark;
- HRK 55,000 thousand for the Mlineta trademark;
- HRK 60,379 thousand for goodwill;
- HRK 10,000 thousand for the key customer contract;
- HRK 3,300 thousand for equipment.

Goodwill was estimated assuming that the quantities sold will equal the history of the quantities sold obtained from Agrokor and that it will remain constant in the future. Another input into the calculation was the assumed constant spread (as the difference between the flour selling rice and the cost of purchase of the direct raw material). The discount rate was determined as the weighted average cost of capital based on the net debt-to-equity ratio of 70:30.

Goodwill is tested for impairment at each reporting date, as already disclosed in note *Impairment test of intangible assets (Note 4. iv). During 2017 the goodwill was written off in total amount.*

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.22 Impairment of property, plant and equipment and intangible assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease, in line with the applicable Standard stipulating the requirements concerning the relevant asset revaluation.

When an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. Impairment loss reversal is immediately recognised as income, unless the relevant asset is not stated as a revalued amount, in which case the reversed impairment loss is stated as an increase due to revaluation in line with the applicable Standard stipulating the requirements concerning the relevant asset revaluation.

3.23 Inventories

Inventories of raw materials and reserve parts are stated at the lower of cost and net realizable value, determined using the weighted average cost method. Net realisable value represents the estimated selling price in the ordinary course of business less all variable selling costs.

The cost of work in progress and finished goods comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity).

Trade goods are carried at the lower of purchase cost and selling price (less applicable taxes and margins).

Small inventory and tools are expensed when put into use.

3.24 Biological assets

The Group recognizes a biological asset or agricultural products such as livestock and crops, when there is control over the property as a result of past events, when it is probable that future economic benefits associated with the asset will inflow to the Group and when the fair value or cost of the item can be measured determine reliably.

Basic herd of cows is kept separately by ID numbers for certain categories of cattle. The categories that make up the breeding stock are: cows, heifers and calves.

Supply of livestock valued at cost less accumulated depreciation and any impairment losses. The present value approximates the fair value of livestock.

Agricultural products harvested harvest are measured at fair value less estimated costs to sell at the point of harvest.

For biological assets carried at cost, depreciation is recorded as an expense in the period and is calculated on a straight line basis over the expected useful life of the assets.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.25 Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, if significant, using the effective interest method. Otherwise, they are measured at nominal amounts, less an allowance for impairment. Impairment is made whenever there is objective evidence that the Group will not be able to collect all amounts due according to the originally agreed terms. Significant financial difficulties of the debtor, the probability of bankruptcy proceedings at the debtor, or default or delinquency in payment are considered indications of potential impairment. The amount of impairment loss of an item receivable is measured as the difference between the carrying amount and the recoverable amount of the receivable.

3.26 Cash and cash equivalents

Cash and cash equivalents comprise cash, demand deposits with banks and other short-term highly liquid instruments with original maturities of up to three months or less. For the purposes of the consolidated statement of financial position, outstanding bank overdrafts are included in current liabilities.

3.27 Equity

The share capital consists of ordinary shares. Amounts recognised in equity as a result of issuing new shares or options are presented net of the related transaction costs and profit tax. Any fair value of the consideration received in excess of the nominal value of issued shares is recognised as capital gains.

3.28 Financial instruments

Financial assets and financial liabilities are recognised in the statement of financial position of the Group when the Group becomes a party to the contractual provision of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs which may be directly attributed to the acquisition or issuing the financial assets and financial liabilities (other than financial assets and financial liabilities measured at fair value through profit or loss) are added to or deducted from the fair value of financial assets and financial liabilities at initial recognition, where appropriate. Transaction costs which may be directly attributed to the acquisition of financial assets or financial liabilities at fair value through profit and loss are recognised immediately in profit and loss.

3.29 Financial assets

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. All regular way purchases or sales represent purchases or sales of financial assets which require delivery in the framework established in regulations or market practice.

All recognised financial assets are subsequently entirely measured at depreciated cost, fair value through other comprehensive income or fair value through profit or loss, depending on the business model and characteristics of contracted cash flows of financial assets.

Classification of financial assets

Debt instruments that meet the following conditions are measured subsequently at amortised cost:

- the financial asset is held within a business model whose objective is achieved by collecting contractual cash flows; and
- contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.29 Financial assets (continued)

(i) Depreciated cost and effective interest method

The effective interest method is a method of calculating the depreciated cost of a debt instrument and of allocating interest income over the relevant period.

For financial assets, aside from purchased or incurred credit-impaired financial assets (i.e. assets which were credit-impaired during the initial recognition), the effective interest rate is a rate that accurately discounts the estimated future cash inflow (including all fees and points paid or received, which constitute an integral part of the effective interest rate, transaction costs and other premiums or discounts), excluding the expected credit losses, during the expected life of a debt instrument or, where appropriate, during a shorter period, to gross carrying amounts of the debt instrument at initial recognition. For purchased or incurred credit-impaired financial assets, the effective interest rate adjusted to the loan is calculated by discounting estimated future cash flows, including expected credit losses, to the depreciated cost of the debt instrument at initial measurement.

The depreciated cost of financial assets is the amount at which the financial instrument is measured at initial recognition, less of payments of principal and plus accumulated depreciation, using the effective interest rate method for any difference between the opening amount and amount at maturity, adjusted for any loss. Gross carrying amount of financial assets is the depreciated cost of financial assets before adjustments for any loss.

Interest income is recognised by applying the effective interest rate for debt instruments, which are subsequently measured at depreciated cost and FVTOCI.

For financial assets, other than purchased or incurred credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, aside for the financial assets which subsequently became credit-impaired.

For financial assets which subsequently became credit-impaired, interest income is recognised by applying the effective interest rate to the depreciated cost of financial assets. If, in the following reporting periods, the credit risk for the credit-impaired financial instrument improves in the way that the financial instrument is no longer credit-impaired, the interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial assets.

For the purchased or incurred credit-impaired financial assets, the Group recognises interest income by using the effective interest rate adjusted by the credit risk to the depreciated cost of financial assets at initial recognition. The calculation is not returned to a gross basis, even if the credit risk of the financial assets subsequently improves so that the financial assets are no longer credit-impaired.

Investment income is recognised in profit or loss.

Impairment of financial assets

The Group recognises the provisions for expected credit losses from debt instruments measured at depreciated cost. The amount of expected credit losses is calculated at every reporting date in order to reflect the changes in the credit risk since the initial recognition of an individual financial instrument.

The Group always recognises life-long expected credit losses (ECL) for trade receivables based on a selected simplified approach. The expected credit losses on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for debtor-specific factors. The Group currently does not adjust the loss rate for future macroeconomic conditions, since it has not performed an analysis of the impact of macroeconomic factors on historical loss rates, including the time value of money, where appropriate.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.29 Financial assets (continued)

Impairment of financial assets (continued)

For all other financial instruments, the Group recognises the life-long ECL in case of a significant increase in credit risk since initial recognition. However, if the credit risk for the financial instrument has not significantly increased since the initial recognition, the Group measures the loss for this financial instrument in the amount equal to a 12-month ECL. Life-long ECL represents expected credit losses resulting from all potential cases of default during the expected lifetime of the financial instrument.

By contrast, a 12-month ECL represents a part of the life-long ECL, on account of the probability of a default status in the 12 months following the reporting date.

(i) Significant increase in credit risk

When assessing whether the credit risk for the financial instrument significantly increased since the initial recognition, the Group compares the risk of default on the reporting date to the risk of default of the financial instrument on the date of initial recognition. During the assessment, the Group considers both quantitative and qualitative information which are reasonable and available, including the historical experience, which can be accessed without unnecessary costs or engagements.

In particular, the Group relies on days of default when assessing significant credit risk deterioration. If the debtor is in default more than 180 days, then the Group assumes that there is a significant increase in credit risk.

Despite the aforementioned, we assume that the credit risk for the financial instrument has not significantly increased since the initial recognition if we determine that the financial instrument has a low credit risk at the reporting date. We conclude that the financial instrument has a low credit risk if:

- The financial instrument has a low risk of default;
- The debtor has a strong ability to settle his/her contractual obligations in the short term; and
- Adverse changes in economic and business conditions in the long term may, but do not necessarily have to, decrease the lessee's ability to meet his/her contractual cash flow obligations.

However, the Group does not currently use the simplification of a low credit risk when assessing the significant increase in credit risk. The Company regularly monitors the efficiency of criteria used to determine whether there has been a significant increase in credit risk and reviews them so that the criteria may identify a significant increase in credit risk before any default occurs.

(ii) Definition of default status

The following facts, which represent a case of default for internal credit risk management purposes are considered by the Group as a historical experience which proves that financial assets meeting any of the following criteria are in general not recoverable:

- if the debtor breached the financial clauses; or
- data developed internally or obtained from external sources point to the fact that it is highly unlikely that the debtor will pay his/her creditors, including the Group, in full (without considering any collateral held by the Group).

Despite the aforementioned analysis, the Group believes that default occurred if the financial assets are due more than 360 days and the relevant liabilities have not been settled, unless the Group disposes of reasonable and substantiated information to prove a more appropriate default criteria.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.29 Financial assets (continued)

(iii) Credit-impaired financial assets

Financial assets are credit-impaired when one or more events with an adverse effect on estimated future cash flows and financial assets occurred. Proof of credit impairment of the financial asset includes data available on the following events:

- significant financial difficulties of the issuer or debtor;
- breach of contract, such as a default (defined above);
- when the issuer, due to the debtor's financial difficulties, grants the debtor a concession, which he would otherwise not consider;
- it becomes probable that the debtor will go into bankruptcy or undertake another type of financial restructuring;
- the disappearance of an active market for a specific financial asset because of financial difficulties.

(iv) Write-off policy

The Group writes off financial assets when there are data pointing to the fact that the debtor is in serious financial difficulties and that there is no real chances of return, for example when the debtor has gone into liquidation or bankruptcy or when trade receivables are due more than 3 years, whatever happens first. Written-off financial assets can still be subject to enforcement activities within the Group recovery procedures, with regard to the relevant legal advice, where appropriate. As previously described, revenue from the collection of financial assets is recognised in profit or loss.

(v) Measurement and recognition of expected credit losses

Measurement of expected credit losses is the function of Probability of Default (PD), Loss Given Default (LGD), i.e. size of loss in case of default, and Exposure at Default (EAD). Assessment of Probability of Default and Loss Given Default is basrd on historical data and information provided in previous paragraphs. In terms of exposure in the moment of default, for the financial assets it represents a gross carrying amount of the assets at the reporting date.

When assessing the PD and LGD parameters, the Group relies on external investment rating agencies' publications.

For the financial assets, the expected credit loss is assessed as the difference between all contractual cash flows maturing in line with the contract and all expected cash flows, discounted at the original effective interest rate. If the Group measured provisions for expected loan losses for financial instruments in the amount equal to life-long ECL in the previous reporting period, but at the current reporting date it determined that the life-long ECL conditions are no longer met, the Group measures the loss in the amount equal to a 12-month ECL at the current reporting date, except for the assets for which a simplified approach was used (trade receivables).

The Group recognises impairment gains and losses in the profit and loss account for all financial instruments with the appropriate adjustment of the carrying amount through the loss provisions account.

End of financial asset recognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.29 Financial assets (continued)

(v) Measurement and recognition of expected credit losses (continued)

If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes a collateralised borrowing for the asset received.

In case of financial asset recognition measured at depreciated cost, the difference between the asset's carrying amount and the amount of the consideration received and receivable is recognised in profit or loss. Furthermore, in the event that recognition of debt investment measured at FVTOCI ceases, cumulative profit or loss previously accumulated in the investment revaluation reserve is reclassified to profit or loss, except in case of equity instruments for which the FVTOCI option has been selected.

Loans and receivables

The Group always reports the provisions for losses of trade receivables in the amount equal to the life-long ECL. The expected credit losses on trade receivables are estimated using a provision matrix by reference to past default experience of the debtor and an analysis of the debtor's current financial position. The Group recognised a loss in the amount of 100% of all receivables over 360 days past due as past experience shows that the relevant receivables can usually not be recovered.

There were no changes in the assessment techniques or material assumptions during the current reporting period.

The Group writes off trade receivables when there are data pointing to the fact that the debtor is in serious financial difficulties and that there is no real chances of return, for example when the debtor has gone into liquidation or bankruptcy or when trade receivables are due more than 2 years, whatever happens first. None of the trade receivables are subject to enforcement activities. The following table details the risk profile of trade receivables based on the Group's provision matrix. As the Group's historical credit loss experience does not show significantly different loss patterns for different customer segments, the provisions for loss allowance based on past due status is not further distinguished between the Group's different customer base.

3.30 Financial liabilities

All financial liabilities are measured subsequently at depreciated cost by using the effective interest rate method or at fair value through profit or loss.

The Company measures all financial liabilities at depreciated cost.

However, for financial liabilities which arise when the transfer of financial assets does not meet the derecognition criteria or when the continued participation approach is applied, and for contracts on financial guarantees issued by the Group, subsequent measurement takes place in line with specific accounting policies provided below.

Financial liabilities subsequently measured at amortised cost

Financial liabilities which are not (i) contingent consideration recognised by an acquirer in a business combination; (ii) held for trading; (iii) measured at fair value through profit or loss, are subsequently measured at depreciated cost, using the effective interest rate method.

The effective interest method is a method of calculating the depreciated cost of a financial liability and of allocating interest cost over the relevant period. The effective interest rate is a rate that accurately discounts the estimated future cash inflow (including all fees and points paid or received, which constitute an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.30 Financial liabilities (*continued*)

Classification as debt or equity

Debt and equity instruments are classified as financial liabilities or as principal pursuant to the essence of the agreement.

Equity instruments

An equity instrument is a contract which proves the rest of the share in the entity's assets after all its liabilities have deducted. The equity instruments issued by the Group are recorded in the amount of income, less direct issuance costs.

Financial liabilities

Other financial liabilities, including borrowings and loans, as well as bonds, are initially measured at fair value less transaction costs. Other financial liabilities are later measured at depreciated cost by applying the effective interest rate method, and the interest expenses are recognised based on the effective interest rate.

The effective interest rate method represents a method used for calculating the depreciated cost of the financial liability and distributing the interest expenses throughout the relevant period. The effective interest rate is the rate pursuant to which the estimated future cash flows are discounted during the expected lifetime of the financial liability or, where applicable, during a shorter period.

Derecognition of financial liabilities

The Company derecognises financial liabilities when, and only when, the Company's liabilities are paid, cancelled or expired.

3.31 Provisions

Provisions are recognised if the Group has a present obligation, legal or constructive, as a result of a past event and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. When the amount of the impairment is significant amount of provision is the present value of the expenditures expected to be required to settle the obligation, determined using the estimated risk free interest rate as the discount rate. When discounting is used, every year the effect of discounting is recorded as a financial expense and the carrying amount of the provision increases in each year to reflect the passage of time.

4 KEY ACCOUNTING JUDGEMENTS AND ESTIMATES

In the application of the Group's accounting policies, which are described in Note 3, management are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in the application of accounting policies

The following are the critical judgements, apart from those involving estimations, that the Management have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

(i) Revenue recognition

In making their judgement, Management considered the individual criteria for the recognition of revenue from the sale of goods set out in IFRS 15 and, in particular, whether the Group had transferred to the buyer the significant risks and rewards of ownership of the goods.

(ii) Consequences of certain legal actions

There are a number of legal actions which have arisen from the regular course of operations of individual companies within the Group. Management makes estimates of probable outcomes of these legal actions, and recognises provisions for the Group's liabilities that may arise from these legal actions on a consistent basis.

(iii) Recoverable amount of trade and other receivables

The recoverable amount of trade and other receivables is determined as the present value of future cash flows, discounted using the market interest rate in effect at the measurement date. Current receivables without the interest rate are measured at the originally invoiced amounts if the discounting effect is not material.

(iv) Impairment test of intangible assets

The Group tests the goodwill, brands and licences for impairment on an annual basis. For the purposes of impairment test, they are allocated to cash-generating units, and their carrying amounts at the reporting date were as follows:

	Milling	**Dairy**	**As at 31 December 2018**
Trademarks	120,000	-	120,000
Customer list	2,364	-	2,364
Software and other intangible assets	-	453	453
	124,767	**-**	**122,817**

The recoverable amount of this cash-generating unit is determined based on a value in use calculation which uses cash flow projections based on financial budgets approved by Management covering a five-year period.
Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the directors to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. Where the actual future cash flows are less than expected, a material impairment loss may arise.
The carrying amount of goodwill as at 31 December 2018 was HRK 0 million (as at 31 December 2017: HRK 0 million).

4. KEY ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

(v) Useful life of property, plant and equipment

As described in Note 3.20 above, the Group reviews the estimated useful lives of property, plant and equipment at the end of each reporting period.

5. SALES REVENUE

(in thousands of HRK)

	2018	2017
Sales revenue – domestic	448,794	474,161
Sales revenue – foreign	66,654	134,409
	515,448	**608,570**

The reporting segments form a part of the internal financial reporting. The internal reports are reviewed regularly by the Group's Management Board, as the chief decision-maker, which uses them as a basis for assessing the performance of the segments and making operating decisions.

The Group monitors its performance through the following operating segments:

- Milling
- Dairy
- Wholesale
- Other

Segment information – industry analysis:

The operating income of the Group, analysed by reporting segments presented in accordance with IFRS 8, and the reconciliation of the segment performance with the profit or loss on taxation as reported in the separate statement of comprehensive income.

Revenue consist of sales revenue and other revenue generated by sales to external customers. Sales between reporting segments are eliminated in the consolidation process.

(in thousands of HRK)

	2018	2017
Wholesale	122,604	238,873
Milling	207,755	192,906
Dairy	159,641	152,992
Other	25,448	23,799
	515,448	**608,570**

Geographic analysis

(in thousands of HRK)

Country	2018	2017
Croatia	448,794	474,164
Serbia	4,881	69,357
Bosnia and Herzegovina	21,646	21,894
Slovenia	24,877	18,295
Italy	-	7,692
Hungary	122	7,400
Macedonia	440	2,436
Montenegro	3,824	3,038
Romania	172	238
Other countries	10,692	4,056
	515,448	**608,570**

6. OTHER BUSINESS INCOME

(in thousands of HRK)

	2018	2017
Income from subsidies	9,557	9,829
Income from herd growth	2,788	4,497
Inventory surplus	2,748	740
Income from the collection of damages	2,363	1,936
Subsequent credit notes from suppliers	703	612
Income from sale of fixed assets	177	289
Subsequently identified income	61	552
Other operating income	4,727	1,251
	23,123	**19,706**

Income from the collection of damages is the income from the collection of damages from insurance companies.

7. MATERIAL EXPENSES

The structure of material expenses is as follows:

(in thousands of HRK)

	2018	2017
Raw materials and consumables used	274,864	253,612
Energy consumption	17,136	15,186
Inventory spillage, breakage and similar costs	5,339	5,209
Cost of inventories for sold livestock	1,035	659
Other material expenses	2,143	2,593
	300,517	**277,259**
Cost of goods sold	**109,576**	**228,918**
Transport, telecommunication and post expenses	17,442	20,425
Maintenance and security services	5,074	5,787
Intellectual services	4,150	2,474
Product development services	3,461	2,973
Lease services	2,745	3,861
Promotions and sponsorships	1,844	1,445
Quality control services	1,735	1,489
Other sales costs	566	652
Cost of UHT milk processing	194	474
Other external costs	5,155	4,894
	42,366	**44,474**
	452,459	**550,651**

Auditor's fee for 2018 amounts to HRK 559 thousand: HRK 447 thousand for the audit of the Group, HRK 111 thousand for tax advisory services, and HRK 1 thousand for seminar services.

Auditor's fee for 2017 amounts to HRK 582 thousand: HRK 567 thousand for the audit of the Group and HRK 12 thousand for tax advisory services, and HRK 3 thousand for seminar services.

8. STAFF EXPENSES

	(in thousands of HRK)	
	2018	**2017**
Net salaries	24,492	25,808
Taxes and contributions from and on salaries	8,069	9,130
Contributions on salaries	5,328	6,017
	37,889	**40,955**

9. VALUE ADJUSTMENT

	(in thousands of HRK)	
	2018	**2017**
Value adjustment of loans and equity investments	3,626	23,346
Trade receivables	2,019	16,377
Value adjustment of goodwill	-	60,379
Other receivables	521	65,000
	6,166	**165,102**

Value adjustment of other receivables in 2017 refers to the bills of exchange.

10. OTHER EXPENSES

	(in thousands of HRK)	
	2018	**2017**
Insurance premium	2,760	2,570
-	2,535	2,124
Contributions, membership fees and other compensations	932	1,213
Bank services and payment operation charges	430	3,091
Business travel expenses	266	484
Patents and licences	-	152
Other costs	823	662
	7,746	**10,296**

11. OTHER BUSSINES EXPENSES

(in thousands of HRK)

	2018	2017
Subsequently approved cassa sconto	4,197	4,905
Carrying value of disposed assets	1,095	1,183
Spillage, breakage and similar damage on goods	624	2,785
Entertainment and gifts	614	750
Fines, penalties and damages	66	537
Receivables write-off	-	1,447
Other operating expenses	1,383	3,034
	7,979	**14,641**

The category "Other operating expenses" includes losses from adjusted value of livestock, costs of death and the write-off of biological assets, the cost of permitted shortfalls in production and other operating expenses.

12. FINANCIAL INCOME AND EXPENSES

Financial income

(in thousands of HRK)

	2018	2017
Foreign exchange gains	1,989	2,699
Interest on given loans	475	1,094
Default interest	67	205
Gains from stock transactions	-	796
Other financial income	91,396	337
	93,927	**5,130**

Financial expenses

(in thousands of HRK)

	2018	2017
Interest on given loans and borrowings	2,865	18,571
Foreign exchange losses	1,025	2,747
Default interest	510	2,180
Discount on bills of exchange	399	3,186
Other financial expenses	23	33
	4,822	**26,717**

Pre-bankruptcy settlement income write-off consists of write-off of liabilities to financial institutions (HRK 76,450 thousand) and trade payables (HRK 14,946 thousands).

13. INCOME TAX

Income tax recognized in profit or loss

Tax expense / (income) comprises the following:

		(in thousands of HRK)
	2018	**2017**
Current tax expense	17	25
Deferred tax expense	**997**	-
Tax expense	**1,014**	**25**

Effective tax rate reconciliation

A reconciliation of tax expense per the statement of comprehensive income and taxation at the statutory rate is detailed in the table below:

		(in thousands of HRK)
	2018	**2017**
(Loss)/profit before taxation	84,954	(202,786)
Income tax at a rate of 18%	15,292	(36,502)
Tax effect of consolidation adjustments	-	1
Effect of non-taxable income	(13,543)	(54)
Effect of non-deductible expenses	4,847	28,921
Consolidation adjustment	(3,209)	(70)
Effect of unused tax losses and offsets not recognised as deferred tax assets	(3,370)	7,679
Income tax expense recognised in profit or loss (relating to continuing operations)	**17**	**25**
Effective tax rate	**0.03%**	**-**

Deferred tax assets and deferred tax liabilities

The following is the analysis of deferred tax assets/(liabilities) presented in the consolidated statement of financial position:

		(in thousands of HRK)
	2018	**2017**
Deferred tax assets	1,103	2,100
Deferred tax liability	(12,661)	(13,196)
	(11,558)	**(11,096)**

Analysis of deferred tax assets reported in the Consolidated Statement of Financial Position:

		(in thousands of HRK)
	31 December 2018	**31 December 2017**
Balance at 1 January	2,100	2,100
Reversal of deferred tax assets	(997)	-
	1,103	**2,100**

13. INCOME TAX (CONTINUED)

Deferred tax assets arise from:

(in thousands of HRK)

2018	Opening balance	Recognised in the statement of comprehensive income	Closing balance
Tax loss	11,666	(5,538)	6,128
Deferred tax assets	**2,100**	**(997)**	**1,103**

Unused tax losses

In accordance with the tax regulations, the Group has carrying taxable losses amounting to HRK 50,069 thousand as at 31 December 2018 (carrying taxable losses of HRK 64,824 thousand as at 31 December 2017). These tax losses are transferable 5 years in advance of the year the tax loss was incurred in.

Deferred tax liability is recognized only to the extent of the tax losses that are expected to be utilized in future periods.

Deferred tax assets arise from:

(in thousands of HRK)

2018	Opening balance	Retained earnings	Closing balance
Revaluation depreciation	13,196	(535)	12,661
Deferred tax liability	**13,196**	**(535)**	**12,661**

(in thousands of HRK)

2017	Opening balance	Retained earnings	Closing balance
Revaluation depreciation	15,390	(2,194)	13,196
Deferred tax liability	**15,390**	**(2,194)**	**13,196**

Movement of deferred tax liability

(in thousands of HRK)

	31 December 2018	31 December 2017
Balance at 1 January	13,196	15,390
Decrease	(535)	(2,194)
	12,661	**13,196**

Under Croatian regulations, the Tax Administration may at any time audit the books and records of a Croatian company in a period of three years following the year in which the tax liability is declared and impose additional taxes and penalties. Management of the Group is not aware of any circumstances which may give rise to a potential material liability in this respect.

14. INTANGIBLE ASSETS

	Trademarks, concessions, licenses, goods and services brands	Customer list	Software and other rights	TOTAL
Cost				
Balance at 1 January 2018	120,000	10,000	4,136	**134,136**
Additions	-	-	135	**135**
Reclassification	-	-	46	**46**
Balance at 31 December 2018	**120,000**	**10,000**	**4,317**	**134,317**
Impairment allowance				
Balance at 1 January 2018	-	5,967	3,399	**9,369**
Depreciation expense	-	1,666	419	**2,085**
Disposals	-	-	46	**46**
Balance at 31 December 2018	-	**7,633**	**3,864**	**11,500**
Carrying value at 1 January 2018	**120,000**	**4,030**	**737**	**124,767**
Carrying value at 31 December 2018	**120,000**	**2,364**	**453**	**122,817**

Intangible assets in the amount of HRK 120,000 thousand (2017: HRK 120,000 thousand) have been pledged as collateral for the Group's borrowings (Note 24).

14 INTANGIBLE ASSETS (CONTINUED)

Movement of intangible assets in 2017

(in thousands of HRK)

	Goodwill	Trademarks, concessions, licenses, goods and services brands	Customer list	Software and other rights	TOTAL
Cost or revaluation					
Balance at 1 January 2017	60,379	120,000	10,000	4,044	**194,423**
Additions	-	-	-	163	**163**
Disposals	-	-	-	(71)	**(71)**
Balance at 31 December 2017	**60,379**	**120,000**	**10,000**	**4,136**	**194,515**
Impairment allowance					
Balance at 1 January 2017	-	-	4,304	3,034	**7,338**
Depreciation expense	-	-	1,666	435	**2,101**
Disposals	-	-	-	(71)	**(71)**
Impairment losses	60,379	-	-	-	**60,379**
Balance at 31 December 2017	**60,379**	**-**	**5,970**	**3,398**	**69,748**
Carrying value at 1 January 2017	**60,379**	**120,000**	**5,696**	**1,010**	**187,085**
Carrying value at 31 December 2017	**-**	**120,000**	**4,030**	**737**	**124,767**

15. PROPERTY, PLANT AND EQUIPMENT

Movements in property, plant and equipment in 2018

(in thousands of HRK)

	Land	Buildings	Plants and equipment	Tools, transportation equipment and vehicles	Biological assets	Advance payments for tangible assets	Other tangible assets	Tangible assets under construction	Investment property	TOTAL
Cost or revaluation										
Balance at 1 January 2018	**23,610**	**354,203**	**212,504**	**13,421**	**15,859**	**355**	**183**	**10,437**	**432**	**631,004**
Additions	33	222	1,396	569	-	162	-	7,315	4,615	**14,312**
Transfer	-	1,947	4,350	204	308	-	-	(6,810)	-	**-**
Natural increase	-	-	-	-	4,083	-	-	-	-	**4,083**
Reclassification	-	-	-	43	-	(115)	-	72	-	**-**
Disposals	-	-	(906)	(255)	(2,416)	-	-	-	-	**(3,577)**
Write-off	-	-	(285)	(4)	(2,845)	-	-	-	-	**(3,134)**
Balance at 31 December 2018	**23,643**	**356,373**	**217,058**	**13,979**	**14,990**	**402**	**183**	**11,014**	**5,047**	**642,689**
Impairment allowance										
Balance at 1 January 2018	**-**	**130,878**	**155,561**	**10,503**	**5,748**	**-**	**102**	**-**	**-**	**302,792**
Depreciation and amortisation	-	8,199	12,913	1,469	1,938	-	1	-	-	**24,521**
Disposals	-	-	(508)	(250)	(1,215)	-	-	-	-	**(1,973)**
Write-off	-	-	(260)	(4)	(1,421)	-	-	-	-	**(1,685)**
Revaluation depreciation	-	2,506	1,442	30	-	-	-	-	-	**3,979**
Balance at 31 December 2018	**-**	**141,584**	**169,147**	**11,749**	**5,051**	**-**	**103**	**-**	**-**	**327,633**
Current value At 1 January 2018	**23,610**	**223,325**	**56,943**	**2,918**	**10,111**	**355**	**81**	**10,437**	**432**	**328,212**
Current value 31/12/2018	**23,643**	**214,789**	**47,912**	**2,230**	**9,939**	**402**	**80**	**11,014**	**5,047**	**315,056**

Intangible assets in the amount of HRK 214,128 thousand (2017: HRK 204,071 thousand) have been pledged as collateral for the Group's borrowings (Note 25).

15 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Movements in property, plant and equipment in 2018

(in thousands of HRK)

	Land	Buildings	Plants and equipment	Tools, transportation equipment and vehicles	Biological assets	Advance payments for tangible assets	Other tangible assets	Tangible assets under constructio n	Investmen t property	TOTAL
Cost or revaluation										
Balance at 1 January 2017	**27,668**	**350,610**	**208,294**	**13,661**	**16,303**	**260**	**183**	**21,777**	**432**	**639,188**
Additions	127	97	1,657	435	-	123	-	5,156	-	**7,594**
Impairment losses	(4,114)	-	-	-	-	-	-	(8,913)	-	**(13,026)**
Transfer	-	3,495	3,211	701	-	-	-	(7,407)	-	**-**
Natural increase	-	-	-	-	4,300	-	-	-	-	**4,300**
Reclassification	-	-	-	-	-	(28)	-	28	-	**-**
Disposals	(71)	-	(5)	(1,374)	(2,315)	-	-	-	-	**(3,765)**
Write-off	-	-	(652)	(2)	(2,428)	-	-	(204)	-	**(3,286)**
Balance at 31 December 2017	**23,610**	**354,203**	**212,504**	**13,421**	**15,859**	**355**	**183**	**10,437**	**432**	**631,004**
Impairment allowance										
Balance at 1 January 2017	-	**120,120**	**140,617**	**10,363**	**5,676**	-	**100**	-	-	**276,876**
Depreciation and amortisation	-	8,240	14,125	1,378	2,102	-	2	-	-	**25,847**
Disposals	-	-	(382)	(1,265)	(1,102)	-	-	-	-	**(2,749)**
Write-off	-	-	(240)	(4)	(927)	-	-	-	-	**(1,170)**
Revaluation depreciation	-	2,517	1,442	30	-	-	-	-	-	**3,989**
Balance at 31 December 2017	-	**130,878**	**155,561**	**10,503**	**5,748**	-	**102**	-	-	**302,792**
Current value At 1 January 2017	**27,668**	**230,490**	**67,677**	**3,298**	**10,627**	**260**	**83**	**21,777**	**432**	**362,312**
Current value 31/12/2017	**23,610**	**223,325**	**56,943**	**2,918**	**10,111**	**355**	**81**	**10,437**	**432**	**328,212**

16. NON-CURRENT FINANCIAL ASSETS

(a) Shares at fair value through profit or loss

	31 December 2018	(in thousands of HRK) 31 December 2017
Zagrebačke pekarne Klara d.d., Zagreb	9,323	12,949
Prehrana trgovina d.d., Zagreb	536	536
Poljoprivredna zajednica Zabara	10	10
Žitozajednica d.o.o., Zagreb	1	1
	9,870	**13,496**

Ownership interest

	31 December 2018	31 December 2017
Zagrebačke pekarne Klara d.d., Zagreb	18.25%	18.25%
Prehrana trgovina d.d. , Zagreb	11.48%	11.48%
Poljoprivredna zajednica Zabara	12.75%	12.75%
Žitozajednica d.o.o. , Zagreb	2.08%	2.08%

(b) Given loans, deposits and similar

	31 December 2018	(in thousands of HRK) 31 December 2017
Loans to natural persons	193	259
Deposits	109	137
	302	**396**

Movements in non-current loans for the year is provided in Note 19.

17. INVENTORIES

	31 December 2018	(in thousands of HRK) 31 December 2017
Finished goods	33,876	33,252
Raw materials	21,261	23,586
Work in progress	6,808	8,376
Trade goods	6,531	9,131
Advance payments for inventories	39	85
	68,515	**74,430**

18 TRADE RECEIVABLES, RECEIVABLES FROM THE STATE AND OTHER INSTITUTIONS AND OTHER RECEIVABLES

a) Trade and related party receivables

	At 31 December 2018	(in thousands of HRK) At 31 December 2017
Domestic sales	111,660	126,273
Subcontractor receivables	16,532	16,255
Foreign sales	6,990	9,330
Impairment of customers and subcontractors	(39,745)	(39,387)
	95,436	**112,471**

Subcontractor receivables refer to commodity loans for intermediate products required for sowing given to farmers who simultaneously supply raw materials for production and trade goods.

Value adjustment of trade receivables

	2018	(in thousands of HRK) 2017
Balance at 1 January	39,645	24,851
Increase – trade receivables	3,127	16,153
Impaired receivables write-off	(1,250)	(1,163)
Recovery of impaired trade and subcontractor receivables	(1,776)	(454)
Balance at 31 December	**39,745**	**39,387**

The ageing analysis of outstanding receivables from customers where no impairment has been made is shown in the following table:

	At 31 December 2018	(in thousands of HRK) At 31 December 2017
Not yet due	60,531	69,548
0-90 days past due	16,345	17,757
91-180 days past due	3,245	5,124
181-360 days past due	1,627	15,051
> 360 days	13,688	4,992
	95,436	**112,471**

The Group carried out a test of impairment of all receivables from customers and receivables from subcontractors and estimated that receivables from customers and subcontractors as at 31 December 2018 were reported in the age of 360 days.

18 TRADE RECEIVABLES, RECEIVABLES FROM THE STATE AND OTHER INSTITUTIONS AND OTHER RECEIVABLES (CONTINUED)

b) Receivables from the State and other institutions

	At 31 December 2018	(in thousands of HRK) At 31 December 2017
Grant receivables	4,234	4,639
Income tax advance payments	641	2,251
VAT receivables	280	1,436
Other receivables from the State and other institutions	532	385
	5,687	**8,711**

c) Other receivables

	At 31 December 2018	(in thousands of HRK) At 31 December 2017
Receivables with recourse factoring	16,571	20,000
Prepayments made	9,837	2,671
Interest receivables	1,611	1,616
Receivables from insurance companies	1,518	1,277
Receivables by cessions and compensations	1,348	780
Other receivables	234	262
	31,120	**26,607**

Receivables from recourse factoring in the amount of HRK 16,571 (2017: HRK 20,000 thousand) refer to receivables based on bills of exchange with recourse right, discounted at factoring companies. For more details, see Note 25.d.

19. CURRENT FINANCIAL ASSETS

a) Investment in securities

	At 31 December 2018	(in thousands of HRK) At 31 December 2017
Investments in bills of exchange	178	178
	178	**178**

b) Given loans, deposits and similar

	At 31 December 2018	(in thousands of HRK) At 31 December 2017
Loans to legal entities	21,573	12,913
Short-term loans to natural persons	532	531
Given deposits	45	55
Given loans, deposits and similar	**22,150**	**13,499**
Given loans to related parties	**10,191**	**14,676**
	32,519	**28,175**

19. CURRENT FINANCIAL ASSETS (CONTINUED)

Movement in given loans in 2018

(in thousands of HRK)

	At 1 January 2018	Increase in given loans	Write-off/value adjustment of given loans	Collection of given loans	Transfer of a portion of long-term loans to short-term and vice versa	FX differences	At 31 December 2018
Given long-term loans							
Given long-term loans to natural persons	259	-	-	-	(64)	(2)	193
Total long-term loans	**259**	**-**	**-**	**-**	**(64)**	**(2)**	**193**
Given loans to related parties	14,676	-	-	(4,485)	-	-	10,191
Given loans to companies	12,913	15,977	-	(7,317)	-	-	21,573
Given loans to natural persons	531	10	-	(73)	64	-	532
Total short-term loans	**28,120**	**15,987**	**-**	**(11,875)**	**64**	**-**	**32,296**
TOTAL	**28,379**	**15,987**	**-**	**(11,875)**	**-**	**(2)**	**32,489**

19 CURRENT FINANCIAL ASSETS (CONTINUED)

Movement in given loans in 2017

(in thousands of HRK)

	At 1 January 2017	Increase in given loans	Transfer from receivables to financial assets	Write-off/value adjustment of given loans	Collection of given loans	Transfer of a portion of long-term loans to short-term and vice versa	FX differences	At 31 December 2017
Given long-term loans								
Given long-term loans to companies	**5,668**	-	-	(5,555)	-	(113)	-	**5,668**
Given long-term loans to natural persons	**479**	-	(148)	-	(71)	(1)	**259**	**479**
Total long-term loans	**6,147**	-	**(148)**	**(5,555)**	**(71)**	**(114)**	**259**	**6,147**
Short-term loans and short-term part of long-term loans								
Given loans to related parties	**20,559**	-	(5,793)	(90)	-	-	**14,676**	**20,559**
Given loans to companies	**5,637**	21,275	(9,876)	(4,124)			**12,913**	**5,637**
Given loans to natural persons	**978**	662	(554)	(625)	71	(2)	**531**	**978**
Total short-term loans	**27,174**	**21,937**	**(16,223)**	**(4,839)**	**71**	**(2)**	**28,120**	**27,174**
TOTAL	**33,321**	**21,937**	**(16,371)**	**(10,394)**	-	**(116)**	**28,379**	**33,321**

20. CASH AND CASH EQUIVALENTS

	At 31 December 2018	(in thousands of HRK) At 31 December 2017
Bank accounts – domestic currency	9,354	3,506
Bank accounts – foreign currency	984	97
Cash in hand	2	2
	10,340	**3,605**

21. PREPAID EXPENSES AND ACCRUED INCOME

	At 31 December 2018	(in thousands of HRK) At 31 December 2017
Prepaid expenses	667	1,279
	667	**1,279**

Movements in future period expenses during the year were as follows:

	(in thousands of HRK) 2018	2017
Balance at 1 January	**1,279**	**4,601**
Increase in prepaid expenses	-	1,280
Decrease in prepaid expenses	(612)	(4,602)
Balance at 31 December	**667**	**1,279**

22. EQUITY AND RESERVES

Equity represents own permanent sources of funding the operations of the Group. It consists of the share capital, legal reserves, revaluation reserves, retained earnings and the loss for the year.

By decision of the Assembly of the Company in 2012 Granolio d.o.o. was transformed into a joint stock company by issuing ordinary shares. The share capital of the company in the amount of HRK 5,000,000 has been divided into 500,000 ordinary shares of the "A" series, each with a nominal amount of HRK 10.

The new legal form of the Group was registered at the Commercial Court in Zagreb on 21 February 2012.

Pursuant to the decision of the Company's Shareholders, the share capital of the Company was increased from HRK 5,000,000 to HRK 12,000,000 by transferring retained earnings in the amount of HRK 7,000,000. The share capital was increased through an issue of ordinary shares with a nominal value of HRK 10 per share, subscribed by the shareholders in proportion to their respective shares in the Company's capital as of that date. The share capital increase was registered at the Commercial Court in Zagreb on 28 September 2011.

Pursuant to the decision of the Company shareholders dated 2 September 2014, the share capital was increased by an additional contribution of HRK 7,016,430.00 from HRK 12,000,000.00 to HRK 19,016,430.00. Based on a public invitation to the subscription of the new shares, the share capital was increased by cash contributions made based on an issue of 701,643 new non-materialised shares in the nominal amount of HRK 10 per share at a single final issue price per share of HRK 134.00. The Company made a public invitation to subscribe minimum 671,642 up to maximum 789,157 new shares. The share subscription took place in the period from 25 to 27 November 2014.

As of 31 December 2017, the Company's subscribed capital, as registered in the court registry, amounts to HRK 19,016,430. The total number of shares is 1,901,643, and the nominal value per share amounts to HRK 10. The result of the sale of shares through the public offering is also capital gain, which, minus the recapitalization costs, amounted to HRK 84,196 thousand as at 31 December 2018.

22 EQUITY AND RESERVES (CONTINUED)

The ownership structure of the share capital at 31 December 2018 is presented below, with the largest 10 shareholders holding 95.9% of the shares at that date:

	At 31 December 2018		At 31 December 2017	
	Number of shares (in thousands)	Ownership %	Number of shares (in thousands)	Ownership %
Filipović Hrvoje	1,105	58.11%	1,105	58.11%
HOK - osiguranje d.d.	379	19.90%	221	11.62%
Societe Generale-Splitska banka d.d./Erste plavi Mandatory Pension Fund - Category B	149	7.83%	149	7.84%
C.I.M Banque	100	5.26%	100	5.26%
Auctus j.d.o.o.	38	2.00%	-	0.00%
Capturis d.o.o.	25	1.31%	25	1.31%
Addiko bank d.d./ SZAIF d.d.	9	0.47%	9	0.47%
HPB d.d./ HPB global - Open-Ended Investment Fund with a Public Offering	7	0.37%	7	0.37%
OTP banka d.d./KD Victoria fond	7	0.37%	7	0.37%
Primorska banka d.d. Rijeka in wind	5	0.26%	5	0.26%
Other	78	4.10%	274	14.40%
	1,902	**100.00%**	**1,902**	**100.00%**

23. NON-CONTROLLING INTERESTS

(in thousands of HRK)

	2018	2017
Balance at 1 January	**58,359**	**59,508**
Decrease in retained earnings of non-controlling interests	-	(1,149)
Increase in retained earnings of non-controlling interests	2,078	-
Balance at 31 December	**60,437**	**58,359**

24. LIABILITIES TO BANKS AND OTHER FINANCIAL INSTITUTIONS

(in thousands of HRK)

	At 31 December 2018	At 31 December 2017
Non-current liabilities		
Bank loans	383,932	69,252
Financial leasing	1,342	2,624
	385,274	**71,876**
Current liabilities		
Bank loans	29,185	364,943
Financial leasing	1,350	1,568
	30,536	**366,511**
	415,810	**438,386**

Summary of borrowing arrangements

Long-term liabilities to credit institutions are related to loans from commercial banks and loans from IPARD, SAPA and IBRD programmes.

Long-term loans are granted in euro and Croatian kuna. Part of these loans relates to the financing of reconstruction and modernization of production facilities for the production of cheese and for financing permanent working assets.

At the end of 2018, Granolio d.d. signed a pre-bankruptcy settlement with creditors pursuant to which a new payment dynamics was established for all loan liabilities. This made all bank loans long-term. Write-off of liabilities to banks in line with the pre-bankruptcy settlement is shown below in Note 24.

Short-term loans received are intended for financing current liquidity.

The value of assets secured by a mortgage to credit borrowings from banks as at 31 December 2018 amounted to HRK 398,895 thousand (as at 31 December 2017: HRK 456,792 thousand) which refer to:

Hipoteke Granolio d.d., Zagreb:

1 Tangible assets: HRK 112,155 thousand

2 Intangible assets: HRK 120,000 thousand

3 Shares in Zdenka and Žitar: HRK 64,767 thousand

Total value of assets secured by a mortgage: HRK 296,922 thousand

Zdenka – mliječni proizvodi d.o.o., Veliki Zdenci - value of tangible assets secured by a mortgage: HRK 31,879 thousand

Žitar d.o.o., Donji Miholjac - value of tangible assets secured by a mortgage: HRK 41,230 thousand

Zdenačka farma d.o.o. value of tangible assets secured by a mortgage: HRK 28,864

24 LIABILITIES TO BANKS AND OTHER FINANCIAL INSTITUTIONS (CONTINUED)

Movement in liabilities to banks and other financial institutions for 2018:

(in thousands of HRK)

	Opening balance at 1 January 2018	Increase in loan liabilities	Payment of loan principal	Pre-bankruptcy settlement income write-off	Transfer of part of long-term loans to short-term loans and vice versa	FX differences	Closing balance at 31 December 2018
Long-term loans							
Long-term bank loans	69,252	-	-	-	315,292	(613)	383,932
Long-term finance lease liabilities	2,624	-	-	-	(1,255)	(27)	1,342
Total long-term credits	71,876	-	-	-	314,037	(640)	385,274
Short-term loans							
Short-term bank loans	364,943	9,593	(17,660)	(11,963)	(315,292)	(436)	29,185
Short-term portion of lease contracts	1,567	-	(1,470)	-	1,255	(2)	1,350
Total short-term loans	366,511	9,593	(19,130)	(11,963)	(314,037)	(438)	30,536
TOTAL	**438,387**	**9,593**	**(19,130)**	**(11,963)**	**-**	**1,078**	**415,810**

24 LIABILITIES TO BANKS AND OTHER FINANCIAL INSTITUTIONS (CONTINUED)

(in thousands of HRK)

	Opening balance at 1 January 2017	Increase in loan liabilities	Payment of loan principal	Transfer of part of long-term loans to short-term loans	FX differences	Closing balance at 31 December 2017
Long-term loans						
Long-term bank loans	333,204	24,071		(287,780)	(243)	69,252
Long-term finance lease liabilities	2,750	2,049	(474)	(1,675)	(26)	2,624
Total long-term credits	**335,954**	**26,120**	**(474)**	**(289,455)**	**(269)**	**71,876**
Short-term loans						
Short-term bank loans	133,347	13,273	(69,158)	287,780	(299)	364,943
Liabilities for undertaken payments based on contracts on cession, assignation and debt assumption	1,500	3,438	(4,938)	-	-	-
Short-term portion of lease contracts	1,731	-	(1,842)	1,675	3	1,567
Total short-term loans	**136,578**	**16,710**	**(75,938)**	**289,455**	**(296)**	**366,511**
TOTAL	**472,532**	**42,831**	**(76,411)**	**-**	**(565)**	**438,387**

Bank loans and finance leases' maturity is as follows:

(in thousands of HRK)

	31/12/2018	2019	2020	2021	2022	From 2023 onwards
Domestic banks	413,117	29,185	20,431	27,394	26,622	309,485
Finance lease	2,693	1,350	882	369	92	-
	415,810	**30,535**	**21,313**	**27,763**	**26,714**	**309,485**

24 LIABILITIES TO BANKS AND OTHER FINANCIAL INSTITUTIONS (CONTINUED)

Foreign-currency loans are detailed in the following table:

	At 31 December 2018	At 31 December 2017
Granolio d.d., Zagreb	100	2,497
Žitar d.o.o., Donji Miholjac	5,112	5,837
Zdenka-mliječni proizvodi d.o.o., Veliki Zdenci	2,384	3,348
Zdenačka farma d.o.o., Veliki Zdenci	1	3
	7,597	**11,685**

24.a LONG-TERM TRADE PAYABLES

(in thousands of HRK)

	At 31 December 2018	At 31 December 2017
Domestic sales	47,024	186
Foreign trade payables	4,883	-
	51,906	**186**

Liabilities refer trade payables paid in line with the pre-bankruptcy settlement adopted in 2018. Liabilities are due in 48 equal installments, starting from June 2019.

25. CURRENT LIABILITIES

(a) Trade payables

(in thousands of HRK)

	At 31 December 2018	At 31 December 2017
Domestic sales	40,236	86,736
Foreign trade payables	7,933	15,869
Liabilities for non-invoiced goods	193	-
	48,362	**102,605**

Ageing analysis of trade payables as at 31 December 2018:

(in thousands of HRK)

	At 31 December 2018	At 31 December 2017
Not yet due	28,298	26,045
0-90 days past due	14,785	23,930
91-180 days past due	2,089	13,378
181-360 days past due	975	33,759
> 360 days	2,215	5,493
	48,362	**102,605**

(b) Liabilities for securities

Non-current liabilities for securities amount to HRK 32,775 (as at 31 December 2017: HRK 0). Liabilities for securities refer to liabilities for given bills of exchange. A part of liabilities for securities entered into the pre-bankruptcy settlement with a maturity longer than one year has been reclassified to current liabilities for securities.

Current liabilities for securities amount to HRK 8,870 (as at 31 December 2017: HRK 46,741). Liabilities for securities refer to liabilities for given bills of exchange. A part of liabilities for securities entered into the pre-

bankruptcy settlement with a maturity longer than one year has been reclassified to non-current liabilities for securities.

25 CURRENT LIABILITIES (CONTINUED)

(c) Taxes, contributions and similar duties payable

	At 31 December 2018	(in thousands of HRK) At 31 December 2017
VAT payable	2,524	2,557
Taxes and contributions from and on salaries	1,152	1,124
Income tax payable	17	25
Customs duties payable	64	-
Other taxes and contributions payable	152	309
	3,909	**4,014**

(d) Other current liabilities

	At 31 December 2018	(in thousands of HRK) At 31 December 2017
Liabilities based on recourse factoring	-	65,000
Other current liabilities	878	3,626
	878	**68,626**

Liabilities based on a recourse factoring right in the amount of HRK 0 thousand (2017: HRK 65,000 thousand) towards the customer group where the process of potential reorganization and changes in the business model began after the reporting date.

Bills of exchange received from	Bills of exchange discounted at	At 31 December 2018	At 31 December 2017
Agrokor-trgovina d.o.o.	Erste factoring d.o.o.	-	65,000
		-	**65,000**

Bills of exchange worth HRK 65,000 thousand, received from Agrokor-trgovina d.o.o. and discounted at Erste factoring d.o.o. Recourse liability towards the company Erste factoring became a part of the pre-bankruptcy settlement and, in line with the settlement, a 65% value of the liability was written-off, and the remaining amount (HRK 22,750 thousand) was transferred to non-current liabilities for securities.

26. ACCRUED EXPENSES AND DEFERRED INCOME

	At 31 December 2018	(in thousands of HRK) At 31 December 2017
Deferred income	10,225	12,612
Accrued expenses	917	767
	11,141	**13,379**

Movements in deferred income during the year were as follows:

	2018	(in thousands of HRK) 2017
Balance at 1 January	**12,612**	**12,223**

Movements during the year	(2,387)	389
Balance at 31 December	**10,225**	**12,612**

Movements in accrued expenses during the year were as follows:

	(in thousands of HRK)	
	2018	**2017**
Balance at 1 January	**768**	**582**
Movements during the year	149	186
Balance at 31 December	**917**	**767**

27. COMMITMENTS

As at 31 December 2018, the Group has commitments under operating lease arrangements entered into for tangible fixed assets in the total amount of HRK 698 thousand and rental agreements in the total amount of HRK 7,003 thousand, which are not yet realised or disclosed in the statement of financial position.

The contractual commitments under operating leases for vehicles and production equipment as well as under space rental agreements are as follows:

(in thousands of HRK)

	At 31 December 2018	**2019**	**2020**	**2021**	**2022**	**From 2023 onwards**
Operating lease	698	396	150	121	31	-
Rentals	7,003	962	591	375	375	4,701
	7,701	**1,358**	**741**	**496**	**406**	**4,701**

28. RELATED-PARTY TRANSACTIONS

(in thousands of HRK)

	At 31 December 2018			
	Assets		Liabilities	
	Trade and other receivables	Given loans	Non-current liabilities	Current liabilities
Stan arka d.o.o.	160	4,430	-	-
Key management	505	5,761	-	-
	665	**10,191**	-	-

(in thousands of HRK)

	At 31 December 2017			
	Assets		Liabilities	
	Trade and other receivables	Given loans	Non-current liabilities	Current liabilities
Stan arka d.o.o.	160	8,867	-	-
Key management	333	5,809	-	-
	493	**14,676**	-	-

Key management of the Group consists of members of the Board Granolio d.d. and directors of subsidiaries.

The remuneration of key management in 2018 amount to HRK 1,423 thousand (in 2017: HRK 2,823 thousand).

In 2018, HRK 175 thousand of compensations were paid to members of the Supervisory Board (in 2017: HRK 252 thousand).

Income and expenses for the year ending on 31 December 2018 and 31 December 2017, arising from transactions with related parties, were as follows:

(in thousands of HRK)

	2018		2017	
	Income	Expenses	Income	Expenses
Stan arka d.o.o.	-	-	78	-
Key management	174	-	174	-
	174	-	**252**	-

29. EARNINGS PER SHARE

	At 31 December 2018	At 31 December 2017
Profit/(loss) attributable to the Group	**81,861**	**(201,662)**
Weighted average number of ordinary shares used in the calculation of the basic earnings per share	1,901,643	1,901,643
(Loss)/earnings per share (in HRK and lp)	**43.05**	**(106.05)**

30. RISK MANAGEMENT

30.1 Financial risk

Equity risk management

Net debt-to-equity (Gearing ratio)

The Group reviews the capital structure annually. As part of this review, the cost of capital and the risks associated with each class of capital are presented.

The gearing ratio at the date of the statement of financial position was as follows:

	At 31 December 2018	(in thousands of HRK) At 31 December 2017
Debt (long-term and short-term loans and liabilities for securities)	413,117	434,195
Lease liabilities (long-term and short-term)	2,692	4,192
Cash and cash equivalents	10,340	(3,605)
Net debt	**426,149**	**434,782**
Equity	44,369	(38,003)
Debt to equity ratio	**960%**	**-**

Debt is defined as long-term and short-term loans, liabilities under securities and lease obligations. Equity represents the value of capital and reserves.

The Group's capital consists of a debt, which includes received loans and leases, cash and cash equivalents and of the equity attributable to the shareholders comprising share capital, reserves, retained earnings and profit for the year.

Categories of the Company's financial instruments

	At 31 December 2018	(in thousands of HRK) At 31 December 2017
Financial assets		
Cash	10,340	3,605
Loans and receivables	159,897	168,157
Financial liabilities held at depreciated cost:		
Liabilities for loans, leases and securities	457,466	485,139
Payables to suppliers	100,268	102,791
Other liabilities	15,001	99,444

Financial risk management objectives

The Group finances a part of its operations using foreign-currency denominated borrowings. Therefore, the Group is subject to an impact of changes in the applicable foreign exchange and interest rates. The Group is also exposed to credit risk which arises from the sales it has made with deferred payment.

The Group seeks to reduce the effects of these risks to the lowest possible level.

30 RISK MANAGEMENT (CONTINUED)

30.1 Financial risks (continued)

Price risk management

The largest market on which the Group provides its services is the market of the Republic of Croatia. The Group's Management Board determines the prices of the services based on market prices. The purchase function is centralised, which in itself provides the Group an image of a respectable customer with a good negotiating position from the start.

Currency risk

The Group is exposed to the risk of changes in foreign exchange rates. The exchange rate risk arises from the portion of the Group's loan debt tied to the movements in the exchange rate of the Croatian kuna (HRK) against the euro (EUR). Significant fluctuations in the HRK/EUR exchange rate could affect the value of the Group's foreign-currency denominated assets and liabilities. In addition, according to the 2018 data, the Group generates around 12.9% of its total revenue on foreign markets and in euros, which is another aspect of the Group's performance being subject to the fluctuations in the EUR/HRK exchange rate.

At the reporting date, the Group did not use any financial instruments to hedge its position from unfavourable exchange rate movements.

The carrying amounts of the Company's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows.

(in thousands of the original currency)

	Assets		Liabilities	
	At 31 December 2018	At 31 December 2017	At 31 December 2018	At 31 December 2017
European Union (EUR)	2,035	999	8,573	3,435

Foreign currency sensitivity analysis

The Group is mainly exposed to the fluctuations in the exchange rate of the Croatian kuna (HRK) against the euro (EUR) because this is the currency in which the majority of intermediary food product purchase and sale transactions on international markets is carried out.

For a 5 % weakening of the HRK against the relevant currency, there would be an equal and opposite impact on the profit or equity, and the balances below would be negative. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 5% change in foreign currency rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for the 10-percent change in the relevant foreign exchange rate. A positive number below indicates an increase in profit or equity where the HRK increases by 5% against the relevant currency. For a 5% decrease in the HRK against the relevant currency, there would be an equal and opposite impact on the profit or equity, and the balances below would be negative.

(in thousands of HRK)

	Increase/decrease in exchange rate	Effect on profit before taxes
2018		
EUR	+5%	2,425
	-5%	(2,425)
2017		
EUR	+5%	1,492
	-5%	(1,492)

30 RISK MANAGEMENT (CONTINUED)

30.1 Financial risks (continued)

Credit risk

The Group is exposed to the risk of default of a portion of its trade receivables. The Group transacts generally with retail chains with which it has a long history of cooperation. As a result, the Group's credit risk is lower and present mainly to the extent it reflects potential issues in the retail industry. The Group seeks to minimise its credit risk exposure by monitoring the financial position of its customers, applying strict collection measures and obtaining various instruments of collateral such as promissory notes and bills of exchange.

In addition to credit risk arising from trade debtors, the Group is also exposed to credit risk from dealing with subcontractors in the production of grains and oleaginous plants, as it extends credit to them for required seeds and intermediary products during the sowing season. The subcontractors generally settle the liabilities for the intermediary products and seeds by delivering oleaginous plants and crops if the parties agree on the product price during the harvest season. It is possible and it happens that, in practice, some cooperative farmers fail to produce crops and oleaginous plans in quantities sufficient to settle the commodity loans for a variety of reasons. The Group protects itself from such situations by obtaining additional collateral, such as personal guarantees of the agricultural farm owners, their family members, establishing pledge on the agricultural equipment and facilities, fiduciary title to harvested crops or grains on stock, co-ownership of the crops, and similar. The instruments to secure the settlement are negotiated separately with each individual farmer, depending on the relationship history.

Where an individual subcontractor cannot repay a commodity loan due to unfavourable weather conditions and/or market prices of crops/oleaginous plants, the Group enters into a deferred payment arrangement with such subcontractors at a certain interest rate, a settlement arrangement involving the next season's harvest or settlement in another crop not affected by poor weather conditions (e.g. rain during wheat harvest may reduce the wheat quality, but at the same time improve the quality of crops harvested in the autumn). It is common for subcontractors to sow several different types of crops/plants to reduce the risk of poor weather conditions adversely affecting a particular crop/plant, but also as a safeguard against unfavourable movements in the prices of a particular crop, i.e. to disperse the risk.

In the course of its operations, the Group enters into factoring contracts and/or discounted bills with factoring houses. The ultimate risk arising from the recoverability of the debt from the principal debtor is borne by the Group. At the reporting date, the contingent liabilities of the Group arising from factoring deals with recourse amount to HRK 22.7 million and arose from business operations with Agrokor, which is undergoing a restructuring and business model change.

The Group can not provide any guarantees that the monitoring of the financial condition of customers, measurement of the control of the collection or collateral will be effective and that the eventual possible credit risk will not affect on operational and financial condition of the Group as neither that the balance of commodity loans with problems in repayment will increase.

Interest rate risk

Given the level of debt owed to financial institutions, which mostly bears interest at a variable rate based on benchmark interest rates (EURIBOR, LIBOR, ZIBOR and interest rates on the treasury bills of the Croatian Ministry of Finance), the Group is exposed to the risk of growth in interest rates. At the reporting date, the Group did not use any financial instruments to hedge its position from unfavourable interest rate movements.

As the Group borrows both at fixed and variable rates, it is exposed to the interest rate risk. A vast majority of the loans raised by the Group bear interest at variable rates.

The sensitivity analysis below is based on the risk of changes in interest rates at the date of the statement of financial position. For variable-rate debt, the analysis is prepared assuming the amount of the liability outstanding at the date of the statement of financial position was outstanding for the whole year. If the interest rates would change by 0.5 percent, and all other variables remained constant, there would be a change in the interest expense of the Group in the amount of HRK 227 thousand at 31 December 2018 (2017: HRK 1,499 thousand). The increased level of long-term debt at variable rates increases the impact of a potential change in the interest rates on the Group's profit.

30 RISK MANAGEMENT (CONTINUED)

30.1 Financial risks (continued)

Liquidity risk

There is a risk that the Group may not be able to meet all of its obligations as they fall due, which may be caused by inadequate level of recoverability of amounts owed by customers, inappropriately matched maturities of the debt, or the inability to obtain loans from financial institutions. In order to reduce the liquidity risk, the Group applies on-going measures to recover its receivables and monitor the liquidity of its customers, seeks to optimise the maturity structure of the debt and obtain lines of credit available to it at financial institutions to be able to continue servicing its debt in unforeseen circumstances.

However, the Group cannot provide any assurance that its liquidity management will be efficient and that the potential liquidity risk will not have a significant impact on its performance and financial condition.

The following tables detail the remaining contractual maturities of the Group's non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities by reference to the earliest date on which the Group can be required to pay. The tables include both principal and interest cash outflows. The non-discounted amount of interest payments has been derived from interest rate curves at the end of the reporting period. The contractual maturity is defined as the earliest date on which the Group can be required to make the payment.

	Weighted average effective interest rate %	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
31/12/2018							
Non-interest bearing		26,016	16,150	9,439	52,924	3,211	107,740
Interest bearing	2.14%	3,182	5,696	26,704	110,038	319,374	464,995
		29,198	**21,846**	**36,143**	**162,962**	**322,585**	**572,735**
31/12/2017							
Non-interest bearing		8,694	3,947	69,392	-	-	82,032
Interest bearing	5.67%	45	48	604,470	780	-	605,342
		8,738	**3,994**	**673,862**	**780**	**-**	**687,374**

The following table details the Group's remaining contractual maturity for its non-derivative financial assets. The table has been drawn up based on the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets. The inclusion of information on non-derivative financial assets is necessary in order to understand the Group's liquidity risk management as the liquidity is managed on a net asset and liability basis.

	Weighted average effective interest rate %	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
31/12/2018							
Non-interest bearing		55,119	20,725	92,145	17,116	11	160,469
Interest bearing	4.88%	2,129	3,763	3,203	508	164	9,767
		57,247	**24,488**	**116,790**	**17,624**	**175**	**170,236**
31/12/2017							
Non-interest bearing	-	25,383	15,739	87,464	15	-	128,601
Interest bearing	3.82%	73	356	42,488	203	40	43,161
		25,454	**16,095**	**129,952**	**218**	**40**	**171,762**

30 RISK MANAGEMENT (CONTINUED)

30.1 Financial risks (continued)

Fair value measurement

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used).

Financial assets and financial liabilities	Fair value on the day		Fair value level	Valuation method and main input	Relevant unavailable input	Unavailable input in relation to fair value
	31/12/2018	31/12/2017				
Shares and units in private equity firms (Note 16).	18.25% in shares of the Zagreb bakery Klara d.d. which deals with the industrial production of bread, biscuits and other related food products - HRK 9,323 thousand; and 11.48% in shares of the company of Prehrana trgovina d.d. which deals with trade – HRK 536 thousand;	18.25% in shares of the Zagreb bakery Klara d.d. which deals with the industrial production of bread, biscuits and other related food products - HRK 12,949 thousand; and and 11.48% in shares of the company of Prehrana trgovina d.d. which deals with trade – HRK 536 thousand	Level 3	Income approach – in this approach, the discounted cash flow method was used to capture the present value of the expected future economic benefits to be derived from the ownership of these investees.	Based on the management's experience and knowledge of market conditions of the specific industries, a long-term revenue growth rate of 3% (2017: 3%).	A slight revenue growth, observed in isolation, would lead to a significant increase in fair value (see section 1)
					Long-term pre-tax operating margin, based on the management's experience and knowledge of market conditions of the specific industries, ranging from 8% to 11%	A significant increase in the long-term pre-tax operating margin used in isolation would result in a significant increase in the fair value.
					A weighted average cost of capital (WACC), determined using a Capital Asset Pricing Model (CAPM), of 12%.	A slight increase in the WACC used in isolation would result in a significant decrease in the fair value.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties under common market conditions.

The Management Board considers that the carrying amounts reported in these financial statements of financial assets and financial liabilities carried at amortised cost approximate their fair values.

30 30 RISK MANAGEMENT (CONTINUED)

30.2 Industry risks

One of the food industry risks arises from the fact that eating and diet habits of consumers as well as consumer awareness of the impact of the diet on their health have significantly evolved over the past two decades. Such trends pose an imperative for the producers in terms of seeking to expand the existing line of products and further improve the quality of the current products, both in milling and milk processing (Zdenka).

Flour production

Flour production could be adversely affected by extraordinary events such as fire, explosions, failure of production equipment, prolonged or unplanned maintenance, construction of roads or closing of main transport routes, flooding, storms or other extreme weather conditions. Although the Group has arranged an insurance coverage for its facilities, the insurance coverage is inherently limited by caps on insured sums and may not be sufficient to cover all the costs. In addition, the Group may be exposed to costs not covered by insurance.

Dairy production

In purchasing raw milk for the purposes of dairy production, Zdenka - mliječni proizvodi relies to a large extent on a number of cooperative farmers, which exposes it to the risk of the input material not being of sufficient quality to produce premium-quality products or the risk that milk is not delivered in time or in sufficient quantity. The input quality risk is sought to be minimised using laboratories to perform microbiological tests of raw milk. In case of a market disturbance due to the lack of raw material or its increasing prices, the Group is capable to redirect the milk produced by Zdenačka Farma for Zdenka in a relatively short term and hence partly mitigate the risk. The lack of milk on the domestic market may also be compensated for by importing milk. However, because of the fierce competitive environment, Zdenka cannot protect itself from a potential increase in the milk market prices or provide assurance that any increase in the milk price will be successfully compensated for by higher prices of the end products.

In addition to raw milk, Zdenka also purchases inputs for processed cheese from several producers in the EU that meet high quality standards. The risk of the lack of input or cancellation of the contract by a supplier is currently not significant because the current level of offer exceeds the demand on the part of manufacturers, and Zdenka itself is able to launch its own production should the market experience a significant disturbance.

The risk of product spoilage is pronounced because dairy products fall within the category of products highly susceptible to deterioration. Zdenka seeks to minimise the risk by applying strict controls over the input, processing it in high-tech plants and maintaining high hygiene standards in its plants.

Market risk is a significant risk for Zdenka, as it arises mostly from purchases of cheap cheese from the EU. Therefore, in order to hedge its own margins, Zdenka focuses on the production and distribution of branded products which are also a component of Zdenka's value. Maintaining the image and values arising from the brand is key for a successful performance of Zdenka. Negative publicity, any legal measures or other factors could significantly impair the value of the brand and result in lower demand on the part of customers, as well as affect the current and future operations and financial position of Zdenka.

Livestock operations

In the milk production segment (Zdenačka farma and Žitar) and fattening pigs (Žitar), livestock morbidity and mortality are the prevailing risks. In order to prevent diseases and mortality, veterinary units have been established on the farms that carry out a continuous care of the livestock health condition. To be able to produce high-quality milk, optimum feeding standards and hygiene in milking operations and storage of raw milk are being observed. Mortality insurance has been arranged for all livestock.

There is also a risk that meat and milk produced may not meet the high quality standards. However, the risk is significantly reduced by applying high production quality standards, such as ISO and HACCP.

30 30 RISK MANAGEMENT (CONTINUED)

30.2 Industry risks (continued)

Crop operations

Crop production is exposed to unfavourable weather conditions (draught, floods, hail) which may lower the crop yield or impair its quality, or both, and in extreme cases result in completely devastated crops. Unfavourable weather affects the operations of Žitar which is engaged in crop operations, but also on cooperative farmers to whom the Group extends credits by offering seeds and intermediary products, which may ultimately reduce the farmers' ability to settle their commodity loan debt, as described in more detail in Note 30.1. Credit risk

The weather risk is sought to be mitigated by arranging crop insurance.

The Group also applies geographic diversification to mitigate the weather risk.

As in the case of livestock operations, the risk of crop morbidity may have a significant impact on the expected yield (which is sometimes higher than 30%). Therefore, according to the common practice, disease prevention activities are undertaken as the most cost-efficient and effective way of maintaining the expected yield levels.

In addition to diseases, damage caused to crops by a growing population of rodents becomes more difficult to manage because of the currently effective regulations (with increasing damage expected in the future).

Market risk

The food product demand is relatively steady in relation to product prices. Factors impacting the demand are of the following nature: demographic (increase of population), economic (increase in the number of tourists and food consumption at hospitality facilities; higher production volumes in the confectionery and baking industries), political (EU membership that enables seamless export to both EU Member States, but also a higher competition on domestic markets on the part of producers coming from other Member States). The fact that the Hungarian border is near to Žitar can affect the raw material market for the needs of the production process of Žitar.

Input commodity and product delivery risks

Wheat, being the key flour production input, has a significant influence on the flour production and prices, both in terms of wheat production and price levels. A key domestic source of the input is represented by a broad base of farmers with whom the Group cooperates by making deliveries of seeds and other intermediate products required for sowing and accepting settlement using mostly offsetting arrangements involving produced wheat/crops at a pre-defined purchase price.

The input commodity purchase risk is mitigated, as Granolio has established a sales division that is present on international commodity markets and is currently able to purchase, at an time, sufficient quantities of wheat at the current market price. Croatia's accession to the European Union has lifted all administrative barriers to input commodity purchases from the territory of the European union.

The product delivery risk arises from a potential discontinued production as a result of fault of the milling plant or cancellation of existing contract with the flour transporter.

The Group seeks to mitigate the production downtime risk by hiring staff resident in the vicinity of the mill plants who possess adequate skills to eliminate fault within a reasonable time. As the expansion of the milling operations is expected to bring a higher level of finished product orders, the warehousing capacities are being expanded to accommodate sufficient stock required to make timely deliveries.

The Group seeks to mitigate the product delivery risk arising from the potential cancellation of the contract with the flour transporter by relying on a broad base of transporters without being concentrated to either transporter by the scope of the services used.

In the dairy product segment, the risk of lack of raw material for the production of hot cheese is reasonable in the sense that there are enough bidders on the market and, in the case of a supplier's inability to supply, obtain raw material from another supplier in a relatively short time. Also, Zdenka has its own plant for the production of raw cheese for melted cheese and, if necessary, can produce the required amount of raw material itself.

30 RISK MANAGEMENT (CONTINUED)

30.2 Industry risks (continued)

Competition risk

The Group sells its products and goods mainly on the domestic market. As a result of Croatia's accession to the European Union, the administrative burden to entering the markets of other Member States has become smaller, which also applies to competitors entering the Croatian market.

The flour market is being increasingly concentrated, i.e. the total number of flour producers is decreasing (by integration or liquidation of small mills), with the aim to leverage from the economies of scale in order to reduce the unit production cost and strengthen the competitive position on the market. To this end, the Group acquired in 2014 the milling operations of Belje d.d., Darda, and PIK Vinkovci d.d. from the Agrokor Group. Following the full EU membership of Croatia, the Group is no longer exposed to domestic competitors only, which is why the need to improve the Group's competitiveness has been gaining on importance.

The Group estimates that the potential entry of new competitors into the domestic market of hot cheeses after the accession of the Republic of Croatia to the EU membership does not represent a significant risk to the business results, given the consumer habits and the longstanding presence of Zdenka on the domestic market, where it is competitive both at cost and quality.

30.3 Risks arising from the ordinary course of business

Key supplier and key customer concentration risk

The largest customers of the Group are leading retail chains on the market of the Republic of Croatia, and ADM Internationl (one of the leading cereal traders). Pursuant to the Business Cooperation Agreement concluded with Konzum d.d. on 2 May 2014, the shares of the Group's line of flour products in the the Konzum retail and wholesale networks has been defined according to the Group's market share. Consequently, the Group expects to have a largest future exposure to Konzum as the largest single counterparty, which also bears the risk of potential changes in the commercial relationship with the counterparty after the expiry of the Agreement.

The Group's major suppliers are those supplying the raw material and seeds for sowing. The Group seeks to cooperate with as many suppliers as possible to mitigate the risk of discontinued cooperation with a key supplier. Despite this, the Group cannot provide any assurance that a potential termination of cooperation with a key supplier will not have a significant impact on the Group's performance and financial position.

The risk of owner change

The majority shareholder of the Group is Mr Hrvoje Filipović, who holds an ownership interest of 58.11%.

As the majority shareholder, Mr Hrvoje Filipović has the controlling influence over the shareholders of the Group, by means of the rights and powers pertaining to him as a Group shareholder. Mr Filipovic's share of the Group's ownership at the reporting date is 58.11%.

The majority share enables Mr Filipović to exercise his influence in all decisions made in a General Shareholders' Meeting.

No assurance can be provided that the influence of Mr Filipović, as the majority shareholder, will not have a significant effect on the performance and financial condition of the Group.

30 RISK MANAGEMENT (CONTINUED)

30.3 Risks arising from the ordinary course of business

Acquisition risk

The Group's strategy includes the expansion of operations, both through organic growth and acquisitions. Further implementation of the strategy will depend, among others, on identifying acquisition opportunities and their successful implementation. Future acquisitions may be scrutinised by the Competition Agency to identify any potential market concentration, which means that there is a risk of an acquisition to be found non-permissible or permissible under certain prerequisites.

The ability of the Group to efficiently integrate and manage the acquiree as well as to address adequately the future growth would depend on a number of factors, and a potential failure could have an adverse effect on the Group's performance and financial position. Major acquisitions as well as acquisitions outside the current markets of the Group are possible in the future. The Group has no experience in acquisitions outside its current markets, which could impact the success of an acquisition as well as the level of acquisition and integration costs. A large acquisition could prove to be much more difficult from the integration point of view as well as require significantly higher funds than any any acquisition performed in the past. Acquisitions beyond the Group's current markets could be a challenge also because of cultural and language barriers as well as from the aspect of integrating and managing the operations in territories much more remote from the ones on which the Group presently operates.

The Group cannot provide any assurance that it will be able to address properly all the risks of future acquisitions or integrations. As a result of an acquisition, the Group's evel f debt may increase, both through raising funds to finance the acquisition and through the assumption of the debt of the acquiree, which could considerably limit the level of debt the Group would be able to take on in the future. Any considerable increase in the Group's debt in connection with an acquisition could have a material impact on the Group's performance.

In undertaking any future acquisition and as part of the related acquisition analysis, the Group will have to make assumptions about expected cost savings and potential synergies to be achieved. Such estimates are uncertain and subject to a series of significant operational, economic and competition risks that might have a significant influence, as the actual results could differ from the initial estimates. The Group is faced with a risk of failure to achieve all or a part of savings and synergies envisaged at the beginning of an acquisition.

In addition, in an acquisition process, the Group usually assumes all the liabilities and acquires all assets of the acquiree. Although the Group performs acquisition due diligence and seeks to obtain adequate guarantees and assurance as to the value of assets and liabilities it will acquire, it cannot provide any assurance that it will be able to identify all actual and contingent liabilities in advance of the actual acquisition implementation. Acquisitions resulting in the Group assuming contingent liabilities without receiving adequate assurance or warranties could have a material impact on the performance and financial position of the Group.

Working capital risk

Managing working capital successfully is a key area of the Group's operations. The Group may become exposed to a pressure both by competitors and key suppliers to reduce the settlement period for purchases, while simultaneously being under pressure from customers to extend the payment periods on sales.

The Group has made significant investments in improving its logistics to improve the inventory turnover ratio and the operational efficiency ratio. Although the Group has been managing its working capital successfully, no assurance can be given that this will continue in the future, and the Group's performance and financial position may become affected.

30 RISK MANAGEMENT (CONTINUED)

30.3 Risks arising from the ordinary course of business (continued)

Input commodity price risk

The operating results are largely influenced by the price of wheat as the key input commodity for the Group's production. Poor weather conditions, diseases and pests, political instability and other external factors may cause the volatility of the wheat prices. Overall economic conditions, unforeseeable demand and problems occurring in the production and distribution, along with potential diseases and pests, as well as weather conditions at the time of harvest may have a negative impact on the wheat prices. Regardless of the Group's ability to satisfy the wheat demand on the domestic market, movements in wheat prices on the domestic market are affected by fluctuations in the wheat prices on global commodity exchanges. The Group's past performance is conclusive of the past wheat purchase price fluctuations positively correlating with historic flour price fluctuations. However, a certain period of time is required for the flour price to become aligned with the wheat price fluctuations, as a result of which there is a short time frame in which the Group's margin becomes negatively impacted where the wheat prices increase. Regardless of the past indications of the correlation between the flour and wheat prices, the Group cannot warrant that a potential future increase in wheat prices will be fully offset with higher flour prices and that the historic margin levels will be preserved.

The Group seeks to mitigate the risk of changes in wheat prices by participating actively on futures markets.

Granolio has been managing the risks and input commodity purchase prices actively, by using various future trading techniques on global commodity markets, and without any pronounced open positions.

In the dairy product segment, raw milk prices may have a decisive impact on Zdenka's business result. In the event of a significant increase in the market prices of raw milk, it is possible to divert the production of the Zdenačke farme d.o.o. (Zdenačka farm currently does not supply Zdenka milk for commercial reasons only because it has a better selling price for milk from another customer) and Žitar d.o.o. on the supply of Zdenka, if it is determined that it is in the interest of the entire Granolio Group.

Dependence on the management and key personnel

The Group relies heavily on its staff as one of its key competitive advantages. This means that the Group should exercise great efforts in an attempt to retain top personnel at all levels in order to preserve its leading position on the market. The Group cannot warrant that it will be able to retain its current management and other leading employees or to attract new top personnel in the future. The potential loss of the current and the inability to attract new key personnel could have a significant impact on the Group's operations.

IT risks

The Group relies on a number of IT systems in support of the efficient management of the distribution capacities, for the purpose of communication with its customers and suppliers, human resource management and performance evaluation and to collect all information for management decision-making purposes. The Group's operations are becoming increasingly dependent on the use of such systems, and any system downtime or failure resulting from malicious codes, hacking attacks, hardware or software issues or otherwise could have a significant impact on the Group's operations and financial position.

30 RISK MANAGEMENT (CONTINUED)

30.3 Risks arising from the ordinary course of business (continued)

Antitrust and competition law non-compliance risk

It is a part of the overall strategy of the Group to become the leading flour producer on the Croatian market and flour supplier in the region, which may render the Group non-compliant with the market competition rules. The Croatian legislation governing market competition, which is aligned with the EU rules, forbids any form of abuse of the dominant position, especially any direct or indirect imposition of purchase or selling prices or other unfair commercial terms and conditions, limiting production, markets or technological progress to the disadvantage of customers, or imposing any unequal conditions for the same type of deals with other enterprises that may bring them in a disadvantaged competitive position, or additional obligations to counterparties as a prerequisite for entering contracts with them that are in their nature and according to the customary commercial practice not directly related to the subject matter of such contracts.

In addition, the legislation forbids any agreements, decisions, associations or joint actions on the part of enterprises aimed at, or resulting in infringing the competition rules on a given market.

Although the Group is not aware of any infringement of competition rules and has never been a respondent in proceedings initiated before the Competition Agency, it cannot warrant that no such proceedings will never be initiated. Any infringement of the competition rules is subject to significant administrative sanctions. For instance, a fine of up to 10% of the total annual revenue generated in the most recent year for which final financial statements are available may be imposed for entering into non-permissible deals or abuse of the dominant position. Therefore, any administrative sanction could have an adverse impact on the financial position and performance of the Group.

To mitigate the risk, the Group intends to arrange additional education for its employees in the area of market competition rules and implement procedures to be followed in concluding contracts and undertaking other actions that may result in a breach of competition rules and make sure that the procedures are consistently followed.

Furthermore, before undertaking any future acquisition, the Group may have to ask from the Competition Agency to assess the eligibility of the intended concentration. The Group cannot warrant that a concentration will be assessed as permissible or permissible under conditions precedent, such as the disposal of certain assets or certain other steps that might affect the revenue, profit or cash flows of the Group. The concentration eligibility assessment itself could affect the timing of the acquisition.

Litigation risk

As any business entity, so is also the Group exposed to the risk of becoming a counterparty in legal actions initiated before courts, regulatory or other competent authorities that may arise from its ordinary course of business. These include mainly claims involving the Group's debtors or suppliers. The risk of potential future claims raised by customers on the grounds of losses or injuries caused by the consumption of products cannot be excluded. The Group cannot provide any assurance that the outcome of potential future legal and regulatory proceedings or measures will not have a significant impact on its performance and financial condition.

The risk of obligations or losses not covered by insurance

The level of insurance coverage is common for the industry in which the Group operates. The insurance policies of the Group include mainly those providing coverage for occupational injuries, machinery faults, property damage, as well as crop insurance. Still, not all contingent liabilities and losses can be covered by insurance, and the Group cannot warrant that it will not be exposed to situations in which no insurance coverage will be available or that such situations would not have a material impact on the Group's operations and financial condition.

30 RISK MANAGEMENT (CONTINUED)

30.4 General risks

Business environment risk

The business environment risk includes political, legal and macroeconomic risks prevailing in the business environment of the Group, which is primarily the Croatian market on which the Group generates almost 87.1% of its total revenue (2015: 77%), followed by the markets of Bosnia and Herzegovina, Italy, Serbia, Hungary and Slovenia. The Group can not provide any guarantee that the Croatian market where the Group realizes most of its revenues will continue with the successful implementation of political and economic reforms. Delays or failures in carrying them out could have an impact on the Group's business. The state budget savings and tax burden currently being implemented in the Republic of Croatia could result in slowing economic growth or reducing disposable income, which could affect both revenue and profitability of the Group.

The governments in power so far have introduced economic reforms to develop and stabilise free market economy by privatising state-owned companies, attracting foreign direct investments and implemented reforms required in the pre-accession stage. Despite the significant progress towards establishing a full market economy, reaching the level of infrastructure of West European countries will take several more years and additional investments. The Group cannot warrant that Croatia will fully implement the intended reforms or that the political environment will favour their implementation. In addition, the Group cannot warrant that the Government in power will not introduce new regulations, fiscal or monetary policies, including taxation, environmental and public procurement policy, an indemnity policy for nationalised property or a a new foreign exchange policy.

The legal framework of the Republic of Croatia is still evolving, which may give rise to a certain level of legal uncertainty. As a result, the Group may come into a position of not being able to succeed in exercising or protecting some of its rights.

The open issues Croatia has with its neighbors do not affect the political stability of the state but represent legitimate representation of the country's strategic and economic interests in international relations, as do all other developed states. As the Group's business is based on the market of the Republic of Croatia, the danger of the influence of other states in the environment is minimal.

30 RISK MANAGEMENT (CONTINUED)

30.4 General risks (continued)

Business environment risk

The Group's operations are subject to the impact of the macroeconomic environment, economic conditions and economic activity developments. In the periods of disadvantaged economic conditions, the Group could have problems in expanding its business or meeting its financial obligations. Under such circumstances, the Group's access to financial markets could become more difficult, and its borrowing costs could increase, which would affect the performance and financial position of the Group. If the current economic situation would persist, the Group, its customers and suppliers could face difficulties in accessing capital markets, which could have an adverse impact on the current revenue and profit levels.

The Group is also under the influence of international trends, as wheat, being the Group's key input commodity, is an exchange traded commodity and hence subject to potential political instability in the major wheat producing countries (China, Russia, the USA). Still, as already mentioned above, the Group is able to meet its core input commodity needs entirely from domestic sources, while seeking to neutralise any fluctuations in the commodity price with an active access to futures markets.

Risk of changes in legal framework

As a food producer, the Group is exposed to strict regulatory requirements applicable to human foods, product safety, occupational health and safety, security and environmental protection (including those applicable to waste waters, sewage, clean air, noise, waste disposal, environmental cleaning and similar), as well as product ingredients and contents, packaging, designation, advertising and market competition. Food production generates waste, emission of hazardous agents into the atmosphere and waters, which is why the Group has the obligation to obtain various licences and adhere to a variety of regulation. Health, safety and environmental regulations in Europe and other developed countries are becoming increasingly stringent, and their implementation is increasingly gaining on importance. The Group seeks to keep pace and anticipate any such changes, as any non-compliance could result in various sanctions. The Group considers to be currently compliant with all the applicable regulations and rules as well as deadlines set by different regulators. However, it cannot warrant that it will not incur significant costs to eliminate any potential instances of non-compliance or the resulting negative publicity, or to adapt to amended regulations, as well as that the resulting impact on its operations and financial condition would not be significant. For instance, the Group is the current owner or lessee of a number of properties and facilities, including production plants and distribution centres some of which were previously used for other commercial or industrial purposes. Although the Group is currently not aware of any facts that would give rise to additional obligations regarding the environmental status of the properties and facilities, any contamination identified as a result of current or previous operations and the resulting obligation to eliminate it could cause significant costs to the Group. Additional regulations, or interpretations of current regulations, could be introduced in the future, which may affect the Group's business and products. The Group cannot provide any warranty that any costs of complying with any such future initiatives will not have a significant impact on the performance and financial condition of the Group.

31 CONTINGENT LIABILITIES

As at 31 December 2018, the Group has no contingent liabilities for given guarantees and co-debts (at 31 December 2017: HRK 81,200 thousand)

Legal disputes

There are no significant legal actions outstanding against the Group. Hence, no litigation provision has been recognised.

32 EVENTS AFTER THE REPORTING DATE

On 4 March 2019 the Company sold its shares in the company Žitar d.o.o. The transaction was entered into the court registry on 14 March 2019. Since the date of sale, neither the company Žitar d.o.o. nor the company Žitar konto d.o.o. form a part of the Granolio Group.

33 APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the Management Board and authorized for issue on 29 April 2019.

Signed on behalf of and for the Management Board:

Hrvoje Filipović dipl.oec.
President of the Management Board

Drago Šurina dipl.oec.
Member of the Management Board

Vladimir Kalčić dipl.oec.
Member of the Management Board