

**Granolio d.d., Zagreb**

*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 the company Granolio d.d.**

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.

At 31 December 2018, the ten largest shareholders of Granolio held a total ownership interest of 95.89%.

The principal activity of the Company comprises the production of and trade in agricultural products and cattle. At 31/12/2018 the business system of the Company comprised five active operations, of which two are production centres: grain mills Farina and Kopanica engaged in the production, packaging, warehousing and dispatch of grain mill products.

The business unit Bjeliš is a grain drying and storage silo.

The Osijek location is responsible for the storage, sale and dispatch of seed material, sale of grains and oleaginous plants and sales platform management.

The Granolio unit in Zagreb provides logistic, management, accounting and IT support to the Company's business.

Farina and Kopanica mills are subject to International Food Standards (IFS), which enables the Company to export its flour to EU Member States.

The Company sells five own flour brands on the market: Farina, Mlin Kopanica, Ekoklas, Mlineta, and Belje.



Because of Granolio's focus on the product and delivery quality as well as on building long-term relationships with customers, Granolio is engaged in the production of private labels for a majority of retail chains in Croatia. Currently, flour is produced for 12 private labels.

**General information on the company Granolio d.d. (continued)**

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             |
|          | <b>550</b>      |

**Subsidiaries**

As at 31 December 2018, the Company held the entire equity interest in Zdenačka farma d.o.o. It had a controlling interest in the companies Zdenka - mliječni proizvodi d.o.o. and Žitar d.o.o., which are consolidated in the Granolio Group since 2011.

Company Žitar d.o.o., has established another company, Žitar konto d.o.o., as the sole owner whose financial statements have been included in consolidated financial statements for 2017 and 2018.

The Company has a minority interest in companies Žitozajednica d.o.o., Zagrebačke pekarnice Klara d.d., and Prehrana trgovina d.d.

The ownership interests of Granolio in its subsidiaries as at 31 December 2018 are presented in the chart below:

*Granolio Group Structure as at 31 December 2018*





**General information on the company Granolio d.d. (continued)**

**Significant transactions in the current accounting period**

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.

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

Analysis of the 2018 business performance

(in thousands of HRK)

|                      | Jan-Dec<br>2018 | Jan-Dec<br>2017 | Changes   |        |
|----------------------|-----------------|-----------------|-----------|--------|
| Operating income     | 291,448         | 397,875         | (106,427) | (27%)  |
| EBIT                 | (29,342)        | (180,218)       | 172,644   | 96%    |
| Net margin %         | (10%)           | (45%)           |           |        |
| EBITDA               | 2,885           | (6,892)         | 9,777     | (142%) |
| Net margin %         | 1%              | (2%)            |           |        |
| Net financial result | 91,109          | (17,970)        | 109,860   | 611%   |
| Net result           | 61,767          | (198,187)       | 282,504   | 143%   |
| Net margin %         | 21%             | (49.8%)         |           |        |

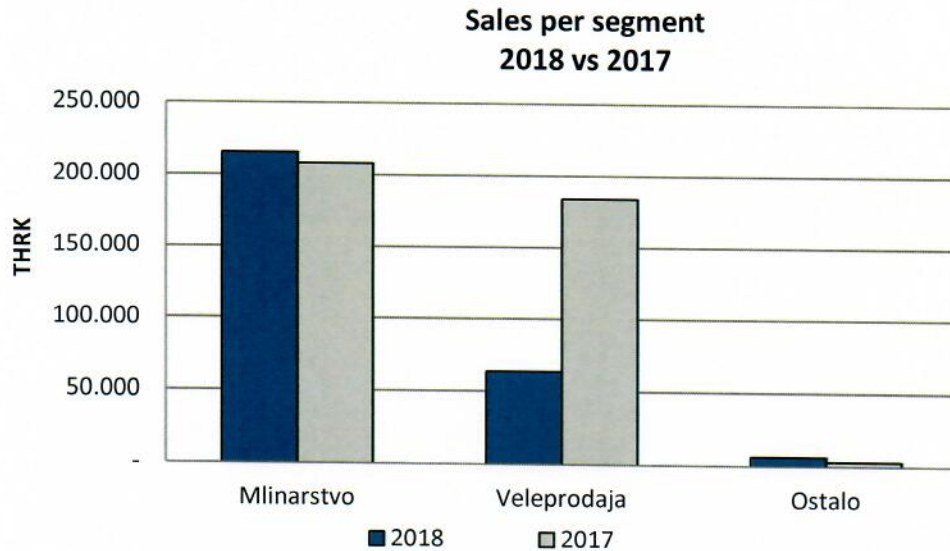
(in thousands of HRK)

| Net debt/EBITDA           | 31/12/2018 | 31/12/2017 | Changes |       |
|---------------------------|------------|------------|---------|-------|
| Total debt                | 431,830    | 389,977    | 41,853  | 11%   |
| Cash and cash equivalents | 3,574      | 2,801      | 773     | 28%   |
| Financial assets          | 36,328     | 41,620     | (5,292) | -13%  |
| Net debt                  | 391,928    | 345,556    | 46,372  | 13%   |
| EBITDA                    | 2,885      | (6,892)    | 9,777   | -142% |
| Net debt/EBITDA           | 135.85     | (50.14)    |         |       |

The total debt as at 31 December 2018 includes the liabilities of 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 the total liabilities to financial institutions without the recourse factoring liabilities.

**Analysis of the 2018 business performance (continued)**

The total product and service sales for 2018 are more than 30% lower than the prior-year sales. The significant decrease in income was recorded in the wholesale segment. The reason for this is the lack of working capital in 2018 as a result of the continuance of the pre-bankruptcy settlement procedure.

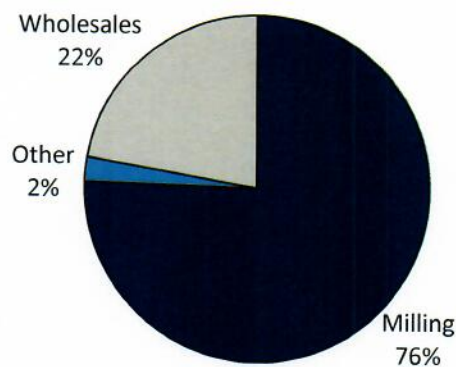


In 2018, the company sold 124,000 tons of flour, and 125,000 tons of flour in the previous year. The average flour sales price made in 2018 exceeds the average sales price made in the previous year by 4%.

The segment of wholesale is made of sales of raw materials and sales of cereals and oilseeds. The volume of these segment operations depend the most on the availability of financial assets.

Segment *Other* mostly represents revenues from providing drying services, storage, revenue from re-invoicing sales costs to customers and income from livestock sales.

**Share of individual segment in total sale in 2018**



**Analysis of the 2018 business performance (continued)**

The cost of employees is lower than the previous year by 19% due to staff reductions and reduction of part of wages.

In 2018, the Company had one-off costs incurred as a result of the situation connected to the pre-bankruptcy procedure of the company Agrokor and pre-bankruptcy procedure of the company Granolio in the total value of about HRK 4 million.

Total capital investments in tangible assets in 2018 amounted to HRK 2 million (2017: HRK 2.2 million). Procurement refers to procurement of equipment for production facilities, tools et sim.

Other than the specified, the Company increased its property asset in the amount of HRK 4.6 million. The asset was acquired through compensation with the relevant company.

Net financial result in 2018 was HRK amounted to HRK 91.1 million (2017: HRK 18 million). Financial income contains the pre-bankruptcy settlement write-offs amounting to HRK 91.4 million. Written-off liabilities are shown in the table below.

**Pre-bankruptcy settlement debt write-off**

|   |               |
|---|---------------|
| Liabilities to financial institutions write-off | 64,239        |
| Trade payables write-off                        | 14,946        |
| Interest liabilities write-off                  | 12,211        |
| <b>Total</b>                                    | <b>91,396</b> |



**Analysis of the 2018 business performance (continued)**

**Significant events after the end of the accounting period and the strategic goals of the Company**

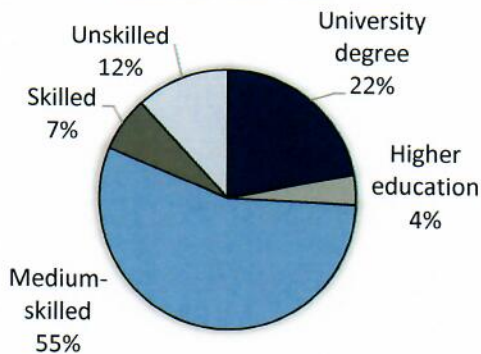
On 4 March 2019 the Company sold its shares in the company Žitar d.o.o. The transaction was entered into the court registry on 14 March 2019. The Company Granolio realised a loss of HRK 17.6 million, reported in the financial statements for 2018, as the cost of value adjustment of financial assets (see Note 9 to the financial statements.)

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.

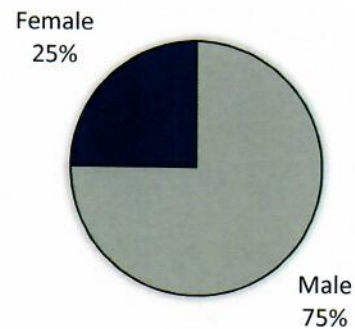
**Employees**

In 2018, based on working hours, the Group had 153 employees (in 2017: 175 employees), structured by formal qualification levels and gender as presented in the following charts:

**GRANOLIO - EMPLOYEE STRUCTURE BY QUALIFICATION**



**GRANOLIO - EMPLOYEE STRUCTURE BY GENDER**



**Research and development**

In the period observed, the Company had no research and development projects.

**Purchase of own shares**

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

**Environmental protection**

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

**Risks**

Details about the risks to which the Company is exposed are presented 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 consist 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 Depository 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 Croatian Accounting Law, the Management Board of Granolio d.d. ("the Company") is responsible for ensuring that financial statements are prepared for each financial year in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, which give a true and fair view of the state of affairs and results of the Granolio d.d. for that period.

After making enquiries, the Management Board has a reasonable expectation that the Company 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 disclose with reasonable accuracy at any time the financial position of the Company and must also ensure that the financial statements comply with the Croatian Accounting Act. Furthermore, the Management Board is responsible for safeguarding the assets of the Company 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 Company 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

## INDEPENDENT AUDITOR'S REPORT

to the shareholders of Granolio d.d., Zagreb

### Statement of Audit of the Financial Statements

#### Opinion

We have audited the unconsolidated financial statements of Granolio d.d. ("the Company"), which comprise the unconsolidated statement of financial position as at 31 December 2018, and the unconsolidated statement of comprehensive income, unconsolidated statement of changes in equity and unconsolidated statement of cash flows for the year then ended, and notes to the unconsolidated 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 unconsolidated financial statements present fairly, in all material respects, the financial position of the Company 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 Company has recognised the Mlineta and Belje brands, as disclosed in Note 14, whose value amounted to HRK 120,000 thousand as at 31 December 2018. According to International Accounting Standard 36 "Impairment of Assets", the Company 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 Company 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)**

#### **Emphasis of Matter**

##### *Material Uncertainty Related to Going Concern*

We draw attention to Note 3.2. to the 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, maintaining the Company liquid and solvent. The Management Board of the Company believes that the Company is able to continue its operations as a going concern. Our opinion is not modified in respect of this matter.

##### *Issuance of consolidated financial statements*

We draw attention to the fact that the consolidated financial statements for Granolio d.d. and its subsidiaries have been prepared in line with International Financial Reporting Standards adopted by the European Union, were issued separately. The consolidated financial statements were authorised for issue at the date of this report and for the better understanding of the Group as a whole, and the users need to read the consolidated financial statements in relation to these financial statements.

## INDEPENDENT AUDITOR'S REPORT (continued)

### Statement of Audit of the Financial Statements (continued)

#### 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 unconsolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter.

| <b>Key audit matter</b>  | <b>How our audit addressed the key audit matter</b>  |
|--|--|
| <p>Income</p> <p>Pay attention to Notes 3.8 and 5 in the financial statements</p> <p>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.</p> <p>The Company recognises revenue when the amount of the revenue can be measured reliably, when future benefits will flow into the Company and when the specific requirements, set out below, applicable to all the activities of the Company are met.</p> <p><i>(i) Income from the wholesale of products and trade goods</i></p> <p>The Company produces and distributes own products and third-party trading (wholesale services). Wholesale revenue is recognised when the Company 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.</p> | <p>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.</p> <p>&gt;&gt; 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.</p> <p>&gt;&gt; We assessed the existing controls over the authorisation of sales booking and recognition.</p> <p>&gt;&gt; We tested the accuracy on a sample of invoices issued to customers.</p> <p>&gt;&gt; We tested significant adjustments made by the management in order to assess the completeness and accuracy of the revenue.</p> <p>&gt;&gt; We tested the evidence supporting journal entries made manually to revenue accounts in order to identify any unusual items.</p> |



## INDEPENDENT AUDITOR'S REPORT (continued)

### Statement of Audit of the Financial Statements (continued)

#### Key Audit Matters (continued)

| <i>Key Audit Matter</i>  | <i>How our audit addressed the key audit matter</i>   |
|--|---|
| <p>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 Company has objective evidence that all the terms of delivery have been met.</p> <p>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.</p> | <p>We confirmed the validity of the assumptions and key estimates made by the management in accounting for the revenue.</p> |

## INDEPENDENT AUDITOR'S REPORT (continued)

### Statement of Audit of the Financial Statements (continued)

#### Key Audit Matters (continued)

| <b>Key Audit Matter</b>   | <b>How our audit addressed the key audit matter</b>  |
|---|--|
| <p>Pre-bankruptcy settlement debt write-off</p> <p>Pay attention to Notes 3.2, and 12 in the financial statements</p> <p>Under the pre-bankruptcy 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.</p> <p>In 2018, the Group wrote off liabilities in the amount of HRK 91,396 thousand.</p> | <p>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.</p> <p>Our audit procedures which refer to liability write-off in line with the PBS by the Management of the Group entail:</p> <p>we determined that the effective PBS agreed on the write-off of Company's debts in the amount of HRK 91,396 thousand;</p> <p>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;</p> <p>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.</p> |



## INDEPENDENT AUDITOR'S REPORT (continued)

### Statement of Audit of the Financial Statements (continued)

#### 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 unconsolidated financial statements and our independent auditor's report. Our opinion on the unconsolidated 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 unconsolidated 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.

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 for the year 2017 has been prepared, in all material respects, in accordance with Article 21 of the Accounting Act;
3. Corporate Governance Statement has been prepared, in all material aspects, in accordance with the Article 22, paragraph 1, items 3 and 4 of the Accounting Act, and includes also the information from Article 22, paragraph 1, point 2, 5, 6 and 7 of the noted 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 unconsolidated 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 Company'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



## **INDEPENDENT AUDITOR'S REPORT (continued)**

### **Statement of Audit of the Financial Statements (continued)**

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 Company.

### **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:

- 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 controls 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 Company'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 Company'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 Company 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.

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



## INDEPENDENT AUDITOR'S REPORT (continued)

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

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.

### 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 Company by the shareholders on General Shareholders' Meeting held on 13 June 2018 to perform audit of accompanying 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 financial statements is consistent with the additional report issued to the Audit Committee of the Company 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 Company, 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 Vlák.

  
**Branislav Vrtacnik**

Member of the Board

  
**Vanja Vlák**  
Certified Auditor

Deloitte d.o.o.

29 April 2019

Radnička cesta 80

10 000 Zagreb

Republic of Croatia

**Unconsolidated statement of comprehensive income**  
for the year ended 31 December 2018

|   |        | (in thousands of HRK) |                  |
|---|--------|-----------------------|------------------|
|   | Note   | 2018                  | 2017             |
| <b>Income</b>   |        |                       |                  |
| Sales revenue   | 5      | 285,820               | 395,713          |
| Other operating income  | 6      | 5,628                 | 2,163            |
| <b>Total operating income</b>   |        | <b>291,448</b>        | <b>397,876</b>   |
| <b>Changes in inventories</b>   |        |                       |                  |
| Material expenses   | 17     | 215                   | (10)             |
| Staff costs   | 7      | (268,029)             | (371,426)        |
| Depreciation and amortisation   | 8      | (16,423)              | (20,200)         |
| Other costs   | 14, 15 | (10,459)              | (10,872)         |
| Value adjustment expenses   | 10     | (2,592)               | (5,330)          |
| Other operating expenses  | 9      | (21,768)              | (162,454)        |
| <b>Total operating expenses</b>   | 11     | <b>(320,790)</b>      | <b>(578,093)</b> |
| <b>Operating losses</b>   |        |                       |                  |
|   |        | <b>(29,342)</b>       | <b>(180,217)</b> |
| <b>Financial income</b>   |        |                       |                  |
| Financial income  | 12     | 92,768                | 4,001            |
| Financial expenses  | 12     | (1,659)               | (21,971)         |
| <b>Net financial result</b>   |        | <b>91,109</b>         | <b>(17,970)</b>  |
| <b>Result before taxation</b>   |        |                       |                  |
| Income tax  | 13     | 61,767                | (198,187)        |
| <b>Profit/(loss) after taxation</b>   |        | <b>61,767</b>         | <b>(198,187)</b> |
| <i>Other comprehensive income</i>   |        |                       |                  |
| <b>Total comprehensive income/(loss)</b>  |        | <b>61,767</b>         | <b>(198,187)</b> |
| <b>Earnings per share</b>   |        |                       |                  |
| <b>Basic and diluted earnings/(loss) per share</b><br><i>(in HRK and lipas)</i> | 27     | <b>32.48</b>          | <b>(104.22)</b>  |

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

**Unconsolidated statement of financial position**

at 31 December 2018

|   |      | (in thousands of HRK) |                |
|---|------|-----------------------|----------------|
|   |      | At 31                 | At 31          |
|   | Note | December 2018         | December 2017  |
| <b>I NON-CURRENT ASSETS</b>                         |      |                       |                |
| <b>Intangible assets</b>                            |      |                       |                |
| 1 Trademarks, concessions, licenses                 |      | 120,000               | 120,000        |
| 2 Customer list                                     |      | 2,364                 | 4,030          |
| 3 Software and other intangible assets              |      | 250                   | 331            |
|   | 14   | <b>122,614</b>        | <b>124,361</b> |
| <b>Property, plant and equipment</b>                |      |                       |                |
| 1 Land  |      | 9,155                 | 8,303          |
| 2 Buildings   |      | 115,283               | 108,954        |
| 3 Plant, equipment, and tools                       |      | 12,653                | 15,029         |
| 4 Other tangible assets                             |      | 79                    | 76             |
| 5 Investment property                               |      | 4,615                 | -              |
| 6 Tangible assets under construction                |      | 9,334                 | 24             |
|   | 15   | <b>151,119</b>        | <b>132,386</b> |
| <b>Financial assets</b>                             |      |                       |                |
| 1 Investment in subsidiaries                        | 16a  | 92,428                | 155,964        |
| 2 Shares at fair value through profit or loss       | 16b  | 9,859                 | 13,486         |
| 3 Given loans, deposits and similar                 | 16c  | 193                   | 259            |
|   |      | <b>102,480</b>        | <b>169,709</b> |
| <b>Non-current receivables</b>                      |      | <b>15</b>             | <b>15</b>      |
| <b>II CURRENT ASSETS</b>                            |      |                       |                |
| <b>Inventories</b>                                  |      |                       |                |
|   | 17   | <b>10,076</b>         | <b>20,567</b>  |
| <b>Receivables</b>                                  |      |                       |                |
| 1 Receivables from related parties                  | 26   | 9,276                 | 3,605          |
| 2 Trade receivables                                 | 18a  | 55,445                | 55,779         |
| 3 Receivables from the State and other institutions | 18b  | 671                   | 3,336          |
| 4 Other receivables                                 | 18c  | 27,484                | 23,758         |
|   |      | <b>92,875</b>         | <b>86,478</b>  |
| <b>Financial assets</b>                             |      |                       |                |
| 1 Given loans to related parties                    | 19   | 22,935                | 28,150         |
| 2 Investments in securities                         | 19a  | 178                   | 178            |
| 3 Given loans, deposits and similar                 | 19b  | 13,022                | 13,032         |
|   |      | <b>36,135</b>         | <b>41,360</b>  |
| <b>Cash and cash equivalents</b>                    | 20   | <b>3,574</b>          | <b>2,801</b>   |
| <b>Prepaid expenses and accrued income</b>          | 21   | <b>504</b>            | <b>617</b>     |
| <b>TOTAL ASSETS</b>                                 |      | <b>519,393</b>        | <b>578,294</b> |



**Unconsolidated statement of financial position (continued)**

at 31 December 2018

|                                   |      | (in thousands of HRK)  |                        |
|-----------------------------------|------|------------------------|------------------------|
|                                   | Note | At 31<br>December 2018 | At 31<br>December 2017 |
| <b>I EQUITY AND RESERVES</b>      |      |                        |                        |
| 1                                 |      | 19,016                 | 19,016                 |
| 2                                 |      | 84,196                 | 84,187                 |
| 3                                 |      | 57,678                 | 60,117                 |
| 4                                 |      | 409                    | 409                    |
| 5                                 |      | 800                    | 800                    |
| 6                                 |      | (169,386)              | 9,803                  |
| 7                                 |      | 61,767                 | (198,187)              |
|                                   | 22   | <b>54,480</b>          | <b>(23,855)</b>        |
| <b>II NON-CURRENT LIABILITIES</b> |      |                        |                        |
| 1                                 | 13   | 12,661                 | 13,196                 |
| 2                                 | 23   | 363,369                | 757                    |
| 3                                 |      | 51,749                 | -                      |
|                                   |      | <b>427,779</b>         | <b>13,953</b>          |
| <b>III CURRENT LIABILITIES</b>    |      |                        |                        |
| 1                                 | 26   | 27                     | 39,164                 |
| 2                                 | 23   | 451                    | 341,369                |
| 3                                 |      | 668                    | 2,948                  |
| 4                                 | 24a  | 24,240                 | 77,540                 |
| 5                                 | 24b  | 8,870                  | 47,551                 |
| 6                                 | 24c  | 1,645                  | 738                    |
| 7                                 |      | 292                    | 671                    |
| 8                                 | 24d  | 943                    | 78,215                 |
|                                   |      | <b>37,136</b>          | <b>588,196</b>         |
| <b>TOTAL LIABILITIES</b>          |      | <b>519,393</b>         | <b>578,294</b>         |

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



**Consolidated Statement of Changes in Equity**

for the year ended 31 December 2018

|  | Share capital | Capital reserves | Legal reserves | Reserves for own shares | Revaluation reserves | (Accumulated loss) /retained earnings | Profit / (loss) for the year | Total     |
|--|---------------|------------------|----------------|-------------------------|----------------------|---------------------------------------|------------------------------|-----------|
| <b>As at 1 January 2017</b>                          | 19,016        | 84,187           | 283            | 800                     | 61,562               | 3,784                                 | 2,507                        | 172,139   |
| Net profit for the year                              | -             | -                | -              | -                       | -                    | -                                     | (198,187)                    | (198,187) |
| Revaluation depreciation                             | -             | -                | -              | -                       | (2,984)              | 2,984                                 | -                            | -         |
| <b>Total other comprehensive income for the year</b> | -             | -                | -              | -                       | (2,984)              | 2,984                                 | (198,187)                    | (198,187) |
| Calculation of deferred tax liability                | -             | -                | -              | -                       | 1,539                | -                                     | -                            | 1,539     |
| Reversal of deferred tax liabilities (Note 13)       | -             | -                | -              | -                       | -                    | 654                                   | -                            | 654       |
| Overview of results for 2016                         | -             | -                | 126            | -                       | -                    | 2,381                                 | (2,507)                      | -         |
| <b>As at 31 December 2017</b>                        | 19,016        | 84,187           | 409            | 800                     | 60,117               | 9,804                                 | (198,187)                    | (23,855)  |
| Net profit for the year                              | -             | -                | -              | -                       | -                    | -                                     | 61,767                       | 61,767    |
| Revaluation depreciation                             | -             | -                | -              | -                       | (2,996)              | 2,996                                 | -                            | -         |
| <b>Total other comprehensive income for the year</b> | -             | -                | -              | -                       | (2,996)              | 2,996                                 | 61,767                       | 61,767    |
| Reversal of deferred tax liabilities (Note 13)       | -             | -                | -              | -                       | (122)                | 657                                   | -                            | 535       |
| Acquisition of subsidiary (Note 1.1)                 | -             | 9                | -              | -                       | 679                  | 15,344                                | -                            | 16,032    |
| Overview of results for 2017                         | -             | -                | -              | -                       | -                    | (198,187)                             | 198,187                      | -         |
| <b>As at 31 December 2018</b>                        | 19,016        | 84,196           | 409            | 800                     | 57,678               | (169,386)                             | 61,767                       | 54,480    |

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

**Unconsolidated Statement of Cash Flows**  
for the year ended 31 December 2018

|  |       | (in thousands of HRK) |                  |
|--|-------|-----------------------|------------------|
|  | Note  | 2018                  | 2017             |
| <b>Result before taxation</b>                                  |       | <b>61,767</b>         | <b>(198,187)</b> |
| <i>Adjusted by:</i>  |       |                       |                  |
| Depreciation and amortisation                                  | 14.15 | 10,459                | 10,872           |
| Provision cost   |       | (147)                 | 2,273            |
| Profit on the disposal and retirement of fixed assets, net     |       | (9)                   | (94)             |
| Value adjustment of trade receivables                          | 9     | 521                   | 14,639           |
| Value adjustment of goodwill                                   | 9     | -                     | 60,379           |
| Value adjustment of other receivables                          | 9     | -                     | 65,000           |
| Value adjustment of financial assets                           | 9     | 21,247                | 23,339           |
| Liability write-off  |       | (91,395)              | -                |
| Inventory surplus  | 6     | (2,582)               | (540)            |
| Net interest cost  | 12    | 384                   | 18,827           |
| Net loss from other financial activities                       |       | (205)                 | (106)            |
| Net gains/(losses) from investment                             |       | 224                   | (796)            |
| <b>Operating result before changes in working capital</b>      |       | <b>265</b>            | <b>(4,394)</b>   |
| Decrease in inventories  | 17    | 13,073                | 12,527           |
| Decrease in current receivables                                |       | 615                   | 19,652           |
| Increase in short-term liabilities                             |       | 1,655                 | 1,658            |
| Paid advances  |       | (10,886)              | (1,655)          |
| (Decrease)/increase in accruals                                |       | (232)                 | 418              |
| Decrease/(increase) in deferrals                               |       | 112                   | (467)            |
| <b>Operating result after changes in working capital</b>       |       | <b>4,603</b>          | <b>27,739</b>    |
| Income taxes paid  |       | (448)                 | (2,002)          |
| Interest paid  |       | (709)                 | (8,745)          |
| <b>Cash flow from operating activities</b>                     |       | <b>3,445</b>          | <b>16,992</b>    |
| Interest received  |       | 322                   | 1,446            |
| Payments to acquire property, plant, equipment and intangibles |       | (2,361)               | (2,355)          |
| Proceeds from the sale of property, plant and equipment        |       | -                     | 114              |
| Deposits paid/received   |       | 10                    | (15)             |
| Payments for given loans                                       | 19    | -                     | (29,829)         |
| Proceeds from sale of financial instruments                    |       | -                     | 1,490            |
| Repayments of given loans                                      | 19    | 841                   | 15,901           |
| <b>Cash generated from investing activities</b>                |       | <b>(1,187)</b>        | <b>(13,248)</b>  |

**Unconsolidated Statement of Cash Flows (continued)**

for the year ended 31 December 2018

|   |           | (in thousands of HRK) |                        |
|---|-----------|-----------------------|------------------------|
|   | Note      | <u>2018</u>           | <u>2017</u>            |
| Repayment of borrowings                         | 23        | (729)                 | (98,272)               |
| Proceeds from borrowings                        | 23        | 780                   | 100,178                |
| Net payments of securities                      | 24b       | (1,030)               | (12,219)               |
| Repayment of finance leases                     | 23        | (506)                 | (904)                  |
| Proceeds from finance leases                    | 23        | -                     | 974                    |
| <b>Cash flow from financial activities</b>      |           | <u><b>(1,485)</b></u> | <u><b>(10,243)</b></u> |
| <b>Net changes in cash and cash equivalents</b> |           | <u><b>773</b></u>     | <u><b>(6,499)</b></u>  |
| Cash at the beginning of the period             |           | <u>2,801</u>          | <u>9,300</u>           |
| <b>Cash at the end of the period</b>            | <b>21</b> | <u><b>3,574</b></u>   | <u><b>2,801</b></u>    |

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



**Notes to the Unconsolidated Financial Statements**

for the year ended 31 December 2018

**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, Commercial Court in Zagreb has opened a pre-bankruptcy procedure against Granolio d.d. and nominated Nada Reljić for 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.

The following subsidiaries made up the Granolio Group as at 31 December 2018:

Zdenka - mliječni proizvodi d.o.o., Veliki Zdenci,  
Žitar d.o.o., Donji Miholjac,  
Žitar konto d.o.o., Donji Miholjac,  
Zdenačka farma d.o.o., Veliki Zdenci.

The core activities of the company 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 by issuing a new business share in the amount of HRK 16,000 thousand.

Around the middle of 2008 the Company acquired the entire equity share in Prerada žitarica d.o.o., Grubišno Polje, for HRK 5,206 thousand. 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. On 30 April 2018, the Commercial Court in Zagreb adopted the Decision on the Merger, formally ceasing the operations of the company Prerada žitarica.

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.

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.

At 31 December 2018 the Management Board of the company 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 the Supervisory Board of the company 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).

**Notes to the Unconsolidated Financial Statements (continued)**

for the year ended 31 December 2018

**1. GENERAL INFORMATION (continued)****1.1. Merger of the subsidiary Prerada žitarica d.o.o**

On 30 April 2018, pursuant to the Decision of the Majority Shareholder, the company Prerada žitarica d.o.o was legally merged to the Company and has ceased to exist as a separate legal and operational entity.

Assets and liabilities acquired as the result of the merger were recognised in the carrying amounts recognised in the financial statements of the company Prerada žitarica d.o.o. immediately before the merger. The merger was done pursuant to carrying amounts since the merger comprised the entities under the ultimate joint control of the company before and after the merger, and this control was not temporary. Parts of equity and reserves of the merged company were added to the same part of equity and reserves of the Company. The issued capital of the company Prerada žitarica d.o.o. was eliminated upon merger by the Company's investment in Prerada žitarica d.o.o. in the amount of HRK 45,915 thousand.

Review of assets, liabilities, equity and reserves were taken upon merger is detailed below:

|  | <b>Acquired through<br/>merger<br/>HRK 000</b> |
|--|--|
| <b>Acquired assets and liabilities</b>                 |  |
| Property and equipment (Note 12)                       | 20,646   |
| Investment property (Note 13)                          |  |
| Other receivables                                      | 92   |
| Cash and cash equivalents                              | 528  |
| Borrowings   |  |
| Provisions for liabilities and costs (Note 29)         |  |
| Current tax liability                                  |  |
| Other liabilities                                      | 10,178   |
| <i>Company's investment in Prerada žitarica d.o.o.</i> |  |
|  | <hr/>  |
| <b>Net identified assets and liabilities</b>           | <b>31,444</b>                                  |
|  | <hr/> <hr/>                                    |
| <b>Recognised as a part of equity and reserves:</b>    |  |
| Revaluation reserves                                   | 679  |
| Capital reserves                                       | 9  |
| Retained earnings                                      | 45,915   |
|  | <hr/>  |
| <b>Total</b>   | <b>46,603</b>                                  |
|  | <hr/> <hr/>                                    |



**Notes to the Unconsolidated Financial Statements (continued)**

for the year ended 31 December 2018

**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 Company's financial statements.

**Notes to the Unconsolidated Financial Statements (continued)**

for the year ended 31 December 2018

**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***

In the current year the Company 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 Company took advantage of.

In addition, the Company 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 unconsolidated financial statements.

The Company 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 Company assessed the existing financial assets and financial liabilities in accordance with the IFRS 9 requirements) is 1 January 2018. Accordingly, the Company 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.



**Notes to the Unconsolidated Financial Statements (continued)**

for the year ended 31 December 2018

**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 Company may upon the initial recognition of financial assets irrevocably determine the following:

- The Company 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 Company 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 Company 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)).

The Management Board of the Company has reviewed and assessed the existing financial assets of the Company 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 Company with respect to classification and measurements.

Based on the performed analysis, the Company 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 Company 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 Company 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 Company recognises expected credit losses on:

- 1) Debt instruments measured subsequently at depreciated cost or at FVTOCI;
- 2) Lease receivables;



**Notes to the Unconsolidated Financial Statements (continued)**

for the year ended 31 December 2018

- 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 Company 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 Company 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 Company 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 Company has no financial liabilities that are measured at fair value through profit or loss.



**Notes to the Unconsolidated Financial Statements (continued)**

for the year ended 31 December 2018

**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 Company 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 Company'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 Company does not expect the amendments to the standards to lead to any material changes in the Company'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),

**Notes to the Unconsolidated Financial Statements (continued)**

for the year ended 31 December 2018

**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 Company's estimates, the adoption of relevant new accounting standards and amendments to existing standards will not materially affect the Company'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 Company'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 Company's financial statements at the period of their first application.



**Notes to the Consolidated Financial Statements (continued)**

for the year ended 31 December 2018

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES****3.1 Statement of compliance**

The unconsolidated 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 financial statements of the Company 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 Company maintains its accounting records in the Croatian language, in Croatian Kuna and in accordance with Croatian laws and the accounting principles and practices observed by enterprises in Croatia.

Consolidated financial statements in accordance with IFRS for Granolio d.d. and its subsidiaries ("the Group") will be issued at the same date as unconsolidated financial statements as at 29 April 2018.

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-bankruptcy settlement.

**3.3 Interests in associates and joint ventures**

An associate is an entity over which the Company 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.

The results, assets and liabilities of associates or joint ventures are reported in these unconsolidated financial statements at cost, 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 "Non-current Assets Held for Sale and Discontinued Operations".

The requirements of IAS 9 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Company'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.

**Notes to the Consolidated Financial Statements (continued)**

for the year ended 31 December 2018

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****3.4 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 Company entity undertakes its activities under joint operations, the Company 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 Company 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 Company entity transacts with a joint operation in which a group entity is a joint operator (such as a purchase of assets), the Company does not recognise its share of the gains and losses until it resells those assets to a third party.

**3.5 Investments in subsidiaries**

Subsidiary is an entity in which the Company has significant influence in making financial and business policy decisions and controlling such policies. The assumption is that control exists when a parent owns, directly or indirectly through a subsidiary, more than half of the voting power of the entity, unless in exceptional cases when can be clearly proven that such ownership is not control. Control also exists when the parent company has half or less than half the voting power of the entity when there is:

- a) the power over more than half of the voting rights under agreements with other investors
- b) the power to manage the financial and business policies of the entity on the basis of a statute or agreement
- c) the power to appoint or dismiss most of the members of the management or equivalent administrative body or
- d) the power to give a decisive vote at the meetings of the management or the equivalent administrative body.

Investments in companies over which the Company has control and significant impact in these financial statements are stated at cost, less any impairment losses, if necessary.



**Notes to the Unconsolidated Financial Statements (continued)**  
for the year ended 31 December 2018**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****3.6 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.

**3.7 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.

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

**3.8 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 Company's operations. Revenues are stated net of value added tax, quantity and sales discounts.

The Company 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 Company produces and distributes its own products as well as third-party merchandise (wholesale operations). Wholesale revenue is recognised when the Company 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 Company 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 Company does not have specific customer award schemes.



**Notes to the Unconsolidated Financial Statements (continued)**

for the year ended 31 December 2018

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****3.8.1 Revenue recognition (continued)***(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 consists of interest earned on investments and foreign exchange 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.

**3.9 Leases***The Company 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 Company as a lessee*

The Company leases certain property, plant and equipment. Leases of property, plant and equipment, where the Company 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 Company 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.

**3.10 Foreign currencies***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 currencies are translated to the functional currency using the exchange rate list in effect at the transaction dates.

At 31 December 2018 the official exchange rate of the Croatian kuna against 1 euro (EUR) was HRK 7.4177575, and at 31 December 2017 it was HRK 7,513648, respectively.

**3.11 Borrowing costs**

Troškovi posudbe koji se mogu izravno povezati sa stjecanjem, izgradnjom ili izradom kvalificiranog sredstva, a to je sredstvo koje nužno zahtijeva znatno vrijeme kako bi bilo spremno za namjeravanu uporabu ili prodaju, se



**Notes to the Unconsolidated Financial Statements (continued)**

for the year ended 31 December 2018

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****3.11 Borrowing costs (continued)**

added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred

**3.12 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 Company is not obliged to provide any other post-employment benefits.

**(ii) Long-term employee benefits**

The Company does not recognise 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 Company 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.

**3.13 Dividends**

Dividends payable to shareholders are recognized as a liability in the financial statements in the period in which they are approved by the Company's shareholders.

**3.14 Operating segment reporting**

A segment is a distinguishable component of the Company 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 Company monitors the performance of the following segments:

- Milling
- Wholesale
- Other (services, animal husbandry, other activities)

The Company identifies operating segments on the basis of internal reports about components of the Company that are regularly reviewed by the chief operating decision maker (management of the Company) in order to allocate resources to the segments and to assess their performance. Details about the operating segments are disclosed in Note 5 to the unconsolidated financial statements. Comparative information has been presented on the principle of comparability.

**Notes to the Unconsolidated Financial Statements (continued)**

for the year ended 31 December 2018

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****3.15 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 Company 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 Company 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 unconsolidated 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.



**Notes to the Unconsolidated Financial Statements (continued)**

for the year ended 31 December 2018

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****3.16 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 Company'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:

|                              | <b>2018</b> | <b>2017</b> |
|------------------------------|-------------|-------------|
| 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.

**3.16.1 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.



**Notes to the Unconsolidated Financial Statements (continued)**

for the year ended 31 December 2018

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****3.17 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**

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.

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.

**(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**

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 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.

**3.18 Impairment of property, plant and equipment and intangible assets**

At the end of each reporting period, the Company 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 Company 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.



**Notes to the Unconsolidated Financial Statements (continued)**  
for the year ended 31 December 2018

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**3.18 Impairment of property, plant and equipment and intangible assets (continued)**

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.

**3.19 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.

**3.20 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 Company 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.

An impairment loss is charged to expenses for estimated disputed and claimed receivables, as well as receivables registered for bankruptcy, and the collection of impaired receivables are credited to income.

The Company 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 Company 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.

**3.21 Cash and cash equivalents**

Cash and cash equivalents consists of balances on accounts with banks and cash in hand. For the purposes of the unconsolidated statement of financial position, outstanding bank overdrafts are included in current liabilities.



**Notes to the Unconsolidated Financial Statements (continued)**

for the year ended 31 December 2018

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****3.22 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.

**3.23 Financial instruments**

Financial assets and financial liabilities are recognised when a Company entity becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

**3.24 Financial assets**

Financial assets and financial liabilities are recognised in the statement of financial position of the Company when the Company 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. 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.

*(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.



**Notes to the Unconsolidated Financial Statements (continued)**  
for the year ended 31 December 2018

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**3.24 Financial assets (continued)**

*(i) Depreciated cost and effective interest method (continued)*

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 Company 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.

*(ii) Impairment of financial assets*

The Company recognises the provisions for expected credit losses from debt instruments measured at depreciated cost and for trade receivables. 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 Company 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 Company's historical credit loss experience, adjusted for debtor-specific factors. The Company 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.

For all other financial instruments, the Company 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 Company 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.



**Notes to the Unconsolidated Financial Statements (continued)**  
for the year ended 31 December 2018

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**3.24 Financial assets (continued)**

*(iii) Significant increase in credit risk*

When assessing whether the credit risk for the financial instrument significantly increased since the initial recognition, the Company 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 Company 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 Company relies on days of default when assessing significant credit risk deterioration. If the debtor is in default more than 360 days, then the Company 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 Company 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.

*(iv) Definition of default status*

The following facts, which represent a case of default for internal credit risk management purposes are considered by the Company 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 Company, in full (without considering any collateral held by the Company).

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



**Notes to the Unconsolidated Financial Statements (continued)**

for the year ended 31 December 2018

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****3.24 Financial assets (continued)***(v) 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.

*(vi) Write-off policy*

The Company 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 Company 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.

*(vii) 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 based 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 Company 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 Company 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 Company 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 Company 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 Company 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.



**Notes to the Unconsolidated Financial Statements (continued)**

for the year ended 31 December 2018

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****3.24 Financial assets (continued)***(vii) Measurement and recognition of expected credit losses (continued)*

If the Company 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 Company 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 Company 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 Company 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 Company 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 Company's provision matrix. As the Company'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 Company's different customer base.



**Notes to the Unconsolidated Financial Statements (continued)**

for the year ended 31 December 2018

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****3.25 Financial liabilities and equity instruments**

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 Company, 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.

*Classification as debt or equity*

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

*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.



**Notes to the Unconsolidated Financial Statements (continued)**

for the year ended 31 December 2018

**4. KEY ACCOUNTING JUDGEMENTS AND ESTIMATES**

In the application of the Company's accounting policies, which are described in Note 3, management of the Company 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 Board has made in the process of applying the Company'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, the Management Board considered the individual criteria for the recognition of revenue from the sale of goods set out in IFRS 15 "Income" and, in particular, whether the Company 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 Company. The Management Board makes estimates of probable outcomes of these legal actions, and recognises provisions for the Company'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 Company tests the 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:

|                                      | (in thousands<br>of HRK)    |                             |
|--------------------------------------|-----------------------------|-----------------------------|
|                                      | <b>31 December<br/>2018</b> | <b>31 December<br/>2017</b> |
| Trademarks                           | 120,000                     | 120,000                     |
| Customer list                        | 2,364                       | 4,030                       |
| Software and other intangible assets | 250                         | 331                         |
|                                      | <b>122,614</b>              | <b>124,361</b>              |

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. In determining the value in use, the Management Board is required to estimate the expected future cash inflows from a cash-generating unit as well as the discount rate to be used in calculating the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise.



**Notes to the Unconsolidated Financial Statements (continued)**

for the year ended 31 December 2018

**4. KEY ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)**

(iv) *Impairment test of intangible assets (continued)*

Discount rate – Future cash flows of cash-generating units are discounted using the discount rate of 15%. Constant expected future cash flows were used as calculation inputs.

Intangible assets other than software and other intangible assets are those on the acquisition of the milling segment. At 31 December 2018, the Company performed impairment tests for trademarks.

The tests did not show any indication of impairment of goodwill, which had been impaired in full in 2017.

(v) *Useful life of property, plant and equipment*

As described in Note 3.18 above, the Company reviews the estimated useful lives of property, plant and equipment at the end of each reporting period.

**Notes to the Unconsolidated Financial Statements (continued)**  
for the year ended 31 December 2018

**5. SALES REVENUE**

|                          | (in thousands of HRK) |                |
|--------------------------|-----------------------|----------------|
|                          | <b>2018</b>           | <b>2017</b>    |
| Sales revenue – domestic | 255,708               | 301,469        |
| Sales revenue – foreign  | 24,470                | 90,778         |
| Revenue from services    | 5,642                 | 3,466          |
|                          | <b>285,820</b>        | <b>395,713</b> |

The reporting segments form a part of the internal financial reporting. The internal reports are reviewed regularly by the Company'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 Company monitors its performance through the following operating segments:

- Milling
- Wholesale
- Other (services, animal husbandry, other activities).

**Segment information – industry analysis:**

The operating income of the Company, 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.

|           | (in thousands of HRK) |                |
|-----------|-----------------------|----------------|
|           | <b>2018</b>           | <b>2017</b>    |
| Milling   | 215,751               | 195,131        |
| Wholesale | 63,714                | 196,434        |
| Other     | 6,355                 | 4,148          |
|           | <b>285,820</b>        | <b>395,713</b> |

**Geographic analysis**

|                        | (in thousands of HRK) |                |
|------------------------|-----------------------|----------------|
|                        | <b>2018</b>           | <b>2017</b>    |
| Croatia                | 261,350               | 304,317        |
| Bosnia and Herzegovina | 9,616                 | 9,083          |
| Serbia                 | 2,367                 | 58,960         |
| Slovenia               | 7,415                 | 8,260          |
| Austria                | 4,891                 | -              |
| Hungary                | 122                   | 7,400          |
| Slovakia               | 55                    | -              |
| Libya                  | 4                     | -              |
| Italy                  | -                     | 7,692          |
|                        | <b>285,820</b>        | <b>395,713</b> |



**Notes to the Unconsolidated Financial Statements (continued)**

for the year ended 31 December 2018

**6 OTHER BUSINESS INCOME**

|  | (in thousands of HRK) |              |
|--|-----------------------|--------------|
|  | <b>2018</b>           | <b>2017</b>  |
| Inventory surplus                      | 2,582                 | 540          |
| Subsequent credit notes from suppliers | 352                   | 303          |
| Income from subsidies                  | 147                   | 227          |
| Other operating income                 | 2,547                 | 1,092        |
|  | <b>5,628</b>          | <b>2,163</b> |

**7 MATERIAL EXPENSES**

The structure of material expenses is as follows:

|  | (in thousands of HRK) |                |
|--|-----------------------|----------------|
|  | <b>2018</b>           | <b>2017</b>    |
| Raw materials and consumables used                       | 166,962               | 151,290        |
| Energy consumption                                       | 7,226                 | 6,306          |
| Inventory spillage, breakage and similar costs           | 5,339                 | 5,209          |
| Cost of inventories for sold livestock                   | 1,035                 | 659            |
| Cost of small inventory                                  | 308                   | 288            |
| Other material expenses                                  | 159                   | 311            |
| <b>Raw materials and consumables used</b>                | <b>181,029</b>        | <b>164,063</b> |
| <b>Cost of goods sold</b>                                | <b>62,605</b>         | <b>181,918</b> |
| Telephone, post and transportation services              | 12,567                | 15,102         |
| Intellectual services                                    | 3,660                 | 1,867          |
| Maintenance and security services                        | 1,862                 | 1,598          |
| Promotions and sponsorships                              | 1,448                 | 977            |
| Rental costs   | 1,270                 | 2,410          |
| Quality control services                                 | 1,151                 | 937            |
| Selling costs (freight-forwarding, goods handling, etc.) | 592                   | 811            |
| Other external costs                                     | 1,845                 | 1,742          |
| <b>Other external costs</b>                              | <b>24,395</b>         | <b>25,445</b>  |
|  | <b>268,029</b>        | <b>371,426</b> |

Inventory spillage, breakage and similar costs comprise mostly the standard spillage and breakage in the production in the amount of HRK 5,179 thousand (2017: HRK 5,089 thousand)

Auditor's fee for 2018 amounts to HRK 484 thousand: HRK 372 thousand for the audit of the Company, HRK 111 thousand for tax advisory services, and HRK 1 thousand for seminar services.

Auditor's fee for 2017 amounts to HRK 426 thousand: HRK 411 thousand for the audit of the Company and HRK 12 thousand for tax advisory services, and HRK 3 thousand for seminar services.

**Notes to the Unconsolidated Financial Statements (continued)**

for the year ended 31 December 2018

**8. STAFF EXPENSES**

|  | (in thousands of HRK) |               |
|--|-----------------------|---------------|
|  | <b>2018</b>           | <b>2017</b>   |
| Net salaries                                 | 10,404                | 12,302        |
| Taxes and contributions from and on salaries | 3,834                 | 4,974         |
| Contributions on salaries                    | 2,184                 | 2,924         |
|  | <b>16,423</b>         | <b>20,200</b> |

As at 31 December 2018, the Company had 157 employees (31 December 2017: 176).

**9 VALUE ADJUSTMENT EXPENSES**

|   | (in thousands of HRK) |                |
|---|-----------------------|----------------|
|   | <b>2018</b>           | <b>2017</b>    |
| Value adjustments of other receivables (Note 18c)   | 521                   | 65,000         |
| Value adjustments of intangible assets (Note 14)    | -                     | 60,379         |
| Value adjustments of given loans (Note 16c and 19b) | -                     | 16,370         |
| Value adjustments of trade receivables (Note 18a)   | -                     | 13,525         |
| Value adjustments of investments (Note 16)          | 21,247                | 6,976          |
| Other value adjustments                             | -                     | 203            |
|   | <b>21,767</b>         | <b>162,454</b> |

**10 OTHER EXPENSES**

|  | (in thousands of HRK) |              |
|--|-----------------------|--------------|
|  | <b>2018</b>           | <b>2017</b>  |
| Reimbursement of expenses to employees                 | 886                   | 761          |
| Contributions, membership fees and other compensations | 490                   | 513          |
| Insurance premium                                      | 418                   | 492          |
| Bank services and payment operation charges            | 142                   | 2,817        |
| Taxes independent of the result                        | 112                   | 157          |
| Business travel expenses                               | 99                    | 249          |
| Other costs  | 445                   | 341          |
|  | <b>2,592</b>          | <b>5,330</b> |

Reimbursement of costs to employees consists mainly of commutation allowances in the amount of HRK 624 thousand (2017: HRK 704 thousand) and Christmas bonuses, termination benefits and other employee benefits in the amount of HRK 262 thousand (2017: HRK 57 thousand).



**Notes to the Unconsolidated Financial Statements (continued)**

for the year ended 31 December 2018

**11 OTHER BUSSINES EXPENSES**

|  | (in thousands of HRK) |              |
|--|-----------------------|--------------|
|  | <b>2018</b>           | <b>2017</b>  |
| Subsequently approved cassa sconto             | 1,036                 | 2,861        |
| Entertainment and hospitality                  | 342                   | 479          |
| Spillage, breakage and similar damage on goods | 120                   | 1,983        |
| Fines, penalties and damages                   | 39                    | 441          |
| Receivables write-offs                         | -                     | 958          |
| Donations and sponsorships                     | -                     | 24           |
| Other operating expenses                       | 197                   | 1,055        |
|  | <b>1,734</b>          | <b>7,801</b> |

**12 FINANCIAL INCOME AND EXPENSES****Financial income**

|   | (in thousands of HRK) |              |
|---|-----------------------|--------------|
|   | <b>2018</b>           | <b>2017</b>  |
| Income from pre-bankruptcy settlement liabilities write-off | 790                   | -            |
| Interest on given loans                                     | 500                   | 1,962        |
| Foreign exchange gains                                      | 82                    | 718          |
| Default interest  | -                     | 181          |
| Gains from stock transactions                               | -                     | 796          |
| Other financial income                                      | -                     | 344          |
|   | <b>92,768</b>         | <b>4,001</b> |

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).

**Financial expenses**

|  | (in thousands of HRK) |               |
|--|-----------------------|---------------|
|  | <b>2018</b>           | <b>2017</b>   |
| Interest on given loans and borrowings | 563                   | 16,186        |
| Default interest                       | 426                   | 2,046         |
| Discount on bills of exchange          | 267                   | 2,738         |
| Foreign exchange losses                | 380                   | 968           |
| Other financial expenses               | 22                    | 31            |
|  | <b>1,659</b>          | <b>21,971</b> |

**Notes to the Unconsolidated Financial Statements (continued)**

for the year ended 31 December 2018

**13 INCOME TAX**

Tax expense comprises the following:

|                                 | (in thousands of HRK) |             |
|---------------------------------|-----------------------|-------------|
|                                 | <b>2018</b>           | <b>2017</b> |
| Current income tax              | -                     | -           |
| <b>Total income tax expense</b> | <b>-</b>              | <b>-</b>    |

*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) |             |
|--|-----------------------|-------------|
|  | <b>2018</b>           | <b>2017</b> |
| Profit/(loss) before taxation                          | 61,767                | (198,187)   |
| Income tax at a rate of 18%                            | 11,118                | (35,674)    |
| Effect of non-taxable income                           | (13,478)              | (10)        |
| Effect of non-deductible expenses                      | 4,763                 | 28,733      |
| Effect of (reversal)/generating transferred tax losses | (2,403)               | 6,951       |
| <b>Income tax</b>                                      | <b>-</b>              | <b>-</b>    |
| <b>Effective tax rate</b>                              | <b>-</b>              | <b>-</b>    |



**Notes to the Unconsolidated Financial Statements (continued)**

for the year ended 31 December 2018

**13 INCOME TAX (CONTINUED)**

*Unused tax losses*

In accordance with the tax regulations, the Company has carrying taxable losses amounting to HRK 39,994 thousand as at 31 December 2018 (carrying taxable losses of HRK 38,615 thousand as at 31 December 2017).

Deferred tax assets are not recognized in the Company's books due to the uncertainty of achieving sufficient future tax gains that would be deducted for the transferred tax losses.

Deferred tax assets arise from:

|                               | (in thousands of HRK)  |                                     |                             |                        |
|-------------------------------|------------------------|-------------------------------------|-----------------------------|------------------------|
| <b>2018</b>                   | <b>Opening balance</b> | <b>Recognised in profit or loss</b> | <b>Merger of subsidiary</b> | <b>Closing balance</b> |
| Revaluation depreciation      | 13,196                 | (657)                               | 122                         | 12,661                 |
| <b>Deferred tax liability</b> | <b>13,196</b>          | <b>(657)</b>                        | <b>122</b>                  | <b>12,661</b>          |

|                               | (in thousands of HRK)  |                                     |                        |
|-------------------------------|------------------------|-------------------------------------|------------------------|
| <b>2017</b>                   | <b>Opening balance</b> | <b>Recognised in profit or loss</b> | <b>Closing balance</b> |
| Revaluation depreciation      | 15,390                 | (2,194)                             | 13,196                 |
| <b>Deferred tax liability</b> | <b>15,390</b>          | <b>(2,194)</b>                      | <b>13,196</b>          |

Movement of deferred tax liability

|                      | (in thousands of HRK)   |                         |
|----------------------|-------------------------|-------------------------|
|                      | <b>31 December 2018</b> | <b>31 December 2017</b> |
| Balance at 1 January | 13,196                  | 15,390                  |
| Decrease             | (535)                   | (2,194)                 |
|                      | <b>12,661</b>           | <b>13,196</b>           |

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. The Management Board of the Company is not aware of any circumstances which may give rise to a potential material liability in this respect.

**Notes to the Unconsolidated Financial Statements (continued)**  
for the year ended 31 December 2018

**14. INTANGIBLE ASSETS**

Movement of intangible assets in 2018

| <u>Cost</u>                               | (in thousands of HRK) |   |                      |                 | <b>TOTAL</b>   |
|---|-----------------------|---|----------------------|-----------------|----------------|
|   | <b>Goodwill</b>       | <b>concessions, licenses, trademarks,</b> | <b>Customer list</b> | <b>Software</b> |                |
| Balance at 01 January 2018                | 60,379                | 120,000                                   | 10,000               | 2,170           | 192,549        |
| Additions                                 | -                     | -   | -                    | 135             | 135            |
| Reclassification                          | -                     | -   | -                    | 46              | 46             |
| <b>Balance at 31 December 2018</b>        | <b>60,379</b>         | <b>120,000</b>                            | <b>10,000</b>        | <b>2,351</b>    | <b>192,730</b> |
| <b>Impairment allowance</b>               |                       |   |                      |                 |                |
| Balance at 01 January 2018                | 60,379                | -   | 5,970                | 1,839           | 68,188         |
| Depreciation and amortisation             | -                     | -   | 1,666                | 216             | 1,882          |
| Reclassification                          | -                     | -   | -                    | 46              | 46             |
| <b>Balance at 31 December 2018</b>        | <b>60,379</b>         | <b>-</b>                                  | <b>7,636</b>         | <b>2,101</b>    | <b>70,116</b>  |
| <b>Carrying value at 1 January 2018</b>   | <b>-</b>              | <b>120,000</b>                            | <b>4,030</b>         | <b>331</b>      | <b>124,361</b> |
| <b>Carrying value at 31 December 2018</b> | <b>-</b>              | <b>120,000</b>                            | <b>2,364</b>         | <b>250</b>      | <b>122,614</b> |

Intangible assets in the amount of HRK 120,000 thousand (2017: HRK 120,000 thousand) have been pledged as collateral for the Company's borrowings (Note 23).



**Notes to the Unconsolidated Financial Statements (continued)**  
for the year ended 31 December 2018

**14. INTANGIBLE ASSETS (CONTINUED)**

Movement of intangible assets in 2017

| <u>Cost</u>                               | (in thousands of HRK) |  |                      |                 | <u>TOTAL</u>   |
|---|-----------------------|--|----------------------|-----------------|----------------|
|   | <u>Goodwill</u>       | <u>Trademarks,<br/>concessions, licenses</u> | <u>Customer list</u> | <u>Software</u> |                |
| As at 1 January 2017                      | 60,379                | 120,000                                      | 10,000               | 2,074           | 192,453        |
| Additions                                 | -                     | -  | -                    | 163             | 163            |
| Disposals/write-offs                      | -                     | -  | -                    | (67)            | (67)           |
| <b>Balance at 31 December 2017</b>        | <b>60,379</b>         | <b>120,000</b>                               | <b>10,000</b>        | <b>2,170</b>    | <b>192,549</b> |
| <u>Impairment allowance</u>               |                       |  |                      |                 |                |
| As at 1 January 2017                      | -                     | -  | 4,304                | 1,674           | 5,978          |
| Depreciation and amortisation             | -                     | -  | 1,666                | 232             | 1,898          |
| Disposals/write-offs                      | -                     | -  | -                    | (67)            | (67)           |
| Impairment losses                         | 60,379                | -  | -                    | -               | 60,379         |
| <b>Balance at 31 December 2017</b>        | <b>60,379</b>         | <b>-</b>                                     | <b>5,970</b>         | <b>1,839</b>    | <b>68,188</b>  |
| <b>Carrying value at 1 January 2017</b>   | <b>60,379</b>         | <b>120,000</b>                               | <b>5,696</b>         | <b>400</b>      | <b>186,475</b> |
| <b>Carrying value at 31 December 2017</b> | <b>-</b>              | <b>120,000</b>                               | <b>4,030</b>         | <b>331</b>      | <b>124,361</b> |

**Notes to the Unconsolidated Financial Statements (continued)**  
for the year ended 31 December 2018

**15 PROPERTY, PLANT AND EQUIPMENT**

Movements in property, plant and equipment in 2018

(in thousands of HRK)

|   | Land         | Buildings      | Plant,<br>equipment,<br>and tools | Other tangible<br>assets | Investment<br>property | Current<br>investments | TOTAL          |
|---|--------------|----------------|-----------------------------------|--------------------------|------------------------|------------------------|----------------|
| <b>Cost or revaluation</b>                |              |                |                                   |                          |                        |                        |                |
| Balance at 1 January 2018                 | 8,303        | 166,080        | 92,376                            | 172                      | -                      | 24                     | 266,955        |
| Additions                                 | -            | 212            | 1,836                             | -                        | 4,615                  | -                      | 6,663          |
| Merger of subsidiary                      | 852          | 13,835         | 540                               | 11                       | -                      | 9,310                  | 24,548         |
| Disposals                                 | -            | -              | (44)                              | -                        | -                      | -                      | (44)           |
| <b>Balance at 31 December 2018</b>        | <b>9,155</b> | <b>180,127</b> | <b>94,708</b>                     | <b>183</b>               | <b>4,615</b>           | <b>9,334</b>           | <b>298,122</b> |
| <b>Impairment allowance</b>               |              |                |                                   |                          |                        |                        |                |
| Balance at 01 January 2018                | -            | 57,126         | 77,346                            | 96                       | -                      | -                      | 134,568        |
| Revaluation depreciation                  | -            | 2,176          | 1,473                             | -                        | -                      | -                      | 3,649          |
| Depreciation and amortisation             | -            | 2,086          | 2,840                             | 2                        | -                      | -                      | 4,928          |
| Merger of subsidiary                      | -            | 3,456          | 439                               | 6                        | -                      | -                      | 3,901          |
| Disposals                                 | -            | -              | (43)                              | -                        | -                      | -                      | (43)           |
| <b>Balance at 31 December 2018</b>        | <b>-</b>     | <b>64,844</b>  | <b>82,055</b>                     | <b>104</b>               | <b>-</b>               | <b>-</b>               | <b>147,003</b> |
| <b>Carrying value at 1 January 2018</b>   | <b>8,303</b> | <b>108,954</b> | <b>15,029</b>                     | <b>76</b>                | <b>-</b>               | <b>24</b>              | <b>132,386</b> |
| <b>Carrying value at 31 December 2018</b> | <b>9,155</b> | <b>115,283</b> | <b>12,653</b>                     | <b>79</b>                | <b>4,615</b>           | <b>9,334</b>           | <b>151,119</b> |

Intangible assets in the amount of HRK 112,155 thousand (2017: HRK 117,847 thousand) have been pledged as collateral for the Company's borrowings (Note 23).

Due to the merger of the subsidiary Prerada Žitarica d.o.o., tangible assets increased by HRK 20,646 thousand.



**Notes to the Unconsolidated Financial Statements (continued)**  
for the year ended 31 December 2018

**15. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)**

Movements in property, plant and equipment in 2017

|   | Land         | Buildings      | Plant, equipment,<br>and tools | Other tangible<br>assets | Current<br>investments | TOTAL          |
|---|--------------|----------------|--------------------------------|--------------------------|------------------------|----------------|
| <b>Cost or revaluation</b>                |              |                |                                |                          |                        |                |
| As at 1 January 2017                      | 8,182        | 163,572        | 91,406                         | 172                      | 2,729                  | 266,061        |
| Additions                                 | 121          | 97             | 1,957                          | -                        | 17                     | 2,192          |
| Transfers from assets under construction  | -            | 2,411          | 311                            | -                        | (2,722)                | -              |
| Disposals                                 | -            | -              | (913)                          | -                        | -                      | (913)          |
| Expenses                                  | -            | -              | (386)                          | -                        | -                      | (386)          |
| <b>Balance at 31 December 2017</b>        | <b>8,303</b> | <b>166,080</b> | <b>92,375</b>                  | <b>172</b>               | <b>24</b>              | <b>266,954</b> |
| <b>Impairment allowance</b>               |              |                |                                |                          |                        |                |
| As at 1 January 2017                      | -            | 53,006         | 73,771                         | 95                       | -                      | 126,872        |
| Revaluation depreciation                  | -            | 2,165          | 1,472                          | -                        | -                      | 3,637          |
| Depreciation and amortisation             | -            | 1,955          | 3,383                          | 2                        | -                      | 5,340          |
| Disposals                                 | -            | -              | (1,277)                        | -                        | -                      | (1,277)        |
| Write-off                                 | -            | -              | (3)                            | -                        | -                      | (3)            |
| <b>Balance at 31 December 2017</b>        | <b>-</b>     | <b>57,126</b>  | <b>77,346</b>                  | <b>95</b>                | <b>-</b>               | <b>134,567</b> |
| <b>Carrying value at 01 January 2017</b>  | <b>8,182</b> | <b>110,566</b> | <b>17,635</b>                  | <b>78</b>                | <b>2,729</b>           | <b>139,190</b> |
| <b>Carrying value at 31 December 2017</b> | <b>8,303</b> | <b>108,954</b> | <b>15,029</b>                  | <b>76</b>                | <b>24</b>              | <b>132,386</b> |

**Notes to the Unconsolidated Financial Statements (continued)**

for the year ended 31 December 2018

**16 NON-CURRENT FINANCIAL ASSETS**

**(a) Investment in subsidiaries**

|   | (in thousands of<br>HRK) |                        |
|---|--------------------------|------------------------|
|   | At 31 December<br>2018   | At 31<br>December 2017 |
| Zdenka mliječni proizvodi d.o.o., Veliki Zdenci | 42,767                   | 42,767                 |
| Žitar d.o.o., Donji Miholjac                    | 22,000                   | 39,621                 |
| Zdenačka farma d.o.o., Veliki Zdenci            | 27,661                   | 27,661                 |
| Prerada žitarica d.o.o., Grubišno Polje         | -                        | 45,915                 |
|   | <b>92,428</b>            | <b>155,964</b>         |

On 30 April 2018, the Commercial Court in Zagreb adopted the Decision on the Merger, formally ceasing the operations of the company Prerada žitarica (Note 1.1.).

**(a) Shares at fair value through profit or loss**

|                                      | (in thousands of<br>HRK) |                           |
|--------------------------------------|--------------------------|---------------------------|
|                                      | At 31 December<br>2018   | At 31<br>December<br>2017 |
| Zagrebačke pekare Klara d.d., Zagreb | 9,323                    | 12,949                    |
| Prehrana trgovina d.d., Zagreb       | 536                      | 536                       |
| Žitozajednica d.o.o., Zagreb         | 1                        | 1                         |
|                                      | <b>9,860</b>             | <b>13,486</b>             |

**Ownership interest**

|   | At 31 December<br>2018 | At 31<br>December<br>2017 |
|---|------------------------|---------------------------|
| Zdenačka farma d.o.o., Veliki Zdenci            | 100.00%                | 100.00%                   |
| Prerada žitarica d.o.o., Grubišno polje         | -                      | 100.00%                   |
| Zdenka mliječni proizvodi d.o.o., Veliki Zdenci | 50.00%                 | 50.00%                    |
| Žitar d.o.o., Donji Miholjac                    | 49.69%                 | 49.69%                    |
| Zagrebačke pekare Klara d.d., Zagreb            | 18.25%                 | 18.25%                    |
| Prehrana trgovina d.d., Zagreb                  | 11.48%                 | 11.48%                    |
| Žitozajednica d.o.o., Zagreb                    | 1.28%                  | 1.28%                     |

Based on the impairment test conducted in 2018, the investment in Zagrebačke pekare Klara d.d. was decreased by HRK 3,626 thousand and the investments in subsidiary Žitar d.o.o. Was decreased by HRK 17,621 thousand (Note 9).

Voting rights are the same as property rights.

**(b) Given loans, deposits and similar**

|                          | (in thousands of<br>HRK) |                           |
|--------------------------|--------------------------|---------------------------|
|                          | At 31 December<br>2018   | At 31<br>December<br>2017 |
| Loans to natural persons | 193                      | 259                       |
|                          | <b>193</b>               | <b>259</b>                |

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



**Notes to the Unconsolidated Financial Statements (continued)**  
for the year ended 31 December 2018

**17. INVENTORIES**

|                            | (in thousands of<br>HRK)       |                                    |
|----------------------------|--------------------------------|------------------------------------|
|                            | <b>At 31 December<br/>2018</b> | <b>At 31<br/>December<br/>2017</b> |
| Raw materials and supplies | 5,704                          | 11,957                             |
| Trade goods                | 2,581                          | 6,373                              |
| Finished goods             | 1,609                          | 1,629                              |
| Work in progress           | 181                            | 608                                |
|                            | <b>10,076</b>                  | <b>20,567</b>                      |

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

**a) Trade receivables**

|                                       | (in thousands of HRK)          |                                    |
|---------------------------------------|--------------------------------|------------------------------------|
|                                       | <b>At 31 December<br/>2018</b> | <b>At 31<br/>December<br/>2017</b> |
| Domestic sales                        | 74,342                         | 73,976                             |
| Subcontractor receivables             | 8,362                          | 7,968                              |
| Foreign sales                         | 5,739                          | 7,452                              |
| Value adjustment of trade receivables | (32,998)                       | (33,617)                           |
|                                       | <b>55,445</b>                  | <b>55,779</b>                      |

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**

|  | (in thousands of HRK) |               |
|--|-----------------------|---------------|
|  | <b>2018</b>           | <b>2017</b>   |
| <b>Balance at 1 January</b>                              | <b>33,617</b>         | <b>21,425</b> |
| Value adjustment of trade receivables                    | -                     | 13,525        |
| Impaired receivables write-off                           | -                     | (879)         |
| Recovery of impaired trade and subcontractor receivables | (619)                 | (454)         |
| <b>Balance at 31 December</b>                            | <b>32,998</b>         | <b>33,617</b> |

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

|                       | (in thousands of HRK)          |                                    |
|-----------------------|--------------------------------|------------------------------------|
|                       | <b>At 31 December<br/>2018</b> | <b>At 31<br/>December<br/>2017</b> |
| Not yet due           | 36,949                         | 39,080                             |
| 0-90 days past due    | 12,472                         | 12,057                             |
| 91-180 days past due  | 1,877                          | 4,180                              |
| 181-360 days past due | 465                            | 412                                |
| > 360 days            | 3,682                          | 50                                 |
|                       | <b>55,445</b>                  | <b>55,779</b>                      |

**Notes to the Unconsolidated Financial Statements (continued)**

for the year ended 31 December 2018

**18 TRADE RECEIVABLES, RECEIVABLES FROM THE STATE AND OTHER INSTITUTIONS AND OTHER RECEIVABLES (CONTINUED)****b) Receivables from the State and other institutions**

|   | (in thousands of HRK) |                 |
|---|-----------------------|-----------------|
|   | <b>At 31 December</b> | <b>At 31</b>    |
|   | <b>2018</b>           | <b>December</b> |
|   |                       | <b>2017</b>     |
| Income tax advance payments                             | 557                   | 2,189           |
| VAT receivables   | 64                    | 1,123           |
| Other receivables from the State and other institutions | 49                    | 24              |
|   | <b>671</b>            | <b>3,336</b>    |

**c) Other receivables**

|                                     | (in thousands of HRK) |                 |
|-------------------------------------|-----------------------|-----------------|
|                                     | <b>At 31 December</b> | <b>At 31</b>    |
|                                     | <b>2018</b>           | <b>December</b> |
|                                     |                       | <b>2017</b>     |
| Receivables with recourse factoring | 16,571                | 20,000          |
| Prepayments made                    | 9,838                 | 2,671           |
| Interest receivables                | 973                   | 985             |
| Other receivables                   | 102                   | 102             |
|                                     | <b>27,483</b>         | <b>23,758</b>   |

Receivables from recourse factoring in the amount of HRK 16,571 (31 December 2017: HRK 20,000 thousand) refer to receivables based on bills of exchange with recourse right, discounted at factoring companies. Movements in receivables from recourse factoring are presented in the following table:

**Receivables with recourse factoring**

|                                       | (in thousands of HRK) |                |
|---------------------------------------|-----------------------|----------------|
|                                       | <b>2018</b>           | <b>2017</b>    |
| <b>Balance at 1 January</b>           | <b>20,000</b>         | <b>100,000</b> |
| Recovery of receivables               | (2,908)               | (15,000)       |
| Value adjustment of trade receivables | -                     | (65,000)       |
| <b>Balance at 31 December</b>         | <b>17,092</b>         | <b>20,000</b>  |



Notes to the Unconsolidated Financial Statements (continued)  
for the year ended 31 December 2018

## 19 CURRENT FINANCIAL ASSETS

### a) Investment in securities

|                                  | (in thousands of<br>HRK)       |                                    |
|----------------------------------|--------------------------------|------------------------------------|
|                                  | <b>At 31 December<br/>2018</b> | <b>At 31<br/>December<br/>2017</b> |
| Investments in bills of exchange | 178                            | 178                                |
|                                  | <b>178</b>                     | <b>178</b>                         |

### b) Given loans, deposits and similar

|                                     | (in thousands of HRK)          |                                    |
|-------------------------------------|--------------------------------|------------------------------------|
|                                     | <b>At 31 December<br/>2018</b> | <b>At 31<br/>December<br/>2017</b> |
| Loans to legal entities             | 12,913                         | 12,913                             |
| Short-term loans to natural persons | 64                             | 64                                 |
| Given deposits                      | 45                             | 55                                 |
|                                     | <b>13,022</b>                  | <b>13,032</b>                      |

**Notes to the Unconsolidated Financial Statements (continued)**  
for the year ended 31 December 2018

**19 CURRENT FINANCIAL ASSETS (CONTINUED)**

Movement in given loans in 2018

|                                | At 1 January<br>2018 | Increase in<br>given loans | Transfer from<br>receivables to<br>financial<br>assets | Write-off/value<br>adjustment of<br>given loans | Collection<br>of given<br>loans | Transfer of a<br>portion of<br>long-term<br>loans to short-<br>term and vice<br>versa | FX<br>differences | At 31<br>December<br>2018 |
|--------------------------------|----------------------|----------------------------|--|---|---------------------------------|---|-------------------|---------------------------|
| <b>Given long-term loans</b>   |                      |                            |  |   |                                 |   |                   |                           |
| Given loans to natural persons | 259                  | -                          | -  | -   | -                               | (64)  | (2)               | 193                       |
| <b>Total long-term loans</b>   | <b>259</b>           | <b>-</b>                   | <b>-</b>   | <b>-</b>  | <b>-</b>                        | <b>(64)</b>   | <b>(2)</b>        | <b>193</b>                |
| <b>Short-term loans</b>        |                      |                            |  |   |                                 |   |                   |                           |
| Given loans to natural persons | 64                   | -                          | -  | -   | (64)                            | 64  | -                 | 64                        |
| Given loans to related parties | 28,150               | -                          | -  | -   | (5,214)                         | -   | -                 | 22,935                    |
| Given loans to companies       | 12,913               | -                          | -  | -   | -                               | -   | -                 | 12,913                    |
| <b>Total short-term loans</b>  | <b>41,127</b>        | <b>-</b>                   | <b>-</b>   | <b>-</b>  | <b>(5,275)</b>                  | <b>64</b>   | <b>-</b>          | <b>35,912</b>             |
| <b>TOTAL</b>                   | <b>41,386</b>        | <b>-</b>                   | <b>-</b>   | <b>-</b>  | <b>(5,275)</b>                  | <b>-</b>  | <b>(2)</b>        | <b>36,105</b>             |

Movement in given loans in 2017

|                                | At 1 January<br>2017 | Increase in<br>given loans | Transfer from<br>receivables to<br>financial<br>assets | Write-off/value<br>adjustment of<br>given loans | Collection<br>of given<br>loans | Transfer of a<br>portion of<br>long-term<br>loans to short-<br>term and vice<br>versa | FX<br>differences | At 31<br>December<br>2017 |
|--------------------------------|----------------------|----------------------------|--|---|---------------------------------|---|-------------------|---------------------------|
| <b>Given long-term loans</b>   |                      |                            |  |   |                                 |   |                   |                           |
| Given loans to natural persons | 479                  | -                          | -  | (147)   | -                               | (71)  | (2)               | 259                       |
| <b>Total long-term loans</b>   | <b>479</b>           | <b>-</b>                   | <b>-</b>   | <b>(147)</b>                                    | <b>-</b>                        | <b>(71)</b>   | <b>(2)</b>        | <b>259</b>                |
| <b>Short-term loans</b>        |                      |                            |  |   |                                 |   |                   |                           |
| Given loans to natural persons | 626                  | 544                        | -  | (554)   | (621)                           | 71  | (2)               | 64                        |
| Given loans to related parties | 39,919               | 8,010                      | (2,834)  | (5,793)   | (11,152)                        | -   | -                 | 28,150                    |
| Given loans to companies       | 5,637                | 21,276                     | -  | (9,876)   | (4,124)                         | -   | -                 | 12,913                    |
| <b>Total short-term loans</b>  | <b>46,182</b>        | <b>29,830</b>              | <b>(2,834)</b>   | <b>(16,223)</b>                                 | <b>(15,897)</b>                 | <b>71</b>   | <b>(2)</b>        | <b>41,127</b>             |
| <b>TOTAL</b>                   | <b>46,661</b>        | <b>29,830</b>              | <b>(2,834)</b>   | <b>(16,370)</b>                                 | <b>(15,897)</b>                 | <b>-</b>  | <b>(4)</b>        | <b>41,386</b>             |



**Notes to the Unconsolidated Financial Statements (continued)**

for the year ended 31 December 2018

**20 CASH AND CASH EQUIVALENTS**

|                                   | (in thousands of HRK) |                 |
|-----------------------------------|-----------------------|-----------------|
|                                   | <b>At 31</b>          | <b>December</b> |
|                                   | <b>At 31 December</b> | <b>December</b> |
|                                   | <b>2018</b>           | <b>2017</b>     |
| Bank accounts – domestic currency | 3,247                 | 2,775           |
| Bank accounts – foreign currency  | 325                   | 24              |
| Cash in hand                      | 2                     | 2               |
|                                   | <b>3,574</b>          | <b>2,801</b>    |

**21 PREPAID EXPENSES AND ACCRUED INCOME**

|                  | (in thousands of HRK) |                 |
|------------------|-----------------------|-----------------|
|                  | <b>At 31</b>          | <b>December</b> |
|                  | <b>At 31 December</b> | <b>December</b> |
|                  | <b>2018</b>           | <b>2017</b>     |
| Prepaid expenses | 504                   | 617             |
|                  | <b>504</b>            | <b>617</b>      |

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

|                               | (in thousands of HRK) |              |
|-------------------------------|-----------------------|--------------|
|                               | <b>2018</b>           | <b>2017</b>  |
| <b>Balance at 1 January</b>   | <b>617</b>            | <b>4,370</b> |
| Increase in prepaid expenses  | 77                    | 660          |
| Decrease in prepaid expenses  | (190)                 | (4,413)      |
| <b>Balance at 31 December</b> | <b>504</b>            | <b>617</b>   |

**Notes to the Unconsolidated Financial Statements (continued)**

for the year ended 31 December 2018

**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 result 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 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 thousand to HRK 12,000 thousand by transferring retained earnings in the amount of HRK 7,000 thousand. 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 thousand 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 amounting to HRK 87,004 thousand, which in the period from 1 January 2014 to 31 December 2015 had been decreased by recapitalization costs incurred in that period of total value of HRK 2,817 thousand.



**Notes to the Unconsolidated Financial Statements (continued)**

for the year ended 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 95.90% 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%         |
|  | <b>1,902</b>                    | <b>100.00%</b> | <b>1,902</b>                    | <b>100.00%</b> |

**Notes to the Unconsolidated Financial Statements (continued)**

for the year ended 31 December 2018

**23 LIABILITIES TO BANKS AND OTHER FINANCIAL INSTITUTIONS**

|                                | (in thousands<br>of HRK) |                           |
|--------------------------------|--------------------------|---------------------------|
|                                | At 31 December<br>2018   | At 31<br>December<br>2017 |
| <u>Non-current liabilities</u> |                          |                           |
| Bank loans                     | 330,296                  | -                         |
| Liabilities for securities     | 32,775                   | -                         |
| Finance lease                  | 297                      | 757                       |
|                                | <b>363,369</b>           | <b>757</b>                |
| <u>Current liabilities</u>     |                          |                           |
| Bank loans                     | -                        | 340,861                   |
| Finance lease                  | 451                      | 508                       |
|                                | <b>451</b>               | <b>341,369</b>            |
|                                | <b>363,819</b>           | <b>342,126</b>            |

Liabilities for securities refer to liabilities to the companies Erste factoring d.o.o. (HRK 22,750 thousand) and CIM banka (HRK 10,025 thousand). As at 31 December 2017, liabilities were stated at current liabilities for securities and transferred to non-current liabilities after the pre-bankruptcy settlement was adopted, in line with the repayment plan.

**Summary of borrowing arrangements**

Non-current liabilities for bank loans refer to loans received before the opening of the pre-bankruptcy procedure and finance lease liabilities. All loan liabilities (other than finance lease loans) are contained in the pre-bankruptcy settlement establishing the further repayment dynamics. The repayment dynamics is presented in Note 23 through the liability maturity review.

The value of non-current assets secured by a mortgage to credit borrowings from banks as at 31 December 2018 amounted to HRK 314,544 thousand (as at 31 December 2017: HRK 320,235 thousand).



**Notes to the Unconsolidated Financial Statements (continued)**  
for the year ended 31 December 2018

**23 LIABILITIES TO BANKS AND OTHER FINANCIAL INSTITUTIONS (CONTINUED)**

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

|                                       | Opening balance 1 January 2018 | Increase in loan liabilities | Payment of loan principal | (b) Transfer of liabilities for securities | Transfer from non-current and vice versa | Pre-bankruptcy settlement liabilities write-off | FX differences | Closing balance at 31 December 2018 |
|---------------------------------------|--------------------------------|------------------------------|---------------------------|--|--|---|----------------|-------------------------------------|
| <b>Long-term loans</b>                |                                |                              |                           |  |  |   |                |                                     |
| Long-term bank loans                  | -                              | -                            | -                         | -  | 330,296                                  | -   | -              | 330,296                             |
| Liabilities for securities            | -                              | -                            | -                         | 32,775                                     | -  | -   | -              | 32,775                              |
| Long-term finance lease liabilities   | 757                            | -                            | -                         | -  | (451)                                    | -   | (9)            | 297                                 |
| <b>Total long-term credits</b>        | <b>757</b>                     | <b>-</b>                     | <b>-</b>                  | <b>32,775</b>                              | <b>329,845</b>                           | <b>-</b>  | <b>(9)</b>     | <b>363,369</b>                      |
| <b>Short-term loans</b>               |                                |                              |                           |  |  |   |                |                                     |
| Short-term bank loans                 | 340,861                        | 1,593                        | -                         | -  | (330,296)                                | (11,963)  | (195)          | -                                   |
| Short-term portion of lease contracts | 508                            | -                            | (506)                     | -  | 451                                      | -   | (2)            | 451                                 |
| <b>Total short-term loans</b>         | <b>341,369</b>                 | <b>1,593</b>                 | <b>(506)</b>              | <b>-</b>                                   | <b>(329,845)</b>                         | <b>(11,963)</b>                                 | <b>(197)</b>   | <b>451</b>                          |
| <b>TOTAL</b>                          | <b>342,126</b>                 | <b>1,593</b>                 | <b>(506)</b>              | <b>32,775</b>                              | <b>-</b>                                 | <b>(11,963)</b>                                 | <b>(207)</b>   | <b>363,819</b>                      |

Movement in liabilities to banks and other financial institutions for 2017:

|   | Opening balance 1 January 2017 | Increase in loan liabilities | Payment of loan principal | Transfer from non-current and vice versa | FX differences | Closing balance 31 December 2017 |
|---|--------------------------------|------------------------------|---------------------------|--|----------------|----------------------------------|
| <b>Long-term loans</b>  |                                |                              |                           |  |                |                                  |
| Long-term bank loans  | 267,110                        | -                            | -                         | (267,110)                                | -              | -                                |
| Long-term finance lease liabilities   | 673                            | 974                          | (244)                     | (638)                                    | (8)            | 757                              |
| <b>Total long-term credits</b>  | <b>267,783</b>                 | <b>974</b>                   | <b>(244)</b>              | <b>(267,748)</b>                         | <b>(8)</b>     | <b>757</b>                       |
| <b>Short-term loans</b>   |                                |                              |                           |  |                |                                  |
| Short-term bank loans   | 92,864                         | 25,873                       | (44,883)                  | 267,110                                  | (103)          | 340,861                          |
| Liabilities for undertaken payments based on contracts on cession, assignment and debt assumption | 1,500                          | 3,438                        | (4,938)                   | -  | -              | -                                |
| Short-term portion of lease contracts   | 527                            | -                            | (660)                     | 638                                      | 3              | 508                              |
| <b>Total short-term loans</b>   | <b>94,891</b>                  | <b>29,311</b>                | <b>(50,481)</b>           | <b>267,748</b>                           | <b>(100)</b>   | <b>341,369</b>                   |
| <b>TOTAL</b>  | <b>362,674</b>                 | <b>30,285</b>                | <b>(50,725)</b>           | <b>-</b>                                 | <b>(108)</b>   | <b>342,127</b>                   |

**Notes to the Unconsolidated Financial Statements (continued)**

for the year ended 31 December 2018

**23 LIABILITIES TO BANKS AND OTHER FINANCIAL INSTITUTIONS (CONTINUED)**

Bank loans and finance leases' maturity is as follows:

|  | (in thousands of HRK)                |            |               |               |               |                      |
|--|--------------------------------------|------------|---------------|---------------|---------------|----------------------|
|  | Balance<br>at 31<br>December<br>2018 | 2019       | 2020          | 2021          | 2022          | From 2023<br>onwards |
| Liabilities to banks                   | 330,296                              | -          | 8,317         | 15,138        | 15,138        | 291,703              |
| Non-current liabilities for securities | 32,775                               | -          | 2,757         | 2,757         | 2,757         | 24,504               |
| Finance lease                          | 748                                  | 451        | 217           | 80            |               |                      |
|  | <b>363,819</b>                       | <b>451</b> | <b>11,291</b> | <b>17,975</b> | <b>17,895</b> | <b>316,207</b>       |

Foreign-currency loans are detailed in the following table:

|   | At 31<br>December 2018 | At 31<br>December<br>2017 |
|---|------------------------|---------------------------|
| Total liabilities to financial institutions stated in thousands of EUR. | 100                    | 2,497                     |

**24 CURRENT LIABILITIES**

**(a) Trade payables**

|                                    | (in thousands of<br>HRK) |                           |
|------------------------------------|--------------------------|---------------------------|
|                                    | At 31 December<br>2018   | At 31<br>December<br>2017 |
| Domestic sales                     | 23,097                   | 70,493                    |
| Foreign trade payables             | 953                      | 7,047                     |
| Liabilities for non-invoiced goods | 190                      | -                         |
|                                    | <b>24,240</b>            | <b>77,540</b>             |

Ageing analysis of trade payables as at 31 December 2018:

|                       | (in thousands of<br>HRK) |                           |
|-----------------------|--------------------------|---------------------------|
|                       | At 31 December<br>2018   | At 31<br>December<br>2017 |
| Not yet due           | 14,603                   | 10,490                    |
| 0-90 days past due    | 8,068                    | 18,075                    |
| 91-180 days past due  | 248                      | 12,432                    |
| 181-360 days past due | 253                      | 32,717                    |
| > 360 days            | 1,069                    | 3,826                     |
|                       | <b>24,240</b>            | <b>77,540</b>             |



**Notes to the Unconsolidated Financial Statements (continued)**

for the year ended 31 December 2018

**24 CURRENT LIABILITIES (CONTINUED)**

**(b) Liabilities for securities**

Liabilities for securities completely refer to liabilities for given bills of exchange.

**(c) Taxes, contributions and similar duties payable**

|  | (in thousands of<br>HRK) |                           |
|--|--------------------------|---------------------------|
|  | At 31 December<br>2018   | At 31<br>December<br>2017 |
| Taxes and contributions from and on salaries | 503                      | 541                       |
| Other taxes and contributions payable        | 166                      | 265                       |
| VAT payable                                  | 976                      | (68)                      |
|  | <b>1,645</b>             | <b>738</b>                |

**(d) Other current liabilities**

|  | (in thousands of<br>HRK) |                           |
|--|--------------------------|---------------------------|
|  | At 31 December<br>2018   | At 31<br>December<br>2017 |
| Liabilities to employees                       | 938                      | 1,012                     |
| Liabilities based on recourse factoring        | -                        | 65,000                    |
| Interest liabilities to financial institutions | -                        | 11,583                    |
| Accrued default interest                       | -                        | 605                       |
| Other current liabilities                      | 5                        | 15                        |
|  | <b>943</b>               | <b>78,215</b>             |

|                                    | At 31 December<br>2018 | At 31<br>December<br>2017 |
|------------------------------------|------------------------|---------------------------|
| Bills of exchange<br>received from |                        |                           |
| Agrokor-trgovina d.o.o.            | -                      | 65,000                    |
| Bills of exchange discounted at    |                        |                           |
| Erste factoring d.o.o.             | -                      | <b>65,000</b>             |
|                                    | <b>-</b>               | <b>65,000</b>             |

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.

**Notes to the Unconsolidated Financial Statements (continued)**

for the year ended 31 December 2018

**25. COMMITMENTS**

As at 31 December 2018, the Company has commitments under operating lease arrangements entered into for tangible fixed assets in the total amount of HRK 426 thousand and rental agreements in the total amount of HRK 1,037 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<br>2018 | 2019       | 2020<br>godine | 2021       | 2022      | From<br>2023<br>onwards |
| Operating lease | 426                    | 241        | 98             | 69         | 18        | -                       |
| Rentals         | 1,037                  | 556        | 201            | 36         | 35        | 210                     |
|                 | <b>1,463</b>           | <b>797</b> | <b>299</b>     | <b>105</b> | <b>53</b> | <b>210</b>              |



**Notes to the Unconsolidated Financial Statements (continued)**

for the year ended 31 December 2018

**26 RELATED-PARTY TRANSACTIONS**

(in thousands of HRK)  
At 31 December 2018

|   | Assets                      |               | Liabilities             |                     |
|---|-----------------------------|---------------|-------------------------|---------------------|
|   | Trade and other receivables | Given loans   | Non-current liabilities | Current liabilities |
| Žitar d.o.o., Donji Miholjac                    | 280                         |               | -                       | -                   |
| Zdenačka farma d.o.o., Veliki Zdenci            | 8,332                       | 12,745        | -                       | -                   |
| Zdenka-mliječni proizvodi d.o.o., Veliki Zdenci | -                           | -             | -                       | 27                  |
| Prerada žitarica d.o.o., Grubišno Polje         | -                           | -             | -                       | -                   |
| Stan arka d.o.o., Zagreb                        | 160                         | 4,430         | -                       | -                   |
| Key management                                  | 505                         | 5,761         | -                       | -                   |
|   | <b>9,276</b>                | <b>22,935</b> | <b>-</b>                | <b>27</b>           |

(in thousands of HRK)  
31 December 2017

|   | Assets                      |               | Liabilities             |                     |
|---|-----------------------------|---------------|-------------------------|---------------------|
|   | Trade and other receivables | Given loans   | Non-current liabilities | Current liabilities |
| Žitar d.o.o., Donji Miholjac                    | -                           | -             | -                       | 41                  |
| Zdenačka farma d.o.o., Veliki Zdenci            | 3,112                       | 13,474        | -                       | 14                  |
| Zdenka-mliječni proizvodi d.o.o., Veliki Zdenci | -                           | -             | -                       | 6                   |
| Prerada žitarica d.o.o., Grubišno Polje         | -                           | -             | -                       | 39,103              |
| Stan arka d.o.o., Zagreb                        | 160                         | 8,867         | -                       | -                   |
| Key management                                  | 333                         | 5,809         | -                       | -                   |
|   | <b>3,605</b>                | <b>28,150</b> | <b>-</b>                | <b>39,164</b>       |

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      |
| Žitar d.o.o., Donji Miholjac                    | 330          | 42         | 417           | 740           |
| Zdenačka farma d.o.o., Veliki Zdenci            | 5,808        | 122        | 3,954         | 113           |
| Zdenka-mliječni proizvodi d.o.o., Veliki Zdenci | -            | 29         | -             | 5             |
| Prerada žitarica d.o.o., Grubišno polje         | 529          | 88         | 11,215        | 10,517        |
| Stan arka d.o.o., Zagreb                        | -            | -          | 78            | -             |
| Key management                                  | 174          | -          | 174           | -             |
|   | <b>6,841</b> | <b>280</b> | <b>15,838</b> | <b>11,375</b> |

Key management of the Company consists of members of the Management and Supervisory Board of Granolio d.d.

The remuneration of key management in 2018 amount to HRK 873 thousand (in 2017: HRK 2,158 thousand).

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

**Notes to the Unconsolidated Financial Statements (continued)**

for the year ended 31 December 2018

**27 EARNINGS PER SHARE**

|   | (in thousands of<br>HRK)           |                                |
|---|------------------------------------|--------------------------------|
|   | <b>At 31<br/>December<br/>2018</b> | <b>At 31<br/>December 2017</b> |
| Profit/(loss)   | 61,767                             | (198,187)                      |
| Profit/(loss) attributable to the shareholders  | 61,767                             | (198,187)                      |
| Weighted average number of ordinary shares used in the calculation of<br>the basic earnings per share | 1,901,643                          | 1,901,643                      |
| Loss/(earnings) per share (in HRK and lp)   | <b>32.48</b>                       | <b>(104.22)</b>                |



**Notes to the Unconsolidated Financial Statements (continued)**

for the year ended 31 December 2018

**28 RISK MANAGEMENT****28.1 Financial risk****Equity risk management**

Net debt-to-equity (Gearing ratio)

The Company 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:

|  | (in thousands of<br>HRK)       |                                    |
|--|--------------------------------|------------------------------------|
|  | <b>At 31 December<br/>2018</b> | <b>At 31<br/>December<br/>2017</b> |
| Debt (long-term and short-term loans and liabilities for securities) | 371,941                        | 388,412                            |
| Lease liabilities (non-current and current)                          | 748                            | 1,265                              |
| Cash and cash equivalents  | (3,574)                        | (2,801)                            |
| <b>Net debt</b>  | <b>369,115</b>                 | <b>386,876</b>                     |
| Equity   | 54,480                         | (23,855)                           |
| <b>Debt to equity ratio</b>  | <b>6.78</b>                    | -                                  |

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 Company'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 financial instruments**

|  | (in thousands of<br>HRK)       |                          |
|--|--------------------------------|--------------------------|
|  | <b>At 31 December<br/>2018</b> | <b>December<br/>2017</b> |
| <b>Financial assets</b>                                |                                |                          |
| Cash   | 3,574                          | 2,801                    |
| Loans and receivables                                  | 129,053                        | 125,393                  |
| <b>Financial liabilities held at depreciated cost:</b> |                                |                          |
| Liabilities for loans and securities                   | 372,489                        | 389,677                  |
| Payables to suppliers                                  | 75,989                         | 77,540                   |
| Other liabilities                                      | 1,930                          | 120,998                  |

**Financial risk management objectives**

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

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

**Notes to the Unconsolidated Financial Statements (continued)**

for the year ended 31 December 2018

**28 RISK MANAGEMENT (CONTINUED)**

**28.1 Financial risks (continued)**

**Price risk management**

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

**Currency risk**

The Company is exposed to the risk of changes in foreign exchange rates. The exchange rate risk arises from the portion of the Company'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 Company's foreign-currency denominated assets and liabilities. In addition, according to the 2017 data, the Company generates around 23% 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 Company 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<br>December<br>2018               | At 31<br>December<br>2017 | At 31<br>December<br>2018 | At 31<br>December<br>2017 |
| European Union (EUR) | 890                                     | 729                       | 135                       | 7,880                     |

**Foreign currency sensitivity analysis**

The Company 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<br>exchange rate | Effect on profit<br>before taxes |
| <b>2018</b> |                                       |                                  |
| EUR         | +5%                                   | 280                              |
|             | -5%                                   | (280)                            |
| <b>2017</b> |                                       |                                  |
| EUR         | +5%                                   | 2,687                            |
|             | -5%                                   | (2,687)                          |



**Notes to the Unconsolidated Financial Statements (continued)**

for the year ended 31 December 2018

**28 RISK MANAGEMENT (CONTINUED)****28.1 Financial risks (continued)****Credit risk**

The Company is exposed to the risk of default of a portion of its trade receivables. The Company transacts generally with retail chains with which it has a long history of cooperation. As a result, the Company's credit risk is lower and present mainly to the extent it reflects potential issues in the retail industry. The Company 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 Company 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 plants in quantities sufficient to settle the commodity loans for a variety of reasons. The Company 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 Company 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 Company 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 Company. At the reporting date, the contingent liabilities of the Company 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.

**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 Company is exposed to the risk of growth in interest rates. At the reporting date, the Company did not use any financial instruments to hedge its position from unfavourable interest rate movements.

As the Company 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 Company in the amount of HRK 4 thousand at 31 December 2018 (2017: HRK 1,499 thousand).



**Notes to the Unconsolidated Financial Statements (continued)**

for the year ended 31 December 2018

**28 RISK MANAGEMENT (CONTINUED)****28.1 Financial risks (continued)****Liquidity risk**

There is a risk that the Company 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 Company 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 Company 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<br>average<br>effective<br>interest rate<br>% | Up to 1<br>month | 1 to 3<br>months | 3 months<br>to 1 year | 1 to 5<br>years | Over 5<br>years | Total          |
|--|--|------------------|------------------|-----------------------|-----------------|-----------------|----------------|
| <b>At 31<br/>December<br/>2018</b>     |  |                  |                  |                       |                 |                 |                |
| Non-interest<br>bearing<br>liabilities |  | 6,421            | 12,033           | 7,398                 | 51,749          | -               | 77,600         |
| Interest<br>bearing<br>liabilities     | 1.25%  | 43               | 637              | 1,971                 | 57,485          | 312,671         | 372,807        |
|  |  | <u>6,464</u>     | <u>12,670</u>    | <u>9,369</u>          | <u>109,234</u>  | <u>312,671</u>  | <u>450,408</u> |
| <b>At 31<br/>December<br/>2017</b>     |  |                  |                  |                       |                 |                 |                |
| Non-interest<br>bearing<br>liabilities |  | 8,694            | 3,947            | 73,091                | -               | -               | 85,731         |
| Interest<br>bearing<br>liabilities     | 5.67%  | 45               | 48               | 501,612               | 780             | -               | 502,484        |
|  |  | <u>8,738</u>     | <u>3,994</u>     | <u>574,703</u>        | <u>780</u>      | <u>-</u>        | <u>588,215</u> |



**Notes to the Unconsolidated Financial Statements (continued)**

for the year ended 31 December 2018

**28 RISK MANAGEMENT (CONTINUED)**

**28.1 Financial risks (continued)**

**Liquidity risk (continued)**

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 Company's liquidity risk management as the liquidity is managed on a net asset and liability basis.

|  | Weighted<br>average<br>effective<br>interest rate<br>% | Up to 1<br>month | 1 to 3<br>months | 3<br>months<br>to 1<br>year | 1 to 5<br>years | Over 5<br>years | Total          |
|--|--|------------------|------------------|-----------------------------|-----------------|-----------------|----------------|
| <b>At 31<br/>December<br/>2018</b>     |  |                  |                  |                             |                 |                 |                |
| Non-interest<br>bearing<br>liabilities |  | 20,981           | 12,985           | 44,280                      | 17,116          | -               | 95,362         |
| Interest<br>bearing<br>liabilities     |  | 195              | 1,100            | 16,338                      | 19,577          | 55              | 37,265         |
|  |  | <u>21,176</u>    | <u>14,085</u>    | <u>60,618</u>               | <u>36,693</u>   | <u>55</u>       | <u>132,627</u> |
| <b>At 31<br/>December<br/>2017</b>     |  |                  |                  |                             |                 |                 |                |
| Non-interest<br>bearing<br>liabilities | -  | 25,383           | 15,739           | 43,882                      | 15              | -               | 85,019         |
| Interest<br>bearing<br>liabilities     | 3.82%  | 73               | 356              | 42,488                      | 217             | 40              | 43,175         |
|  |  | <u>25,454</u>    | <u>16,095</u>    | <u>86,370</u>               | <u>232</u>      | <u>40</u>       | <u>128,194</u> |

**Notes to the Unconsolidated Financial Statements (continued)**

for the year ended 31 December 2018

**28 RISK MANAGEMENT (CONTINUED)**

**28.1 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 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.



**Notes to the Unconsolidated Financial Statements (continued)**

for the year ended 31 December 2018

**28 RISK MANAGEMENT (CONTINUED)****28.2 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.

**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 Company 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 Company may be exposed to costs not covered by insurance.

**28.3 Risks arising from the ordinary course of business****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).

**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 Company 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 the Company 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 Company 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 Company 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.

**Competition risk**

The Company 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 Company 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 Company is no longer exposed to domestic competitors only, which is why the need to improve the Company's competitiveness has been gaining on importance.

**Notes to the Unconsolidated Financial Statements (continued)**

for the year ended 31 December 2018

**28 RISK MANAGEMENT (CONTINUED)**

**28.3 Risks arising from the ordinary course of business (continued)**

**Key supplier and key customer concentration risk**

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

**The risk of owner change**

The majority shareholder of the Company 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 Company, by means of the rights and powers pertaining to him as a Company shareholder. The majority share in the Company 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 Company.



**Notes to the Unconsolidated Financial Statements (continued)**

for the year ended 31 December 2018

**28 RISK MANAGEMENT (CONTINUED)****28.3 Risks arising from the ordinary course of business (continued)****Working capital risk**

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

**Input commodity price risk**

The operating results are largely influenced by the price of wheat as the key input commodity for the Company'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 Company'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 Company'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 Company'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 Company 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 Company 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.

**Dependence on the management and key personnel**

The Company relies heavily on its staff as one of its key competitive advantages. This means that the Company 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 Company 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 Company's operations.

**IT risks**

The Company 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 Company'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 Company's operations and financial position.

**Antitrust and competition law non-compliance risk**

It is a part of the overall strategy of the Company to become the leading flour producer on the Croatian market and flour supplier in the region, which may render the Company 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.



**Notes to the Unconsolidated Financial Statements (continued)**

for the year ended 31 December 2018

**28 RISK MANAGEMENT (CONTINUED)****28.3 Risks arising from the ordinary course of business (continued)**

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 Company 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 Company.

To mitigate the risk, the Company 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 Company may have to ask from the Competition Agency to assess the eligibility of the intended concentration. The Company 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 Company. The concentration eligibility assessment itself could affect the timing of the acquisition.

**Litigation risk**

As any business entity, so is also the Company 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 Company'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 Company 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 Company operates. The insurance policies of the Company 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 Company 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 Company's operations and financial condition.

**28.4 General risks****Business environment risk**

The business environment risk includes political, legal and macroeconomic risks prevailing in the business environment of the Company, which is primarily the Croatian market on which the Company generates almost 91% of its total revenue (2018: 77%), followed by the markets of Bosnia and Herzegovina, Italy, Serbia, Hungary and Slovenia.

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 Company cannot warrant that Croatia will fully implement the intended reforms or that the political environment will favour their implementation. In addition, the Company 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 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 Company may come into a position of not being able to succeed in exercising or protecting some of its rights.



**Appendix to the Unconsolidated Financial Statements (continued)**

for the year ended 31 December 2018

**28 RISK MANAGEMENT (CONTINUED)****28.4 General risks (continued)****Business environment risk (continued)**

The Company'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 Company could have problems in expanding its business or meeting its financial obligations. Under such circumstances, the Company'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 Company. If the current economic situation would persist, the Company, 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 Company is also under the influence of international trends, as wheat, being the Company'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 Company 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 Company 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 Company 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 Company seeks to keep pace and anticipate any such changes, as any non-compliance could result in various sanctions. The Company 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 Company 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 Company 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 Company. Additional regulations, or interpretations of current regulations, could be introduced in the future, which may affect the Company's business and products. The Company 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 Company.

**Appendix to the Unconsolidated Financial Statements (continued)**  
for the year ended 31 December 2018

**29 CONTINGENT LIABILITIES**

|  | Amount         | Balance in original currency at 31 December 2018 | Balance in HRK at 31 December 2018 | Maturity   |
|--|----------------|--|------------------------------------|------------|
| Žitar d.o.o.- Loan 1                       | € 6,190,000    | € 1,973,967                                      | 14,642,048                         | 1/9/2020   |
| Žitar d.o.o.- Loan 2                       | € 5,980,000    | € 1,937,388                                      | 14,370,721                         | 1/9/2020   |
| Žitar d.o.o.- Loan 3                       | € 600,000      | € 600,000  | 4,450,545                          | 31/12/2018 |
| Zdenka-mliječni proizvodi d.o.o. - Loan 1  | € 3,294,190    | € 1,207,540                                      | 8,957,021                          | 45657      |
| Zdenka-mliječni proizvodi d.o.o. – Loan 2  | HRK 40,000,000 | HRK 17,237,796                                   | 17,237,796                         | 45412      |
| Zdenka- mliječni proizvodi d.o.o. – Loan 3 | € 1,395,751    | € 771,417  | 5,722,047                          | 45291      |
| <b>Total</b>                               |                |  | <b>65,380,178</b>                  |            |

*Legal disputes*

There are no significant legal actions outstanding against the Company. The Management Board of the Company is confident of a successful defence as well as of no losses suffered by the Company. Hence, no litigation provision has been recognised.

**30 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.

**31. 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