Viro tvornica šećera d.d. and its subsidiaries

Annual report

For the Year Ended

31 December 2018

together with Independent Auditor's Report

VIRO BH d.o.o.

Group Management Board Report
on the State of Affairs of the Group Companies for 2018

Zagreb, April 2019

Content

1. Introduction

Viro tvornica šećera d.d. and its subsidiaries comprise a group of the following companies: Viro tvornica šećera d.d., Zagreb, Ulica grada Vukovara 269 g, as the parent company, and subsidiaries Viro kooperacija d.o.o. Sladorana d.o.o., Slavonija Županja d.d. and Viro BH d.o.o. Grude, Bosnia and Herzegovina.

Viro tvornica šećera d.d. was entered into the register of the Commercial Court in Bjelovar on 19 July 2002 as Viro limited liability company for production and trade. The founders of the company were EOS-Z d.o.o. Zagreb and Robić d.o.o., Velika Gorica. In 2005 the Company was transformed from a Croatian limited liability company (društvo s ograničenom odgovornošću) into a joint-stock company (dioničko društvo). The share capital of the Company amounts to HRK 249,600,060 and consists of 1,386,667 registered shares, with no par value.

In 2012 the Company acquired additional shares in Sladorana d.d. and held at 31 December 2012 3,306,002 (2011: 2,532,260) ordinary shares of Sladorana d.d., Županja, representing one hundred percent (100.00%) (2011: 76.60%) of the total equity of the subsidiary. Following the transformation of Sladorana from a joint-stock company into a limited liability company in 2014, Viro d.d. became the sole shareholder (member) of the company.
In 2013 Viro d.d. acquired shares in Slavonija Nova d.d. in the amount of HRK 11.343 million, representing 17.58 percent of the share capital.

In January 2015 Viro d.d. changed its registered seat to: Zagreb, Ulica grada Vukovara 269 g.

In 2012 Sladorana d.d. acquired additional shares in Slavonija Nova d.d. and held at 31 December 2012 77.94 percent (2011: 77.36 %) of the shares in the latter. In 2013 the share of Sladorana in the share capital of Slavonija Nova d.d. decreased to 67.05 percent as a result of the decrease in the share capital of the investee in order to cover its accumulated losses, which was performed by reducing the nominal per-share amount (from HRK 400.00 to HRK 250.00). In 2014 and 2015 the ownership interest remained the same, while in 2016 it was increased to 68.64 percent and the same amount is in 2017.

The share capital of Sladorana d.d. changed in 2013 based on a decision of the company's shareholders of 4 June 2013, by increasing the share capital from HRK 330,600,200.00 for the amount of HRK 14,970,000.00 to HRK 345,570,200.00 through a transfer of the company's profit. In February 2014 Sladorana tvornica šećera was transformed from a joint-stock company to a limited liability company, in accordance with the underlying resolution of the Commercial Court in Osijek.

In 2015 Sladorana d.o.o. invested in its subsidiary Slavonija Županja d.d. a total of HRK 17.3 thousand The Restructuring Centre acknowledged and accepted the investments, and the increase in the share capital of Slavonija Županja d.d. was registered at the Central Clearing and Depositary Company Inc as of 16 February 2016, the date when Sladorana's ownership interest in the subsidiary was increased.. As a result of the additional capital paid in, the ownership interest of Viro d.d. in Slavonija Županja d.d. amounts to 16.72 percent in 2016. and stays the same in 2017 and 2018 as well.

On 26 April 2013, based on a decision of the General Assembly of Slavonija Nova d.d., Article 12 of the Articles of Association was amended, and the share capital was reduced by HRK 26.999 million in order to cover the 2011 and 2012 losses of the company. The share capital was decreased by reducing the nominal per-share value by HRK 150.00, from HRK 400.00 to HRK 250.00. The decrease was registered at the Commercial Court in Osijek on 22 May 2013.

Based on the decision adopted in the General Shareholders' Meeting of Slavonija Nova d.d. of 5 September 2013, the share capital was increased by HRK 19.541 million, from HRK 44.998 million to HRK 64.539 million. The share capital was increased by contributing the claims of the creditors of Sladorana d.d. and Viro tvornica šećera d.d., by a conversion of the rights into a share in the investees share capital, as a result of which the contributing shareholder acquired an appropriate interest.

The decision on the increase of the share capital of Slavonija Nova d.d. was registered at the Commercial Court in Osijek on 4 October 2013. In 2015 the share capital was increased to HRK 67.810 million based on the underlying decision adopted in the General Shareholders' Meeting of 18 December 2015. The change was registered at the Commercial Court in Osijek on 21 January 2016.

In January 2014 the company changed its name from Slavonija Nova d.d. to Slavonija Županja d.d.

VIRO BH d.o.o. Grude was established in the court register of the Municipal Court in Široki Brijeg, Bosnia and Herzegovina on 3 May 2017. The founder of the company is the company VIRO TVORNICA ŠEĆERA d.d. Zagreb.

Viro tvornica šećera d.d. and the companies included in the consolidation (the Group) in the business year 2018 realized total consolidated revenues in the amount of HRK 741.037 million. Total operating income amounted to HRK 678.601 million, while financial income amounted to HRK 62.436 million.

The total consolidated expenditures in business year 2018 amount to HRK 838.434 million. Operating expenses amounted to HRK 804.818 million and accounted for 96% of total expenditures. In the business year 2018, the Group realized a loss of HRK 97.396 million.

President of the Management Board:
Željko Zadro, dipl.oec.

Member of the Management Board:
Darko Krstić, dipl.oec.

Member of the Management Board:
Ivo Rešić, mr.sc

Viro
TVORNICA ŠEĆERA d.d. 7
ZAGREB

2. About the Group Companies

2.1 Viro tvornica šećera d.d.

Viro d.o.o., a production and trade company, was established on 19 July 2002 by means of becoming entered into the court register of the Commercial Court in Bjelovar, with companies EOS-Z d.o.o. and Robić d.o.o. as the founders, with the respective initial capital contributions of 51 percent and 49 percent Following the share capital increase in 2003, the share capital of the company was increased to HRK 104,000,000.00.

Based on the Decision adopted in the General Shareholders' Meeting of 21 July 2005 and the entry into the registry of the Bjelovar Commercial Court of 1 September 2005, the Company was transformed from a Croatian limited liability company (d.o.o.) into a Croatian public limited company (dioničko društvo) and changed its name to Viro tvornica šećera, dioničko društvo za proizvodnju i trgovinu (abbreviated firm: "Viro tvornica šećera d.d."), with the business shares in the amount of HRK 104,000.000.00 being replaced by a total of 1,040,000 registered dematerialised ordinary A-series shares, with a nominal value of HRK 100.00 per share.

In early 2006 the company's share capital was increased by issuing 346,667 new shares in an Initial Public Offering through the Zagreb Stock Exchange trading system, as a result of which HRK 126,533,455.00 were raised. Pursuant to the Ruling of the Bjelovar Commercial Court of 17 March 2006, the increase was entered into the Court registry, along with the increase in the share capital from HRK 104,000,000.00 to HRK 138,666,700.00.
Following the successfully finalised share capital increase, the company's shares were listed on the official market of the Zagreb Stock Exchange on 20 April 2006, for the purpose of transparency of the operations and allowing maximum insight into the operations of the company to all current as well as future shareholders of the company.

On 14 December 2006 a General Shareholders' Meeting was held in which a decision was adopted to increase the share capital of the company by HRK 110,933,360.00, from HRK 138,666,700.00 to HRK 249,600,060.00, by transferring portions of the company's capital gains and retained earnings. The share capital increase was effected without issuing any new shares, and the share capital was divided into 1,386,667 registered ordinary shares with no par value.

Based on the Decision of the Company Shareholders of 29 August 2014, the registered seat of the Company was changed to: Zagreb, Ulica grada Vukovara 269 g. The change was registered at the Commercial Court in Osijek on 20 January 2015.

In July 2016 Dražen Robić ceased to be a member of the Management Board, and Darko Krstić and Ivo Rešić were appointed members of the Management Board based on the decision of the Supervisory Board of 23 September 2016. The decision was registered at the Commercial Court in Zagreb on 27 October 2016. Since August 2016, Cristal Union, France, a leading sugar producer in Europe, has been the second largest individual shareholder of Viro tvornica šećera d.d., with an ownership interest of 17 percent, providing the Company a greater opportunity to access the global markets.

2.2 Viro-kooperacija d.o.o.

Viro-kooperacija d.o.o. was registered in late January 2012 with the aim to negotiate agricultural production of sugar beet, wheat, soybean, sunflower and corn for the following related companies: Viro tvornica šećera d.d., Sladorana d.d. and Slavonija Nova d.d.
In 2013 the intensity of the company's business decreases, and the workers employed at Viro-kooperacija returned to their home companies. Since 1 May 2013 the company has been operating without any employees.

By decision of the Commercial Court in Osijek on 21 November 2017, the decision on cessation of Javora Katušić's position as the Director of the Viro-kooperacije d.o.o. was issued on November 3, 2017. Darko Krstić assumed this function. The Supervisory Board was also abolished.

2.3 Sladorana d.o.o.

Sladorana has a 70-year long tradition in sugar production. The company was established as Sladorana d.d., Zagreb, in 1942 with the purpose of constructing three sugar refineries in the territory of the Republic of Croatia and on 28 September of the same year a decision was made to construct a sugar refinery in Županja. The construction was finalised, with periods of discontinuation, in 1947. It was the most advanced and the largest sugar refinery in this part of Europe, with a daily sugar beet processing capacity of 1,350 tons. The first campaign started

11 September 1947. As a result of permanent investments in the infrastructure, the processing capacity has been continuously increased and currently amounts to 7,000 tons a day.

The ownership form of the factory changed several times during its history. The first privatisation took place in the 1990s, resulting in the factory being returned to the state as its majority shareholder based on the assumed debt. On 10 July 2008 the Government of the Republic of Croatia adopted a decision to publish an invitation to tender for the purchase of the shares of Sladorana d.d., Županja. In the session of 10 October 2008 the Government adopted a decision to accept the share-purchase bid submitted by Viro tvornica šećera d.d., Virovitica.

Pursuant to the Agreement on the Sale and Transfer of Shares of Sladorana d.d., Županja, concluded on 28 November 2008 between Viro tvornica šećera d.d., Virovitica and State Agency for Bank Rehabilitation (DAB), represented by the Croatian Privatisation Fund, Viro tvornica šećera d.d. became the owner of 1,017,010 shares representing 38.115 percent of the total value of Sladorana's share capital.

Pursuant to the provisions of the Articles of Association and the decision of the General Assembly to grant powers to increase the share capital through the authorised share capital, the Management Board adopted on 23 December 2009 a decision to increase the share capital (the authorised share capital). The share capital was increased by issuing 637,755 new ordinary shares, with a nominal amount of HRK 100,00 per share. As a result, the share capital was increased from HRK 266,824,700.00 to HRK 330,600,200.00 and divided into 3,306,002 ordinary shares, with a nominal amount of HRK 100.00 per share.

At 31 December 2012 the ownership interest of Viro tvornica šećera d.d. in Sladorana d.d. was 100 percent and did not change in 2013. The share capital of Sladorana d.d. changed in 2013 based on a decision of the company's shareholders of 4 June 2013, by increasing the share capital from HRK 330,600,200.00 to HRK 345,570.200.00 through a transfer of the company's profit. The number of shares without par value remained the same, i.e. 3,306,002 shares.
One should also draw attention to February 2014, when Sladorana tvornica šećera was transformed from a joint-stock company to a limited liability company, in accordance with the underlying resolution of the Commercial Court in Osijek dated 7 February 2014.

By decision adopted in the General Shareholders' Meeting of 12 January 2014, a memorandum of incorporation was adopted, which forms an inseparable part of the decision on the change in the legal form.

On 24 October 2016 the Commercial Court in Osijek adopted a resolution under which Dražen Robić was no longer President of the Management Board from 4 July 2016, with Željko Zadro, a member of the Management Board, being appointed to replace him in this role based on a decision of 29 August 2016. In addition, Darko Krstić and Ivo Rešić became members of the Management Board on 29 August 2016.

The most important sugar production segments of the VIRO group (Viro tvornica šećera d.d. and Sladorana d.o.o.) acting as related companies.

The principal product is white sugar for human consumption, with dry noodle and molasses as by-products. In addition, Viro d.d. is a producer of liquid sugar. In early 2010 Sladorana launched a new product on the market – Sladoliq. This is a liquid supplement with molasses as the base ingredient, intended as a supplementary nutrient for ruminants.

2.4. Slavonija Županja d.d.

Slavonija Županja d.d., Županja, evolved from a cadastral flour mill "Novo doba" established in 1949, comprising six old flour mills with individual capacities ranging from 5 to 18 tons a day. It was included in the Agricultural and Food Processing Group "Županja", Županja, on 1 January 1963. It left the Group "Županja" on 30 June 1991 and operated as a socially-owned enterprise until 8 September 1994, when it was transformed into a joint-stock company and operated as such until 27 August 2000. On 28 August 2000 bankruptcy proceedings were initiated over Slavonija Joint-Stock Company, which lasted until 20 June 2004.

Based on the adopted restructuring plan, Slavonija Nova d.d., Županja, was established on 21 June 2004, as a new company to which all the assets and liabilities fully owned by the State were transferred. The share capital of the company amounts to HRK 66,166,800.00 and is divided into 165,417 ordinary A-series shares, with a nominal amount of HRK 400.00 each.

On 1 March 2011 a share purchase and transfer agreement (nr. 3307450/9000) was concluded between the The Strategic Commodity Stock Administration of the Croatian Ministry of Economy, the the State Savings Deposit Insurance and Bank Rehabilitation Agency of the Croatian Ministry of Finance, all represented, by virtue of the Contract on the Management of Shares, consents and powers of attorney, by the Croatian Privatisation Fund, Zagreb, as the Seller, and Sladorana tvornica šećera d.d., Županja, as the Buyer.In January 2014 the company changed its name from Slavonija Nova d.d. to Slavonija Županja d.d

The capacities of the company are as follows:

- crop silos - approx. 80,000 tons
- flour silos - approx. 2,000 tons
- flour mill - 200 t/day

The major products are the following: flour type T-550, flour type T-850, flour type T-400, flour type T-1100, integral flour, livestock flour. In addition, services are provided including wheat milling, agricultural produce drying and storage and transloading of crops.

2.5. Viro BH d.o.o.

VIRO BH d.o.o. Grude was established in 2017 by entering the court register of the Municipal Court in Široki Brijeg, Bosnia and Herzegovina, and the subscribed capital amounted to 2,000.00 KM (corresponding to the amount of EUR 1,022.59). With brokerage in the trade of various products, the company is also registered for performing a number of other activities.
On 16 August 2017 year, the only member of the Company, VIRO TVORNICA ŠEĆERA d.d. makes the Decision on the increase of the share capital in the amount of 97,791.50 KM (corresponding to the amount of 50,000.00 EUR) and also changes Article 5 of the Statute of the dependent Company which now reads that the Company's share capital amounts to 99,791.50 KM (which corresponds amounting to EUR 51,022.59) of cash.

3. Ownership structure

Table1. *Ownership structure of Viro tvornica šećera d.d. at 31 December 2018*

No.	Investor	Number of shares	Structure in %
1	2	3	4
1.	EOS-Z d.o.o. (1/1)	466,500	33,64
2.	Robić d.o.o. (1/1)	308,302	22,23
3.	Cristal financiere (1/1)	235,734	17,00
4.	Otp banka d.d./ AZ omf kategorije b (1/1)	137,055	9,88
5.	Viro tvornica šećera d.d. (1/1)	33,108	2,39
6.	Erste & Steiermarkische Bank d.d./CSC	31,496	2,27
7.	Zagrebačka banka d.d./ AZ profit otvoreni dobrovoljni mirovinski fond	25,449	1,84
8.	HPB d.d. (1/1)	23,257	1,68
9.	Addiko bank d.d./ Raiffeisen OMF kategorije b (1/1)	12,765	0,92
10.	Ostali:	113,001	8,15
	Total:	1,386,667	100,00

Source: Company data

The Company held 33,108 treasury shares at the end of 2018. At the end of 2018 value per share amounted to HRK 100.00 while the volume of the Company's shares traded on the Zagreb Stock Exchange during the year amounts to HRK 8,606,640, with the market capitalisation rate at 31 December 2018 amounting to HRK 138.67 million.

Viro tvornica šećera d.d. applies the Code of Corporate Governance of the Croatian Financial Services Supervisory Agency and the Zagreb Stock Exchange. Details about certain departures from the Code and the reasons underlying the departures are provided in the answers given by the Company to the questions contained in the Annual Questionnaire, which is an inseparable part of the Code and has been submitted to the Zagreb Stock Exchange and published on its website. This Corporate Governance Code Statement is an inseparable part of this Report.
The Company has a designed and implemented internal control system.

Table 2. *Ownership structure of Viro kooperacija d.o.o. at 31 December 2018*

No.	Investor	Ownership interest (%)
1	2	3
1.	Viro tvornica šećera d.d.	100.00

Source: Company data

Table 3. *Ownership structure of Sladorana d.o.o. at 31 December 2018*

No.	Investor	Ownership interest (%)
1	2	3
1.	Viro tvornica šećera d.d.	100.00

Source: Company data

Table 4. *Ownership structure of Slavonija Županja d.d. at 31 December 2018*

No.	Investor	Equity share	Number of A-series shares	Number of B-series shares	Ownership interest (%)
1	2	4	5	6	3
1.	Sladorana d.o.o.	46,542,000	153,376	16,396	68.64
2.	Viro d.d.	11,343,000		22,686	16.72
3.	CERP	9,925,000	39,700		14.64
	Total	67,810,000	179,992	39,082	100.00

Source: Company data

Table 5. *Ownership structure of Viro BH d.o.o. at 31 December 2018*

Rb.	Investor	Ownership interest (%)
1	2	3
1.	Viro tvornica šećera d.d.	100.00

Members of the Management and Supervisory Boards of Viro tvornica šećera d.d., Zagreb, at 31 December 2018

The members of the Management Board of Viro tvornica šećera d.d. are the following:

Chairman: Željko Zadro

Member: Darko Krstić

Member: Ivo Rešić

The members of the Supervisory Board of Viro tvornica šećera d.d. are the following:

Chairman: Marinko Zadro

Deputy Chairman: Boris Šimunović

Member: Ivan Mišetić

Member: Svetlana Zadro

Member: Robert Barnaki

Members of the Management of Viro-kooperacija d.o.o., Županja, at 31 December 2018

The members of the Management Board of Viro-kooperacija d.o.o. are the following:

Managing Director Darko Krstić

Members of the Management and Supervisory Boards of Sladorana d.o.o., Županja, at 31 December 2018

The members of the Management Board of Sladorana d.o.o. are the following:

Chairman:	Željko Zadro
Member:	Darko Krstić
Member:	Ivo Rešić

The members of the Supervisory Board of Sladorana d.o.o. are the following:

Chairman:	Marinko Zadro
Member:	Ivan Mišetić
Member:	Miroslav Božić
Member:	Goran Fajdetić
Member:	Svetlana Zadro

Members of the Management and Supervisory Boards of Slavonija Županja d.d., Županja, at 31 December 2018

The members of the Management Board of Slavonija Županja d.d. are the following:

Member of the Management: Vedran Čuljak

The members of the Supervisory Board of Slavonija Županja d.d. are the following:

Chairman:	Boris Šimunović
Deputy Chairman:	Marinko Zadro
Member:	Željko Zadro
Member:	Željko Koren
Member:	Darko Krstić

The members of the Management Board of Viro-kooperacija d.o.o. are the following:

Managing Director: Ante Boban

4. Overview of the business year

4.1 Viro tvornica šećera d.d.

The sugar beet purchases pipeline for the production year 2018 envisaged 6,531 hectares to be sown. The sugar beet production started in september 2017. Repromaterial required for the ripening of sugar beet (mineral fertilizer, seeds, preservatives) was obtained on time and in sufficient quantities for all those areas that are planned.

The contractually agreed area was 5,391 hectares and 4,667 hectares were sawn. The contractually agreed area in Croatia was 3,691 hectares, of which 3,420 hectares were sawn, and in Hungary 1,504 hectares were contractually negotiated and 1,051 hectares sawn. The area finally contractually agreed in Slovenia was 196 heacters which were sawn.

After the low prices of sugar in 2015 and 2016, sugar prices recorded a slight increase in the last quartal 2017 and in the first half of 2018, and the contract price of sugar beet remained at 230 HRK per tonne, resulting in a major interest in sugar beet production at 2,000 hectares.

Sowing sugar beet began two week later than the year before and on 03 April 2018 year in the dry season where preparation was made difficult. The sowing was done with very good dynamics and ended 27.04.2018. The sowing was repeated to only 10 hectares due to excessive precipitation, ie the creation of the cedar. Native sugar beetle was made worse due to poorer preparation and drying time, and crop circuits ranged from 80,000 to 100,000 plants per hectare.

Sugar beet protection in 2018 against pests and weeds was successful, while protecting the disease from the eastern production area with unfavorable climatic conditions, above all high temperatures and droughts, caused the development of beet rot and increased cystein attack. In the other production areas, including Hungary and Slovenia, the protection was less demanding and therefore more successful. Only 20% of the total sown area was treated against the tail pipe, mainly in the eastern part of the raw material area (Belje).

The protection of sugar beet has also been successfully carried out so there are no major problems in the root processing itself, regardless of the very difficult and demanding production year. Thus, from 3 to 4 treatments, during April and May, beet crops were successfully protected from weeds and enabled the average production yield and raw material that enabled undisturbed operation of the plant.

By setting up the metectics and acquiring electronic cameras, the course, intensity and development of cyperpowder was monitored and successfully suppressed. On the basis of detailed monitoring, the term first treatment of fungicides was determined. The schedule of other treatments during the vegetation was also determined on the basis of detailed field monitoring and monitoring of sugar beet crops. In order to enable the efficacy of fungicide preparations in the long run, some new active substances have been introduced and an improved approach to the protection of sugar beet from cystospore has been successfully implemented, in cooperation with French experts, with 3-4 treatments, successfully suppressing the disease.

Agro-climatic conditions during the vegetation were unfavorable to the growth and development of sugar beet. Dry season and high temperatures in the sowing and harvesting phase caused uneven growth and reduced plant complexity.
Crops that were sown earlier had advantage since they had enough moisture to sprout and quickly root for the dry season that followed. The drought and high temperatures lasted until the end of August when the rainfall (30-45 l / m²) increased for the sugar production area and this trend continued until the campaign ended. As emphasized at the beginning of the report, the sowing began very early and was done in a short period of time, at the time it was deeply rooted so that it had a good dry season, which was well protected from disease and pests. Such a crop when it gained more significant moisture continued with root growth and storage of sugar, resulting in excellent quality, as well as quantitativity, the roots of beets.
The Sugar Beet Campaign began on September 23 2018, and was taken to a factory on September 27 2018, and was processed on September 28, 2018. September was favorable for the campaign of extinction, in October there were rainy day or two but despite this the campaign took place without interruption. The campaign continued until the end of the campaign with maximum cutting capacity and beet production on a daily basis over 1,000 tonnes.
Production results were a bit weaker on a hectare (60.00 t / ha) than in the previous record year, but from the point of view digesting it can be concluded that the year was near the value of a long-term average. Digestion compared to 2014 when it was 13.57%, then in 2015 by 14.20% and compared with 2016 increased from 15.96% to 16.34% in 2017 and experienced a qualitative decline of 14.75% in 2018.
In the campaign in 2018, 256,196 tons of sugar beet was processed. The average yield was 58.41 t / ha, average digestion of 14.75% and impurity 13.22%.

4.2 Viro-kooperacija d.o.o.

In 2018 the volume of business decreased.

4.3 Sladorana d.o.o.

A total of 265,558 tons of sugar beet were processed, with an output of 32,749 tons of sugar, 11,281 tons of dry noodle, 80 tons of pressed beet pulp and 11,062 tons of molasses.
No own raw cane sugar was refined in 2018, as well as the service of processed raw shake sugar.
The quantity of molasses consumed in the production of all types of Sladoliqa (Sladoliq, Sladoliq MMS, Virovital PCG, Melasa B) was 488 tons, of which 717 tons of the product was made.

4.4 Slavonija Županja d.d.

In 2018, the total amount of 14.5 thousand tons of various types of flour was poured through the service line through its own in the mill.
Slavonija Županja concluded that warehousing and warehousing agreements provided full capacity for silos throughout 2018, resulting in good revenues from reception, storage, drying and shipping services.

4.5 Viro BH d.o.o.

Company Viro BH d.o.o. continued with further activities focusing on the expansion of the market. The market developed in two directions. The first is direct contracts with producers who use sugar as raw materials, and the other is through trades that deal exclusively with the trade.
In this part, strategic partners are also defined on a regional basis so that there is a lower level of price control across the country. In the last quarter, the company Viro BH d.o.o. It started to trade with sugar from other companies. The reason for this is the limited amount of sugar that Viro d. as well as the price difference in BiH and other markets.

5. Risk exposure

The Group companies are exposed to the risk of capital and various financial risks arising from foreign exchange, interest rate, credit and liquidity risks. The Group companies monitor those risks and seek to mitigate their potential impact on their financial exposure. The Group does not enter into, or trade in financial instruments, including derivative financial instruments, for speculative purposes. The Treasury periodically reports about the risk exposures to the Company's Management Board.

5.1. Capital risk

The Group manages its capital to ensure that it will be able to continue as a going concern, while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The capital of the Group consists of the net debt (which includes received loans and borrowings less cash and cash equivalents) and shareholders' equity (comprising the registered capital, reserves and retained earnings).

The Treasury of the Group reviews the capital structure on a regular basis. As part of this review, the Treasury considers the cost of capital and the risks associated with each class of capital.

5.2. Interest rate risk

The Group's exposure to the interest rate risk arises from its borrowing at fixed and variable rates. The risk is managed by the Group by maintaining an appropriate mix between fixed and floating rate borrowings. In the current year, the Group's sensitivity to interest rates increased mainly because of a higher number of variable-rate debt instruments.

5.3. Liquidity risk

Prudent liquidity management implies maintaining sufficient levels of cash, obtaining adequate funding using credit lines and facilities and the ability to settle the liabilities on a timely basis. It also involves matching the maturities of liabilities and maintaining appropriate levels of liquid assets.

The Group manages its liquidity by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. The cash flow forecasts are prepared on a monthly basis (by day) and departures are monitored daily.

5.4. Foreign exchange risk and exposure of the Group companies to price risk

The Group's activities expose it primarily to the financial risks arising from movements in sugar and flour prices as well as the prices of raw material required for their production activities (sugar beet, sugar cane and wheat).

The Group undertakes certain transactions denominated in foreign currencies. Hence, it is exposed to fluctuations in foreign exchange rates. The Group is mainly exposed to the fluctuations in the exchange rate of the Croatian kuna against the euro (EUR) and the US dollar (USD) because these are the currencies in which the majority of sugar sales (EUR) and purchases of raw sugar (USD) and (EUR) on international markets are carried out.

So far, the Group's business policy has been to make long-term contractual arrangements for deliveries of larger quantities over extended periods of time, which has proven to be most efficient, as it aims at minimising the impact of the price risk. As the Group sells the majority of its output on international markets, with the prices defined in euros, its is equally exposed to both foreign exchange and price risk.

5.5. Credit risk

Credit risk is the risk that the counterparty will default on its contractual obligations resulting in a financial loss to a company. The Group companies have adopted a policy of dealing only with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from default. The Group monitors regularly its exposure to counterparties as well as their creditworthiness spreads the aggregate value of the transactions to accepted customers. Credit exposure is managed by setting limits to customers.

Credit analysis involves assessing the financial position of the debtor and, where appropriate, insurance coverage is sought for credit guarantees.

The Group usually seeks from its customers to furnish bank guarantees, debentures and bills of exchange as instruments of collateral.

The structure of receivables is presented below:

Table 6. *Receivables structure*

Type of receivables	2017	Structure (%)	2018	Structure (%)	Index
1	2	3	4	5	6 (4/2)
1. Receivables from related companies	3,271,551	2.12	12,105,443	14.34	370
2. Trade receivables	116,506,784	75.60	0	0	
3. Receivables from entities in which there is a participating interest	0	0.00	52,284,738	61.94	45
4. Amounts due from employees and owners	6,663	0.004	5,364	0.006	81
5. Receivables from the State and other institutions	33,569,740	21.78	17,174,886	20.35	51
6. Other receivables	764,020	0.50	2,835,363	3.36	371
Total receivables	154,118,758	100.00	84,405,794	100.00	55

Source: Company data

6. Financial position

Table 7. *Balance sheet at 31 December*

Item description	EDP code	Prior year (net)	Current year (net)
1	2	3	4
A) RECEIVABLES FOR SUBSCRIBED CAPITAL UNPAID	001		
B) DUGOTRAJNA IMOVINA (003+010+020+031+036)	002	520,812,391	509,194,205
I. INTANGIBLE ASSETS (004 to 009)	003	876,085	6,506,824
1. Development expenses	004		
2. Concessions, patents, licences, trade and service marks, software and other rights	005	876,085	6,506,824
3. Goodwill	006		
4. Prepayments for purchases of intangible assets	007		
5. Intangible assets under development	008		
6. Other intangible assets	009		
II. TANGIBLE ASSETS (011 to 019)	010	515,464,345	489,431,518
1. Land	011	38,750,891	38,750,891
2. Buildings	012	227,964,481	217,022,529
3. Plant and equipment	013	183,910,605	148,435,695
4. Tools, plant fittings and fixtures, and transport assets	014	2,540,528	5,573,181
5. Biological assets	015		
6. Prepayments for tangible assets	016	34,254,275	33,816,284
7. Tangible assets under development	017	26,073,477	44,012,331
8. Other tangible assets	018	44,900	44,900
9. Investment property	019	1,925,188	1,775,707
III. NON-CURRENT FINANCIAL ASSETS (021 to 030)	020	4,162,701	13,106,909
1. Equity shares in related companies	021	900,000	5,478,300
2. Investments in other securities in related companies	022		
3. Loans to related companies	023		3,349,907
4. Participating interests	024		
5. Investment in other securities in related companies with participating interest	025		
6. Loans to entities in which there is a participating interest	026		
7. Investments in securities	027	917,258	908,620
8. Given loans, deposits and similar	028	2,345,443	3,370,082
9. Equity-method investments	029		
10. Other non-current financial assets	030		
IV. RECEIVABLES (032 to 035)	031	309,260	148,954
1. Receivables from related companies	032		
2. Receivables from companies with participating interest	033		
3. Receivables	034		
4. Other receivables	035	309,260	148,954
V. DEFERRED TAX ASSETS	036		
C) CURRENT ASSETS (038+046+053+063)	037	726,194,647	463,884,755
I. INVENTORIES (039 to 045)	038	485,469,204	350,273,647
1. Raw material and supplies	039	39,465,980	110,029,480
2. Work in progress	040		
3. Finished products	041	406,044,319	212,599,873
4. Merchandise	042	35,008,468	22,161,980
5. Prepayments for inventories	043	4,950,437	5,482,314

6. Non-current assets held for sale	044		
7. Biological assets	045		
II. RECEIVABLES (047 to 052)	046	154,118,758	84,405,794
1. Receivables from related companies	047	3,271,551	12,105,443
2. Trade receivables	048		
3. Receivables from entities in which there is a participating interest	049	116,506,784	52,284,738
4. Amounts due from employees and owners	050	6,663	5,364
5. Receivables from the State and other institutions	051	33,569,740	17,174,886
6. Other receivables	052	764,020	2,835,363
III. CURRENT FINANCIAL ASSETS (054 to 062)	053	14,506,338	24,368,793
1. Equity shares in related companies	054		
2. Investment in other securities in related companies	055		
3. Loans to related companies	056	6,694,760	14,672,297
4. Participating interests	057		
5. Investment in other securities in related companies with participating interest	058		
6. Loans to entities in which there is a participating interest	059		
7. Investments in securities	060		
8. Given loans, deposits and similar	061	7,320,078	8,904,496
9. Other financial assets	062	491,500	792,000
IV. CASH WITH BANKS AND IN HAND	063	72,100,347	4,836,521
D) PREPAID EXPENSES AND ACCRUED INCOME	064	3,202,643	3,250,641
E) TOTAL ASSETS (AOP 001+002+037+064)	065	1,250,209,681	976,329,601
F) OFF-BALANCE SHEET ITEMS	066	1,448,792,590	1,147,302,721
LIABILITIES AND EQUITY			
A) CAPITAL AND RESERVES (068+070+076+077+080+083)	067	301,180,049	193,664,202
I. SHARE (SUBSCRIBED) CAPITAL	068	249,600,060	249,600,060
II. CAPITAL RESERVES	069	10,368,101	10,368,101
III. RESERVES OUT OF PROFIT (AOP 071+072-073+074+075)	070	56,417,086	51,781,966
1. Legal reserves	071	12,532,960	12,532,960
2. Reserves for own shares	072	43,866,670	39,231,550
3. Own shares (deductible item)	073		
4. Statutory reserves	074		
5. Other reserves	075	17,456	17,456
IV. REVALUATION RESERVES	076		
V. RETAINED PROFIT OR ACCUMULATED LOSSES (078-080)	077	155,502,891	-26 654 267
1. Retained earnings	078	155,502,891	
2. Tax losses brought forward	079		26,654,267
VI. PROFIT OR LOSS FOR THE YEAR (081-082)	080	-176,840,330	-96,454,000
1. Profit for the year	081		
2. Loss for the year	082	176,840,330	96,454,000
VII. MINORITY INTEREST	083	6,132,241	5,022,342
B) PROVISIONS (085 to 087)	084	453,209	453,209
1. Provisions for retirement and termination benefits and similar obligations	085		
2. Provisions for initiated litigations	086	453,209	453,209
3. Other provisions	087		3,294,948
C) NON-CURRENT LIABILITIES (089 to 097)	088	169,068,573	96,886,212
1. Liabilities to related companies	089		
2. Liabilities for loans, deposits and similar	090	945,496	347,225
3. Liabilities to banks and other financial institutions	091	168,123,077	94,978,340
4. Advances received	092		
5. Trade payables	093		

6. Liabilities in respect of securities	094		
7. Liabilities to entities in which there is a participating interest	095		
8. Other non-current liabilities	096		1,560,647
9. Deferred tax liability	097		
D) CURRENT LIABILITIES (099 to 112)	098	763,877,291	666,715,493
1. Liabilities to related companies	099	2,175	4,350,696
2. Liabilities for loans, deposits and similar to related companies	100		
3. Liabilities to entities in which there is a participating interest	101		
4. Liabilities for loans, deposits and similar to entities in which there participating interest	102		
5. Liabilities for loans, deposits and similar	103	13,307,340	7,469,807
6. Liabilities to banks and other financial institutions	104	374,102,814	375,011,456
7. Advances received	105	21,271,550	32,038,074
8. Trade payables	106	306,020,326	239,997,574
9. Liabilities in respect of securities	107		
10. Liabilities to employees	108	3,379,307	3,294,136
11. Taxes, contributions and similar duties payable	109	7,991,230	3,979,069
12. Liabilities in respect of profit distributions (dividends payable)	110	30,963	30,963
13. Liabilities for non-current assets held for sale	111		
14. Other current liabilities	112	37,771,586	543,718
E) ACCRUED EXPENSES AND DEFERRED INCOME	113	15,630,559	15,315,537
F) TOTAL EQUITY AND LIABILITIES (067+084+088+098+113)	114	1,250,209,681	976,329,601
G) OFF-BALANCE SHEET ITEMS	115	1,448,792,590	1,147,302,721

Source: Company data

Table 8. *Profit and loss account*

Item description	EDP code	Prior year	Current year
1	2	3	4
I. OPERATING INCOME (115+119)	114	1,036,554,832	678,601,173
1. Sales income within the group	115	4,550,327	11,626,231
2. Sales income	116	1,016,040,357	637,505,540
3. Income based on the use of its own products, goods and services	117	316,992	195,226
4. Other operating income within the group	118		
5.Other operating income	119	1,036,554,832	678,601,173
II. OPERATING EXPENSES (121+122+126+130+131+132+135+142)	120	1,211,208,085	804,818,097
1. Changes in the value of inventories of work in progress and finished products	121	-115,783,700	168,333,048
2. Material expenses (123 to 125)	122	1,067,360,210	458,299,368
a) Cost of raw material and supplies	123	705,355,439	232,437,676
b) Cost of goods sold	124	289,953,633	165,171,145
c) Other external charges	125	72,051,138	60,690,547
3. Staff expenses (127 to 129)	126	57,281,722	54,517,182
a) Net salaries and wages	127	36,151,010	34,384,346
b) Taxes and contributions out of salaries	128	12,946,660	12,431,424
c) Contributions on salaries	129	8,184,052	7,701,412
4. Depreciation and amortisation	130	55,628,465	51,133,774
5. Other expenses	131	25,539,035	15,300,247
6. Value adjustment (133+134)	132	95,264,269	32,995,270
a) Non-current assets (other than financial assets)	133		
b) Current assets (other than financial assets)	134	95,264,269	32,995,270
7. Provisions	135	0	328,471
a) Provisions for pensions, severance pay and similar obligations	136		
b) Provisions for tax liabilities	137		
c) Provision for initiated litigations	138		
d) Provisions for the costs of restoring natural resources	139		
e) Provisions for costs in warranty periods	140		
f) Other provisions	141		328,471
8. Other operating expenses	142	25,918,084	23,910,737
III. FINANCIAL INCOME (1544 to 153)	143	39,000,322	
1. Share in the income with related companies	144		
2. Share in the income of associates and entities in which there is a participating interest	145		
3. Income frome non-current financial investments and loans with related companies	146	263,443	742,219
4. Other interest income with related companies	147		
5. Foreign exchange differences and other financial income with related companies	148	498,796	300,269
6. Income frome non-current financial investments and loans	149	617,787	1,064,309
7. Other interest income	150	67,188	7,405,241
8. Foreign exchange differences and other financial income	151	14,102,808	47,164,467
9. Unrealised gains (income) from financial assets	152	49,500	
10. Other financial income	153	23,400,800	5,759,808

IV. FINANCIAL EXPENSES (155 to 161)	154	41,421,601	33,615,551
1. Interest expense and other expenses from related-party transactions	155		
2. Foreign exchange losses and other expenses from transactions with related party transactions	156	706,126	740,711
3. Interest expense and other expenses	157	25.419,661	28,899,178
4. Foreign exchange differences and other expenses	158	13,143,223	3.967,202
5. Unrealised losses (expenses) from financial assets	159	2,898	8,460
6. Value adjustament of financial asset (net)	160		
7. Other financial expenses	161	2,149,693	
V. SHARE IN THE PROFIT OF ASSOCIATES	162		
VI. SHARE IN THE LOSSES OF ASSOCIATES	163		
VII. EXTRAORDINARY – OTHER INCOME	164		
VIII. EXTRAORDINARY – OTHER EXPENSES	165		
IX. TOTAL INCOME (111+131+142 + 144)	166	1,075,555,154	741,037,486
X. TOTAL EXPENSES (114+137+143 + 145)	167	1,252,629,686	838,433,648
XI. PROFIT OR LOSS BEFORE TAXATION (166-167)	168	-177,074,532	-97,396,162
1. Profit before taxation (146-147)	169	0	0
2. Loss before taxation (147-146)	170	177,074,532	-97,396,162
XII. PROFIT (CORPORATE INCOME) TAX	171	0	0
XIII. PROFIT OR LOSS FOR THE PERIOD (148-151)	172	-177,074,532	-97,396,162
1. Profit for the period (149-151)	173	0	0
2. Loss for the period (151-148)	174	177,074,532	-97,396,162
PROFIT OR LOSS STATEMENT SUPPLEMENT (to be completed by an entrepreneur preparing consolidated annual accounts)			
XIV. PROFIT OR LOSS FOR THE PERIOD			
1. Attributable to the equity holders of the parent	175	-176,840,330	-96,454,000
2. Attributable to the minority interest	176	-234,202	-942,162
STATEMENT OF OTHER COMPREHENSIVE INCOME (to be completed by entrepreneurs subject to IFRS reporting requirements)			
I. PROFIT OR LOSS FOR THE PERIOD (= 152)	177	-177,074,532	
II. OTHER COMPREHENSIVE INCOME/LOSS BEFORE TAX (159 to 165)	178	0	0
1. Exchange differences on translation of a foreign operation	179		
2. Movements in reserves on revaluation of non-current tangible and intangible assets	180		
3. Profit or loss on revaluation of financial assets available for sale	181		
4. Profit or loss on determining the effectiveness of cash-flow hedges	182		
5. Profit or loss on determining the effectiveness of hedges of a net investment in a foreign operation	183		
6. Share in other comprehensive income/loss of associates	184		
7. Actuarial gains/losses on defined benefit plans	185		
8. Other non-proprietary changes of capital	186		
III. TAX ON OTHER COMPREHENSIVE INCOME FOR THE PERIOD	187		
IV. NET OTHER COMPREHENSIVE INCOME OR LOSS FOR THE PERIOD (158-166)	188	0	
V. COMPREHENSIVE INCOME OR LOSS FOR THE PERIOD (157+167)	189	-177,074,532	-97.396,162
SUPPLEMENT to the statement of other comprehensive income (to be completed by an entrepreneur preparing consolidated annual accounts)			
VI. COMPREHENSIVE INCOME OR LOSS FOR THE PERIOD			
1. Attributable to the equity holders of the parent	190	-176,840,330	-96,454,000
2. Attributable to the minority interest	191	-234,202	-942,162

Source: Company data

Table 9. *Cash flow*

Item description	EDP code	Prior year	Current year
1	2	3	4
Cash flows from operating activities			
1. Profit before tax	001	-177,074,532	-97,396,162
2. Adjustements (AOP 003-010)	002	71,348,019	72,367,561
a) Depreciation and amortisation	003	55,628,465	51,133,774
b) Gains and losses on sales and adjustments to tangible and intangible assets	004	396,626	106,116
c) Gains and losses on sale and unrealized gains and losses and value adjustment of financial assets	005	2,898	6,210
d) Interest and dividends income	006	-160,413	-193,294
e) Interest expense	007	15,150,488	21,592,466
f) Provisions	008		
g) Foreign exchange differences (unrealised)	009	406,432	714,920
h) Other adjustments for non-cash transactions and unrealized gains and losses	010	-76,477	-992,631
I. Increase or decrease in cash flows before changes in working capital (AOP 001 + 002)	011	-105,726,513	-25,028,601
3. Changes in working capital (AOP 013-016)	012	94,099,110	84,197,771
a) Increase or decrease in current liabilities	013	-118,953,049	-95,388,676
b) Increase or decrease in current receivables	014	54,896,331	64,813,885
c) Increase or decrease in inventories	015	148,967,601	135,801,983
d) Other increase or decreases in working capital	016	9,188,227	-21,029,421
II Cash from operating activities (AOP 011-012)	017	-11,627,403	59,169,170
4. Cash interest expenses	018	-11,187,877	-13,973,556
5. Income tax paid	019		
A) NET CASH FLOWS FROM OPERATING ACTIVITIES (017-019)	020	-22,815,280	45,195,614
Cash flows from investing activities			
1. Cash received from sale of non-current tangible and intangible assets	021	165,422	2,914,040
2. Cash received from sale of equity and debt instruments	022		
3. Interest received	023	4,060,566	9,376,270
4. Dividends received	024	77,328	125,650
5. Cash receipts on the basis of repayment of loans and savings deposits	025	1,114,727	536,924
6. Other cash received from investing activities	026	39,246,479	17,025,186
III. Total cash received from investing activities (021 to 026)	027	44,664,522	29,978,070
1. Cash paid for purchases of non-current tangible and intangible assets	028	-35,008,543	-31,625,817
2. Cash paid to acquire equity and debt financial instruments	029		
3. Cash paid on the basis of repayment of loans and savings deposits	030	-21,000	-93,383
4. Acquisition of a subsidiary, less any gained money	031		
5. Other cash used in investing activities	032	-5,112,305	-12,191,005
IV. Total cash used in investing activities (028 to 032)	033	-40,141,848	-43,910,205
B) NET I CASH FLOWS FROM INVESTING ACTIVITIES (027-033)	034	4,522,674	-13,932,135
Cash flows from financing activities			
1. Cash receipts from increasing of capital	035		
2. Cash receipts from issue of equity and debt instruments	036		
3. Cash received from loan principal, promissory notes, borrowings and other borrowed funds	037	494,803,446	399,907,065
4. Other receipts from financing activities	038	8,073,669	9,217,808
V. Total cash received from financing activities (027 to 029)	039	502,877,115	409,124,873
1. Repayments of loan and bond principals	040	-434,531,763	-470,381,688
2. Dividends paid	041		
3. Cash paid under finance leases	042	2,728,635	-798,048
4. Cash paid for purchase of own shares	043		

5. Other cash used in financing activities	044	2,682,392	-31,837,322
VI. Total cash used in financing activities (040 to 044)	045	-440,353,807	-507,652,178
C) NET CASH FLOWS FROM FINANCING ACTIVITIES (039-045)	046	62,934,325	-98,527,305
1. Unrealised cash and cash equivalents foreign exchange differences	047		
D) NET INCREASE OR DECREASE IN CASH FLOWS (020+034+046+047)	048	44,230,701	-67,263,826
E) CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	049	27,869,646	72,100,347
F) CASH AND CASH EQUIVALENTS AT END OF PERIOD (048+049)	050	72,100,347	4,836,521

Source: Company data

Table 10. *Performance ratios*

LIQUIDITY RATIOS			2016.	2017.
	NUMERATOR	DENOMINATOR		
CASH TO CURRENT LIABILITIES RATIO	CASH	CURRENT LIABILITIES	0,092	0,007
QUICK RATIO	CASH + RECEIVABLES	CURRENT LIABILITIES	0,290	0,131
CURRENT RATIO	CURRENT ASSETS	CURRENT LIABILITIES	0,936	0,685
FINANCIAL STABILITY RATIO	NON-CURRENT ASSETS	EQUITY + LONG-TERM LIABILITIES	1,106	1,730
LEVERAGE RATIOS				
RATIO DESCRIPTION	NUMERATOR	DENOMINATOR		
DEBT RATIO	TOTAL LIABILITIES	TOTAL ASSETS	0,759	0,798
EQUITY RATIO	EQUITY	TOTAL ASSETS	0,241	0,202
DEBT-TO-EQUITY RATIO	TOTAL LIABILITIES	EQUITY	3,151	3,957
ACTIVITY RATIOS				
RATIO DESCRIPTION	NUMERATOR	DENOMINATOR		
TOTAL ASSET TURNOVER RATIO	TOTAL INCOME	TOTAL ASSETS	0,860	0,759
CURRENT ASSETS TURNOVER RATIO	TOTAL INCOME	CURRENT ASSETS	1,475	1,586
RECEIVABLES TURNOVER RATIO	SALES	RECEIVABLES	6,624	7,693
INVENTORY TURNOVER RATIO	SALES	INVENTORIES	2,103	1,854
EFFICIENCY RATIOS				
RATIO DESCRIPTION	NUMERATOR	DENOMINATOR		
OVERALL EFFICIENCY RATIO	TOTAL INCOME	TOTAL EXPENSES	0,859	0,884
SALES EFFICIENCY RATIO	OPERATING INCOME	OPERATING EXPENSES	0,856	0,843
FINANCIAL EFFICIENCY RATIO	FINANCIAL INCOME	FINANCIAL EXPENSES	0,942	1,857
PROFITABILITY RATIOS				
RATIO DESCRIPTION	NUMERATOR	DENOMINATOR		
RETURN ON ASSETS (ROA) %	NET INCOME	TOTAL ASSETS		
RETURN ON EQUITY (ROE) %	NET INCOME	EQUITY		
RETURN ON SALES (ROS) %	NET INCOME	TOTAL INCOME		

Source: Company data

- Current assets include prepaid expenses and accrued income
- Current liabilities include accrued expenses and prepaid income
- Non-current liabilities include provisions.

7. STAFF

Table 11. *Permanent employees of Viro tvornica šećera d.d. by level of qualifications*

Level of qualifications	31.12.2017		31.12.2018		Index
	Number	Structure	Number	Structure	
1	2	3	4	5	6 (4/2)
MSc	0	0	0	0	
University graduate degree	34	19	36	20	106
University undergraduate degree	7	4	6	3	86
Secondary school qualifications	112	63	114	64	102
Highly-skilled workers	0	0	0	0	
Semi-skilled workers	2	1	2	1	100
Skilled workers	13	7	12	7	92
Unskilled workers	10	6	9	5	90
Total permanent staff:	178	100	**179**	**100**	**101**

Source: Company data

Table 12. *Permanent employees of Sladorana d.o.o. by level of qualifications*

Level of qualifications	31.12.2017		31.12.2018		Index
	Number	Structure	Number	Structure	
1	2	3	4	5	6 (4/2)
MSc	0	0	0	0	0
University graduate degree	42	21	38	20	90
University undergraduate degree	5	2	5	3	100
Secondary school qualifications	137	68	125	67	91
Highly-skilled workers	0	0	0	0	0
Skilled workers	6	3	8	4	133
Semi-skilled workers	11	5	10	5	91
Unskilled workers	0	0	0	0	0
Total permanent staff:	201	100	**186**	**100**	**93**

Source: Company dana

Table 13. *Permanent employees of Slavonija Županja d.d. by level of qualifications*

Level of qualifications	31.12.2017		31.12.2018		Index
	Number	Structure	Number	Structure	
1	2	3	4	5	6 (4/2)
University graduate degree	6	12	6	13	100
University undergraduate degree	4	8	4	8	100
Secondary school qualifications	23	47	22	47	95
Skilled workers	9	19	8	17	89
Unskilled workers	7	14	7	15	100
Total permanent staff:	49	100	**47**	**100**	**96**

Source: Company data

Table 14. *Permanent employees of Viro BH d.o.o. by level of qualifications*

Qualification	31.12.2017.		31.12.2018.		Index
	Number	Structure	Number	Structure	
1	2	3	4	5	6(4/2)
University degree	1	100	1	50	100
High school education	0		1	50	
Ukupno stalni:	**1**	**100**	**2**	**100**	**300**

8. Investments

Table 15. *Investments realised in 2018 – Viro tvornica šećera d.d.*

Name	Amount
1	2
Sugar silos - change of isolation	2,611,755
SAP S / 4 Business Information System	2,137,667
Personal car Nissan	217,322
Office container CA 001	185,360
Personal car Toyota Auris	127,879
Dump the jumbo bag into the sugar drier	59,462
Sanitary container SA 20	53,564
Others:	104,638
Total:	**5,497,658**

Source: Company data

Table 16. *Investments realised in 2018 – Sladorana d.o.o.*

Name	Amount
1	2
System for biological waste water treatment	17,938,855
Purchase of fixed assets	138,450
Increase in property	22,208,179
Total:	**4,130,874**

Source: Company data

9. Ecology

In 2018 there were no environmental, or ecological, incidents at the Group companies. Sugar production and the related programmes and flour production are not economic activities that may cause significant damage or pose a significant environmental hazard. Still, efforts have continued to improve environmental protection and sustainable development.

Natural gas is the major energy resource in sugar production, which helps avoid the use of heavy fuels and reduce green-house gas and SO_2 emissions.

Sugar refineries and factories are large consumers of natural gas, the key source of energy in the sugar production. The continuous improvements reduce the level of natural gas consumption aimed at achieving savings and reducing hazardous gas emissions.

The highest volumes of gas emissions arise at the power plant as a result of natural gas combustion and also from the lime kilns in coke combustion and lime production processes. The emissions are monitored on an annual basis by a certified laboratory and are within the prescribed value ranges, as well as by reference to the Greenhouse Gas Monitoring Plan provided to the Agency and the Ministry of Environment. The second type of air emission relates to the emission of solid particles from the beet drying process, together with gas emissions occurring as a result of the natural gas combustion during the drying process, and all the values at this source are also monitored by certified companies. The measured values are within permissible ranges and the measured data have been provided to the Agency and the Ministry.

Both sugar factories have their own process water production plants, which are also used to generate electricity (a co-generation plant) to cover the factory's own needs.
Occasionally, surplus electricity arises in the production process which is then distributed to the power supply grid in the quantities and at prices agreed with the electricity distribution company in charge for the area.

Viro tvornica šećera d.d. has its own waste water (anaerobic and aerobic) treatment plant for both own effluents (collected rainfall and process waters) and those of the City of Virovitica.

Sladorana d.o.o. has finalised the construction of a radial catch basin and obtained the use permit. The cooling tower has also been constructed, and obtained the use permit. Lagoon construction and the purchase and installation of the water treatment plant are in progress.

The Group companies generate hazardous and non-hazardous waste, and both are reported to the Environmental Protection Agency using prescribed reporting forms.

All waste types are collected by certified companies specialised for the disposal of waste in accordance with prescribed guidelines. The production, storage and ex-factory transport documentation has been prepared in accordance with the Waste Act and other rulebooks regulating this area.

Viro d.d. has been part of the Emission Trading System since 2013.

10. Development strategy

The Group seeks to align its operations with the increasingly competitive market on an on-going basis. Hence, significant funds are allocated each year to eliminate any bottlenecks in the production as well as to increase energy efficiency.

On-going investments in modern equipment and education of the staff guarantee production by applying state-of-the-art methods and complying with the highest safety and sanitary standards. As an additional product quality assurance, the following have been implemented:

- Viro d.d. Zagreb: IFS FOOD (Version 6), ISO 50001:2011,
  FSSC 22000:2010, ISO 9001:2008, ISO 14001:2004, OHSAS 18001, Halal and Kosher certificates
- Slavonija Županja d.d. Županja: IFS FOOD (Version 6), HACCP, ISO 9001:2008, Kosher certificate
- Sladorana d.o.o .: Transition internal audit ISO 9001: 2015, ISO 14001: 2015 and auditing audit ISO 50001: 2011, IFS ver. 6 held in the period from 23 to 24 November. ISO 5001: 2011 was conducted in December. The purpose of the audit was to check the application of the requirements of the ISO 9001: 2015, ISO 14001: 2015, ISO 50001: 2011 and IFS version 6 standards, ie the quality system, environmental protection, energy and food safety of the Company. Sladorana d.o.o. possesses Kosher and Halal certificates.

Continuous investment in production facilities is trying to make the most of the economies of scale. Apart from investing in production capacity and equipment, the Group seeks to achieve the best relationship with sugar beet producers, cereal and oilseed producers as well as suppliers of mill and silos. Permanent education that field staff performs on field with agrotechnical measures based on soil analysis from year to year shows better results. Particularly important in this segment is the transfer of knowledge of the French partner and co-owner of Vira.

By promoting traditional values, sponsoring cultural, sports and other events and assisting those in need, the Group companies seek to make a proactive contribution to improved quality of living within and beyond the local community, in line with the corporate social responsibility standards.

Investing in new technologies and diversifying the lines of product are the activities aimed at finding best possible response to the challenging environment.

It is expected that the continuation of cooperation with Cristal Union, which is the leading beet producer in the EU, with further improvements in beet production in the production areas of factories, will open the way for more favorable financing. This includes the continued use of the platform for the so-called. 'hedging' sales and purchases on the London and New York Stock Exchange, which began in 2017 and was successful in 2018.

11. Expectations by Group company

Following the initiative launched jointly by the domestic sugar industry in late 2018 in the direction of the unification of sugar production to ensure the survival of this industry, endangered by drastic changes in business conditions after the abolition of production constraints in the EU in late 2017 and a large drop in prices sugar on the European market, it is anticipated that during the first half of 2019, following a positive decision of the Agency for the Protection of Market Competition from March 2019, and after the expected confirmation of the decision of the Assembly of Companies scheduled for May 2019, a new business strategy for the newly formed company, working name "Croatian Sugar Industry" will also be present with the two sugars from the composition of the Viro group and the present sugar factory Osijek d.o.o. The sugar beet production campaign in 2019, which will take place in the fall of the same year, will be the first campaign of a newly founded company to unite all three sugar manufacturers in the Republic of Croatia. Positive synergic effects of the connection and the strengthened position of the domestic industry are expected to be able to cope with the growing competition on the domestic and European markets where most of the sales are taking place.

In Slavonia, Županja d.d. in 2019, the signing of the Agreement on Storage and Preservation of Grains with Existing but New Partners is foreseen. The production of flour brand for trading centers is also foreseen. Furthermore, cooperation with all the past customers of flour is continuing: shops, wholesalers and backers. Planned investments to maintain a high level of safety in the production process that demand high food safety standards (HACCP, IFS, ISO) is to ensure product quality and competitiveness. As a result of the development of a partnership based primarily on the quality of products and services, the company will continue to increase its capacity utilization and increase its flour in 2019.

12. Significant post year-end events

On December 28, 2018, the sugar factory Osijek d.o.o., the sugar factory of d.d. and Sladorana d.o.o. have signed a contract based on which they will combine their production capacities, knowledge and business experience and jointly establish a new trading company that will carry out the activities of combined production and sales of sugar in the market under the title "Croatian Sugar Industry".

The main goal of unification of the Croatian sugar industry is to create a larger and more efficient business system which, under the conditions of increased liberalization and increased competition in the European market after the abolition of production constraints, can compete competitively with regional and other European and global market participants on a sugar market the Croatian sugar industry also operates.

The transaction is conceived in such a way that the aforementioned companies transfer their production units related to the production of sugar, at estimated values, to a newly-established company that would continue with further sugar production and placement activities. The parent company would retain part of its assets and operations that are not related to sugar production.

On March 25, 2019, the company of sugar factory Osijek d.o.o., the sugar factory of d.d. and Sladorana d.o.o. received notification from the Competition Agency that it was found that the proposed concentration of the said undertakings, based on a contract signed on 28 December 2018, was considered to be permissible

The only prerequisite for the transaction was the approval of the founding assembly, which the assemblies were convened for May 2019, and it is expected that the process of unification could be completed by the end of June 2019, assuming the decision by the relevant assemblies.

13. Statement of changes to the corporate governance code

As the shares of Viro tvornica šećera d.d. are listed on the regulated Zagreb Stock Exchange market, the Company applies the valid version of the Code of Corporate Governance of the Croatian Financial Services Supervisory Agency and the Zagreb Stock Exchange (www.zse.hr). Pursuant to the positive laws and the Code of Corporate Governance, Viro tvornica šećera completed the Annual Questionnaire for 2018, which is an inseparable part of the Code of Corporate Governance and provides details about the corporate governance practice at the Company or any departures from the Code of Corporate Governance, along with the related explanations. This Corporate Governance Code Statement is an inseparable part of the Company's Annual Report for 2018 and is publicly available at the Company's web site (www.secerana.hr) and the official website of the Zagreb Stock Exchange (www.zse.hr).

The appointment and revocation of the members of the Company's Management Board and the election of the Company's Supervisory Board members are governed and fully compliant with the Companies Act. Thus, four Supervisory Board members are elected by the Company's Shareholders' Assembly, and the fifth member is appointed by the Company employees. Neither shareholder is entitled to appoint a member of the Supervisory Board directly. The Management Board of the Company is appointed by the Company's Supervisory Board.

The Company's Articles of Association contain a provision about the so-called authorised share capital, under which the Management Board of the Company may, with the consent of the Company's Supervisory Board, adopt a decision to increase the share capital by maximum HRK 124,800,030.00. The authorisation expires on 20 January 2020.

The powers of the General Assembly, the rules of procedure of the Assembly and the rights of the shareholders are regulated by the Company's Articles of Association, which are publicly available and prepared in accordance with the Companies Act. The shareholders' rights are not restricted in any way, and each share entitles to one vote in the General Meeting of the Company's Shareholders. Using the option provided in Article 279(2) of the Companies Act, the Articles of Association specify that attendance at a General Meeting should be announced six days in advance, as clearly indicated in each invitation to the general meeting, to which the appropriate statement of confirmation is attached and delivered to each individual shareholder.

Diversity Policy: the members of the Company's Management and Supervisory Boards are experts of various profiles, which achieves the balance and stability required to meet the business challenges. Thus, university graduate economists and a master of biotechnology sciences are on the Company's Management Board, while the Supervisory Board consists of a university graduate economist, a university graduate of laws as well as university graduate technology engineers with a considerable experience in food industry. The resumes (CVs) of all the members of the Management and Supervisory Boards are publicly available at the Company's website.

The members of the Management and Supervisory Boards are presented in the accompanying audited financial statements.

13.1. Code of corporate governance

BASIC DANA ABOUT THE COMPANY:				VIRO TVORNICA ŠEĆERA d.d.		
CONTACT PERSON AND PHONE NUMBER:				KORNELIJA ELJUGA, 033/840-101		
FILLING DATE OF QUESTIONNAIRE:				28.03.2019.		
All questions contained in this questionnaire refer to the one-year period to which the annual financial statements refer.						
For the questions that are contained in the questionnaire, it is necessary to write the reasoning only if the question is explicitly requested.						
The answers in the questionnaire are evaluated at a certain percentage, which is expressed at the beginning of each chapter.						
DEDICATION TO PRINCIPLES OF CORPORATE GOVERNANCE AND SOCIAL RESPONSIBILITY						
Answers to this set of questions carry 20% of the overall indicator of corporate compliance with the Corporate Governance Code.						
	Question no.	Question	Answer YES/NO	Explanation		
	1	Has the Company adopted the use of the Code of Corporate Governance from Zagreb stock exchange?	Yes			
	2	Has the Company prepared its own Code of Corporate Governance?	No			
	3	Are there corporate governance code principles adopted as part of the Company's internal policies?	Yes			
	4	Does the Group disclose in its annual financial statements its compliance with corporate governance principles?	Yes			
SHAREHOLDERS AND GENERAL ASSEMBLY						
Answers to this set of questions carry 30% of the overall indicator of corporate compliance with the Corporate Governance Code.						
	Question no.	Question	Answer YES/NO	Explanation		

	5	Is the Group in a cross-shareholding relationship with another company/other companies? (If yes, please explain.)	No			
	6	Does each share of the Group have one voting right? (If not, please explain).	Yes			
	7	Are all shareholders treated equally? (If yes, please explain.)	No			
	8	Has the procedure for issuing power of attorney for voting at the general assembly been fully simplified and free of any strict formal requirements? (If not, please explain.)	Yes			
	9	Has the Group ensured that the shareholders who, for whatever reason, are not able to vote at the assembly in person have proxies who are obliged to vote in accordance with instructions received from the shareholders, at no extra cost for those shareholders? (If not, please explain).	No	*There were no such requests.*		
	10	Were the management board or the board of directors of the company when determining the meeting to determine the date by which the state in the stock register that will be applicable for the exercise of the voting rights in the shareholders' meeting is determined in such a way that the date before the meeting is held may be no more than six days before the Assembly? (if not, explain)	Yes			
	11	Were the agenda of the assembly, as well as all relevant data and documentation with explanations relating to the agenda, announced on the website of the Group and put at the disposal of shareholders on the Group's premises as of the date of the first publication of the agenda? (If not, please explain.)	Yes			
	12	Does the decision on dividend payment or advance dividend payment include the date on which shareholders are entitled to receive dividend payment and the date or period when the dividend will be paid? (If not, please explain.)	Yes			
	13	Is the date of dividend payment or advance dividend payment set to be not later than 30 days after the day on which the decision was made? (If not, please explain.)	Yes			
	14	Were any shareholders favoured while receiving their dividends or advance dividends? (If yes, please explain.)	No			
	15	Are the shareholders allowed to participate and to vote at the general assembly of the Group using modern communication technology? (If not, please explain.)	No	*There were no such requests from the shareholders.*		
	16	Have the conditions been defined for participating at the general assembly by voting through proxy (irrespective of whether this is permitted pursuant to the law and articles of association), such as registration for participation in advance, certification of powers of attorney? (If yes, please explain.)	Yes	*Pursuant to the Articles of Association and the Companies Act, the shareholders have to announce their attendance to a General Shareholders' Meeting six days in advance of the meeting.*		
	17	Did the management of the Group made any information about potential claims challenging the decisions publicly available? (If not, please explain.)	Yes			
	18	Did the management of the Group made any information about potential claims challenging the decisions publicly available? (If not, please explain.)	No	*No such claims have been initiated so far.*		
MANAGING AND SUPERVISORY BODIES						

PLEASE PROVIDE THE NAMES OF MANAGEMENT BOARD MEMBERS AND THEIR FUNCTIONS:				*Željko Zadro, President of the Management Board* *Darko Krstić, Member of the Management Board* *Ivo Rešić, Member of the Management Board*		
PLEASE PROVIDE THE NAMES OF SUPERVISORY BOARD AND THEIR FUNCTIONS:				*Marinko Zadro, President of the Supervisory Board* *Boris Šimunović, Deputy President of the Supervisory Board* *Ivan Mišetić, Member of the Supervisory Board* *Svetlana Zadro, Member of the Supervisory Board* *Robert Barnakl, Member of the Supervisory Board*		
Answers to this set of questions carry 20% of the overall indicator of corporate compliance with the Corporate Governance Code.						
	Question no.	Question	Answer YES/NO	Explanation		
	19	Did the Supervisory or Management Board adopt a decision on the master plan of its activities, including the list of its regular meetings and data to be made available to Supervisory Board members regularly and in a timely manner? (If not, please explain.)	No	*The Supervisory Board members maintain almost daily contact, and we believe that there is no need to formalise the matters.*		
	20	Have the supervisory or management Board passed its internal rules of procedure? (If not, please explain.)	No	*The rules of procedure for the Supervisory Board are specified in the Companies Act and the Group's Articles of Association.*		
	21	Is the supervisory board composed of, i.e. are non-executive directors on the management board of the Group mostly independent members? (If not, please explain.)	No	*The Supervisory Board members are representatives of the shareholders, workers and include one independent member*		
	22	Is there a long-term succession plan in the Group? (If not, please explain.)	No	*Given a shallow organisational structure, we consider this as not necessary.*		

	23	Is the remuneration received by the members of the supervisory or management board entirely or partly determined according to their contribution to the Group's business performance? (If not, please explain.)	No	*The President of the Supervisory Board receives a monthly remuneration defined by a decision of the General Assembly.*		
	24	. Is the remuneration to the members of the supervisory or management board determined by a decision of the general assembly or in the articles of association of the company? (If not, please explain.)	Yes			
	25	Have details about all remuneration and other benefits received by each member of the supervisory or management board received from the Group or from other persons related to the Group, including the structure of such remuneration, been made public? (If not, please explain.)	Yes			
	26	Does every member of the supervisory or management board inform the Group of each change relating to the acquisition or disposal of shares of the company, or to the possibility to exercise voting rights arising from the Group's shares, not later than five trading days from such a change? (If not, please explain.)	No	*Data is being provided on request*		
	27	Does every member of the Supervisory Board or Board of Directors report to the Company about any changes regarding the acquisition, dismissal or the possibility of exercising voting rights over the shares of the company immediately, but not later than three business days after the date of the transaction? (if not, explain)	Yes			
	28	Are all transactions involving members of the supervisory or management board or their related persons and the Group and its related persons clearly presented in the financial statements of the Group? (If not, please explain.)	Yes			
	29	Are there any contracts or agreements between the members of the supervisory or management board and the Group?	Yes			
	30	Were they previously approved by the supervisory or management board? (If not, please explain.)	Yes			
	31	Are the essential elements of all such contracts or agreements included in the annual report? (If not, please explain.)	No	*This is mainly an advisory services contract concluded for a limited term.*		
	32	Did the supervisory or management board establish the appointment committee?	No			
	33	Did the supervisory or management board establish the remuneration committee?	No			
	34	Did the supervisory or management board establish the audit committee?	Yes			
	35	Was the majority of the committee members selected from the group of independent members of the supervisory board? (If not, please explain.)	No	All members of audit committee are members of supervisory bord. Audit committe is exempt from independency.		
	36	Did the committee monitor the integrity of the financial information of the Group, especially the correctness and consistency of the accounting methods used by the Group, including the criteria for the consolidation of financial statements of the companies belonging to the Group? (If not, please explain.)	Yes			
	37	Did the committee assess the quality of the internal control and risk management systems with the aim of adequately identifying and publishing the main risks the Group is exposed to (including the risks related to the compliance with regulations), as well as managing those risks in an adequate manner? (If not, please explain.)	Yes			

	38	Has the committee been working on ensuring the efficiency of the internal audit system, especially by preparing recommendations for the selection, appointment, reappointment and dismissal of the head of internal audit department, and with regard to funds at his/her disposal, and the evaluation of the actions taken by the management after findings and recommendations of the internal audit? (If not, please explain.)	No	Due to the simple organisational structure we deem this unnecessary		
	39	38. If there is no internal audit function in the Group, did the committee consider the need to establish it? (If not, please explain.)	No	Due to the simple organisational structure we deem this unnecessary		
	40	Did the committee monitor the independence and objectivity of the external auditor, especially with regard to the rotation of authorised auditors within the audit company and the fees the company is paying for services provided by external auditors? (If not, please explain.)	Yes			
	41	Did the committee monitor the nature and quantity of services other than audit, received by the Group from the audit company or from persons related to it? (If not, please explain.)	Yes			
	42	Did the committee prepare any rules defining which services may not be provided to the Group by the external audit company and persons related to it, which services may be provided only with, and which without prior consent of the committee? (If not, please explain.)	No	The company decides on this based on provisions of Audit Act		
	43	Did the committee analyse the efficiency of the external audit and actions taken by the senior management with regard to recommendations made by the external auditor? (If not, please explain.	Yes			
	44	Was the documentation relevant for the work of the supervisory board or management board submitted to all the members on time? (If not, please explain.)	Yes			
	45	Do supervisory board or management board meeting minutes contain all adopted decisions, together with the voting results? (If not, please explain.)	Yes			
	46	Has the supervisory or management board evaluated their work over the past period, which includes the evaluation of the contribution and competencies of the individual members, as well as of joint activities of the board, evaluation of the work of the committees established and the evaluation of the Group's objectives reached in comparison with the objectives set?	No			
	47	Did the Group publish a statement on the remuneration policy for the management, managing body and the supervisory board as part of the annual report? (If not, please explain.)	No	These remunerations are perscribed in individual work contracts		
	48	Are detailed data on all remuneration and benefits received by each member of the management or each executive director from the Group published in the annual report of the Group? (If not, please explain.)	No	For Supervisory Board members remuneration is determined based on General Assembky decision and the remuneration and benefits are included in the individual employment contracts.		
	49	Are all transactions involving members of the management board or executive directors, and persons related to them, and the company and persons related to it, clearly presented in reports of the Company? (If not, please explain.)	Yes			

	50	Does the report to be submitted by the supervisory or management board to the general assembly include, apart from minimum information defined by law, the evaluation of the overall business performance of the Group, of activities of the management of the Group, and a special comment on its cooperation with the management? (If not, please explain.)	No	The reports are prepared in accordance with the Companies Act.		
AUDIT AND INTERNAL CONTROL MECHANISMS						
Answers to this set of questions carry 10% of the overall indicator of corporate compliance with the Corporate Governance Code.						
	Question no.	Question	Answer YES/NO	Explanation		
	51	Does the Group have an external auditor?	Yes			
	52	Is the external auditor of the Group related with the Group in terms of ownership or interests?	No			
	53	Is the external auditor of the Group providing to the Group, him/herself or through related persons, other services?	Yes			
	54	Has the Group published the amount of fees paid to the independent external auditors for the audit carried out and for other services provided? (If not, please explain.)	No	The obligation of disclosing the fee is perscribed by the Code which is recommendation and not obligatory		
	55	Does the Company have internal auditors? (If not, please explain.)	No	Due to the simple organisational structure we deem this unnecessary		
	56	Does the Company have an internal control system established? (If not, please explain.)	No	Due to the simple organisational structure we deem this unnecessary		
TRANSPARANCY AND THE PUBLIC VISIBILITY OF THE BUSINESS						
Answers to this set of questions carry 20% of the overall indicator of corporate compliance with the Corporate Governance Code.						
	Question no.	Question	Answer YES/NO	Explanation		
	57	Are the semi-annual, annual and quarterly reports available to the shareholders?	Yes			
	58	Did the Group prepare a calendar of important events?	Yes			
	59	Did the Group establish mechanisms to ensure that persons who have access to or possess inside information understand the nature and importance of such information and limitations related to it?	Yes			
	60	Did the Group establish mechanisms to ensure monitoring the inside information and possible abuse thereof?	Yes			
	61	Has anyone suffered negative consequences for pointing out to the competent authorities or bodies in the Group or outside, shortcomings in the application of rules or ethical norms within the Group? (If yes, please explain.)	No			
	62	Did the management of the Group hold any meetings with interested investors last year?	No			
	63	Do all the members of the management, Management Board and Supervisory Board agree that the answers provided in this questionnaire are, to the best of their knowledge, entirely true?	Yes			

Responsibility for the consolidated financial statements

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

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

In preparing those financial statements, the Management Board is responsible for

- selecting and then consistently applying suitable accounting policies,
- making reasonable and prudent judgements and estimates;
- following applicable accounting standards, subject to any material departures disclosed and explained in the financial statements, and
- the consolidated financial statements are prepared 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 Group and their compliance with the Croatian Accounting Act The Management Board is also responsible for safeguarding the assets of the Group, and hence, for taking reasonable steps for the prevention and detection of fraud and other irregularities

Signed on behalf of the Management Board by

Željko Zadro, President of the Management Board

Darko Krstić, Member of the Management Board

Ivo Rešić Member of the Management Board

Viro tvornica šećera d d
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Republic of Croatia
29 April 2019

Viro
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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Viro tvornica šećera d.d.

Opinion

We have audited the consolidated financial statements of Viro tvornica šećera d.d. and its subsidiaries (hereinafter jointly referred to as the "Group"), which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in shareholders' equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group at 31 December 2018, 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 Opinion

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

Emphasis of Matter

Emphasis of matter related to going concern

Attention is drawn to note 3.1. in the consolidated financial statements in which are stated future plans of the Group, and it is stated that the Group has a short-term assets of HRK 467 million as at 31 December 2018 and has short-term liabilities of HRK 682 million, which exceeds short-term assets by HRK 215 million. Short-term liabilities include short-term borrowings and finance leases amounting to HRK 382 million as noted in Note 24 to financial statements for which there are fixed assets. These events or circumstances, with other questions, indicate the existence of uncertainty that may cause suspicion of the Group's ability to continue its time with unlimited business. Our opinion has not been modified in this regard.

Deloitte.

INDEPENDENT AUDITOR'S REPORT (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 for the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters.

Key audit matter	*How our audit addressed the key audit matter*
Valuation of inventories *Please refer to Note 16 to the consolidated financial statements*	
At 31 December 2018 the Group recognised inventories in the amount of HRK 350,274 thousand, which consist of net value of finished goods, merchandise, raw material and supplies and prepayment made for inventories. Value adjustment for the amount of HRK 32,955 relates to the value adjustment of inventories, because the value of the inventory of sugar on the market is lower than the cost of inventories. Out of the total value of inventories, HRK 245,605 thousand relates to stocks of finished sugar products. The Group has no production in progress which relates to sugar on 31 December 2018. There is a risk that inventories may not be presented in accordance with International Accounting Standard 2 "Inventories", that is, they may not be recognised at the lower of cost or net realisable value. The cost consists of all production costs incurred in making the products and includes direct materials, direct labour costs and those overhead costs that have been incurred in bringing inventories to their present location and condition. The Group applies a traditional production cost method which includes direct labor and material costs and general cost of production per cost bearer.	Our audit approach included both controls testing and substantive procedures, which are the following: • We have reviewed the stock-count reports prepared on the inventory counts performed at warehouses at the end of the financial year and compared the balances with the balances in the Group's books. • We have tested the net realisable value of products and compared it with the cost in order to satisfy ourselves that the products are recognised at the lower of the cost or net realisable value. • We have reviewed the production calculation method and the allocation of all overhead costs to the products.

Deloitte.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Other Information

Other information is the responsibility of the Management Board. Such other information comprises the information included in the Annual Report, but does not include the financial statements and our auditor's report.

Our opinion on the financial statements does not cover the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. With respect to the Group's Management Report and the Corporate Governance Statement, which are included in the Annual Report, we have also performed the procedures prescribed by the Accounting Act. These procedures include examining whether the Management Report and Corporate Governance Statement include required disclosures as set out in Articles 21, 22 and 24 of the Accounting Act and whether the Corporate Governance Statement includes the information specified in Articles 22 and 24 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 financial statements,
2. The Group's Management Report has been prepared, in all material respects, in accordance with the Articles 21 and 24 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 the Article 22, paragraph 1, point 2, 5, 6 and 7 and the Article 24, paragraph 2

Based on the knowledge and understanding of Group and its environment, which we gained during our audit of the financial statements, we have not identified material misstatements in the other information.

Deloitte.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Responsibilities of the Management and Supervisory Board for the 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 Management 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 financial statements, Management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Management 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 Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 is 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 these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism 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 control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.

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INDEPENDENT AUDITOR'S REPORT (CONTINUED)

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

- Conclude on the appropriateness of Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Other reporting obligations as required by Regulation (EU) No. 537/2014 of the European Parliament and the Council and the Audit Act

We were appointed as the statutory auditor of the Company by the shareholders on General Shareholders' Meeting held on 30 August 2018 to perform audit of accompanying financial statements. Our total uninterrupted engagement has lasted 8 years and covers period 31 December 2011 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 Group and its controlled undertakings, and which have not been disclosed in the Annual Report.

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

Tonžetić

Marina Tonžetić
Member of the Managing Board and certified auditor

Deloitte d.o.o.
29 April 2019
Radnička cesta 80,
10 000 Zagreb,
Croatia

This version of the auditor's report is translation from the original, which was prepared in the Croatian language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of the report takes precedence over this translation.

Consolidated statement of comprehensive income

For the year ended 31 December 2018

(All amounts are expressed in thousands of HRK)

	Notes	2018	2017
Sales	4.1	649,327	1,020,908
Other income	4.2	29,274	15,647
Total operating income		**678,601**	**1,036,555**
(Decrease) / increase in the value of work in progress and finished products		(168,333)	115,784
Cost of raw material and supplies	6	(232,438)	(705,355)
Cost of goods sold	7	(165,171)	(289,954)
Other external expenses	8	(60,691)	(72,051)
Depreciation and amortisation	14	(51,134)	(55,628)
Staff expenses	9	(54,517)	(57,282)
Other expenses	10.1	(15,300)	(25,539)
Other operating expenses	10.3	(23,911)	(25,918)
Value adjustment	10.2	(32,995)	(95,264)
Provisions		(328)	-
Total operating expenses		**(804,818)**	**(1,211,207)**
Loss from operations		**(126,217)**	**(174,652)**
Financial income	11	62,436	39,000
Financial expenses	12	(33,615)	(41,422)
Net financial profit / (loss)		**28,821**	**(2,422)**
Loss before taxation		**(97,396)**	**(177,074)**
Income tax	13	-	-
Loss for the year		**(97,396)**	**(177,074)**
Other comprehensive loss			
Total comprehensive loss for the year		**(97,396)**	**(177,074)**
Loss attributable to:			
Equity holders of the parent		**(96,454)**	**(176,840)**
Non-controlling interest		**(942)**	**(234)**
Total comprehensive loss attributable to:			
Equity holders		**(96,454)**	**(177,074)**
Non-controlling interest		**(942)**	**(234)**
Loss (per share)			
– basic and diluted (in kunas and lipas)	23	**(71.96)**	**(127.70)**

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

Consolidated statement of financial position

At 31 December 2018

(All amounts are expressed in thousands of HRK)

	Notes	31 December 2018	31 December 2017
ASSETS			
Non-current assets			
Intangible assets	14	6,507	876
Property, plant and equipment	14	489,431	515,464
Non-current financial assets	15	13,107	4,163
Long-term receivables		149	309
Total non-current assets		**509,194**	**520,812**
Current assets			
Inventories	16	350,274	485,469
Trade receivables	17	64,390	119,778
Receivables from the State and other institutions	18	17,175	33,570
Current financial assets	19	24,369	14,506
Other receivables		2,841	771
Cash and cash equivalents	20	4,836	72,100
Prepaid expenses and accrued income	21	3,251	3,203
Total current assets		**467,136**	**729,397**
TOTAL ASSETS		**976,330**	**1,250,209**

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

Consolidated statement of financial position (continued)

At 31 December 2018

(All amounts are expressed in thousands of HRK)

	Notes	31 December 2018	31 December 2017
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	22.1	249,600	249,600
Retained earnings		(81,676)	20,095
Capital reserves	22.2	10,368	10,368
Reserves out of profit	22.2	51,782	56,417
Other reserves	22.2	(41,432)	(41,432)
Attributable to the owners of the parent		**188,642**	**295,048**
Non-controlling interests		5,022	6,132
Total equity		**193,664**	**301,180**
Provisions	31	**3,748**	**453**
Non-current liabilities			
Liabilities for loans, deposits and similar	24	208	669
Loans payable and borrowings	24	95,117	168,399
Other non-current liabilities		1,561	-
Total non-current liabilities		**96,886**	**169,068**
Current liabilities			
Liabilities to related companies	29	4,351	2
Liabilities for loans, deposits and similar	24	7,275	12,661
Loans payable and borrowings	24	375,206	374,750
Advances received	26	32,038	21,272
Trade payables	25	239,998	306,020
Other current liabilities	27	7,848	49,173
Accrued expenses and deferred income	28	15,316	15,631
Total current liabilities		**682,032**	**779,508**
TOTAL EQUITY AND LIABILITIES		**976,330**	**1,250,209**

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

Consolidated statement of changes in shareholders' equity

For the year ended 31 December 2018

(All amounts are expressed in thousands of HRK)

	Share capital	Treasury shares	Reserves	Retained earnings	Non-controlling interests	Total
Balance at 31 December 2016	**249,600**	-	**25,347**	**198,217**	**6,366**	**479,530**
Loss for the year	-	-	-	(176,840)	(234)	(177,074)
Total comprehensive profits	-	-	-	**(176,840)**	**(234)**	**(177,074)**
Legal reserves	-	-	7	(7)	-	-
Effect of correction credited to reserves and retained earnings	-	-	(1)	(1,275)	-	(1,276)
Balance at 31 December 2017	**249,600**	-	**25,353**	**20,095**	**6,132**	**301,180**
Loss for the year	-	-	-	(96,454)	(942)	(97,396)
Total Comprehensive Loss	-	-	-	**(96,454)**	**(942)**	**(97,396)**
Legal reserves	-	-	-	-	-	-
Treasury shares	-	(4,635)		-	-	(4,635)
IFRS 9 implementation impact (Note 2b)	-	-	-	(5,700)	(148)	(5,-848)
Effect of correction credited to reserves and retained earnings	-	-	-	383	(20)	(363)
Balance at 31 December 2018	**249,600**	(4.635)	**25,353**	**(81,676)**	**5,022**	**193,664**

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

Consolidated statement of cash flows

For the year ended 31 December 2018

(All amounts are expressed in thousands of HRK)

	Notes	2018	2017
Cash flows from operating activities			
Loss for the year		(97,396)	(177,074)
Depreciation and amortisation	14	51,134	55,628
Unrealised exchange differences on loans and borrowings payable, net	12	(3,250)	(2,313)
Interest expense	12	26,821	23,840
Interest income	11	(1,729)	(2,131)
Expense of retired assets	14	9,058	2,467
Increase in provisions	31	3,295	-
Value adjustment of current assets		49,296	111,200
Permanent impairment of financial assets available for sale	15	(4,572)	3
IFRS 9 implementation impact		(5,700)	-
Other non-cash adjustments		(4,420)	(1,276)
Operating cash flows before changes in working capital		**22,537**	**10,344**
Decrease in inventories	16	101,907	54,947
Decrease in trade receivables	17	39,380	48,671
Increase / (Decrease) in other receivables		(1,518)	39,575
Decrease in accrued expenses and deferred income	21	10,767	11,854
(Decrease)/increase in advances received	26	(61,674)	19,596
Increase in trade payables	25	(38,228)	(113,218)
Decrease in other liabilities		(315)	(72,079)
Cash generated from operations		**72,856**	**(310)**
Income taxes paid	13	-	-
Interest paid		(28,358)	(21,852)
Net cash (used in) /generated from operating activities		**44,498**	**(22,180)**

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

Consolidated statement of cash flows (continued)

For the year ended 31 December 2018

(All amounts are expressed in thousands of HRK)

	Notes	2018	2017
Cash flows from investing activities			
Given loans and deposits		3,450	3,344
Purchases of property, plant and equipment, and intangible assets	14	(39,789)	(36,916)
Net cash used in investing activities		**(36,339)**	**(33,572)**
Cash flows from financing activities			
Proceeds from loans and borrowings		333,848	328,397
Repayments of loans and borrowings	24	(392,835)	(227,811)
Foreign exchange difference		(6,436)	(604)
Net cash (used in)/generated from financing activities		**(75,423)**	**99,982**
Net (decrease)/increase in cash and cash equivalents		**(67,264)**	**44,230**
Cash and cash equivalents at the beginning of the year		**72,100**	**27,870**
Cash and cash equivalents at the end of the year		**4,836**	**72,100**

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

1. GENERAL INFORMATION

1.1 Introduction

Viro tvornica šećera d.d. and its subsidiaries comprise a group of the following companies: Viro tvornica šećera d.d., Zagreb, Ulica grada Vukovara 269g, as the parent company, and subsidiaries Sladorana d.o.o., Slavonija Županja d.d., Viro-kooperacija d.o.o. and Viro BH d.o.o.

Viro tvornica šećera d.d. was entered in the registry of the Commercial Court in Bjelovar on 23 July 2002. The founders of the company were EOS-Z d.o.o. Zagreb and Robić d.o.o., Velika Gorica. In 2005 the Company was transformed from a Croatian limited liability company (društvo s ograničenom odgovornošću) into a joint-stock company (dioničko društvo). The share capital of the Company amounts to HRK 249,600,060 (2017: HRK 249,600,060), divided into 1,386,667 (2017: 1,386,667) registered ordinary shares with no par value. In early 2015 the Company changed its registered seat from Virovitica to Zagreb, Ulica grada Vukovara 269 G, which was entered into the register of the Commercial Court in Zagreb on 20 January 2015.
At 31 December 2018 the Company held, as the sole shareholder of Sladorana d.o.o., Županja, 100.00 percent (2017: 100.00%) of the total equity of the subsidiary. On 7 February 2014 the company was transformed from a joint-stock company into a limited liability company.

In 2012 the Company established VIRO-kooperacija d.o.o. by paying in an initial cash contribution in the amount of HRK 20 thousand. The Company is the sole owner of VIRO-kooperacija d.o.o.
In 2013 the Company acquired equity shares in Slavonija Županja based on a conversion of its receivables into equity and at 31 December 2018 it held 22,686 (2017: 22,686) ordinary B-series shares in Slavonija Županja, representing 16.72 percent (2017: 16.72 %) of the total equity of the subsidiary.
In 2013 Sladorana d.o.o. acquired additional shares in Slavonija Županja d.d. by contributing its claims arising from outstanding receivables, as a result of which it acquired 16,396 ordinary B-series shares. As Slavonija Županja d.d. increased its share capital through a new issue of shares, Sladorana d.d. held at 31 December 2013 67.05 percent shares in that company (2012: 67.05 %).

In 2015 Sladorana d.o.o. invested in its subsidiary Slavonija Županja d.d. a total of HRK 3,271 thousand under a contract pursuant to which it committed to invest HRK 10,000 thousand in total by 31 December 2015; as a result, Sladorana fulfilled its contractual commitment. The Restructuring Centre acknowledged and accepted the investments, and the increase in the share capital of Slavonija Županja d.d. was registered at the Central Clearing and Depositary Company Inc as of 16 February 2016, the date when Sladorana's ownership interest in the subsidiary was increased. At 31 December 2015 the investment was presented as a long-term receivable. The total additional capital paid in by Sladorana amounts to HRK 17,299 thousand. At 16 February 2016, Sladorana d.o.o. held 68.64 percent of the shares of Slavonija Županja d.d.
Following the share capital increase, the Group has acquired an additional ownership interest in Slavonija Županja d.d. in the amount of 0.74 percent. In 2017 the Company established VIRO BH d.o.o. by paying in an initial cash contribution in the amount of EUR 51 thousand. The Company is the sole owner of VIRO BH d.o.o.

1. GENERAL INFORMATION (CONTINUED)

1.2 Principal activity

The principal activities of the Group comprise sugar, flour and alcohol production.

1.3 Management Board

At 31 December 2018 and 31 December 2017 the members of the Company's Management Board are the following:

1. Željko Zadro	*President of the Management Board*
2. Darko Krstić	*Member of the Management Board*
3. Ivo Rešić	*Member of the Management Board*

1.4 Supervisory Board

At 31 December 2018 and 31 December 2017 the members of the Company's Supervisory Board are the following:

1. Marinko Zadro	*Chairman of the Supervisory Board*	
2. Boris Šimunović	*Deputy Chairman of the Supervisory Board*	
3. Ivan Mišetić	*Member of the Supervisory Board*	
4. Damir Keleković	*Member of the Supervisory Board*	*Until 6 October 2017*
5. Svetlana Zadro	*Member of the Supervisory Board*	*Since 30 August 2016*
6. Robert Barnaki	*Member of the Supervisory Board*	*Since 31 March 2017*

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

Initial application of new amendments to the existing standards effective for the current reporting 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 reporting 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 EU 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 – adopted by the EU on 26 February 2018 (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 EU on 3 November 2017 (effective for annual periods beginning on or after 1 January 2018 or when IFRS 9 "Financial Instruments" is applied first time),
- **Amendments to IFRS 15 "Revenue from Contracts with Customers"** - Clarifications to IFRS 15 Revenue from Contracts with Customers – adopted by the EU 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 2018 (effective for annual periods beginning on or after 1 January 2018),
- **Amendments to IFRS 1 and IAS 28 due to "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),
- **IFRIC 22 "Foreign Currency Transactions and Advance Consideration"** – adopted by the EU on 28 March 2018 (effective for annual periods beginning on or after 1 January 2018).

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) (CONTINUED)

Initial application of new amendments to the existing standards effective for the current reporting period (continued)

Adoption of these amendments to existing standards and interpretations did not result in material changes to the Group's financial statements except for IFRS 9 as set out below. The implementation of IFRS 15 from January 1, 2018 in the Group has no significant impact on the financial statements. Using IFRS 9 Financial Instruments the Group's impairment is based on the expected credit loss model, rather than on the model of losses incurred According to IFRS 9, Financial Assets are classified into one of three business models:

- a business model of holding for the purpose of billing (it is charged for charging contracted cash flows from instruments)
- a business model of holding for the purpose of billing and sales (it is charged for the payment of contracted cash flows from instruments and sales in case of liquidity), and
- other models (all that does not meet the criteria of the previous two models).

Depending on the classification of financial assets in one of the above three business models and the checking of the agreed cash flow (principal and interest payments or equity only) impairment is recognized as

- amortized cost,
- fair value through comprehensive profits, or
- fair value through profit or loss

Impact of initial application of IFRS 9 Financial Instruments

In the current year, the Group has applied IFRS 9 Financial Instruments (as revised in July 2014) and the related consequential amendments to other IFRS Standards that are effective for an annual period that begins on or after 1 January 2018. The transition provisions of IFRS 9 allow a company not to restate comparatives. Group has elected not to restate comparatives in respect of the classification and measurement of financial instruments.

Additionally, Group adopted consequential amendments to IFRS 7 Financial Instruments: Disclosures that were applied to the disclosures about 2018 and to the comparative period.

IFRS 9 introduced new requirements for:

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

Details of these new requirements as well as their impact on the company's consolidated financial statements are described below.

The Group has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9.

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) (CONTINUED)

Initial application of new amendments to the existing standards effective for the current reporting period (continued)

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

(a) Classification and measurement of financial assets

The date of initial application (i.e. the date on which the Company has assessed its existing financial assets and financial liabilities in terms of the requirements of IFRS 9) is 1 January 2018. Accordingly, the Group has applied the requirements of IFRS 9 to instruments that continue to be recognised as at 1 January 2018 and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018.

All recognised financial assets that are within the scope of IFRS 9 are required to be measured subsequently at amortised cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

Specifically:

- debt instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured subsequently at amortised cost;
- debt instruments that are held within a business model whose objective is both to collect the contractual cash flows and to sell the debt instruments, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured subsequently at fair value through other comprehensive income (FVTOCI);
- all other debt investments and equity investments are measured subsequently at fair value through profit or loss (FVTPL).

Despite the aforegoing, the Group may make the following irrevocable election / designation at initial recognition of a financial asset:

- the Group may irrevocably elect to present subsequent changes in fair value of an equity investment that is neither held for trading nor contingent consideration recognised by an acquirer in a business combination in other comprehensive income; and
- the Group may irrevocably designate a debt investment that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

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

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) (CONTINUED)

Initial application of new amendments to the existing standards effective for the current reporting period (continued)

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

(a) Classification and measurement of financial assets (continued)

When a debt investment measured at FVTOCI is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment. When an equity investment designated as measured at FVTOCI is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is subsequently transferred to retained earnings.

Debt instruments that are measured subsequently at amortised cost or at FVTOCI are subject to impairment. See (b) below.

The directors of the Group reviewed and assessed the Group's existing financial assets as at 1 January 2018 based on the facts and circumstances that existed at that date and concluded that the initial application of IFRS 9 has had the following impact on the Group's financial assets as regards their classification and measurement:

According to analysis , the Group concluded that given loans do not contain clauses that would lead to fall of agreed flow of money. Given loans are agreed with invariable interest rate that reflects time value of money. According to above, there are no loans that would be measured according to fair value through profit or loss. More accurately, according to procedures, the Group measures all its financial assets according to amortisation costs.

(b) Impairment of financial assets

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

Specifically, IFRS 9 requires the Company to recognise a loss allowance for expected credit losses on:

(1) Debt investments measured subsequently at amortised cost or at FVTOCI,
(2) Lease receivables,
(3) Trade receivables and contract assets, and
(4) Financial guarantee contracts to which the impairment requirements of IFRS 9 apply.

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) (CONTINUED)

Initial application of new amendments to the existing standards effective for the current reporting period (continued)

(b) Impairment of financial assets (continued)

In particular, IFRS 9 requires the Group to measure the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses (ECL) if the credit risk on that financial instrument has increased significantly since initial recognition, or if the financial instrument is a purchased or originated credit-impaired financial asset. However, if the credit risk on a financial instrument has not increased significantly since initial recognition (except for a purchased or originated credit-impaired financial asset), the Group is required to measure the loss allowance for that financial instrument at an amount equal to 12-months ECL. IFRS 9 also requires a simplified approach for measuring the loss allowance at an amount equal to lifetime ECL for trade receivables, contract assets and lease receivables in certain circumstances. The Group applies simplified approach on trade receivables.

Impact of IFRS 9 Impairment:

	(i)	**(ii)**	**(iii)**	**(iv) = (i) + (ii) + (iii)**	**(v) = (iii)**
	IAS 39 1.1.2018. book value	**Reclasification**	**Re-measurement**	**IFRS 9 book value**	**Impact on retained earnings**
Financial assets	T HRK	T HRK	T HRK	T HRK	T HRK
Loans per amortized cost	-	-	304	304	304
Trade receivables	-	-	5,544	5,544	5,544
Ukupno	-	-	**5,848**	**5,848**	**5,848**

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) (CONTINUED)

Initial application of new amendments to the existing standards effective for the current reporting period (continued)

(b) Impairment of financial assets (continued)

A significant change introduced by IFRS 9 in the classification and measurement of financial liabilities relates to the accounting for changes in the fair value of a financial liability designated as at FVTPL attributable to changes in the credit risk of the issuer.

Specifically, IFRS 9 requires that the changes in the fair value of the financial liability that is attributable to changes in the credit risk of that liability be presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss, but are instead transferred to retained earnings when the financial liability is derecognised. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at FVTPL was presented in profit or loss.

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

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

At the date of authorisation of these financial statements, the following new standards issued by IASB and adopted by the EU are not yet effective:

- **IFRS 16 "Leases"** – adopted by the EU 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 EU 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 EU on 23 October 2018 (effective for annual periods beginning on or after 1 January 2019).

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) (CONTINUED)

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

The Management Board of the Group envisages that the application of these standards, amendments and interpretations, as stated above, will not materially affect the Group's consolidated financial statements for the period of their first application. The Group has decided not to adopt new standards, amendments to existing standards and interpretations before the date of their entry into force. The Management Board envisages that the application of IFRS 16 in the future will not materially affect the amounts reported on the Group's assets and liabilities. However, the effect of applying IFRS 16 can not be estimated realistically until an exhaustive review has been completed. For Amendments to IFRS 9 and OTMF 23, the Group does not expect any changes to the Standard to cause material impact on the Group's financial statements for the initial period of application.

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

At present, IFRS as adopted by the EU do not significantly differ from regulations adopted by the International Accounting Standards Board (IASB) except for the following new standards, amendments to the existing standards and new interpretation, which were not endorsed for use in EU as at 21 February 2019 (the effective dates stated below is for IFRS in full):

- **IFRS 14 "Regulatory Deferral Accounts"** (effective for annual periods beginning on or after 1 January 2016) - the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard,
- **IFRS 17 "Insurance Contracts"** (effective for annual periods beginning on or after 1 January 2021),
- **Amendments to IFRS 3 "Business Combinations"** - Definition of a Business (effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that 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 IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors"** - Definition of Material (effective for annual periods beginning on or after 1 January 2020),
- **Amendments to IAS 19 "Employee Benefits"** - Plan Amendment, Curtailment or Settlement (effective for annual periods beginning on or after 1 January 2019),
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2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) (CONTINUED)

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

- **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 due to "Improvements to IFRSs (cycle 2015 -2017)"** resulting from the annual improvement project of IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23) primarily with a view to removing inconsistencies and clarifying wording (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to References to the Conceptual Framework in IFRS Standards** (effective for annual periods beginning on or after 1 January 2020).

According to the Group's estimates, the application of these new standards and the amendment of existing standards would not have a material material impact on the financial statements. Accounting for hedges in a portfolio of financial assets and liabilities whose policies have not been adopted in the EU remains unregulated. According to the Group's estimates, the application of hedge accounting of financial assets or liabilities in accordance with IAS 39: "Financial Instruments: Recognition and Measurement" would not significantly affect the financial statements.

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) (CONTINUED)

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

The Group anticipates that the adoption of these new standards and amendments to the existing standards will have no material impact on the financial statements of the Group in the period of initial application. Hedge accounting for a portfolio of financial assets and liabilities whose principles have not been adopted by the EU remains unregulated.

According to the Company's estimates, the application of hedge accounting to a portfolio of financial assets or liabilities pursuant to IAS 39: "Financial Instruments: Recognition and Measurement" would not significantly impact the financial statements, if applied as at the balance sheet date.

(All amounts are expressed in thousands of HRK)

3. SIGNIFICANT ACCOUNTING POLICIES

3.1. Basis of the financial statement presentation and preparation

The Group maintains its accounting records in the Croatian language, in Croatian kunas and in accordance with Croatian laws. The financial statements of the Group are prepared on the cost basis, except for financial assets carried at fair value, in accordance with International Financial Reporting Standards, as adopted by the European Union, and Croatian laws.

These financial statements are prepared under the going-concern assumption and on the accrual basis of accounting.

The Management Board believes it will be able to finance its needs during 2018 in accordance with its business plans. A key event in the next 2019 is the merger of two sugar production units into one system, i.e. one company. This will be done by joining Sladorana d.o.o. into Viro d.d.. This merger will lead to significant savings, and to unify certain business functions, leaving production capacities that will be optimally used at both locations in both existing production facilities. Given the significant price cuts since the abolition of production quotas in all EU countries, and given the existence of large production surpluses on the common market, and in the context of the extremely high supply in the global market and the existence of global surpluses, it is necessary to make further efforts in the direction of correction or reduction of the basic raw material price to ensure the market's survival. The Company's management continuously follows these circumstances and makes decisions in accordance with the above-mentioned plans and strategies of the Company and the Group.

The Group as at 31 December 2018 has short-term assets of HRK 467 million and has short-term liabilities of HRK 682 million, which exceeds short-term assets by HRK 215 million. Short-term liabilities include short-term borrowings and finance leases amounting to HRK 382 million as noted in Note 24 to financial statements for which there are fixed assets as described in the said note.

Most of the liabilities to banks, including due and unpaid debt, will be restructured through business synergies of all sugar, where intense negotiations with commercial banks are conducted and to the greatest extent are mutually agreed. These obligations will, through the merger model, be transferred to the new company with the corresponding multi-annual repayment plan. All other liabilities to financial institutions that are appropriately collateralised will be settled on time and in accordance with agreed arrangements. In view of the above, we do not expect the enforcement of property foreclosure.

Estimates are based on the information available as at the date of preparation of the financial statements, and actual results could differ from those estimates.

At 31 December, the exchange rates of the Croatian kuna against the euro and the US dollar were as follows:

	EUR 1	USD 1
2018	7.417575	6.588129
2017	7.513648	6.269733

The consolidated financial statements of the Group represent aggregate amounts of assets, liabilities, capital and reserves of the Group as of 31 December 2018, and the results of its operations for the year then ended.

3.2 Basis of consolidation

The accompanying consolidated financial statements comprise the financial statements of the Company and entities controlled by the Company (its subsidiaries), including structured entities. Control is achieved where the Company:

- has power over the investee
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Basis of consolidation (continued)

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

- the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by investors, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.3 Goodwill

Goodwill arising on a business combination is recognised initially at cost, as established at the date of acquisition of the business, less accumulated impairment losses, if any.

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

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

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

3.4 Revenue recognition

Revenue is recognised when it is probable that economic benefits associated with the transaction will flow into the Group and when the amount of the revenue can be measured reliably. Sales are recognised net of taxes and discounts and when the related risks and benefits have passed onto the buyer. Interest income is accrued on a time basis, by reference to the principal outstanding and at the applicable effective interest rates.

3.5 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are 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 included in profit or loss in the period in which they are incurred.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.6 Foreign-currency transactions

Transactions in foreign currencies are translated into Croatian kunas at the rates of exchange in effect at the dates of the transactions. Foreign-currency denominated monetary assets and liabilities are retranslated at exchange rates effective at the date of the statement of financial position. Gains and losses on translation are included in the statement of profit or loss and income for the year.

3.7 Income tax

The tax currently payable is based on taxable profit for the year Taxable profit differs from the net profit reported in the statement of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax

Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. Deferred tax liabilities are also not recognised on temporary differences arising from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.7 Income tax (continued)

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred taxes for the period

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

3.8 Property, plant and equipment

Property, plant and equipment are recognised initially at cost, less accumulated depreciation. The cost of comprises the purchase price of an item of property, plant and equipment, import duties and non-refundable sales taxes and any directly attributable costs of bringing the item to its working condition and location for its intended use.

Maintenance and repairs, replacements and improvements of minor importance are expensed as incurred. Where it is obvious that expenses incurred resulted in an increase of expected future economic benefits to be derived from the use of an item of tangible or intangible assets in excess of the originally assessed standard performance of the asset, they are added to the carrying amount of the asset. Gains or losses on the retirement or disposal of fixed assets are recognised as income or expense in the period in which they occur. Depreciation commences on putting an asset into use. Depreciation is provided so as to write down the cost or revalued amount of an asset other than land and tangible fixed assets under development over the estimated useful life of the asset using the straight-line method as follows:

Type of assets	Useful life (in years)	Annual rate
Buildings	20	5%
Vehicles	5	20%
Intangible assets, equipment, vehicles, machinery	4	25%
Computers, IT equipment, cell phones and network equipment	2	50%
Other assets not specified above	10	10%

In 2018 the depreciation/amortisation rates did not change from those applied in the comparative period.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.9 Inventories

Inventories are stated at cost or net expected sales value that can be realized, depending on what is lower. The cost is determined by the method of weighted average prices. Cost comprises direct materials and, where applicable direct labour costs and those overhead costs that have been incurred in bringing inventories to their present location and condition.

Where inventories have to be reduced to the net realisable value, the related impairment is charged to expenses for the year.

Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

3.10 Trade receivables and prepayments

Trade receivables and prepayments are carried at nominal amounts less an appropriate allowance for impairment for uncollectible amounts. Management provides for doubtful receivables based on a review of the overall ageing of all receivables and a specific review of significant individual amounts receivable. The allowance for amounts doubtful of collection is charged to expenses for the year.

3.11 Cash and cash equivalents

Cash comprises account balances with banks, cash in hand, deposits and securities at call or with maturities of less than three months.

3.12 Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable (i.e. more likely than not) that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of discounting is material, the amount of the provision is the present value of the expenditures expected to be required to settle the obligation, determined using the estimated risk free interest rate as the discount rate. Where discounting is used, the reversal of such discounting in each year is recognised as a financial expense and the carrying amount of the provision increases in each year to reflect the passage of time.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.12 Provisions (continued)

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the date of the statement of financial position, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

A restructuring provision is recognised when the Group has developed a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it. The measurement of a restructuring provision includes only the costs directly associated with the restructuring, which are those that are both necessarily entailed by the restructuring and not associated with the ongoing activities of the Company.

3.13 Contingent liabilities

Contingent liabilities are not recognised in financial statements. They are disclosed unless the possibility of outflow of resources embodying economic benefits is remote. A contingent asset is not recognised in the financial statements but it is disclosed when the inflow of economic benefits becomes probable.

3.14 Events after the reporting date

Events subsequent to the reporting date that provide additional information about the Group's position at the reporting date (adjusting events) are reflected in the financial statements. Subsequent events that are not adjusting events are disclosed in the notes when material.

3.15 Financial instruments

Financial assets and financial liabilities included in the accompanying financial statements consist of cash and cash equivalents, marketable securities, trade and other receivables, trade and other payables, long-term receivables, loans, borrowings and investments. The details of the recognition and measurement of those items are presented in the corresponding policies.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.15 Financial instruments (continued)

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

Financial assets and financial liabilities are measured initially at fair value. On initial recognition, transaction costs directly attributable to the acquisition or issue of a financial asset and a financial liability (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 asset or financial liability, as appropriate. Transaction costs directly associated with an acquisition of a financial asset or a financial liability at fair value through profit.

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

All recognised financial assets are measured subsequently in their entirety at either amortised cost or fair value, depending on the classification of the 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 to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.15 Financial instruments (continued)

(i) *Amortised cost and effective interest method*

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

For financial assets other than purchased or originated credit-impaired financial assets (i.e. assets that are credit-impaired on initial recognition), the effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated by discounting the estimated future cash flows, including expected credit losses, to the amortised cost of the debt instrument on initial recognition.

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance.

Interest income is recognised using the effective interest method for debt instruments measured subsequently at amortised cost and at FVTOCI.

For financial assets other than purchased or originated credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired

For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset.

For purchased or originated credit-impaired financial assets, the Group recognises interest income by applying the credit-adjusted effective interest rate to the amortised cost of the financial asset from initial recognition. The calculation does not revert to the gross basis even if the credit risk of the financial asset subsequently improves so that the financial asset is no longer credit-impaired.

Interest income is recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.15 Financial instruments (continued)

Financial assets (continued)

(ii) Impairment of financial assets

The Group recognises a loss allowance for expected credit losses on investments in debt instruments that are measured at amortised cost or at FVTOCI, lease receivables, trade receivables and contract assets, as well as on financial guarantee contracts. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Group always recognises lifetime ECL for trade receivables, contract assets and lease receivables. The expected credit losses on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial instruments, the Group recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12-month ECL. Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument.

In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

(iii) Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument at the reporting date with the risk of a default occurring on the financial instrument at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

The Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 180 days past due.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.15 Financial instruments (continued)

Financial assets (continued)

(iii) Significant increase in credit risk (continued)

Despite the foregoing, the Group assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if:

- The financial instrument has a low risk of default,
- The debtor has a strong capacity to meet its contractual cash flow obligations in the near term, and
- Adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

However, the Group does not currently use simplification of low credit risk when assessing a significant increase in credit risk. The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(iv) Definition of default

The Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that financial assets that meet either of the following criteria are generally not recoverable:

- when there is a breach of financial covenants by the debtor; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collateral held by the Group).

Irrespective of the above analysis, the Group considers that default has occurred when a financial asset is more than 360 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.15 Financial instruments (continued)

Financial assets (continued)

(v) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- significant financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default or past due event (see (ii) above);
- the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

(vi) Write-off policy

The Group writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over two years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

(vii) Measurement and recognition of expected credit losses

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date.

For estimations of PD and LGD parameters, the Group relies on publications of external investment rating agencies.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.15 Financial instruments (continued)

Financial assets (continued)

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

For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the original effective interest rate. If the Group has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Group measures the loss allowance at an amount equal to 12-month ECL at the current reporting date, except for assets for which simplified approach was used. The Group recognises an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss. In addition, on derecognition of an investment in a debt instrument classified as at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss. In contrast, on derecognition of an investment in equity instrument which the Group has elected on initial recognition to measure at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss, but is transferred to retained earnings.

Loans and receivables

The Group always measures the loss allowance for trade receivables at an amount equal to lifetime ECL. The expected credit losses on trade receivables are estimated using a provision matrix by reference to past default experience of the debtor and an analysis of the debtor's current financial position.The Group has recognised a loss allowance of 100% against all receivables over 360 days past due because historical experience has indicated that these receivables are generally not recoverable

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.15 Financial instruments (continued)

Financial assets (continued)

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

There has been no change in the estimation techniques or significant assumptions made during the current reporting period .

The Group writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or when the trade receivables are over two years past due, whichever occurs earlier. None of the trade receivables that have been written off is subject to enforcement activities.

All financial liabilities are measured subsequently at amortised cost using the effective interest method or at FVTPL.

The Group measures all financial liabilities at amortized cost

However, financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies, and financial guarantee contracts issued by the Group, are measured in accordance with the specific accounting policies set out below.

Financial liabilities measured subsequently at amortised cost

Financial liabilities that are not (i) contingent consideration of an acquirer in a business combination, (ii) held-for-trading, or (iii) designated as at FVTPL, are measured subsequently at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form 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 amortised cost of a financial liability.

Classification as a financial liability or capital

Debt or equity instruments are classified either as financial liabilities or as equity in accordance with the essence of the contractual agreement.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.16 Employee benefits

(i) Liabilities for pensions and other payables after retirement

In the course of regular business operations, the Company shall, on behalf of its employees who are members of compulsory pension funds, make regular payments of contributions in accordance with law. Compulsory pension contributions to funds are reported as part of the wage bill when they are calculated. The Company has no obligation to provide any other employee benefits after their retirement.

(ii) Long-term employee benefits

The Company does not recognize the obligation to long-term employee benefits (jubilee awards) as the jubilee award is not contracted by employment contracts nor is it determined by other legal acts.

(iii) Short-term employee benefits

The Company recognizes a provision for employee bonuses when there is a contractual obligation or past practice on the basis of which the obligation has been incurred.

(iv) Income in form of shares

The Company does not pay compensation to employees in the form of shares.Government grants are not recognized until the fulfilment of the conditions for obtaining government grants and the receipt of aid becomes certain.

3.17 Government grants

Governement grants are not recognized until the fulfillment of the conditions for obtaining state aid and the receipt of aid become realistic.

Government grants are recognized in profit or loss on a systematic basis over the period in which the Group recognizes the costs as being expensed. Specifically, state aid where the basic requirement for the Group to acquire, construct or otherwise acquire long-term assets is recognized in the statement of financial position as income for future periods and is transferred to profit or loss systematically and rationally over the useful life of the asset in question.

Receivables based on state subsidies on reimbursement of costs or losses already incurred or for providing current financial support to the Group without future related costs are recognized in profit or loss for the period in which they are incurred.

The appropriateness of a government loan granted at a lower interest rate than the market is accounted for as State aid and is expressed as the difference between the funds received and the fair value of the loan on the basis of market interest rates.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.18 Operating segment reporting

The Group identifies operating segments on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision-maker in order to allocate resources to the segments and to assess their performance. Details about the operating segments of the Company are disclosed in Note 5 to the consolidated financial statements.

3.19 Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described above, the Management Board is 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 past experience and other factors that are considered to be relevant. Actual results may differ from those estimates.

The estimates and underlying assumptions are continually reviewed. 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 revision and future periods if the revision affects both current and future periods.

Areas of estimation include, but are not limited to, depreciation periods and residual values of property, plant and equipment, and of intangible assets, value adjustment of inventories, impairment of receivables, and litigation provisions. The key areas of management estimation in applying the Group's accounting policies that had a most significant impact on the amounts recognized in the financial statements were as follows:

Useful life of property, plant and equipment and of intangible assets

As described in the Note 3.8, the Group reviews the estimated useful lives of property, plant and equipment as well as of intangible assets at the end of each annual reporting period. Property, plant and equipment as well as intangible assets are recognised at cost less accumulated depreciation, i.e. amortisation.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.19 Critical accounting judgements and key sources of estimation uncertainty (continued)

Impairment allowance on trade receivables

Management provides for doubtful receivables based on a review of the overall ageing of all receivables and a specific review of significant individual amounts receivable.

The allowance for amounts doubtful of collection is charged to the statement of profit or loss and other comprehensive income for the year.

Consequences of certain legal actions

The parent company and its subsidiaries are involved in legal actions and proceedings, which have arisen from the regular course of their operations. The Management Board makes estimates when the probable outcome of a legal action has been assessed, and the provisions are recognised on a consistent basis (see Note 31).

Impairment allowance on inventories

As described in Note 3.9, the Group reviews, at each reporting date, the carrying amounts of its inventories and recognises impairment if appropriate.

Inventories are stated at the lower of cost and net realisable value.

Where inventories have to be reduced to the net realisable value, the related impairment is charged to expenses for the year.

Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

(All amounts are expressed in thousands of HRK)

4. SALES AND OTHER INCOME

4.1 Sales

	2018	2017
Foreign sales	370,307	488,419
Domestic sales	279,020	532,489
	649,327	**1,020,908**

4.2. Other income

	2018	2017
Surplus	8,179	7,094
Subsequent collection of written-off receivables	6,507	2,083
Fixed assets sales	4,397	238
Subsequently approved discounts	3,499	2,472
Income from reversal of long-term provisions (note 31)	2,882	-
Prior-period income	185	552
Damages collected	175	195
Income from transfers to inventories	134	482
Raw material and supplies sales	127	869
Other income	3,189	1,662
	29,274	**15,647**

5. SEGMENT INFORMATION

The operating segments were determined based on the similarity in the nature of individual product groups. Three operating segments have been identified: Sugar, Flour and Others.
The operating segments are included in internal reports. The internal reports are regularly reviewed by the Management Board in order to assess the performance of the segments and to make business decisions.

(All amounts are expressed in thousands of HRK)

5. SEGMENT INFORMATION (CONTINUED)

Segment revenue and results

Set out below is a breakdown of revenue and results of the Group by its reporting segments presented in accordance with IFRS 8 *Operating Segments*. The presented sales comprise sales to third parties.

	Segment revenue	
	2018	2017
Sugar	483,697	829,377
Flour	40,331	39,598
Others	154,573	167,580
	678,601	1,036,555

	Segment expenses		Segment (loss)	
	2018	2017	2018	2017
Sugar	573,663	969,121	(89,966)	(139,744)
Flour	45,716	39,998	(5,385)	(400)
Others	185,439	202,088	(30,866)	(34,508)
	804,818	**1,211,207**	**(126,217)**	**(174,652)**

	2018	2017
Operating loss	(126,217)	(174,652)
Financial income	62,436	39,000
Financial expenses	(33,615	(41,422)
Loss before tax	**(97,396)**	**(177,074)**

The Sugar segment comprises sugar production.

The Flour segment comprises flour and bakery product production.

The Others segment comprises the production of molasses, dry beet noodles and alcohol.

The accounting policies of the reportable segments are identical to those of the Group, which are set out in Note 3. Segment profit represents the profit earned by each segment without allocation of financial income and expenses and provisions, and it is the measure reported to the chief executive officer for the purposes of resource allocation and assessment of segment performance.

(All amounts are expressed in thousands of HRK)

5. SEGMENT INFORMATION (CONTINUED)

Segment assets and liabilities

	31.12.2018	31.12.2017
Segment assets		
Sugar	669,845	993,038
Flour	87,412	113,765
Others	181,597	124,737
Total segment assets	**938,854**	**1,231,540**
Unallocated	37,476	18,669
Total assets	**976,330**	**1,250,209**

	31.12.2018	31.12.2017
Segment liabilities		
Sugar	553,367	764,460
Flour	41,141	50,428
Others	184,410	133,688
Total segment liabilities	**778,918**	**948,576**
Unallocated	3,748	453
Total liabilities	**782,666**	**949,029**

For the purposes of monitoring segment performance, all assets other than non-current and current financial assets (Note 15 and 19, respectively) are allocated to the segments.

All liabilities, excluding provisions, are allocated to the segments. Liabilities are allocated to reportable segments in proportion to segment assets.

(All amounts are expressed in thousands of HRK)

5. SEGMENT INFORMATION (CONTINUED)

Other segment information

	Depreciation and amortisation		Additions	
	2018	**2017**	**2018**	**2017**
Sugar	34,105	42,027	28,251	29,228
Flour	3,099	3,094	-	380
Others	13,930	10,507	11,539	7,307
Total	**51,134**	**55,628**	**39,790**	**36,915**

Geographical information

The Group operates in three main geographical areas serving as the basis for sales reporting, whereas all non-current assets are on the Croatian market.

	Revenue from external customers	
	2018	**2017**
Croatian market	279,020	532,489
EU market	205,876	204,999
Others	164,431	283,420
Total	**649,327**	**1,020,908**

Information about major customers

Included in the sales in the amount of HRK 649,327thousand (2017: HRK 1,120,908 thousand) are sales of HRK 48,296 thousand (2017: HRK 269,300 thousand) generated from the Group's major customer. Receivables from the major customer in income on 31.12.2018. amounted to HRK 1,855 thousand (2017: HRK 11,814 thousand).

(All amounts are expressed in thousands of HRK)

6. COST OF RAW MATERIAL AND SUPPLIES

	2018	2017
Raw material and supplies	188,843	628,140
Energy	39,676	66,745
Spare parts	3,473	9,657
Small inventory	444	808
Other material expenses	2	5
	232,438	**705,355**

7. COST OF GOODS SOLD

Costs of goods sold in the amount of HRK 165,171 thousand (2017: HRK 289,954 thousand) represent expenses incurred on the cost of goods delivered and sold in the reporting year by the parent company and its subsidiaries customers outside the Group.

8. OTHER EXTERNAL EXPENSES

	2018	2017
Transport, postal and telecommunication services	22,999	29,360
Maintenance	5,422	11,295
Product processing services	4,871	-
Municipal utility fees and charges	4,464	4,653
External staff services	3,862	6,601
Rental and lease expenses	3,412	4,618
Bank and payment operation charges	3,097	3,344
Intellectual services	2,879	2,759
Insurance premiums	2,440	2,664
Data processing and software maintenance services	1,092	1,032
Promotion and advertising	686	516
Other services	5,467	5,209
	60,691	**72,051**

(All amounts are expressed in thousands of HRK)

9. STAFF EXPENSES

	2018	2017
Net wages and salaries	34,384	36,151
Taxes and contributions from salaries	12,432	12,947
Contributions on salaries	7,701	8,184
	54,517	**57,282**

At 31 December 2018, the Group had 468 employees (31 December 2017: 484 employees).

10. OTHER COSTS AND OPERATING EXPENSES

10.1 Other costs

	2018	2017
Awards, gifts and support provided to employees	3,353	3,005
Employees' transportation costs	2,820	2,890
Regulated benefits, contributions and membership fees	2,697	3,549
Remuneration paid to the members of the Supervisory and Management oards and other forms of income	1,900	1,762
Hospitality and entertainment	1,359	1,724
Termination benefits	959	1,327
Official travel costs	713	695
Professional education and literature	167	356
Production quota duties	-	8,705
Others	1,332	1,526
	15,300	**25,539**

(All amounts are expressed in thousands of HRK)

10. OTHER COSTS AND OPERATING EXPENSES (CONTINUED)

10.2 Value adjustment

Value adjustment in the amount of HRK 32,995 thousand (31 December 2017: 95,264 thosusand) relates to inventories because the realisable value of sugar on stock is below the cost of the inventories.

10.3 Other operating expenses

	2018	2017
Impairment allowance and write-off of receivables	16,313	15,936
Subsequently identified expenses from previous years	3,397	3,519
Donations	864	1,239
Deficits	612	669
Subsequently approved discounts	410	516
Cost of raw material and supplies sold	366	855
Others	1,949	3,184
	23,911	**25,918**

In 2018 impairment allowance and write-off of receivables amounts to HRK 16,313 thousand (2017: HRK 15,936 thousand) and comprise the following: impairment allowance of receivables in the amount of HRK 15,146 thousand (2017: HRK 6,096 thousand), directly written-off trade receivables in the amount of HRK 862 thousand (2017: HRK 1,094 thousand), impairment allowance and write-off of loan receivables in the amount of HRK 0 thousand (2016: HRK 8,715 thousand) and write-off of other assets in the amount of HRK 305 thousand (2017: HRK 31thousand).

(All amounts are expressed in thousands of HRK)

11. FINANCIAL INCOME

	2018	2017
Realized gains (income) from financial assets -	52,241	22,608
Foreign exchange gains	7,971	14,602
Interest income	1,729	818
Unrealised gains on financial assets	301	49
Other financial income	194	923
	62,436	**39,000**

12. FINANCIAL EXPENSES

	2018	2017
Interest expense - non related companies	26,821	23,840
Foreign exchange losses	4,708	13,850
Charges on bank loans	2,078	1,579
Impairment losses on financial assets	-	3
Other financial expenses	8	2,150
	33,615	**34,472**

Other financial expenses for the year 2018 in the amount of HRK 8 thousand (2017: HRK 2,150 thousand) comprise the cost of discounting bills of exchange in the amount amount of HRK 0 thousand (2017: HRK 736 thousand) and other financial expenses in the amount amount of HRK 8 thousand (2017: HRK 1,414 thousand).

(All amounts are expressed in thousands of HRK)

13. PROFIT TAX

The Group is not subject to taxation, but its individual members are subject to corporate income tax.

	2018	2017
Current tax	-	-
Deferred tax	-	-
Total	-	-

The Group generated a net loss for the year ended 31 December 2018 in the amount of HRK 97,396 thousand (31 December 2017: loss in the amount of HRK 177,074 thousand). The reconciliation between the accounting results and taxable profits is set out below:

	2018	2017
Loss before taxation	**(97,396)**	**(177,074)**
Income tax at 18% (2017: 18%)	(17,531)	(31,873)
Effect of tax non-deductible expenses	8,766	21,267
Efect on and non-taxable income	(9,076)	(1,150)
Effect of unrecognised deferred tax assets arising from tax losses	18,598	13,333
Consolidation adjustment	(757)	(1,577)
Income tax	-	-

The tax rate applicable to taxable profit in the Republic of Croatia is 18% (2017: 18 %).

Tax losses available for carryforward are analysed below:

Available for carryforward until:	**Tax loss**
2019	104,646
2020	33,149
2021	39
2022	74,074
2023	103,320
TOTAL	**315,228**

No deferred tax assets have been recognised in the consolidated statement of the financial position in respect of unused tax losses carried forward because the availability of sufficient taxable profit in the future that would allow those assets to be utilised is not certain.

Pursuant to the tax legislation, the tax authorities may inspect the books and records of the Group companies at any time within three years subsequent to the year in which the tax liability is reported and may impose additional tax liabilities and penalties.

(All amounts are expressed in thousands of HRK)

14. INTANGIBLE ASSETS, PROPERTY, PLANT AND EQUIPMENT

	Intangible assets	Land	Buildings objekti	Plant and equipment	Works of fine art	Assets under development	Other tangible assets	Total
Cost								
Balance at 31 December 2016	**12,979**	**38,541**	**476,364**	**1,003,856**	**45**	**70,572**	**2,990**	**1,605,347**
Additions	480	-	460	3,331	-	32,644	-	36,915
Disposals, retirements, shortage	(60)	-	(157)	(6,624)	-	-	-	(6,841)
Put into use	-	210	13,314	2,.558	-	(41,082)	-	-
Balance at 31 December 2017	**13,399**	**38,751**	**489,981**	**1,028,121**	**45**	**62,134**	**2,990**	**1,635,421**
Additions	6,241	-	10,188	545	-	22,816	-	39,790
Disposals, retirements, shortage	(1,780)	-	(7,804)	(21,048)	-	(438)	-	(31,070)
Put into use	-	-	525	4,352	-	(4,877)	-	-
Balance at 31 December 2018	**17,860**	**38,751**	**492,890**	**1,011,970**	**45**	**79,635**	**2,990**	**1,644,141**

Intangible assets consist of computer software and licences.

(All amounts are expressed in thousands of HRK)

14. INTANGIBLE ASSETS, PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Intangible assets	Land	Buildings objekti	Plant and equipment	Works of fine art	Assets under development	Other tangible assets	Total
Accumulated depreciation/amortisation								
Balance at 31 December 2016	**12,209**	**-**	**248,327**	**806,375**	**-**	**-**	**916**	**1,067,827**
Charge for the year	319	-	13,713	41,447	-	-	149	55,628
Disposals, retirements, shortage	(5)	-	(24)	(6,151)	-	1,806	-	(4,374)
	12,209	**-**	**248,327**	**806,375**	**-**	**-**	**916**	**1,067,827**
Balance at 31 December 2017	**12,523**	**-**	**262,016**	**841,671**	**-**	**1,806**	**1,065**	**1,119,081**
Charge for the year	540	-	13,862	36,583	-	-	149	51,134
Disposals, retirements, shortage-	(1,710)	-	(11)	(20,291)	-	-	-	(22,012)
Balance at 31 December 2018	**11,353**	**-**	**275,867**	**857,963**	**-**	**1,806**	**1,214**	**1,148,203**
Net book value								
At 31 December 2018	**6,507**	**38,751**	**217,023**	**154,007**	**45**	**77,829**	**1,776**	**495,938**
At 31 December 2017	**876**	**38,751**	**227,965**	**186,450**	**45**	**60,328**	**1,925**	**516,340**

The pledged asset refers to construction objects with a net book value of HRK 180,593 thousand (31 December 2017: HRK 197,466 thousand), land worth 32,971 thousand (31 December 2017: HRK 32,971 thousand) and whose carrying amount is HRK 80,117 thousand (31 December 2017: HRK 105,537 thousand).

(All amounts are expressed in thousands of HRK)

15. NON-CURRENT FINANCIAL ASSETS

	31 December 2018	31 December 2017
Financial assets at fair value through other comprehensive income	6,307	1,735
Given deposits, loans and down payments	3,370	2,345
Given loans – related companies	3,350	-
Investments in securities	80	83
	13,107	**4,163**

Given deposits, loans and down payments in the amount of HRK 3,370 thousand (31 December 2017: HRK 2,345 thousand) comprise loans to Autoprijevoznik Robert Romić in the amount of HRK 1,523 thousand (31 December 2017: HRK 0 thousand), loans to Trstenjak Duško in the amount of HRK 0 thousand (31 December 2017: HRK 101 thousand), loans to Koprivanec Žaklina in the amount of HRK 80 thousand (31 December 2017: HRK 77 thousand), loans to Klarić Mario in the amount of HRK 0 thousand (31 December 2017: HRK 55 thousand), loans to Požar David in the amount of HRK 0 thousand (31 December 2017: HRK 25 thousand), to sole proprietorship Žarko Mario - Obrt žrvanj in the amount of HRK 666 thousand (31 December 2017: HRK 900 thousand), to Brčić Andrija in the amount of HRK 653 thousand (31 December 2017: HRK 871 thousand), to Jemrić Ivan in the amount of HRK 230 thousand (31 December 2017: HRK 316 thousand), and down payments for operating lease arrangements in the amount of HRK 218 thousand (31 December 2017: HRK 0 thousand).

Given loans to related companies in the amount of HRK 3.350 thousand (31 December 2017: HRK thousand) comprise loan to a company Poljoprivredno dobro Gradina d.o.o.

Financial assets available for sale comprise equity investments of up to 20 percent of ownership interest, which are as follows:

	31 December 2018	31 December 2017
Poljoprivredno dobro Gradina d.o.o.	4,579	-
Sense savjetovanje d.o.o.	1,500	1,500
PBZ d.d. Zagreb	150	157
Hrvatski radio Županja	78	78
	6,307	**1,735**

(All amounts are expressed in thousands of HRK)

16. INVENTORIES

	31 December 2018	31 December 2017
Finished products	245,605	495,615
Merchandise	110,030	41,026
Raw material and supplies	22,162	39,466
Prepayments for inventories	5,482	4,950
Impairment allowance on inventories (Note 10.2)	(33,005)	(95,588)
	350,274	**485,469**

17. TRADE RECEIVABLES

At 31 December 2018 trade receivables amount to HRK 64,390 thousand (31 December 2017: HRK 119,778 thousand).

Receivables structure

	31 December 2018	31 December 2017
Domestic trade receivables	54,993	121,438
Foreign trade receivables	27,614	18,711
Receivables from related companies (Note 29)	12,130	3,298
Impairment allowance on trade receivables	(30,347)	(23,669)
	64,390	**119,778**

Maturity analysis of receivables not impaired

	31 December 2018	31 December 2017
Not yet due	23,790	57,222
0-90 days past due	25,187	32,618
90-120 days past due	5,456	2,161
Over 120 days past due	9,957	27,777
	64,390	**119,778**

(All amounts are expressed in thousands of HRK)

17. TRADE RECEIVABLES (CONTINUED)

Movements in impairment allowance for doubtful accounts

	2018	2017
Balance at 1 January	23,669	26,696
New allowances recognised (Note 10.3)	15,146	6,096
Collection of previously impaired receivables	(4,731)	(2,044)
Written-off receivables and other items	(3,737)	(7,079)
Balance at 31 December	**30,347**	**23,669**

All the receivables provided against were past due beyond 120 days.

18. RECEIVABLES FROM THE STATE AND OTHER INSTITUTIONS

	31 December 2018	31 December 2017
VAT receivable	16,992	31,859
Other amounts due from the state	183	1,711
	17,175	**33,570**

19. CURRENT FINANCIAL ASSETS

	31 December 2018	31 December 2017
Given loans – related companies	14,672	6,695
Given loans	8,899	7,314
Received bills of exchange and other securities	792	491
Given deposits	6	6
	24,369	**14,506**

(All amounts are expressed in thousands of HRK)

19. CURRENT FINANCIAL ASSETS (CONTINUED)

An overview of the given loans at 31 December 2018 and 31 December 2017 is provided in the table below:

	Interest rate	31 December 2018	31 December 2017
Legal persons			
Robić d.o.o. – related company	6,00%	11,937	4,099
Žeza d.o.o	6,00%	7,006	3,876
Fortis factoring d.o.o.	-	3.700	3,700
Dubrovački podrumi d.d.	6,00%	2,957	2,957
Dalmacijavino Split d.o.o. – related company	4,97%	2,710	2,596
Robić promet d.o.o.	6,00%	1,984	4,095
Infinitum factoring d.o.o.	-	500	500
Konzum d.d.	7,00%	394	394
Poljoprivredno dobro Gradina d.o.o. – related company	4,55%	25	1,709
Others	4,97%-9%	1,419	1,363
Total loans to legal persons		32,632	25,289
Natural persons	3%-8%	2,016	2,021
Total given loans		34,648	27,310
Impairment allowance		(11,077)	(13,301)
Total given loans		23,571	14,009

In 2018 the Group recovered the previously provided against loans in the amount of HRK 2,224 thousand (2017: HRK 39 thousand).

(All amounts are expressed in thousands of HRK)

20. CASH AND CASH EQUIVALENTS

	31 December 2018	31 December 2017
Giro account balance	2,942	69,800
Foreign currency account balance	1,892	2,298
Cash in hand	2	2
	4,836	**72,100**

21. PREPAID EXPENSES AND ACCRUED INCOME

	31 December 2018	31 December 2017
Accrued loan fee and interest	1,141	1,291
Accrued water protection fee	915	355
Accrued interest on leasing	2	21
Accrued rental and lease expenses	-	750
Other prepaid expenses	1,193	786
	3,251	**3,203**

Other prepaid expenses include accrued insurance expenses and other prepaid expenses.

(All amounts are expressed in thousands of HRK)

22. SHARE CAPITAL AND RESERVES

22.1 Share capital

At 31 December 2018 the registered (share) capital amounts to HRK 249,600 thousand and is divided into 1,386,667 shares (31 December 2017: HRK 249,600 thousand, consisting of 1,386,667 shares).

The ownership structure is set out below:

	Number of shares		% ownership	
	2018.	**2017.**	**2018.**	**2017.**
EOS-Z d.o.o.	466,500	466,500	33.64%	33.64%
Robić d.o.o.	308,302	308,302	22.23%	22.23%
Cristal financiere	235,734	235,734	17.00%	17.00%
OTP banka d.d. / AZ OMF (2017. - Splitska banka d.d.)	137,055	137,055	9.88%	9.88%
Viro tvornica šećera d.d.	33,108	-	2.39%	-
Erste&Steiermarkischebank d.d. / CSC	31,496	32,201	2.27%	2.32%
Zagrebačka banka d.d. / AZ Profit DMF	25,449	25,449	1.84%	1.84%
Hrvatska poštanska banka d.d.	23,257	23,257	1.68%	1.68%
Addiko bank d.d./ Raiffeisen OMF kategorije b	12,765	14,393	0.92%	1.04%
Addiko bank d.d./ PBZ Croatia Osiguranje OMF - kategorija b	-	33,108	-	2.39%
Ostali	113,001	110,668	8.15%	7.98%
	1,386,667	**1,386,667**	**100.00%**	**100.00%**

(All amounts are expressed in thousands of HRK)

22. SHARE CAPITAL AND RESERVES

22.2 Reserves

	2018	2017
Reserves for treasury shares	43,867	43,867
Purchased treasury	(4,635)	-
Legal reserves	12,533	12,533
Capital reserves	10,368	10,368
Other reserves out of profit	17	17
Other reserves	(41,432)	(41,432)
	20,718	**25,353**

In 2012 the parent company made several purchases of equity shares in subsidiary Sladorana d.d., as a result of which it held a 100-percent equity share in that subsidiary. The increases from 2012 occurred after the parent company had already acquired the control over the subsidiary in prior periods. Since the consideration paid to acquire the additional shares was higher the net assets of Sladorana d.d., the difference of HRK 41,432 thousand was charged to Other reserves within equity.

23. EARNINGS PER SHARE

Basic and diluted earnings per share

Basic earnings per share are determined by dividing the Group's net (loss) by the weighted average number of ordinary shares outstanding during the year, excluding the weighted average number of ordinary shares redeemed and held by the Group as treasury shares.

	2018	2017
Loss for the year attributable to the shareholders of the Company (in HRK'000)	(97,396)	(117,074)
Weighted average number of ordinary shares used in the calculation of the basic profit per share:	1,353,559	1,386,667
Basic loss per share (in kunas and lipas)	**(71.96)**	**(127.70)**

Diluted earnings per share are equal to basic - (loss) per share, as there is no basis for adjusting the weighted average number of ordinary shares.

(All amounts are expressed in thousands of HRK)

24. LIABILITIES UNDER BORROWINGS AND FINANCIAL LEASES

	31 December 2018	31 December 2017
Long-term borrowings		
Bank loans	94,978	168,123
Financial loan	208	669
Finance lease obligations	139	276
	95,325	**169,068**
Short-term borrowings		
Bank loans	303.979	286,841
Current portion of long-term borrowings from banks	71.032	87,262
Financial loan	7.276	12,661
Finance lease obligations	194	647
	382,481	**387,411**
Total	**477,806**	**556,479**

Bank borrowings in the amount of HRK 469,989 thousand (31 December 2017: HRK 542,226 thousand) are secured by lien registered on the land, buildings and equipment of the Group. Debentures have been provided as security instruments for finance lease obligations in the amount of HRK 333 thousand (2017: HRK 923 thousand).

The financial loan in the amount of HRK 7,484 thousand (31 December 2017: HRK 13,330 thousand) consists of a liability to Konzum d.d. in the amount of HRK 4,200 thousand (31 December 2017: HRK 4,200 thousand), a liability to the Environmental Protection and Energy Efficiency Fund in the amount of HRK 669 thousand (31 December 2017: HRK 1,130 thousand), a liability to Jet-set d.o.o. in the amount of HRK 715 thousand (31 December 2017: HRK 0 thousand) and a liability to Hospitalija trgovina d.o.o. in the amount of HRK 1,900 thousand (31 December 2017: HRK 8,000 thousand).

Movements of the bank borrowings are as follows:

	2018	2017
Balance at 1 January	**542,226**	**443,953**
New bank loans raised	323,848	328,397
Repayments of received loans	(392,835)	(227,811)
Exchange differences	(3,250)	(2,313)
Balance at 31 December	**469,989**	**542,226**

(All amounts are expressed in thousands of HRK)

24. LIABILITIES UNDER BORROWINGS AND FINANCIAL LEASES (CONTINUED)

Overview of the bank loans (by maturity, interest rate, amount and currency):

Creditor	Maturity	Interest rate	Currency	31/12/2018	31/12/2017
Long-term borrowings					
Raiffeisenbank Austria d.d.	31.03.2021.	4.00%	EUR	155,063	244,333
HBOR (Croatian development bank)	28.02.2023.	4.00%	EUR	10,910	13,157
Short-term borrowings					
Privredna banka d.d.	11.10.2018.	8,82%	HRK	29,519	34,000
Privredna banka d.d.	11.10.2018.	8,82%	HRK	34,000	34,000
Erste&Steiermarkische bank d.d.	31.12.2018.	4,90%	HRK	9,283	-
Kentbank d.d.	14.03.2018.	4,90%	HRK	30,000	-
HBOR	15.04.2019.	3,00%	HRK	74,176	-
Privredna banka d.d.	31.10.2018.	8,82%	HRK	33,379	-
Privredna banka d.d.	31.10.2018.	8,82%	HRK	31,317	-
Privredna banka d.d.	31.10.2018.	8,82%	HRK	20,000	-
Privredna banka d.d.	31.10.2018.	8,82%	HRK	14,000	-
OTP banka d.d.	23.03.2019.	4,20%	HRK	14,200	-
OTP banka d.d.	01.07.2019.	3,90%	HRK	13,900	-
Kentbank d.d.	14.03.2018.	4,90%	HRK	-	10,000
Kentbank d.d.	14.03.2018.	4,90%	HRK	-	2,000
Privredna banka d.d.	24.04.2018.	5,28%	HRK	-	22,800
Privredna banka d.d.	24.04.2018.	5,28%	HRK	-	34,600
Privredna banka d.d.	12.05.2018.	5,28%	HRK	-	11,000
Privredna banka d.d.	12.10.2018.	5,28%	HRK	-	8,000
Zagrebačka banka d.d.	30.06.2018.	3,50%	HRK	-	16,524
Zagrebačka banka d.d.	30.06.2018.	4,00%	HRK	-	32,160
Addiko bank d.d.	16.04.2018.	4,95%	HRK	-	35,000
Kentbank d.d.	14.03.2018.	4,90%	HRK	-	18,000
OTP banka d.d.	22.03.2018.	4,75%	HRK	-	12,709
OTP banka d.d.	07.07.2018.	4,00%	HRK	-	13,900
Interest payable on borrowings				242	43
Total short-term and long-term borrowings				**469,989**	**542,226**

(All amounts are expressed in thousands of HRK)

24. LIABILITIES UNDER BORROWINGS AND FINANCIAL LEASES (CONTINUED)

	Minimum lease payments		Finance charges		Present value of minimum lease payments	
	2018	**2017**	**2018**	**2017**	**2018**	**2017**
Up to 1 year	194	769	2	20	192	749
From two to five years	139	155	-	2	139	153
After five years	-	-	-	-	-	-
	333	**924**	**2**	22	331	902
Less: future finance charges	(2)	(22)	-	-	-	-
Present value of minimum lease payments	331	902	-	-	331	902

25. TRADE PAYABLES

	31 December 2018	31.December 2017
Domestic trade payables	137,117	255,309
Foreign trade payables	102,881	50,711
	239,998	**306,020**

26. ADVANCES RECEIVED

At 31 December 2018 advances received amount to HRK 32,038 thousand (31 December 2017: HRK 21,272 thousand) and relate to advance payments made by foreign and domestic enterprises for sugar.

(All amounts are expressed in thousands of HRK)

27. OTHER CURRENT LIABILITIES

	31 December 2018	31 December 2017
Taxes, contributions and similar duties payable	3,979	7,991
Liabilities to employees	3,294	3,379
Liabilities in respect of the share in the result	32	32
Liabilities in respect of issued bills of exchange	-	33,774
Other current liabilities	543	3,997
	7,848	**49,173**

The liabilities for issued bills of exchange represent amounts payable to suppliers of sugar beet and protective substances as well as other payables, which are as follows:

	31 December 2018	31 December 2017
Belje d.d., Darda	-	16,706
PIK Vinkovci d.d.	-	9,564
Vupik d.d.	-	7,504
	-	**33,774**

Liabilities for issued bills of exchange to Agrokor trgovina d.o.o., Belje d.d., Darda, PIK Vinkovci d.d. and Vupik d.d. represent amounts paid to suppliers for an advance for the main delivery of sugar beet and protection.

28. ACCRUED EXPENSES AND DEFERRED INCOME

	31 December 2018	31 December 2017
Accrued incentive income	14,082	14,833
Accrued direct sugar beet costs	247	344
Accrued water protection and use fee, concession fee	-	81
Other accrued expenses	987	373
	15,316	**15,631**

(All amounts are expressed in thousands of HRK)

29. RELATED-PARTY TRANSACTIONS

Transactions and balances resulting from the relationship between the Company and its subsidiaries, which are the Company's related parties, were eliminated on consolidation and are not disclosed in this note. An analysis of the transactions between the Group companies is presented below.

Trading transactions

Transactions entered into between the Group and the related parties during the year are as follows:

Operating income

	Sales		Other income	
	2018	**2017**	**2018**	**2017**
DALMACIJAVINO SPLIT d.o.o.	9,013	369	-	-
OŠTRC d.o.o./ OŠTRC PROMET d.o.o.	1,199	3,910	-	-
GRUDSKA PIVOVARA d.o.o.	757	271	-	-
POLJOPRIVREDNO DOBRO d.o.o. Gradina	657	-	-	-
	11,626	**4,550**	**-**	**-**

Operating expenses

	Selling expenses		Other expenses	
	2018	**2017**	**2018**	**2017**
DALMACIJAVINO SPLIT d.o.o.	8,630	331	-	5
OŠTRC d.o.o./ OŠTRC PROMET d.o.o.	1,114	3,931	-	-
GRUDSKA PIVOVARA d.o.o.	683	258	-	-
POLJOPRIVREDNO DOBRO d.o.o. Gradina	576	-	-	-
	11,003	**4,520**		**5**

Financial income and expenses

	Financial income		Financial expenses	
	2018	**2017**	**2018**	**2017**
ROBIĆ d.o.o.	539	149	-	-
GRUDSKA PIVOVARA d.o.o.	204	488	642	689
DALMACIJAVINO SPLIT d.o.o.	114	115	-	-
POLJOPRIVREDNO DOBRO d.o.o. Gradina	90	-	-	-
	947	**752**	**642**	**689**

(All amounts are expressed in thousands of HRK)

29. RELATED-PARTY TRANSACTIONS (CONTINUED)

Outstanding balances from trading transactions at the end of the reporting period:

	Receivables from related parties		Amounts owed to related parties	
	2018	**2017**	**2018**	**2017**
DALMACIJAVINO SPLIT d.o.o.	6,982	1,109	4,128	2
OŠTRC d.o.o./ OŠTRC PROMET d.o.o.	2,543	1,747	-	-
POLJOPRIVREDNO DOBRO d.o.o. Gradina	1.977	-	-	-
GRUDSKA PIVOVARA d.o.o.	604	415	223	-
	12,106	**3,271**	**4,351**	**2**

	Loans to related parties		Prepayments made to related parties for non-current assets	
	2018	**2017**	**2018**	**2017**
ROBIĆ d.o.o.	11,937	4,099	-	-
POLJOPRIVREDNO DOBRO d.o.o. Gradina	3,375	-	-	-
DALMACIJAVINO SPLIT d.o.o.	2,710	2,596	-	-
GRUDSKA PIVOVARA d.o.o.	-	-	33,816	34,254
	18,022	**6,695**	**33,816**	**34,254**

Remuneration paid to key management personnel (Members of the Management Board:

	2018	**2017**
Salaries	5,473	5,029
Others	1,249	1,220
	6,722	**6,249**

(All amounts are expressed in thousands of HRK)

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Capital risk management

The Group manages its capital to ensure that it will be able to continue as a going concern, while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy has remained unchanged since 2016.

The capital of the Group consists of the net debt (which includes received loans and borrowings disclosed in Note 24 less cash and cash equivalents) and shareholders' equity (comprising the registered capital, reserves and retained earnings).

The Treasury of the Group reviews the capital structure on a regular basis. As part of this review, the Treasury considers the cost of capital and the risks associated with each class of capital. The gearing ratio at the year end was as follows:

Gearing ratio

	2018	2017
Debt (i)	**477,806**	**556,479**
Cash and cash equivalents	(4,836)	(72,100)
Net debt	**472,970**	**484,379**
Equity (ii)	193,664	301,180
Net debt-to-equity ratio	244%	161%

(i) Debt consists of short-term and long-term borrowings, as disclosed in Note 24.

(ii) Equity consists of the share capital, reserves and retained earnings.

(All amounts are expressed in thousands of HRK)

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Categories of financial instruments

	31. December 2018	31. December 2017
Financial assets		
Non-current financial assets	8,529	4,163
Non-current receivables	149	309
Receivables from related companies	12,105	3,271
Trade receivables	52,285	116,507
Current financial assets	24,369	14,506
Other receivables	2,841	771
Cash and cash equivalents	4,836	72,100
Prepaid expenses and accrued income	3,032	3,203
	108,146	**214,830**
Financial liabilities		
Long-term financial loans	208	669
Long-term borrowings and finance lease obligations	95,117	168,399
Other non-current liabilities	-	-
Liabilities to related companies	4,351	2
Financial loans	7,275	12,661
Short-term liabilities for borrowings and finance lease obligations	375,206	374,750
Advances received	32,038	21,272
Trade payables	239,998	306,020
Other current liabilities	3,869	41,182
Accrued expenses and deferred income	15,316	15,549
	773,388	**940,504**

The carrying amount reflected above represents the Group's maximum exposure to credit risk on such loans and receivables.

(All amounts are expressed in thousands of HRK)

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Financial risk management objectives

The Group's Treasury function provides services to the business, co-ordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Group through internal risk reports which analyse exposures by degree and magnitude of risks.

These risks comprise market risk (including currency risk and price risk), credit risk, liquidity risk and interest rate risk.

The Group seeks to minimise the effects of these risks. The Group does not enter into, or trade in financial instruments, including derivative financial instruments, for speculative purposes. The Treasury periodically reports about the risk exposures to the Company's Management Board.

Market risk

The Group's activities expose it primarily to the financial risks arising from movements in sugar and flour prices as well as the prices of raw material required for their production activities (sugar beet, sugar cane and wheat). The Group is also exposed to the risk of fluctuations in foreign exchange and interest rates, which are described in more detail below.

Foreign currency risk management

The Company undertakes certain transactions denominated in foreign currencies. Hence, it is exposed to fluctuations in foreign exchange rates.
The carrying amounts of the Group's foreign-currency denominated monetary assets and liabilities at the end of the reporting period are provided in the table below:

	Liabilities		Assets	
	2018	2017	2018	2017
European Union (EUR)	283,198	330,282	61,451	58,173
USD	18	-	2,524	5,956

(All amounts are expressed in thousands of HRK)

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Foreign currency risk management (continued)

Foreign currency sensitivity analysis

The Group is exposed mainly to the fluctuations in the exchange rate of the Croatian kuna against the euro (EUR) and the US dollar (USD) because these are the currencies in which the majority of sugar sales (EUR) and purchases of raw sugar (EUR, USD) on international markets are carried out.

The following table analyses the Group's sensitivity to a ten-percent (10%) change in the exchange rate of the Croatian kuna against the relevant foreign currency. Ten percent (10 %) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents the management's assessment of the reasonably possible change in the foreign exchange 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. The sensitivity analysis includes external borrowings, as well as loans to foreign operations of the Group denominated in a currency that is not the currency of the lender or the borrower. A positive number below indicates an increase in profit or equity where the Croatian kuna strengthens 10 percent against the relevant currency. For a 10-percent weakening of the Croatian kuna against the relevant currency, there would be an equal and opposite impact on the profit or equity, and the balances below would be negative.

	EUR impact		USD impact	
	2018	2017	2018	2017
Profit	22,175	27,211	251	596

The exposure to the 10-percent change for the relevant currencies is mainly related to the balance of borrowings, trade payables and receivables from related companies denominated in euro (EUR) as well as trade payables denominated in the US dollar (USD).

Interest rate risk management

The Group's exposure to the interest rate risk arises from its borrowing at fixed and variable rates. The risk is managed by the Group by maintaining an appropriate mix between fixed and floating rate borrowings. The Group's exposure to interest rates on its financial assets and financial liabilities is detailed in the liquidity risk management section of this note.

(All amounts are expressed in thousands of HRK)

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Interest rate risk management (continued)

Interest rate sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative instruments at the end of the reporting period. The following analysis of the sensitivity to variable rate liabilities has been prepared assuming the amount of the liability outstanding at the end of the year was outstanding for the whole year. A 50 basis point increase/decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher/lower and all other variables were held constant:

- the loss/profit of the Group for the year 2018 would have been lower/higher by HRK 1,341 thousand (2017: lower/higher by HRK 1,192 thousand), mainly attributable to the exposure of the Group to variable-rate loans and borrowings.

In the current year, the Group's sensitivity to interest rates increased mainly because of a higher number of variable-rate debt instruments.

Credit risk management

Credit risk is the risk that the counterparty will default on its contractual obligations resulting in a financial loss to the Group. The Group has adopted a policy of dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from default. The Group monitors regularly its exposure to counterparties as well as their creditworthiness spreads the aggregate value of the transactions to accepted customers. Credit exposure is managed by setting limits to customers.

Credit analysis involves assessing the financial position of the debtor and, where appropriate, insurance coverage is sought for credit guarantees.

The most significant credit risk concentrations arising from the Group's key customers are analysed below:

	Receivables	
	31 December 2018	**31 December 2017**
Customer A	4,173	11,814
Customer B	3,438	11,609
Customer C	2,740	6,974
Customer D	2,631	6,117
Customer E	2,208	5,956
	15,190	**42,470**

(All amounts are expressed in thousands of HRK)

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Credit risk management (continued)

Collateral held as security

The Group usually seeks from its customers to furnish bank guarantees, debentures and bills of exchange as instruments of collateral.

Liquidity risk management

Prudent liquidity management implies maintaining sufficient levels of cash, obtaining adequate funding using credit lines and facilities and the ability to settle the liabilities on a timely basis. It also involves matching the maturities of liabilities and maintaining appropriate levels of liquid assets. Ultimate responsibility for liquidity risk management rests with the Management Board. The Group manages its liquidity by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. The cash flow forecasts are prepared on a monthly basis (by day) and departures are monitored daily.

Liquidity and interest rate risk tables

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 includes both principal and interest cash outflows. The undiscounted cash outflows on interest at variable rates was derived from interest rate curves at the end of the reporting period. The contractual maturity is defined as the earliest date on which the Group can be required to make the payment.

	Weighted average effective interest rate	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 8 years	Total
2018						
Non-interest bearing liabilities		198,153	11,798	76,935	13,541	300,427
Interest bearing	4.86%	76,993	65,858	243,981	98,007	484,839
		275,146	**77,656**	**320,916**	**111,548**	**785,266**
2017						
Non-interest bearing liabilities		240,275	53,577	80,349	14,756	388,957
Interest bearing	4.66%	28,647	93,532	275,284	177,437	574,900
		268,922	**147,109**	**355,633**	**192,193**	**963,857**

(All amounts are expressed in thousands of HRK)

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Liquidity risk management (continued)

The following tables details the Group's remaining contractual maturity for its non-derivative financial assets. The tables have been drawn up based on the undiscounted cash flows of financial receivables based on the earliest date on which the Group can require payment.

	Weighted average effective interest rate	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 8 years	Total
2018						
Non-interest bearing assets		58,613	7,224	9,795	2,349	77,981
Interest-bearing assets	4,67%	1,118	258	22,913	7,414	31,703
		59,731	**7,482**	**32,708**	**9,763**	**109,684**
2017						
Non-interest bearing assets		155,323	12,191	28,462	2,500	198,476
Interest-bearing assets	5.45%	2,429	110	12,168	2,378	17,085
		157,752	**12,301**	**40,630**	**4,878**	**215,561**

Fair value of financial instruments

The fair values of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets and financial liabilities with standard terms and conditions that are traded on active liquid markets is determined by reference to quoted market prices;
- the fair values of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash-flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.

At 31 December 2018, the carrying amounts of cash, short-term deposits, receivables, short-term liabilities, accrued expenses, short-term borrowings and other financial instruments approximate their fair values due to the short-term nature of these assets and liabilities.

(All amounts are expressed in thousands of HRK)

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Fair value of financial instruments (continued)

Fair value measurements recognised in the statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from the prices).
Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

31 December 2018	Level 1	Level 2	Level 3	Total
Financial assets available for sale (AFS)	150	-	6,157	**6,307**
Total	**150**	**-**	**6,157**	**6,307**

31 December 2017	Level 1	Level 2	Level 3	Total
Financial assets available for sale (AFS)	157	-	1,578	**1,735**
Total	**157**	**-**	**1,578**	**1,735**

(All amounts are expressed in thousands of HRK)

31. PROVISIONS

The total balance of long-term provisions represents provisions for initiated legal actions. Movements in the provisions are presented below:

	2018	2017
At 1 January	453	453
New provisions	6,177	-
Utilised / cancelled provision	(2,882)	-
At 31 December	**3,748**	**453**

The Group reversed the provision for the most significant legal action under case file no P-561/13 (formerly case file no: P-768/12, originally: case file no: P-528/03), which became final based on the Judgement no: Pž-3105/2014 of the Commercial Court rejecting the entire claim. In a lawsuit initiated by NLB, as the plaintiff, against Sladorana on the grounds of the alleged piercing of corporate veil in the Granal case, the plaintiff claims that, as a result of 'abuse in business' the future bankruptcy estate of Granal has deteriorated for which the defendant is to be held liable in the amount of HRK 40 million.

In prior periods, Sladorana d.d. made a total provision of HRK 50 million based on the estimate made that it would likely lose the case. The entire case is still in progress and comprises several separate lawsuits ruled so far in favour if Sladorana. However, for procedural grounds, they have been sent repeatedly for retrial. The plaintiff in a lawsuit (Case file no P-561/13 on 23 March 2015 and Case file no P-768/12 on 25 March 2015) filed a motion for revision, and the cases are now pending before the High Commercial Court of the Republic of Croatia.

The following table shows the movement of expected loan losses for receivables.

The movement of expected loan losses for receivables

Balance at January 1st	5.544
Increase of expected loan losses for receivables	-
Decrease of expected loan losses for receivables	2.872
Balance at 31 December	2.672

(All amounts are expressed in thousands of HRK)

31. PROVISIONS (CONTINUED)

The following table shows the movement of expected loan losses recognized for a particular financial asset:

The movement of Expected Credit Loss Credit:

	Stage 1
Balance at January 1st	304
Decrease of expected loan losses	-
Increase of expected loan losses	319
Balance at 31 December	623

All given loans were allocated in 1st stage, and during 2018 there was no transition between grades.

For the purposes of estimating impairment, for loans to related parties and other parties, on the first application date, the Company estimated that there was no significant increase in credit risk from the initial recognition date and used the 12-month expected credit loss for the mentioned asset.

In determining the expected credit losses for this asset, the Company's Management has taken into account the publications of the external investment rating agencies, historical experience and the financial position of the other counterparties.

There was no change in valuation techniques or significant assumptions during the current reporting period in estimating provisions for expected loan losses for that financial asset.

32. CONTINGENT LIABILITIES AND COMMITMENTS

The contractual commitments and contingent liabilities of the Group comprise issued debentures, which amount to HRK 1,138,436 thousand at 31 December 2017 (31 December 2017: HRK 1,336,885 thousand), guarantees issued in the amount of HRK 5,209 thousand (31 December 2017: HRK 81,798 thousand) and letters of credit in the amount of HRK 58,726 thousand (31 December 2017: HRK 0 thousand). The contractual maturities for the issued guarantees fall between 31 January 2019 to 30 April 2019. Contractual maturities for the issued letters of credit fall on 31 October 2019.

(All amounts are expressed in thousands of HRK)

33. OPERATING LEASE ARRANGEMENTS

The Group as lessee

Operating lease arrangements

Operating lease agreements comprise leases of personal cars over a term of five years. The Group does not have an option to purchase the leased asset at the expiry of the lease periods.

Lease payments recognised as expenses

	2018	2017
Minimum lease payments	131	100

Irrevocable commitments under operating leases

Up to 1 year	264	53
From 1 year to 5 years	770	102
	1,034	155

34. EVENTS AFTER THE BALANCE SHEET DATE

On December 28, 2018, the sugar factory Osijek d.o.o., the sugar factory of d.d. and Sladorana d.o.o. have signed a contract based on which they will combine their production capacities, knowledge and business experience and jointly establish a new trading company that will carry out the activities of combined production and sales of sugar in the market under the title "Croatian Sugar Industry".

The main goal of unification of the Croatian sugar industry is to create a larger and more efficient business system which, under the conditions of increased liberalization and increased competition in the European market after the abolition of production constraints, can compete competitively with regional and other European and global market participants on a sugar market the Croatian sugar industry also operates.

The transaction is conceived in such a way that the aforementioned companies transfer their production units to the production of sugar to a newly-formed company that would continue with further production and placement of sugar. The parent company would retain part of its assets and operations that are not related to sugar production

On March 25, 2019, the company of sugar factory Osijek d.o.o., the sugar factory of d.d. and Sladorana d.o.o. received notification from the Competition Agency that it was found that the proposed concentration of the said undertakings, based on a contract signed on 28 December 2018, was considered to be permissible.

The only precondition left for the transaction to be realized is the approval of the founding assembly, which the assemblies were convened in May 2019 and it is expected that the process of unification will be completed by the end of June 2019, assuming the decision by the relevant assemblies.

35. MANAGEMENT AUTHORISATION OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR ISSUE

These consolidated financial statements were adopted by the Management Board and authorised for issue on 29 April 2019

Signed on behalf of the Management Board on 29 April 2019 by

Željko Zadro
President of the Management Board

Darko Krstić, Member of the Management Board

Ivo Rešić, Member of the Management Board

Viro
TVORNICA ŠEĆERA d.d.
ZAGREB
7

TVORNICA ŠEĆERA d.d.
ZAGREB, ULICA GRADA VUKOVARA 269 G

STATEMENT OF PERSON RESPONSIBLE FOR PRODUCTION OF THE CONSOLIDATED REPORT FOR 2018

With this statement, in compliance with article 462 of the Law on capital market, I state that to the best of our knowledge

- the set of consolidated financial reports of VIRO TVORNICA ŠEĆERA d.d., Zagreb and its subsidiaries for the period I-XII 2018, produced by applying International standards of financial reporting and in compliance with the Croatian Law on Accounting, provides an integral and true overview of assets and liabilities, loss and profit, financial position and operations of the Group.

- The Management report contains a true overview of business results and position of the Group, with a description of the most significant risks and uncertanties to chich the Group is exposed.

In Zagreb, on April 29, 2019

RESPONSIBLE PERSON:

PRESIDENT OF THE MANAGEMENT BOARD

Željko Zadro, dipl.oec.

Viro TVORNICA ŠEĆERA d.d. ZAGREB 1

MEMBER OF THE MANAGEMENT BOARD

Darko Krstić, dipl.oec

MEMBER OF THE MANAGEMENT BOARD

Ivo Rešić, mr.sc.

ISSUER'S GENERAL DATA

Reporting period:	01.01.2018.	to	31.12.2018.
Year:	2018.		

Annual financial statements

egistration number (MB):	01650971	Issuer's home Member State code:	HR
Entity's registration number (MBS):	010049135		
Personal identification number (OIB):	04525204420	LEI:	5493006LGN8RLWC2UL05
Institution code:	1569		
Name of the issuer:	VIRO TVORNICA ŠEĆERA d.d.		
Postcode and town:	10000		ZAGREB
treet and house number:	ULICA GRADA VUKOVARA 269G		
E-mail address:	info@secerana.hr		
Web address:	www.secerana.hr		
Number of employees (end of the reporting	468		
Consolidated report:	KD	(KN-not consolidated/KD-consolidated)	
Audited:	RD	(RN-not audited/RD-audited)	

Names of subsidiaries (according to IFRS)	Registered office:	MB:
SLADORANA d.o.o.	ŠEĆERANA 63, ŽUPANJA	03307484
SLAVONIJA ŽUPANJA d.d.	J. J. STROSSMAYERA 65, ŽUPANJA	01841009
VIRO-KOOPERACIJA d.o.o.	ŠEĆERANA 63, ŽUPANJA	02835398
VIRO BH d.o.o.	HRVATSKIH BRANITELJA 21, GRUDE, BIH	4-01-0029-17

Bookkeeping firm:	No	(Yes/No)	(name of the bookkeeping firm)
Contact person:	NEVENA DRAGIĆ (only name and surname of the contact person)		
Telephone:	033 840 117		
E-mail address:	nevena.dragic@secerana.hr		
Audit firm:	DELOITTE d.o.o. (name of the audit firm)		
Certified auditor:	MARINA TONŽETIĆ (name and surname)		

BALANCE SHEET
balance as at 31.12.2018.

in HRK

Submitter: VIRO TVORNICA ŠEĆERA d.d.

Item	ADP code	Last day of the preceding business year	At the reporting date of the current period
1	2	3	4
A) RECEIVABLES FOR SUBSCRIBED CAPITAL UNPAID	001		
B) FIXED ASSETS (ADP 003+010+020+031+036)	002	520.812.391	509.194.205
I INTANGIBLE ASSETS (ADP 004 to 009)	003	876.085	6.506.824
1 Research and development	004		
2 Concessions, patents, licences, trademarks, software and other rights	005	876.085	6.506.824
3 Goodwill	006		
4 Advance payments for purchase of intangible assets	007		
5 Intangible assets in preparation	008		
6 Other intangible assets	009		
II TANGIBLE ASSETS (ADP 011 to 019)	010	515.464.345	489.431.518
1 Land	011	38.750.891	38.750.891
2 Buildings	012	227.964.481	217.022.529
3 Plant and equipment	013	183.910.605	148.435.695
4 Tools, working inventory and transportation assets	014	2.540.528	5.573.181
5 Biological assets	015		
6 Advance payments for purchase of tangible assets	016	34.254.275	33.816.284
7 Tangible assets in preparation	017	26.073.477	44.012.331
8 Other tangible assets	018	44.900	44.900
9 Investment property	019	1.925.188	1.775.707
III FIXED FINANCIAL ASSETS (ADP 021 to 030)	020	4.162.701	13.106.909
1 Investments in holdings (shares) of undertakings within the group	021	900.000	5.478.300
2 Investments in other securities of undertakings within the group	022		
3 Loans, deposits, etc. to undertakings within the group	023		3.349.907
4 Investments in holdings (shares) of companies linked by virtue of participating interest	024		
5 Investment in other securities of companies linked by virtue of participating interest	025		
6 Loans, deposits etc. given to companies linked by virtue of participating interest	026		
7 Investments in securities	027	917.258	908.620
8 Loans, deposits, etc. given	028	2.345.443	3.370.082
9 Other investments accounted for using the equity method	029		
10 Other fixed financial assets	030		
IV RECEIVABLES (ADP 032 to 035)	031	309.260	148.954
1 Receivables from undertakings within the group	032		
2 Receivables from companies linked by virtue of participating interests	033		
3 Customer receivables	034		
4 Other receivables	035	309.260	148.954
V. Deferred tax assets	036		
C) CURRENT ASSETS (ADP 038+046+053+063)	037	726.194.647	463.884.755
I INVENTORIES (ADP 039 to 045)	038	485.469.204	350.273.647
1 Raw materials	039	39.465.980	110.029.480
2 Work in progress	040		
3 Finished goods	041	406.044.319	212.599.873
4 Merchandise	042	35.008.468	22.161.980
5 Advance payments for inventories	043	4.950.437	5.482.314
6 Fixed assets held for sale	044		
7 Biological assets	045		
II RECEIVABLES (ADP 047 to 052)	046	154.118.758	84.405.794
1 Receivables from undertakings within the group	047	3.271.551	12.105.443

2 Receivables from companies linked by virtue of participating interest	048		
3 Customer receivables	049	116.506.784	52.284.738
4 Receivables from employees and members of the undertaking	050	6.663	5.364
5 Receivables from government and other institutions	051	33.569.740	17.174.886
6 Other receivables	052	764.020	2.835.363
III SHORT-TERM FINANCIAL ASSETS (ADP 054 to 062)	053	14.506.338	24.368.793
1 Investments in holdings (shares) of undertakings within the group	054		
2 Investments in other securities of undertakings within the group	055		
3 Loans, deposits, etc. to undertakings within the group	056	6.694.760	14.672.297
4 Investments in holdings (shares) of companies linked by virtue of participating interest	057		
5 Investment in other securities of companies linked by virtue of participating interest	058		
6 Loans, deposits etc. given to companies linked by virtue of participating interest	059		
7 Investments in securities	060		
8 Loans, deposits, etc. given	061	7.320.078	8.904.496
9 Other financial assets	062	491.500	792.000
IV CASH AT BANK AND IN HAND	063	72.100.347	4.836.521
D) PREPAID EXPENSES AND ACCRUED INCOME	064	3.202.643	3.250.641
E) TOTAL ASSETS (ADP 001+002+037+064)	065	1.250.209.681	976.329.601
OFF-BALANCE SHEET ITEMS	066	1.448.792.590	1.147.302.721
LIABILITIES			
A) CAPITAL AND RESERVES (ADP 068 to	067	301.180.049	193.664.202
I. INITIAL (SUBSCRIBED) CAPITAL	068	249.600.060	249.600.060
II CAPITAL RESERVES	069	10.368.101	10.368.101
III RESERVES FROM PROFIT (ADP 071+072-073+074+075)	070	56.417.086	51.781.966
1 Legal reserves	071	12.532.960	12.532.960
2 Reserves for treasury shares	072	43.866.670	39.231.550
3 Treasury shares and holdings (deductible item)	073		
4 Statutory reserves	074		
5 Other reserves	075	17.456	17.456
IV REVALUATION RESERVES	076		
V FAIR VALUE RESERVES (ADP 078 to 080)	077	0	0
1 Fair value of financial assets available for sale	078		
2 Cash flow hedge - effective portion	079		
3 Hedge of a net investment in a foreign operation - effective portion	080		
VI RETAINED PROFIT OR LOSS BROUGHT FORWARD (ADP 082-083)	081	155.502.891	-26.654.267
1 Retained profit	082	155.502.891	
2 Loss brought forward	083		26.654.267
VII PROFIT OR LOSS FOR THE BUSINESS YEAR (ADP 085-086)	084	-176.840.330	-96.454.000
1 Profit for the business year	085		
2 Loss for the business year	086	176.840.330	96.454.000
VIII MINORITY (NON-CONTROLLING) INTEREST	087	6.132.241	5.022.342
B) PROVISIONS (ADP 089 to 094)	088	453.209	3.748.157
1 Provisions for pensions, termination benefits and similar obligations	089		
2 Provisions for tax liabilities	090		
3 Provisions for ongoing legal cases	091	453.209	453.209
4 Provisions for renewal of natural resources	092		
5 Provisions for warranty obligations	093		
6 Other provisions	094		3.294.948
C) LONG-TERM LIABILITIES (ADP 096 to 106)	095	169.068.573	96.886.212
1 Liabilities towards undertakings within the group	096		
2 Liabilities for loans, deposits, etc. to companies within the group	097		
3 Liabilities towards companies linked by virtue of participating interest	098		
4 Liabilities for loans, deposits etc. of companies linked by virtue of participating interest	099		
5 Liabilities for loans, deposits etc.	100	945.496	347.225

6 Liabilities towards banks and other financial institutions	101	168.123.077	94.978.340
7 Liabilities for advance payments	102		
8 Liabilities towards suppliers	103		
9 Liabilities for securities	104		
10 Other long-term liabilities	105		1.560.647
11 Deferred tax liability	106		
D) SHORT-TERM LIABILITIES (ADP 108 to 121)	**107**	763.877.291	666.715.493
1 Liabilities towards undertakings within the group	108	2.175	4.350.696
2 Liabilities for loans, deposits, etc. to companies within the group	109		
3 Liabilities towards companies linked by virtue of participating interest	110		
4 Liabilities for loans, deposits etc. of companies linked by virtue of participating interest	111		
5 Liabilities for loans, deposits etc.	112	13.307.340	7.469.807
6 Liabilities towards banks and other financial institutions	113	374.102.814	375.011.456
7 Liabilities for advance payments	114	21.271.550	32.038.074
8 Liabilities towards suppliers	115	306.020.326	239.997.574
9 Liabilities for securities	116		
10 Liabilities towards employees	117	3.379.307	3.294.136
11 Taxes, contributions and similar liabilities	118	7.991.230	3.979.069
12 Liabilities arising from the share in the result	119	30.963	30.963
13 Liabilities arising from fixed assets held for sale	120		
14 Other short-term liabilities	121	37.771.586	543.718
E) ACCRUALS AND DEFERRED INCOME	**122**	15.630.559	15.315.537
F) TOTAL – LIABILITIES (ADP 067+088+095+107+122)	**123**	1.250.209.681	976.329.601
G) OFF-BALANCE SHEET ITEMS	**124**	1.448.792.590	1.147.302.721

STATEMENT OF PROFIT OR LOSS
for the period 01.01.2018. to 31.12.2018.

in HRK

Submitter: VIRO TVORNICA ŠEĆERA d.d.			
Item	**ADP code**	**Same period of the previous year**	**Current period**
1	2	3	4
I OPERATING INCOME (ADP 126 to 130)	**125**	1.036.554.832	678.601.173
1 Income from sales with undertakings within the group	**126**	4.550.327	11.626.231
2 Income from sales (outside group)	**127**	1.016.040.357	637.505.540
3 Income from the use of own products, goods and services	**128**	316.992	195.226
4 Other operating income with undertakings within the group	**129**		
5 Other operating income (outside the group)	**130**	15.647.156	29.274.176
II OPERATING EXPENSES (ADP 132+133+137+141+142+143+146+153)	**131**	1.211.208.085	804.818.097
1 Changes in inventories of work in progress and finished goods	**132**	-115.783.700	168.333.048
2 Material costs (ADP 134 to 136)	**133**	1.067.360.210	458.299.368
a) Costs of raw material	**134**	705.355.439	232.437.676
b) Costs of goods sold	**135**	289.953.633	165.171.145
c) Other external costs	**136**	72.051.138	60.690.547
3 Staff costs (ADP 138 to 140)	**137**	57.281.722	54.517.182
a) Net salaries and wages	**138**	36.151.010	34.384.346
b) Tax and contributions from salaries expenses	**139**	12.946.660	12.431.424
c) Contributions on salaries	**140**	8.184.052	7.701.412
4 Depreciation	**141**	55.628.465	51.133.774
5 Other expenses	**142**	25.539.035	15.300.247
6 Value adjustments (ADP 144+145)	**143**	95.264.269	32.995.270
a) fixed assets other than financial assets	**144**		
b) current assets other than financial assets	**145**	95.264.269	32.995.270
7 Provisions (ADP 147 to 152)	**146**	0	328.471
a) Provisions for pensions, termination benefits and similar obligations	**147**		
b) Provisions for tax liabilities	**148**		
c) Provisions for ongoing legal cases	**149**		
d) Provisions for renewal of natural resources	**150**		
e) Provisions for warranty obligations	**151**		
f) Other provisions	**152**		328.471
8 Other operating expenses	**153**	25.918.084	23.910.737
III FINANCIAL INCOME (ADP 155 to 164)	**154**	39.000.322	62.436.313
1 Income from investments in holdings (shares) of undertakings within the group	**155**		
2 Income from investments in holdings (shares) of companies linked by virtue of participating interest	**156**		
3 Income from other long-term financial investment and loans granted to undertakings within the group	**157**	263.443	742.219
4 Other interest income from operations with undertakings within the group	**158**		
5 Exchange rate differences and other financial income from operations with undertakings within the group	**159**	498.796	300.269
6 Income from other long-term financial investments and loans	**160**	617.787	1.064.309
7 Other interest income	**161**	67.188	7.405.241
8 Exchange rate differences and other financial income	**162**	14.102.808	47.164.467
9 Unrealised gains (income) from financial assets	**163**	49.500	
10 Other financial income	**164**	23.400.800	5.759.808
IV FINANCIAL EXPENDITURE (ADP 166 to 172)	**165**	41.421.601	33.615.551
1 Interest expenses and similar expenses with undertakings within the group	**166**		
2 Exchange rate differences and other expenses from operations with undertakings within the group	**167**	706.126	740.711
3 Interest expenses and similar expenses	**168**	25.419.661	28.899.178
4 Exchange rate differences and other expenses	**169**	13.143.223	3.967.202
5 Unrealised losses (expenses) from financial assets	**170**	2.898	8.460
6 Value adjustments of financial assets (net)	**171**		
7 Other financial expenses	**172**	2.149.693	

V SHARE IN PROFIT FROM COMPANIES LINKED BY VIRTUE OF PARTICIPATING INTEREST	173		
VI SHARE IN PROFIT FROM JOINT VENTURES	174		
VII SHARE IN LOSS OF COMPANIES LINKED BY VIRTUE OF PARTICIPATING INTEREST	175		
VIII SHARE IN LOSS OF JOINT VENTURES	176		
IX TOTAL INCOME (ADP 125+154+173 + 174)	177	1.075.555.154	741.037.486
X TOTAL EXPENDITURE (ADP 131+165+175 + 176)	178	1.252.629.686	838.433.648
XI PRE-TAX PROFIT OR LOSS (ADP 177-178)	179	-177.074.532	-97.396.162
1 Pre-tax profit (ADP 177-178)	180	0	0
2 Pre-tax loss (ADP 178-177)	181	-177.074.532	-97.396.162
XII INCOME TAX	182		
XIII PROFIT OR LOSS FOR THE PERIOD (ADP 179-182)	183	-177.074.532	-97.396.162
1 Profit for the period (ADP 179-182)	184	0	0
2 Loss for the period (ADP 182-179)	185	-177.074.532	-97.396.162
DISCONTINUED OPERATIONS (to be filled in by undertakings subject to IFRS only with discontinued operations)			
XIV PRE-TAX PROFIT OR LOSS OF DISCONTINUED OPERATIONS (ADP 187-188)	186	0	0
1 Pre-tax profit from discontinued operations	187		
2 Pre-tax loss on discontinued operations	188		
XV INCOME TAX OF DISCONTINUED OPERATIONS	189		
1 Discontinued operations profit for the period (ADP 186-189)	190		
2 Discontinued operations loss for the period (ADP 189-186)	191		
TOTAL OPERATIONS (to be filled in only by undertakings subject to IFRS with discontinued operations)			
XVI PRE-TAX PROFIT OR LOSS (ADP 179+186)	192		
1 Pre-tax profit (ADP 192)	193		
2 Pre-tax loss (ADP 192)	194		
XVII INCOME TAX (ADP 182+189)	195		
XVIII PROFIT OR LOSS FOR THE PERIOD (ADP 192-195)	196		
1 Profit for the period (ADP 192-195)	197		
2 Loss for the period (ADP 195-192)	198		
APPENDIX to the P&L (to be filled in by undertakings that draw up consolidated annual financial statements)			
XIX PROFIT OR LOSS FOR THE PERIOD (ADP 200+201)	199	-177.074.532	-97.396.162
1 Attributable to owners of the parent	200	-176.840.330	-96.454.000
2 Attributable to minority (non-controlling) interest	201	-234.202	-942.162
STATEMENT OF OTHER COMPRHENSIVE INCOME (to be filled in by undertakings subject to IFRS)			
I PROFIT OR LOSS FOR THE PERIOD	202		
II OTHER COMPREHENSIVE PROFIT/LOSS BEFORE TAX (ADP 204 to 211)	203	0	0
1 Exchange rate differences from translation of foreign operations	204		
2 Changes in revaluation reserves of fixed tangible and intangible assets	205		
3 Profit or loss arising from re-evaluation of financial assets available for sale	206		
4 Profit or loss arising from effective cash flow hedging	207		
5 Profit or loss arising from effective hedge of a net investment in a foreign operation	208		
6 Share in other comprehensive income/loss of companies linked by virtue of participating interest	209		
7 Actuarial gains/losses on defined remuneration plans	210		
8 Other changes in equity unrelated to owners	211		
III TAX ON OTHER COMPREHENSIVE INCOME FOR THE PERIOD	212		
IV NET OTHER COMPREHENSIVE INCOME OR LOSS (ADP 203-212)	213	0	0
V. COMPREHENSIVE INCOME OR LOSS FOR THE PERIOD (ADP 202+213)	214	0	0
APPENDIX to the Statement on comprehensive income (to be filled in by entrepreneurs who draw up consolidated statements)			
VI COMPREHENSIVE INCOME OR LOSS FOR THE PERIOD (ADP 216+217)	215	-177.074.532	-97.396.162
1 Attributable to owners of the parent	216	-176.840.330	-96.454.000
2 Attributable to minority (non-controlling) interest	217	-234.202	-942.162

STATEMENT OF CASH FLOWS - indirect method
for the period 01.01.2018 . to 31.12.2018.

in HRK

Submitter: VIRO TVORNICA ŠEĆERA d.d.			
Item	ADP code	Same period of the previous year	Current period
1	2	3	4
Cash flow from operating activities			
1 Pre-tax profit	001	-177.074.532	-97.396.162
2 Adjustments (ADP 003 to 010):	002	71.348.019	72.367.561
a) Depreciation	003	55.628.465	51.133.774
b) Gains and losses from sale and value adjustment of fixed tangible and intangible assets	004	396.626	106.116
c) Gains and losses from sale and unrealised gains and losses and value adjustment of financial assets	005	2.898	6.210
d) Interest and dividend income	006	-160.413	-193.294
e) Interest expenses	007	15.150.488	21.592.466
f) Provisions	008		
g) Exchange rate differences (unrealised)	009	406.432	714.920
h) Other adjustments for non-cash transactions and unrealised gains and losses	010	-76.477	-992.631
I Cash flow increase or decrease before changes in the working capital (ADP 001+002)	011	-105.726.513	-25.028.601
3 Changes in the working capital (ADP 013 to 016)	012	94.099.110	84.197.771
a) Increase or decrease in short-term liabilities	013	-118.953.049	-95.388.676
b) Increase or decrease in short-term receivables	014	54.896.331	64.813.885
c) Increase or decrease in inventories	015	148.967.601	135.801.983
d) Other increase or decrease in the working capital	016	9.188.227	-21.029.421
II Cash from operations (ADP 011+012)	017	-11.627.403	59.169.170
4 Interest paid	018	-11.187.877	-13.973.556
5 Income tax paid	019		
A) NET CASH FLOW FROM OPERATING ACTIVITIES (ADP 017 to 019)	020	-22.815.280	45.195.614
Cash flow from investment activities			
1 Cash receipts from sales of fixed tangible and intangible assets	021	165.422	2.914.040
2 Cash receipts from sales of financial instruments	022		
3 Interest received	023	4.060.566	9.376.270
4 Dividends received	024	77.328	125.650
5 Cash receipts from repayment of loans and deposits	025	1.114.727	536.924
6 Other cash receipts from investment activities	026	39.246.479	17.025.186
III Total cash receipts from investment activities (ADP 021 to 026)	027	44.664.522	29.978.070
1 Cash payments for the purchase of fixed tangible and intangible assets	028	-35.008.543	-31.625.817
2 Cash payments for the acquisition of financial instruments	029		
3 Cash payments for loans and deposits for the period	030	-21.000	-93.383
4 Acquisition of a subsidiary, net of cash acquired	031		
5 Other cash payments from investment activities	032	-5.112.305	-12.191.005
IV Total cash payments from investment activities (ADP 028 to 032)	033	-40.141.848	-43.910.205
B) NET CASH FLOW FROM INVESTMENT ACTIVITIES (ADP 027 +033)	034	4.522.674	-13.932.135
Cash flow from financing activities			
1 Cash receipts from the increase of initial (subscribed) capital	035		
2 Cash receipts from the issue of equity financial instruments and debt financial instruments	036		
3 Cash receipts from credit principals, loans and other borrowings	037	494.803.445	399.907.065
4 Other cash receipts from financing activities	038	8.073.669	9.217.808
V Total cash receipts from financing activities (ADP 035 to 038)	039	502.877.114	409.124.873
1 Cash payments for the repayment of credit principals, loans and other borrowings and debt financial instruments	040	-434.942.780	-470.381.688

2 Dividends paid	041		
3 Cash payments for finance lease	042	-2.728.635	-798.048
4 Cash payments for the redemption of treasury shares and decrease of initial (subscribed) capital	043		-4.635.120
5 Other cash payments from financing activities	044	-2.682.392	-31.837.322
VI Total cash payments from financing activities (ADP 040 to 044)	**045**	-440.353.807	-507.652.178
C) NET CASH FLOW FROM FINANCING ACTIVITIES (ADP 039 +045)	**046**	62.523.307	-98.527.305
1 Unrealised exchange rate differences in cash and cash equivalents	047		
D) NET INCREASE OR DECREASE OF CASH FLOWS (ADP 020+034+046+047)	**048**	44.230.701	-67.263.826
E) CASH AND CASH EQUIVALENTS AT THE BEGINNING OF PERIOD	**049**	27.869.646	72.100.347
F) CASH AND CASH EQUIVALENTS AT THE END OF PERIOD(ADP 048+049)	**050**	72.100.347	4.836.521

STATEMENT OF CHANGES IN EQUITY

for the period from 1.1.2018 to 31.12.2018

in HRK

Item	ADP code	Attributable to owners of the parent														Minority (non-controlling) interest	Total capital and reserves
		Initial (subscribed) capital	Capital reserves	Legal reserves	Reserves for treasury shares	Treasury shares and holdings (deductible item)	Statutory reserves	Other reserves	Revaluation reserves	Fair value of financial assets available for sale	Cash flow hedge - effective portion	Hedge of a net investment in a foreign operation - effective portion	Retained profit / loss brought forward	Profit/loss for the business year	Total attributable to owners of the parent		
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16 (3 to 6 - 7 + 8 to 15)	17	18 (16+17)
Previous period																	
1 Balance on the first day of the previous business year	01	249.600.060	10.368.101	12.525.652	43.866.670			18.505					99.270.607	57.514.007	473.163.602	6.366.595	479.530.197
2 Changes in accounting policies	02														0		0
3 Correction of errors	03														0		0
4 Balance on the first day of the previous business year (restated) (ADP 01 to 03)	04	249.600.060	10.368.101	12.525.652	43.866.670	0	0	18.505	0	0	0	0	99.270.607	57.514.007	473.163.602	6.366.595	479.530.197
5 Profit/loss of the period	05	0	0	0	0	0	0	0	0	0	0	0	0	-176.840.330	-176.840.330	-234.202	-177.074.532
6 Exchange rate differences from translation of foreign operations	06	0	0	0	0	0	0		0	0	0	0	0	0	0		0
7 Changes in revaluation reserves of fixed tangible and intangible assets	07	0	0	0	0	0	0	0		0	0	0			0		0
8 Profit or loss arising from re-evaluation of financial assets available for sale	08	0	0	0	0	0	0	0	0		0	0			0		0
9 Gains or losses on efficient cash flow hedging	09	0	0	0	0	0	0	0	0	0		0			0		0
10 Gains or losses arising from effective hedge of a net investment in a foreign operation	10	0	0	0	0	0	0	0	0	0	0				0		0
11 Share in other comprehensive income/loss of companies linked by virtue of participating interest	11	0	0	0	0	0	0								0		0
12 Actuarial gains/losses on defined benefit plans	12	0	0	0	0	0	0								0		0
13 Other changes in equity unrelated to owners	13												56.238.543	-57.514.007	-1.275.464		-1.275.464
14 Tax on transactions recognised directly in equity	14	0	0	0	0	0	0								0		0
15 Increase/decrease in initial (subscribed) capital (other than from reinvesting profit and other than arising from the pre-bankruptcy settlement procedure)	15														0		0
16 Increase of initial (subscribed) capital by reinvesting profit	16														0		0
17 Increase of initial (subscribed) capital arising from the pre-bankruptcy settlement procedure	17														0		0
18 Redemption of treasury shares/holdings	18														0		0
19 Payment of share in profit/dividend	19														0		0
20 Other distribution to owners	20														0		0
21 Transfer to reserves by annual schedule	21			7.308				-1.049					-6.259		0	-152	-152
22 Increase in reserves arising from the pre-bankruptcy settlement procedure	22														0		0
23 Balance on the last day of the previous business year reporting period (ADP 04 to 22)	23	249.600.060	10.368.101	12.532.960	43.866.670	0	0	17.456	0	0	0	0	155.502.891	-176.840.330	295.047.808	6.132.241	301.180.049
APPENDIX TO THE STATEMENT OF CHANGES IN EQUITY (to be filled in by undertakings that draw up financial statements in accordance with the IFRS)																	
I OTHER COMPREHENSIVE INCOME OF THE PREVIOUS PERIOD, NET OF TAX (ADP 06 to 14)	24	0	0	0	0	0	0	0	0	0	0	0	56.238.543	-57.514.007	-1.275.464	0	-1.275.464
II COMPREHENSIVE INCOME OR LOSS FOR THE PREVIOUS PERIOD (ADP 05+24)	25	0	0	0	0	0	0	0	0	0	0	0	56.238.543	-234.354.337	-178.115.794	-234.202	-178.349.996
III TRANSACTIONS WITH OWNERS IN THE PREVIOUS PERIOD RECOGNISED DIRECTLY IN EQUITY (ADP 15 to 22)	26	0	0	7.308	0	0	0	-1.049	0	0	0	0	-6.259	0	0	-152	-152
Current period																	
1 Balance on the first day of the current business year	27	249.600.060	10.368.101	12.532.960	43.866.670			17.456					155.502.891	-176.840.330	295.047.808	6.132.241	301.180.049
2 Changes in accounting policies	28														0		0
3 Correction of errors	29														0		0
4 Balance on the first day of the current business year (restated) (ADP 27 to 29)	30	249.600.060	10.368.101	12.532.960	43.866.670	0	0	17.456	0	0	0	0	155.502.891	-176.840.330	295.047.808	6.132.241	301.180.049
5 Profit/loss of the period	31	0	0	0	0	0	0	0	0	0	0	0	0	-96.454.000	-96.454.000	-942.162	-97.396.162
6 Exchange rate differences from translation of foreign operations	32	0	0	0	0	0	0		0	0	0	0	0	0	0		0
7 Changes in revaluation reserves of fixed tangible and intangible assets	33	0	0	0	0	0	0	0		0	0	0			0		0
8 Profit or loss arising from re-evaluation of financial assets available for sale	34	0	0	0	0	0	0	0	0		0	0			0		0
9 Gains or losses on efficient cash flow hedging	35	0	0	0	0	0	0	0	0	0		0			0		0
10 Gains or losses arising from effective hedge of a net investment in a foreign operation	36	0	0	0	0	0	0	0	0	0	0				0		0
11 Share in other comprehensive income/loss of companies linked by virtue of participating interest	37	0	0	0	0	0	0								0		0
12 Actuarial gains/losses on defined remuneration plans	38	0	0	0	0	0	0								0		0
13 Other changes in equity unrelated to owners	39												-176.840.330	176.840.330	0		0
14 Tax on transactions recognised directly in equity	40	0	0	0	0	0	0								0		0
15 Increase/decrease in initial (subscribed) capital (other than from reinvesting profit and other than arising from the pre-bankruptcy settlement procedure)	41														0		0
16 Increase of initial (subscribed) capital by reinvesting profit	42														0		0
17 Increase of initial (subscribed) capital arising from the pre-bankruptcy settlement procedure	43														0		0
18 Redemption of treasury shares/holdings	44														0		0
19 Payment of share in profit/dividend	45														0		0
20 Other distribution to owners	46														0		0
21 Transfer to reserves by annual schedule	47				-4.635.120								-5.316.828		-9.951.948	-187.737	-10.119.685
22 Increase in reserves arising from the pre-bankruptcy settlement procedure	48														0		0
23 Balance on the last day of the current business year reporting period (ADP 30 to 48)	49	249.600.060	10.368.101	12.532.960	39.231.550	0	0	17.456	0	0	0	0	-26.654.267	-96.454.000	188.641.860	5.022.342	193.664.202
APPENDIX TO THE STATEMENT OF CHANGES IN EQUITY (to be filled in by undertakings that draw up financial statements in accordance with the IFRS)																	
I OTHER COMPREHENSIVE INCOME FOR THE CURRENT PERIOD, NET OF TAX (ADP 32 to 40)	50	0	0	0	0	0	0	0	0	0	0	0	-176.840.330	176.840.330	0	0	0
II COMPREHENSIVE INCOME OR LOSS FOR THE CURRENT PERIOD (ADP 31+50)	51	0	0	0	0	0	0	0	0	0	0	0	-176.840.330	80.386.330	-96.454.000	-942.162	-97.396.162
III TRANSACTIONS WITH OWNERS IN THE CURRENT PERIOD RECOGNISED DIRECTLY IN EQUITY (ADP 41 to 48)	52	0	0	0	-4.635.120	0	0	0	0	0	0	0	-5.316.828	0	-9.951.948	-187.737	-10.119.685

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (GFI)

Name of issuer: **VIRO TVORNICA ŠEĆERA d.d.**

OIB: **04525204420**

Reporting period: **01.01.2018. do 31.12.2018.**

Notes to the financial statements are to be drawn up in accordance with the International Financial Reporting Standards (hereinafter: IFRS) in such a way that they:

a) present information about the basis for the preparation of the financial statements and the specific accounting policies used in accordance with the International Accounting Standard 1 (IAS 1),

b) disclose any information required by IFRSs that is not presented elsewhere in the statement of financial position, statement of comprehensive income, statement of cash flows and statement of changes in equity,

c) provide additional information that is not presented elsewhere in the statement of financial position, statement of comprehensive income, statement of cash flows and statement of changes in equity, but is relevant for understanding any of them.