

Granolio Group

*Annual Report
for the year ended
31 December 2022*

This version of the Annual Report is a 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 takes precedence over translation.

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Management Report

General information on Granolio Group

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

The registered seat of the Company is in Zagreb, Budmanijeva 5.

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

Members of the Management Board: Hrvoje Filipović, President
Vladimir Kalčić, Member
Davor Mitrović, Member

Members of the Supervisory Board: Franjo Filipović, President
Jurij Detiček, Deputy President
Tihomir Osmak, Member
Davor Štefan, Member

The total amount of the Company's share capital as of 31 December 2022 is HRK 19,016,430 divided into 1,901,643 ordinary shares with a nominal value of HRK 10.00. Since 23 March 2015, the shares have been listed on the official market of the Zagreb Stock Exchange under ticker GRNL.

The majority shareholder of the company is Mr Hrvoje Filipović, who held 58.11% of the ownership capital on 31 December 2022. On the same day, the ten largest shareholders of Granolio held 95.94% of the capital.

Consolidated Financial Statements of the Group for the period from 1 January to 31 December 2022 represent the financial statements for parent company and related parties. Related parties (jointly referred to as "the Group") own and manage manufacturing facilities and activities in the food processing industry, agriculture and retail.

The consolidated financial statements comprise the financial statements of the following related parties:

1. Granolio d.d. (parent company)
2. Zdenačka farma d.o.o.
3. Zdenka – mliječni proizvodi d.o.o.

The core business of the Granolio Group is the production of wheat flour, production of milk, production of pork and beef, production of dairy products, production of animal feed, storage of grains and oilseeds, trading cereals, oilseeds and raw materials for agricultural production, and organization of agricultural production through subcontracting relationships with producers of agricultural products.

The Group could be classified into the following business segments:

1. Milling
2. Wholesale
3. Dairy and cheese production
4. Other - livestock and service industry (drying and storage of grains and oilseeds, receipt of goods to the purchase and sales lines, lease income).

Management Report (continued)

General information on Granolio Group (continued)

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

- 2 active mills to produce wheat flour;
- silos for storage of grains and oilseeds with a total capacity of about 96,500 tons;
- 1 dairy farm with a total capacity of 450 milking cows;
- approximately 170 hectares of agricultural land;
- milk processing production capacities of 11.4 thousand tons of finished products;

Group's mills production capacity as at 31 December 2022 is shown in the following table.

Mills production capacity as at 31 December 2022:

Mill	ton/24h
Farina	320
Kopanica	230
	550

Subsidiaries

Granolio d.d. holds the entire equity interest in Zdenačka farma d.o.o.

It exercises the controlling influence in the decision-making process at Zdenka - mliječni proizvodi d.o.o. which has since 2011 been consolidated as part of the Granolio Group.

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

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

Management Report (continued)

Significant business events in the current accounting period

Granolio d.d.

At the beginning of 2022, related to the COVID-19 pandemic from previous years, the Company managed to avoid interruptions or significant delays in production and ensured an uninterrupted supply of the market with requested products thanks to long-term and strong relationships with suppliers.

The Company's priorities remain the maintenance of a positive health bulletin for employees, ensuring the smooth continuation of production and continuous supply of customers and consumers, and social responsibility in the broadest sense.

Geopolitical developments in Eastern Europe, at the beginning of 2022, caused economic and political uncertainty and instability in the markets of energy sources, raw materials for sowing, grains and, consequently, all other goods and services.

Granolio d.d.

In HRK '000

	1-12 2022	1-12 2021	change	
Operating income	489,526	446,417	43,109	10%
EBIT	37,977	52,697	(14,720)	35%
<i>margin %</i>	7%	12%		
EBITDA	45,092	71,165	(26,073)	(37%)
<i>margin %</i>	9%	16%		
Net financial result	(4,818)	(4,438)	(380)	9%
Net result	27,196	42,845	(15,648)	
<i>margin %</i>	5.6%	9.6%		

Management Report (continued)

Significant business events in the current accounting period (continued)

Zdenačka farma d.o.o.

The sales revenue in 2022 is higher than the sales revenue in the previous period by about 20%. Income from the sale of milk increased by 19% compared to the previous year, while income from the sale of merchandise increased by 16%. In 2022, the total milk delivery of Zdenačka Farma was 4.7 million kg (2021: 4.7 million kg). The average selling price of milk realized in 2022 is higher than the average selling price realized in the previous year by 19%.

Financial indicators for the year 2022 for the company Zdenačka farma d.o.o. are shown in the following table.

In HRK '000

Zdenačka farma d.o.o.				
	1-12 2022	1-12 2021	change	
Operating income	32,133	26,925	5,208	20%
EBIT	2,677	1,038	1,639	158%
<i>margin %</i>	8%	4%		
EBITDA	5,747	3,952	1,795	45%
<i>margin %</i>	18%	15%		
Net financial result	(836)	(921)	(85)	(9%)
Net result	1,901	117	1,784	1.525%
<i>margin %</i>	6%	0.4%		

Zdenka – mliječni proizvodi d.o.o.

The total production capacity of Zdenka amounts to 11.4 thousand tons of finished products (cheese). Its own brand is "Zdenka", but the company also produces a significant number of products under private brand names. Zdenka's assortment currently includes 18 private brands. In 2022, the company achieved a more favourable operating result compared to the previous year, and the reason for this is the increase in the part of operating costs, such as the cost of employees, the cost of transporting raw materials, and the cost of write-off of unusable packaging.

The company's total debt as of 31 December 2022 is HRK 61 million (31 December 2021: HRK 38 million). The debt consists of HRK 46 million of long-term liabilities to financial institutions (31 December 2021: HRK 32 million) and HRK 15 million of short-term liabilities to financial institutions due in 2022 (31 December 2021: HRK 6 million). Financial indicators for 2022 for the company Zdenka-mliječni proizvodi d.o.o. are shown in the following table.

In HRK '000

Zdenka - mliječni proizvodi d.o.o.				
	1-12 2022	1-12 2021	change	
Operating income	250,558	178,469	72,089	40%
EBIT	9,057	2,390	6,667	279%
<i>margin %</i>	4%	1%		
EBITDA	21,877	18,417	3,460	19%
<i>margin %</i>	9%	10%		
Net financial result	(781)	(839)	(58)	(7%)
Net result	6,756	1,254	5,502	439%
<i>margin %</i>	3%	1%		

Management Report (continued)

Significant business events in the current accounting period (continued)

Granolio group

The operating income of the Granolio Group is almost equal to the operating income achieved in the previous year. A more detailed analysis of income is presented in the rest of the document.

The total debt of the Group is HRK 13.7 million higher than the previous year. Company Zdenka - mliječni proizvodi d.o.o. recorded an increase in total debt due to the financing of part of the investment in production facilities (50% was financed from a bank loan and the rest from EU grants).

Financial indicators for 2022 for the Granolio group are shown in the following table.

In HRK '000

	1-12 2022	1-12 2021	change	
Operating income	748,633	633,997	114,636	18%
Operating expenses	(698,923)	(577,872)	121,051	21%
EBIT	49,710	56,125	(6,415)	(11%)
<i>EBIT margin</i>	7%	9%		
EBITDA	68,932	93,534	(24,602)	(26%)
<i>EBITDA margin</i>	9%	15%		
Net financial result	(6,435)	(6,198)	(237)	4%
Net result for the period	35,793	44,215	(8,422)	(19%)
<i>Group result</i>	32,415	43,588	(11,173)	(25%)
<i>Minority interest</i>	3,378	627	2,751	439%

In HRK '000

	31 Dec 2022	31 Dec 2021	change	
Net assets (capital and reserves)	163,590	127,788	35,802	28%
Total debt	156,714	142,959	13,755	10%
Cash and cash equivalents	29,756	6,868	22,888	333%
Loans granted, deposits and similar**	15,279	19,023	(3,744)	(20%)
Net debt	111,679	117,068	(5,389)	(5%)
Net debt/EBITDA	1,62	1,25		
EBITDA for the past 12 months	68,932	93,534		

** Loans, securities and deposits

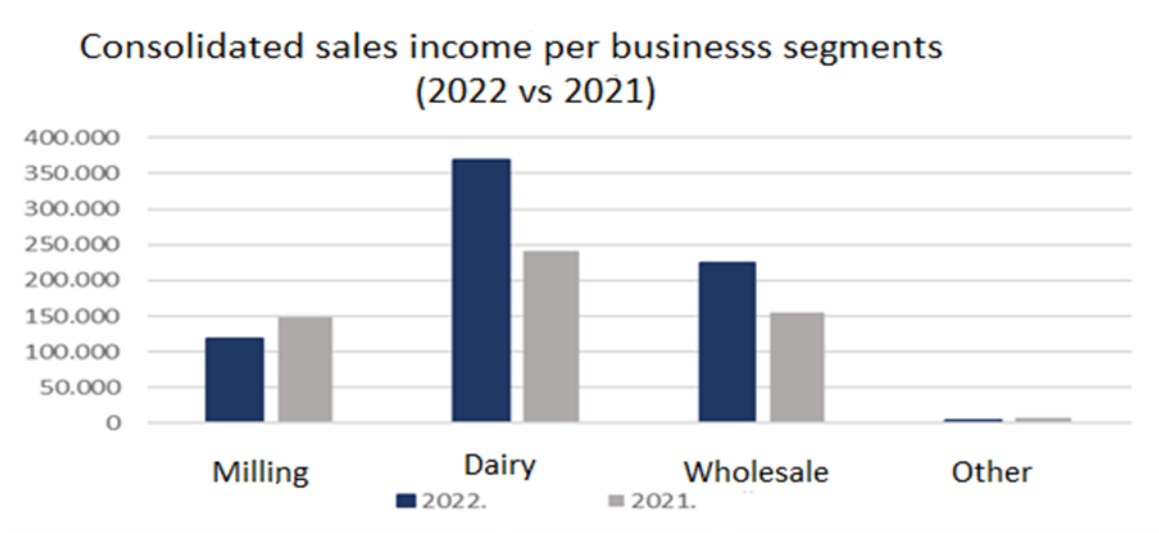
Total debt reported as of 31 December 2022 includes the parent company's financial liabilities to financial institutions and companies amounting to HRK 86 million (31 December 2021: HRK 92.5 million), liabilities of Zdenka - mliječni proizvodi in the amount of HRK 61 million (31 December 2021: HRK 38 million) and liabilities of Zdenačka farma in the amount of HRK 10 million (31 December 2021: HRK 12 million).

Management Report (continued)

Income analysis – Granolio Group

In 2022, the Granolio Group achieved sales revenue in the total amount of HRK 515 million, which is 20% more than the sales revenue achieved in the previous year.

Sales revenue generated within the Group in 2021 amounted to HRK 18 million (2020: HRK 4 million) and was eliminated from total consolidated revenue.



Sales revenues are classified into several business segments: milling, dairy, wholesale and others.

The milling segment includes the sale of flour, realized in the parent company; the dairy segment includes the sale of milk of the company Zdenačka farma and the sale of dairy products of the company Zdenka.

Wholesale includes trade in cereals, oilseeds and raw materials realized in the companies Granolio and Zdenačka farma. The segment other includes services for drying and storage of cereals and oilseeds provided by Granolio, sales of cattle in Granolio and income from own production of agricultural products which is part of Zdenačka farma.

Management Report (continued)

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

Geopolitical developments in Eastern Europe at the beginning of 2022 caused economic and political uncertainty and instability in the markets of energy sources, raw materials for sowing, grains and, consequently, all other goods and services.

The Group's Management undertakes all necessary actions in order to minimize the newly created risks. The investment in constructing solar power plants at all major electricity consumers in the Granolio Group has been completed. This investment will make it possible to reduce consumption by about 30 per cent and reduce the impact of a possible further increase in electricity prices on the Group's operations. The required amount of raw material is secured until the new harvest, and the packaging until the end of the year, reducing the risk of shortages and eventual procurement at high prices. The Group will respond to the overall increase in operating costs by increasing the prices of its products.

Plan of development and investments

Granolio

The Company expects to continue its operations in 2023 and settle all liabilities determined in the pre-bankruptcy settlement procedure, in the manner agreed in the pre-bankruptcy settlement. As far as capital investments are concerned, all plants are technologically advanced to the maximum and there is currently no need for capital investments.

Zdenačka farma d.o.o.

1. Reduce its financial obligations to the parent company.
2. In the next two-year period, maintain milk production of 31 kg / cow per day
3. In the next two years, maintain the intercrowding period at less than 400 days
4. Maintain the age of heifers at calving at 24 months
5. Achieve doubling of birth weight in calves in the first 60 days after calving
6. In order to reduce long-term feeding costs, provide additional arable land, from the existing 170 ha to 300-350 ha over the next few years (mostly through tenders for the lease of state agricultural land)
7. During the next period, provide the mechanization necessary for field production and the most efficient daily operation of the farm
8. Through measure 4.1.2. Manure disposal ensure more efficient disposal of manure and slurry (manure trailer, slurry tank with depositors, front loader for tractor, scrapers for all stables, channel system to connect all manure lagoons)
9. Through measure 4.1.1. Investment in the dairy sector to build a dry and heifer barn and a new milking parlour, a heifer canopy and outlet, hay and straw storage tunnels
10. Construction and commissioning of a photovoltaic power plant for own consumption

Zdenka - mliječni proizvodi d.o.o.

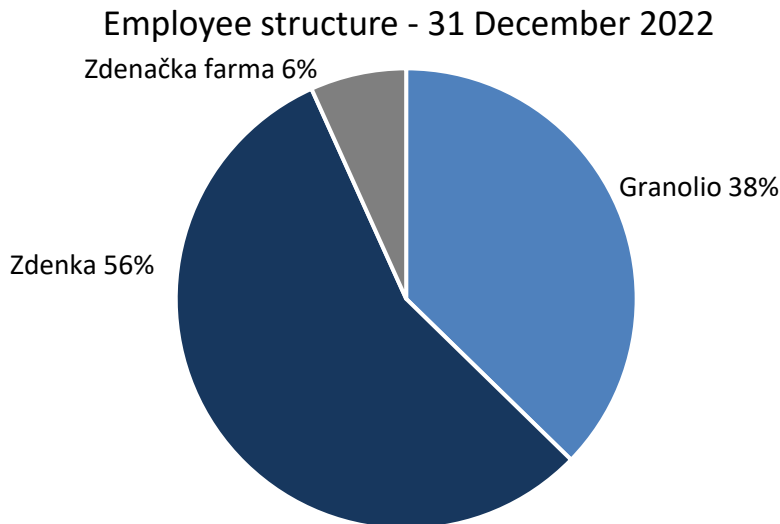
From privatization until today, Zdenka has invested significant funds in the modernization of production facilities and continues to enter new investments in order to be able to follow the needs of consumers and market trends. One of the plans for next year is the construction of a photovoltaic power plant and the production of electricity for its own needs in order to reduce the impact of a possible further increase in electricity prices on the company's operations.

The goal is for investments, as before, to be co-financed with subsidies from EU funds.

Management Report (continued)

Employees

In 2022, based on working hours, the Group employed 416 workers (2021: 398), while on 31 December 20221. employed 445 workers (31 December 2021: 429). The structure of employees per individual company from the Group is shown in the following graph.



Research and development

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

Purchase of own shares

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

Environmental protection

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

Risks

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

Consolidated Statement on the application of the Corporate Governance Code

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

As a company whose shares are listed in the Official Market of the Zagreb Stock Exchange, in 2022, Granolio d.d. (hereinafter: the Company) applied the recommendations provided in the Code of Corporate Governance developed by the Croatian Financial Services Supervisory Agency and Zagreb Stock Exchange., and in force since 1 January 2020; with departures from certain recommendations and guidelines provided therein.

Departures from the recommendations of the Code are limited to provisions whose application at a given time are not practical or enforceable given the circumstances of the business, or is not foreseen given the legal framework in which the Company operates.

In relation to the recommendations contained in Chapter 1 of the Code, in 2022 the Company published only the Articles of Association on its website and plans to take actions to expand the number of acts published on its website.

In relation to the recommendations contained in Chapter 2 of the Code, in 2022 the Company plans to make the Conflict of Interest Management Policy available on the Company's website during 2023. The Company did not adopt special procedures for approving and publishing transactions between members of the Management Board or Supervisory Board and the Company but plans to adopt them in year 2023.

In relation to the recommendations contained in Chapters 3 and 4 of the Code, the Company's Supervisory Board has not adopted a formal procedure for the appointment of the Management Board, but plans to adopt it in 2023. The Supervisory Board, which consists of male members in a term that began before 2020, has set a target for the percentage of female members of the Supervisory Board and Management Board to be achieved in the next five years, but the detailed plan is still under development, and the set goal that in the five-year period until 2025 at least one member of the Supervisory Board will be a woman, in 2022 was not achieved. In this regard, considering that all members of the Supervisory Board who were elected to the Supervisory Board of the Company in 2022 were also members of the previous Supervisory Board, data from Art. 16 of the Code were not made available among the materials for the General Assembly and were not published on the Company's website Also; no act was adopted that determined the expected minimum time load of each member of the Supervisory Board at the time of his appointment. The Supervisory Board of the Company has four members, two of whom are independent. The Supervisory Board did not establish a nomination committee and a remuneration committee since it, according to the provisions of the Statute, has from three to five members and performs tasks within the competence of the aforementioned committees. The function of the audit committee, in accordance with the Audit Act, is performed by the established Audit Committee composed of three members, who are also members of the Company's Supervisory Board, of which one member is independent, and the description of the tasks of the established Supervisory Board (Audit Committee) is planned to be published by the Company on its website during 2023. The Supervisory Board did not evaluate its effectiveness and the individual results of its members, as well as the established committees (Audit Committee) in accordance with the Code, but it is preparing to do the same for 2023.

In relation to the recommendations contained in Chapter 5 of the Code, the statute and/or internal acts of the Company do not contain formal rules governing responsibilities and reporting procedures at the level of the parent company and subsidiaries, but the financial managers of the subsidiaries are responsible for reporting. No formal act was adopted on the profile of the administration for the effective execution of the administration's responsibilities, given that the administration has been operating effectively in the majority of its current composition for many years. The Management did not evaluate its own effectiveness and the effectiveness of individual members in 2022, but it is preparing to do the same in relation to its work in 2023.

In relation to Chapter 6 of the Code, as stated above, the remuneration committee was not established, and the remuneration policy for the members of the Management Board was adopted in 2020 and approved at the Company's General Assembly. The remuneration policy for members of the Company's Management Board stipulates that a member of the Management Board has no legal right to the payment of receipts in shares, nor does it provide for delayed payment of part of the receipts or circumstances in which part of the receipts of a member of the Management Board would be withheld or their return would be requested. The remunerations of the president and members of the Supervisory Board of the Company do not provide for special compensation for membership in the established committees of the Supervisory Board. The Decision on the remuneration of the Supervisory Board has been made available on the Company's website, while the Decision on the remuneration of the Management Board members is planned to be made available in 2023.

Consolidated Statement on the application of the Corporate Governance Code (continued)

Related to the recommendations from Chapter 7 of the Code, internal control and risk management are partly performed through the activities of the Controlling business function, and partly through the activities of the Company's management body and external auditors and certification companies. Also, not all formal policies and procedures from this chapter of the Code were adopted in 2022, but the Company plans to adopt them in 2023.

The Company applies the recommendations from Chapter 8 of the Code, except in terms of Art. 72, as already mentioned, and the Company plans to include information from Article 74 of the Code in its annual report for 2023.

Regarding the recommendations from Chapter 9 of the Code, asking questions directly to the President of the Management Board and the President of the Supervisory Board is possible via the Company's contact email, which is published on the Company's website, while the Company's Statute provides for voting at the Company's Assembly by picking up or submitting ballots. Due to the epidemiological situation in 2022 and the SARS-CoV-2 epidemic, the Deputy Chairman of the Supervisory Board and the Company's external auditor were not present at the General Assembly of the Company.

With regard to the recommendations from Chapter 10 of the Code, in 2023 the Company plans to carry out the activities defined by the adopted policies and carry out the identification of key stakeholders.

Detailed explanations related to the non-application or departures from certain recommendations of the Code in 2022 were presented by the Company in the annual questionnaire, which is an integral part of the Code and which is submitted to the Zagreb Stock Exchange d.d. together with the annual financial statements for public disclosure.

Internal audit and risk management

Although the Company does not have an organized internal audit function, internal business supervision and risk management are partly performed through the activities of the business function of Controlling. Also, the main responsibilities of the Audit Committee of the Supervisory Board include monitoring the financial reporting process and submitting recommendations or proposals to ensure its integrity regarding financial reporting, as well as monitoring the effectiveness of the internal quality control system and risk management system.

In addition to the recommendations of the Code, the Management and the Supervisory Board of the Company increased efforts in order to establish adequate corporate governance and transparent information, respecting the structure and organization of the Company, its strategy and business goals, the distribution of powers and responsibilities with special emphasis on effective procedures for determining, measuring and monitoring and reporting about risks in business, as well as the establishment of appropriate internal control mechanisms.

The Company has prepared separate and consolidated financial statements for the Granolio Group, which consists of Granolio d.d. and the subsidiary Zdenačka farma d.o.o. which is fully owned by Granolio d.d. and for the dependent Company Zdenka - mliječni proizvodi d.o.o., in which the Company is a co-owner.

Significant shareholders and limited shareholders' rights

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

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

Consolidated Statement on the application of the Corporate Governance Code (continued)

Rules for the appointment and revocation of the Supervisory Board

The Supervisory Board of the Company consists of three or five members. The exact number of the Supervisory Board members is determined by the decision of the Company's shareholders at their General Assembly.

As long as there is a prescribed obligation, one member of the Supervisory Board is a representative of employees, who is appointed and revoked as specified in the Labour Act. One member of the Supervisory Board is appointed and revoked directly by Hrvoje Filipović, as long as he holds at least 25% of the total number of issued ordinary shares of the Company.

Other Supervisory Board members are elected and revoked by the Company's General Assembly, based on the proposals of shareholders who individually or collectively represent at least one twentieth of the share capital of the Company at the time of the election.

Rules for the appointment and revocation of the Management Board, amendments to the Statute and special powers of the Management Board

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

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

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

Consolidated Statement on the application of the Corporate Governance Code (continued)

Composition and operation of the Supervisory Board

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

In 2022, the Supervisory Board held six sessions which were attended by all members of the Supervisory Board. In 2022, the Audit Committee held one meeting attended by all board members.

The Supervisory Board assessed the cooperation between the Supervisory Board and the Management Board, as well as the adequacy of the support and information it received from the Management Board during 2022, as satisfactory.

Composition and operation of the Management Board

Pursuant to the Companies Act, the Company's Statute and the Rules of Procedure for the Management Board, the principal power of the Management Board comprises managing the operations and affairs of the Company and representing the Company before third parties. In addition, the Management Board is charged with the responsibility to undertake, autonomously or with a prior consent of the Supervisory Board, any actions and adopt any decisions it considers necessary for effective management and control of the Company's operations. This, inter alia, implies adopting Company by-laws, decisions on the business and development plans of the Company, reporting to the Supervisory Board about the business performance and position of the Company, establishing bodies or boards of the Company, as well as deciding on all other issues for which the Management Board is responsible according to the Statute or another by-law, and those issues that, under the positive law or Statute, do not fall within the area of responsibilities of another corporate body of the Company.

Description of the work of the General Assembly

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

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

Consolidated Statement on the application of the Corporate Governance Code (continued)

Description of the work of the General Assembly (continued)

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

The Members of the Management Board of Granolio d.d. in 2022 were the following:

President of the Management Board:	Hrvoje Filipović (reappointed on 24 February 2021)
Members of the Management Board:	Vladimir Kalčić (reappointed on 24 February 2021)
	Davor Mitrović (first appointment on 28 April 2022)
	Drago Šurina (reappointed on 24 February 2021); end of mandate on 12 May 2022 by resignation)

The Members of the Supervisory Board of Granolio d.d. in 2022 were the following:

President of the Supervisory Board:	Franjo Filipović (reappointed on 6 June 2022)
Members of the Supervisory Board:	Davor Štefan (reappointed on 6 June 2022)
	Jurij Detiček ((reappointed on 6 June 2022)
	Tihomir Osmak (first appointment on 6 June 2022)

This Corporate Governance Statement forms an integral part of the Company's Annual Report for the year 2022.

Responsibility of the Management for the consolidated financial statements

The Management Board of Granolio d.d., Zagreb, Budmanijeva 5, Zagreb and its subsidiaries (hereinafter: the Group) is obliged to ensure that the annual consolidated financial statements of the Group for 2022 are prepared in accordance with the applicable Croatian Accounting Act and International Financial Reporting Standards established by the European commissions and published in the Official Journal of the European Union, so as to provide a true and fair view of the consolidated financial position, consolidated results of operations, consolidated changes in equity and consolidated cash flows of the Group for that period.

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

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


- selecting and then consistently applying suitable accounting policies in accordance with the applicable standards of financial reporting,
- making reasonable and prudent judgments and estimates.
- preparing the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue its business.

The Management Board is responsible for keeping proper accounting records, which disclose, with reasonable accuracy, at any time the consolidated financial position, consolidated business results, consolidated changes in equity and consolidated cash flows of the Group and their compliance with the applicable Croatian Accounting Act. Furthermore, the Management Board is responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

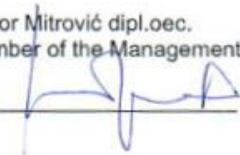
Signed on behalf of and for the Management Board:

28 April 2023

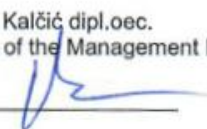
Hrvoje Filipović dipl.oec.
President of the Management Board



Davor Mitrović dipl.oec.
Member of the Management Board



Vladimir Kalčić dipl.oec.
Member of the Management Board



INDEPENDENT AUDITOR'S REPORT

To the shareholders of Granolio d.d., Zagreb:

Report on the audit of the consolidated annual financial statements

Opinion

We performed an audit of the annual consolidated financial statements of Granolio d.d., Zagreb, Budmanijeva 5 ("the Company") and its subsidiaries ("the Group"), for the year ended 31 December 2022, which include the Consolidated Statement of financial position as at 31 December 2022, Consolidated Statement of comprehensive income, the Consolidated Statement of cash flows and the Consolidated Statement of changes in equity for the year then ended, as well as the accompanying Notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying annual consolidated financial statements present a true and fair view of the Group's financial position as at 31 December 2022 and its financial performance and cash flows for the year then ended, in accordance with the Accounting Act and International Financial Reporting Standards established by the European Union ("IFRS").

Basis for Opinion

We conducted our audit in accordance with the International Auditing Standards (ISAs). Our responsibilities under those standards are further described in our Independent Auditors' report under section *Auditors' responsibilities for the audit of the consolidated annual financial statements*. We are independent of the Group in accordance with the Code of Ethics for Professional Accountants (IESBA Code), as well as in accordance with the ethical requirements relevant to our audit of the financial statements, and we 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.

Material Uncertainty Related to Going Concern

We draw attention to Note 3.2. "Basis of preparation" to the consolidated financial statements, which indicates that, based on the submitted request for pre-bankruptcy proceedings of the Company, the Commercial Court in Zagreb on 28 December 2018 adopted the final Decision on the Company's pre-bankruptcy settlement with its creditors. The Company continues to carry out measures included in the restructuring programme. The Management Board believes that the Company can continue its operations assuming a going concern principle. Our opinion is not modified in respect of this matter.

Key audit matters

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

INDEPENDENT AUDITOR'S REPORT (continued)
Report on the audit of the consolidated annual financial statements (continued)
Key audit matter

We have determined the matter described below as the key audit matter to be communicated in our Independent Auditor's report:

Key audit matter	How we addressed the key audit matter
<p><i>Revenue recognition</i></p> <p>In 2022, the Group has stated sales revenues in the amount of HRK 715,464 thousand in its Statement of comprehensive income.</p> <p>Revenue comprises the fair value of the consideration received or receivable for the sale of goods or services in the ordinary course of the Group's activities. Revenues are stated in amounts less value added tax, quantity rebates and sales discounts.</p> <p>The Group recognizes revenue when the amount of revenue can be measured reliably, when the Group will have future economic benefits and when specific criteria for all activities of the Group are met.</p> <p>In accordance with International Financial Reporting Standard 15, Sales Revenue is recognized when the Group delivers goods to a customer, when it no longer has the influence on the management of the goods and when there is no outstanding liability that could affect the acceptance of the product by the customer.</p> <p>Delivery is made when the products are shipped to a specific location; the risks of loss are transferred to the customer and when one of the following is determined: the wholesaler accepts the products in accordance with the contract, or the deadline for acceptance of products has expired or the Company has objective evidence that all acceptance criteria are met.</p> <p>Considering the significance of revenues presented in the Statement of Comprehensive Income and the risk of recognizing them, we concluded that the occurrence, accuracy and completeness of revenues and their distribution in the correct reporting period is a key audit matter.</p> <p>See notes 3.10 "Revenue Recognition" and 6 "Sales revenue" in the accompanying annual consolidated financial statements.</p>	<p>Our audit procedures related to this matter included, but were not limited to:</p> <ul style="list-style-type: none"> - Gaining an understanding of the sales process by interviewing key sales personnel; - Gaining an understanding of key controls related to the recognition of sales revenue; - Conducting detail tests on the sample in order to identify unusual or irregular items and the correct allocation of revenue between reporting periods; - Comparison of obtained external confirmations of the amount of outstanding trade receivables at the reporting date and the balances presented in the Group's records on the same date; - Assessment of the compliance of the sales revenue recognition policy with International Financial Reporting Standard 15 - Revenue from Contracts with Customers; - Assessing the adequacy of disclosures related to the recognition of sales revenue in accordance with International Financial Reporting Standard 15 - Revenue from Contracts with Customers.

INDEPENDENT AUDITOR'S REPORT (continued)**Report on the audit of the consolidated annual financial statements (continued)****Other information**

Management Board is responsible for other information. Other information includes the Management Report and the Statement of Application of the Corporate Governance Code, but does not include the annual consolidated financial statements and our Independent Auditor's Report thereon. Our opinion on the annual consolidated financial statements does not include other information.

In relation to our audit of the annual consolidated financial statements, it is our responsibility to read other information and consider whether the other information is materially inconsistent with the annual consolidated financial statements or our audit findings or otherwise appear to be materially misstated.

Regarding the Management Report and the Statement on the Application of the Corporate Governance Code, we also carried out the procedures required by the Croatian Accounting Act (the "Accounting Act"). These procedures include considering whether the Management Report has been prepared in accordance with Article 21 of the Accounting Act and whether the Statement on the Application of the Corporate Governance Code has been prepared in accordance with Article 22 of the Accounting Act.

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

1. The information in the attached Management Report and Statement on the Application of the Corporate Governance Code is harmonized, in all significant respects, with the attached financial statements;
2. The attached Management Report is compiled in accordance with Article 21 of the Accounting Act; and
3. The attached Statement on the Application of the Corporate Governance Code includes the information defined in Article 22 of the Accounting Act.

Based on our knowledge and understanding of the Group's operations and the environment in which it operates, which we acquired during our audit, we are required to report whether we have identified material misstatements in the Management Report and Corporate Governance Statement received up to the date of this Independent Auditor's Report. In that sense, we have nothing to re

Responsibilities of the Management Board and those charged with governance for the consolidated annual financial statements

Management Board is responsible for the preparation of consolidated annual financial statements that give a true and fair view in accordance with IFRSs, and for those internal controls that the Management Board determines are necessary to enable the preparation of consolidated annual financial statements that are free from material misstatement due to fraud or error.

In preparing the consolidated annual financial statements, Management Board is responsible for evaluation of the Group's ability to continue operations assuming going concern principle, disclosure, if applicable, of issues related to going concern, and using accounting based on going concern principle, unless the Management Board intends to liquidate the Group or discontinue its business or there is no realistic alternative but to do so.

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

INDEPENDENT AUDITOR'S REPORT (continued)

Report on the audit of the consolidated annual financial statements (continued)

Auditor's Responsibility for the audit of consolidated annual financial statements

Our goals are to obtain reasonable assurance about whether the consolidated annual financial statements, as a whole, are free from material misstatement as a result of fraud or error, and to issue an Independent Auditors' Report that includes our opinion. Reasonable assurance is a higher level of assurance, but this is no guarantee that an audit performed in accordance with IAS will always detect a material misstatement when it exists. Misstatements may result from fraud or error and are considered as important, if it can reasonably be expected that, individually or in aggregate, they affect the economic decisions of users made based on these consolidated annual financial statements.

As an integral part of the audit report in accordance with ISA, we make professional judgments and maintain professional scepticism throughout the audit process. In addition, we:

- identify and assess the risks of material misstatement of the annual consolidated financial statements due to fraud or error, design and perform audit procedures in response to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of non-detecting a material misstatement of fraud is greater than the risk of error, as fraud may involve collusion, forgery, intentional omission, misrepresentation or circumvention of internal controls.
- acquire an understanding of internal controls relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal controls.
- assess the appropriateness of the accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- conclude on the appropriateness of the accounting basis used based on the going concern principle used by the Management Board and, based on the obtained audit evidence, we conclude on whether there is significant uncertainty regarding events or circumstances that may create significant doubts about the ability to continue operating for an indefinite period of time. If we conclude that there is significant uncertainty, in our independent auditors' report we are required to call our attention to related disclosures in the consolidated annual financial statements or, if these are inappropriate, to modify our opinion.

Our conclusions are based on the audit evidence obtained up to the date of our independent auditors' report. However, future events or conditions may cause the Group to discontinue its operations on a going concern.

- evaluate the overall presentation, structure and content of the consolidated annual financial statements, including disclosures, as well as whether the annual consolidated financial statements reflect the transactions and events which they are based on in a way that achieves a fair presentation.
- obtain sufficient and appropriate audit evidence regarding the financial information of entities or business activities within the Group to express an opinion on these consolidated financial statements. We are responsible for directing, supervising and performing the Group's audit. We are solely responsible for our audit opinion

INDEPENDENT AUDITOR'S REPORT (continued)

Report on the audit of the consolidated annual financial statements (continued)

Auditor's Responsibility for the audit of consolidated annual financial statements (continued)

We communicate with those charged with governance, among other issues, the intended scope and timing of audit and important audit findings, including any significant deficiencies in internal controls identified during our audit.

We also make a statement to those charged with governance that we have complied with the relevant ethical requirements regarding independence and that we will communicate with them any relationship and other matters that may reasonably be considered to affect our independence as well as, where applicable, on related safeguards.

Among the issues communicated to those charged with governance, we identify those issues that are the most important in auditing the annual consolidated financial statements of the current period and therefore present the key audit matters.

We describe these matters in our Independent Auditor's Report, unless the law or regulation prevents the matters from being publicly disclosed, or when we decide, in extremely rare circumstances, that the matter should not be reported in our Independent Auditors' Report because the negative consequences of the disclosure could reasonably be expected to outweigh the benefits of public interest from such communication.

Statement on other legal requirements

On 6 June 2021, we were appointed by the General Assembly of the Company to audit the annual unconsolidated financial statements of the Group for 2022.

We are engaged to perform the legal audit of the annual consolidated financial statements of the Group for the first time for 2019 until the audit of consolidated annual financial statements for 2022, which is a four-year engagement.

In the audit of the annual consolidated financial statements of the Group for 2022, we determined the materiality for the consolidated financial statements as a whole in the amount of HRK 10,732 thousand, which represents approximately 1.5 % of the realized sales revenue for 2022.

We have chosen sales revenue as a measure of materiality because we believe it is the most appropriate measure given the significant fluctuations in profit before tax in the current and prior periods.

Our audit opinion is consistent with the supplementary report for the Audit committee of the Group prepared in accordance with the provisions of Article 11 of Regulation (EU) no. 537/2014.

During the period between the starting date of the audited annual consolidated financial statements of the Group for 2022 and the date of this Independent Auditor's Report, we did not provide prohibited non-audit services to the Company and its subsidiaries and did not provide services for the design and implementation of internal control procedures or risk management related to preparation and/or control of financial information or the design and implementation of technological systems for financial information, and we have maintained independence in relation to the Group.

INDEPENDENT AUDITOR'S REPORT (continued)**Report on the audit of the consolidated annual financial statements (continued)****Report based on the requirements of Delegated Regulation (EU) 2018/815 amending Directive 2004/109 / EC of the European Parliament and the Council regarding regulatory technical standards for the specification of the European Single Electronic Format**

Auditor's assurance report on the compliance of annual consolidated financial statements (hereinafter: financial statements), prepared pursuant to the provision of Article 462, paragraph 5 of the Capital Market Act (Official Gazette, nos. 65/18, 17/2, 83/21 and 151/22) by applying the Delegated Regulation (EU) 2018/815 establishing a single electronic reporting format for issuers (hereinafter: the ESEF Regulation).

We conducted the engagement with expressing reasonable assurance as to whether the financial statements prepared for the purposes of public disclosure pursuant to Article 462, paragraph 5 of the Capital Market Act, which are contained in the electronic file *granoliogroup-2022-12-31-hr*, in all material aspects prepared in accordance with the requirements of the ESEF Regulation

Responsibilities of Management and those charged with governance

The Management of the Group is responsible for the preparation and content of the financial statements in accordance with the ESEF Regulation.

In addition, the Management is responsible for maintaining a system of internal controls that reasonably assures the preparation of financial statements without material non-compliance with the reporting requirements of the ESEF Regulation, whether due to fraud or error.

The Management is also responsible for:

- public disclosure of the financial statements contained in the annual report in a valid XBRL format, and
- selection and use of XBRL codes in accordance with the requirements of the ESEF Regulation.

Those in charge of governance are responsible for overseeing the preparation of financial statements in the ESEF format as part of the financial reporting process.

Auditor's responsibilities

It is our responsibility to express a conclusion, based on the audit evidence gathered, as to whether the financial statements are free from material non-compliance with the requirements of the ESEF Regulation. We conducted this reasonable assurance engagement in accordance with International Standard on Assurance Engagements (ISAE) 3000 (revised) - Assurance engagements other than audits or reviews of historical financial information.

INDEPENDENT AUDITOR'S REPORT (continued)**Report on the audit of the consolidated annual financial statements (continued)****Report based on the requirements of the ESEF Regulation (continued)****Procedures performed**

The nature, timing and extent of the procedures selected depend on the auditor's judgment. Reasonable assurance is a high level of assurance. However, it does not assure that the scope of testing will reveal all significant (material) non-compliance with the ESEF Regulation.

As part of the selected procedures, we have performed the following activities:

- we have read the requirements of the ESEF Regulation,
- we have gained an understanding of the Company's internal controls relevant to the application of the requirements of the ESEF Regulation,
- we have identified and assessed the risks of material non-compliance with the ESEF Regulation due to fraud or errors; and
- based on that, we have planned and designed procedures for responding to assessed risks and for obtaining reasonable assurance for the purpose of expressing our conclusion.

The aim of our procedures was to assess whether:

- the financial statements, which are included in the consolidated annual report, are prepared in the valid XHTML format,
- the information contained in the consolidated financial statements required by ESEF Regulation, are labelled and all labels meet the following requirements:
- XBRL mark-up language was used,
- the elements of the basic taxonomy listed in the ESEF Regulation with the closest accounting meaning were used, unless an additional element of taxonomy has been created in accordance with Annex IV ESEF Regulations,
- the labels comply with the common labelling rules under the ESEF Regulation.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion.

INDEPENDENT AUDITOR'S REPORT (continued)**Report on the audit of the consolidated annual financial statements (continued)****Report based on the requirements of the ESEF Regulation (continued)****Conclusion**


In our opinion, based on the procedures performed and the evidence obtained, the financial statements presented in ESEF format, contained in the above-mentioned electronic file and based on the provision of Article 462, paragraph 5 of the Capital Market Act prepared for the purposes of public disclosure, in all material respects are in line with the requirements from articles 3, 4 and 6 of the ESEF Regulation for the year ended 31 December 2022.


In addition, we do not express our assurance in other information published with documents in ESEF formation addition to this conclusion, as well as the opinion contained in this Independent Auditor's Report for the accompanying consolidated financial statements and the annual report for the year ended 31 December 2022, we do not express any opinion on the information contained in these statements or other information contained in the file stated above.

The engaged partner involved in the audit of the Group's annual consolidated financial statements for 2022 which results in this Independent Auditor's Report, is the certified auditor Vedrana Stipić.

Zagreb, 28 April 2023

BDO Croatia d.o.o.
Radnička cesta 180
10000 Zagreb



Hrvoje Stipić, President of the
Management Board

Vedrana Stipić, Certified Auditor**BDO**

BDO Croatia d.o.o.
Zagreb, Radnička cesta 180
OIB: 76394522236

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Consolidated Statement of Comprehensive Income

for the year ended 31 December 2022

		In HRK '000	
	Note	2022	2021
Income			
Sales revenue	6	715,464	551,431
Other operating income	7	33,169	82,566
Total operating income		748,633	633,997
Changes in inventories		12,015	3,523
Material expenses	8	(625,416)	(489,234)
Staff costs	9	(45,810)	(40,195)
Depreciation and amortisation	15,16,17	(23,004)	(21,961)
Other costs	11	(8,305)	(7,027)
Value adjustment expenses	10	-	(15,448)
Other operating expenses	12	(8,402)	(7,530)
Total operating expenses		(698,922)	(577,872)
Operating profit/(loss)		49,711	56,125
Financial income	13	919	767
Financial expenses	13	(7,354)	(6,965)
Net financial result		(6,435)	(6,198)
Result before taxation		43,276	49,927
Income tax	14	(7,484)	(5,712)
Profit/(loss) after taxation		35,793	44,215
Other comprehensive income			
Items later transferred to profit or loss			
Financial assets for sale, reclassification into profit or loss		-	-
Total comprehensive income /(loss)		35,793	44,215
Total comprehensive income / (loss) of the current year for distribution:			
To the owners of the Company		32,415	43,588
To owners of non-controlling interests	25	3,378	627
Earnings per share			
Basic and diluted earnings/(loss) per share (in HRK and lipas)	34	17.04	22.92

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

Consolidated Statement of Financial Position

as at 31 December 2022

In HRK '000

	Note	31 Dec 2022	31 Dec 2021
I NON-CURRENT ASSETS			
Intangible assets			
Trademarks, concessions, licenses		39	40
Software and other intangible assets		459	503
Right of use assets		4,805	3,594
	15,16	5,303	4,137
Property, plant and equipment			
Land		14,324	14,324
Buildings		140,848	147,925
Plant, equipment, vehicles and tools		54,788	60,313
Biological assets		7,126	6,798
Other tangible assets		72	71
Tangible assets under construction		14,268	9,766
Investment property		5,047	5,047
	17	236,473	244,244
Financial assets measured at amortised cost			
Given loans and deposits	18b	191	224
Shares by fair value	18a	1	1,036
		192	1,260
II CURRENT ASSETS			
Inventories	19	68,490	47,331
Receivables			
Receivables from related parties	33	4,677	6,323
Receivables from participating interests		-	17
Trade receivables	20a	107,335	85,704
Receivables from the state and other institutions	20b	3,633	8,964
Other receivables	20c	4,697	3,932
		120,342	104,940
Financial assets			
Loans granted to affiliated companies	21b,33	6,491	10,191
Investing in securities	21a	150	150
Loans, deposits and similar	21b	8,447	8,458
		15,088	18,799
Cash and cash equivalents	22	29,756	6,868
Prepaid expenses and accrued income	23	397	768
TOTAL ASSETS		476,041	428,347

Consolidated Statement of Financial Position

as at 31 December 2022 (continued)

	Note	31 Dec 2022	In HRK '000 31 Dec 2021
I EQUITY AND RESERVES			
Subscribed capital		19,016	19,016
Premiums for issued shares		84,196	84,196
Revaluation reserves		45,670	48,671
Legal reserves		7,267	5,158
Reserves for own shares		800	800
Retained earnings		(58,632)	(103,113)
Profit or loss for the year		32,415	43,588
	24	130,732	98,316
Non-controlling interest	25	32,857	29,480
II NON-CURRENT LIABILITIES			
Deferred tax liability	14	10,025	10,684
Liabilities to affiliated companies	33	10,000	10,000
Liabilities for loans, deposits and similar	26	2,000	2,000
Liabilities to banks and other financial institutions	27	101,727	57,641
Lease liabilities	16	3,396	2,655
Liabilities for securities	28	5,013	6,266
Trade liabilities	29	80	11,035
		132,241	100,281
III CURRENT LIABILITIES			
Liabilities for loans, deposits and similar	26	12,500	51,665
Liabilities to related parties	33	14,788	12,650
Liabilities to banks and other financial institutions	27	23,618	8,549
Lease liabilities	16	1,357	831
Liabilities for advances		2,706	802
Trade payables	30a	91,164	97,117
Liabilities under securities	28	1,856	3,848
Liabilities to employees		2,776	2,484
Liabilities for taxes, contributions and similar	30b	8,991	9,418
Interest liabilities		208	540
Prepaid expenses and accrued income	31	20,247	12,363
Other current liabilities		-	3
		180,211	200,270
TOTAL EQUITY AND LIABILITIES		476,041	428,347

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

Consolidated Statement of Changes in Equity

for the year ended 31 December 2022

In HRK '000

	Share capital	Capital reserves	Legal reserves	Reserves for own shares	Revaluation reserves	Retained earnings / (loss carried forward)	Profit/ (loss) for the current year	Total for Group	Non-controlling interest	Total
Balance at 1 January 2021	19,016	84,196	3,497	800	51,674	(140,004)	35,550	54,729	28,852	83,581
Profit for the current year	-	-	-	-	-	-	43,588	43,588	627	44,215
Total other comprehensive income for the year	-	-	-	-	-	-	43,588	43,588	627	44,215
Transfer of revaluation reserve to retained earnings	-	-	-	-	(3,002)	3,002	-	-	-	-
Distribution of 2019 results	-	-	1,661	-	-	33,889	-35,550	-	-	-
Consolidation adjustment	-	-	-	-	-	-	-	-	-	-
Balance at 31 December 2021	19,016	84,196	5,158	800	48,672	(103,113)	43,588	98,317	29,479	127,796
Balance at 1 January 2022	19,016	84,196	5,158	800	48,672	(103,113)	43,588	98,317	29,479	127,796
Profit for the current year	-	-	-	-	-	-	32,415	32,415	3,378	35,793
Total other comprehensive income for the year	-	-	-	-	-	-	32,415	32,415	3,378	35,793
Transfer of revaluation reserve to retained earnings	-	-	-	-	(3,002)	3,002	-	-	-	-
Distribution of 2020 results	-	-	2,109	-	-	41,479	(43,588)	-	-	-
Balance at 31 December 2022	19,016	84,196	7,267	800	45,670	(58,632)	32,415	130,732	32,857	163,549

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

Consolidated Statement of Cash Flows

for the year ended 31 December 2022

		In HRK '000	
	Note	2022	2021
Result before tax		43,276	49,927
<i>Adjustment for:</i>			
Depreciation and amortization	15,16,17	23,003	21,961
Natural growth	17	(3,380)	(3,116)
Loss from the sale and disposal of fixed assets, net		1,952	2,080
Value adjustment of receivables	10	-	15,448
Inventory surplus		(535)	(5,235)
Net interest expense	13	6,039	1,130
Loss from other financial activities		-	3,046
Write-off of liabilities		-	(61,395)
Profit from the sale of financial assets		(3,782)	-
Unrealized exchange differences		304	-
Other		(1,521)	(4,161)
Operating result before changes in working capital		65,357	19,685
Increase in inventory	19	(20,623)	(6,523)
Increase in receivables		(15,863)	(13,813)
(Reduction)/increase in short-term liabilities		(25,629)	26,266
Advances received		2,722	1,923
Operating result after changes in working capital		5,964	27,538
Paid income taxes		-	-
Interest paid		(6,285)	(3,009)
Cash flow from operating activities		(321)	24,529
Interest charged		71	117
Cash expenditures for the acquisition of tangible and intangible assets		(12,716)	(51,232)
Cash expenditures for the purchase of shares		-	(6)
Deposits (paid)/received		-	(1,976)
Cash expenditure for given loans	21	-	(2,940)
Cash receipts from the collection of loans	21	3,742	5,629
Cash receipts from the sale of shares		4,818	-
Cash flow from investing activities		(4,085)	(50,408)
Cash expenses for repaying loans and credits		(67,062)	(80,879)
Cash receipts for credits and loans		89,086	95,355
Net (expenses) by securities	28	(3,244)	(3,463)
Cash expenses for the repayment of leases	15	-	(1,116)
Cash receipts from subsidies		8,514	15,309
Cash flow from financing activities		27,294	25,206
Net changes in cash and cash equivalents		22,888	(673)
Cash at the beginning of the period		6,868	7,541
Cash at the end of the period	22	29,756	6,868

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

Notes to the consolidated financial statements

for the year ended 31 December 2020

1. GENERAL INFORMATION

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

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

At 31 December 2022 the Management Board of Granolio d.d. consisted of the following members:

Hrvoje Filipović - Chairman (since 23 February 2011),
 Vladimir Kalčić - Member (since 23 February 2011),
 Davor Mitrović -Member (since 28 April 2022)

At 31 December 2021 the Management Board of Granolio d.d. consisted of the following members

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

At 31 December 2022 and at 31 December 2021 the Supervisory Board of Granolio d.d. consisted of the following members:

Franjo Filipović – Chairman (since 23 February 2011),
 Jurij Detiček – Member (since 23 February 2011),
 Tihomir Osmak – Member (since 13 June 2019),
 Davor Štefan – Member (since 16 January 2015).

Subsidiaries

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

Name of subsidiary	Core activity	Place of incorporation and operation	Proportion of ownership interest and voting rights held by the Group	
			2022	2021
Zdenka - mliječni proizvodi d.o.o.	Production of dairy, trade and services	Veliki Zdenci	50%	50%
Zdenačka farma d.o.o.	Production of milk, cattle breeding and farm production	Veliki Zdenci	100%	100%

The Company has assessed that it has control over the Company Zdenka mliječni proizvodi d.o.o. in accordance with International Financial Reporting Standard 10.

Notes to the consolidated annual financial statements (continued)

for the year ended 31 December 2022

1. GENERAL INFORMATION (CONTINUED)

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

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

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

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

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

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

Company Granolio d.d. acquired business shares in the company Zdenka in 2010.

In 2011, Granolio d.d. has acquired a predominant influence by which it supervises decision-making in the operations of the subsidiary Zdenka - mliječni proizvodi d.o.o., and decides on financial and business policies, the appointment of members of the Management Board or ensures a majority vote of the members of the Management Board.

Notes to the consolidated annual financial statements (continued)

for the year ended 31 December 2022

2. ADOPTION OF NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")

2.1 First application of new amendments to existing standards in force for the current reporting period

In the current reporting period, the following amendments to existing standards published by the International Accounting Standards Board ("IASB") and adopted by the European Union are in force:

- **Amendment of IFRS 1 "First-time Adoption of International Financial Reporting Standards"** - Annual revision of IFRS for the period 2018-2020. related to the first-time adoption of IFRS in subsidiaries (effective for annual periods beginning on or after 1 January 2022)
- **Amendment to IFRS 3 "Business Combinations"** - Update of the conceptual framework for financial reporting, adopted by the European Union on 28 June 2021 (effective for annual periods beginning on or after 1 January 2022)
- **Amendment of IFRS 9 "Financial Instruments"** - Annual revision of IFRS for the period from 2018-2020. related to fees for the derecognition of financial liabilities through the "10%" test (effective for annual periods beginning on or after 1 January 2022)
- **Amendment of IFRS 16 "Leases"** - Annual revision of IFRS for the period from 2018-2020 related exclusively for illustrative purposes
- **Amendment to IAS 16 "Property, Plant and Equipment"** - Prohibition of reduction of acquisition cost for inflows realized before the asset is put into its intended use, adopted in the European Union on 28 June 2021 (effective for annual periods beginning on or after 1 January 2022)
- **Amendment of IAS 37 "Provisions, Contingent Liabilities and Contingent Assets"** - Interpretation of fulfilment costs related to onerous contracts, adopted in the European Union on 28 June 2021 (effective for annual periods beginning on or after 1 January 2022).
- **Amendment of IAS 41 "Agriculture"** - Annual revision of IFRS for the period from 2018 to 2020 related to the taxation of the fair value of biological assets or agricultural products

The adoption of the aforementioned changes to the existing standards did not lead to significant changes in the Group's financial statements.

2.2 Standards and amendments to existing standards published by IASB and adopted in the European Union, but not yet in force

At the date of approval of these financial statements, the following amendments to existing standards published by IASB and adopted in the European Union were published, but not in force:

- **Amendment to IFRS 17 "Insurance Contracts"** - First-time application of IFRS 17 and IFRS 9 - Comparative information, adopted by the European Union on 8 September 2022 (effective for annual periods beginning on or after 1 January 2023)
- **Amendment of IAS 1 "Presentation of Financial Statements" and IFRS Management Report 2** - Comparative Information, adopted by the European Union on 8 September 2022 (effective for annual periods beginning on or after 1 January 2023)
- **Amendment to IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors"** - Definition of Accounting Estimates, adopted by the European Union on 2 March 2022 (effective for annual periods beginning on or after 1 January 2023)
- **Amendment of IAS 12 "Income Taxes"** - Deferred tax asset and deferred tax liability arising from one transaction, adopted in the European Union on 11 August 2022 (effective for annual periods beginning on or after 1 January 2023)

Notes to the consolidated annual financial statements (continued)

for the year ended 31 December 2022

2. USVAJANJE NOVIH STANDARDARDA, TUMAČENJA I IZMJENA MEĐUNARODNIH STANDARDARDA FINANCIJSKOG IZVJEŠTAVANJA („MSFI“) (NASTAVAK)

2.3 New standards and amendments to existing standards published by IASB, but not yet adopted in the European Union

The IFRSs currently adopted in the European Union do not differ significantly from the regulations adopted by the International Accounting Standards Board (IASB), with the exception of the following new standards and changes to existing standards, on the adoption of which the European Union has not yet made a decision (dates of entry into the force stated below refer to IFRSs issued by IASB):

- **Amendment to IFRS 16 "Leases"** - Lease liability on sale with a leaseback, effective for annual periods beginning on or after 1 January 2024.
- **Amendment of IAS "Presentation of Financial Statements"** - Classification of liabilities into the short-term and long-term, classification of deferred liabilities into short-term and long-term and long-term liabilities related to covenants, effective for annual periods beginning on or after 1 January 2024.

The Group is currently evaluating the impact of new standards and changes to existing standards on its financial statements. The Group expects that the adoption of the mentioned new standards and changes to the existing standards will not lead to significant changes in the Group's financial statements in the period of their first application..

Notes to the consolidated annual financial statements (continued)

for the year ended 31 December 2022

3. SIGNIFICANT ACCOUNTING POLICIES

The following is a presentation of the Group's significant accounting policies adopted for the preparation of these consolidated financial statements. These accounting policies have been consistently applied by the Group and all subsidiaries for all periods included in these consolidated financial statements.

3.1 Statement of compliance

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

3.2 Basis of preparation

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

The Group maintains its accounting records in the Croatian language, in Croatian Kuna and in accordance with Croatian laws.

The preparation of financial statements in accordance with International Financial Reporting Standards (IFRS) requires the use of certain key accounting estimates. The Management Board is also required to use judgment in the process of applying the Group's accounting policies. Areas involving a higher degree of judgment or complexity, i.e. areas where assumptions and estimates are significant for the financial statements, are presented in Note 4.

On 6 December 2018, at the hearing for the amended restructuring plan vote at the Commercial Court in Zagreb, the restructuring plan was approved. The Court's Decision confirming the pre-bankruptcy agreement entered into force on 28 December 2018.

The Company expects to continue its operations as a going concern and to settle all liabilities determined in the pre-bankruptcy settlement procedure. The Company has a sufficient level of liquidity to ensure the fulfilment of obligations to creditors and, in accordance with the business plan, estimates that a positive cash flow will be generated from the core business in future periods.

Throughout 2022, a stable cash flow and funds were provided to meet due liabilities to suppliers, employees, and the state, which was achieved through careful planning and liquidity management. So far, the Company has regularly repaid its liabilities in accordance with the pre-bankruptcy settlement and it is expected that it will continue to operate smoothly and repay its liabilities in accordance with the final settlement in the future. The further investment and business plan will depend on the restructuring plan adopted as part of the pre-bankruptcy settlement.

The Management Board continues intensively with activities for achieving capital adequacy as an essential condition for ensuring the long-term survival of the Company.

3.3. Basis of consolidation

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

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

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

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.

Notes to the consolidated annual financial statements (continued)

for the year ended 31 December 2022

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**3.3 Basis of consolidation (continued)**

The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- Share of voting rights in relation to the size and distribution of the voting rights of other persons entitled to vote;
- Potential voting rights held by the Company, other vote holders or other parties;
- Rights arising from other contractual arrangements.
- Any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

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

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

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

3.4 Business combinations

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

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

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

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

Notes to the consolidated annual financial statements (continued)

for the year ended 31 December 2022

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**3.4 Business combinations (continued)**

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

Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS.

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

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

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

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

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

3.5 Goodwill

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

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

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

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

Notes to the consolidated annual financial statements (continued)

for the year ended 31 December 2022

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**3.6 Interests in associates and joint ventures**

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

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

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

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

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

Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

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

Notes to the consolidated annual financial statements (continued)

for the year ended 31 December 2022

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**3.6 Interests in associates and joint ventures (continued)**

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

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

a. Interests in joint ventures

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

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

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

b. Interests in joint operations

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

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

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

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

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

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

Notes to the consolidated annual financial statements (continued)

for the year ended 31 December 2022

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**3.7 Functional and reporting currency**

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

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

3.8 Use of estimates and judgements

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

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

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

3.9 Revenue recognition

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

The Group recognises revenue when the amount of the revenue can be measured reliably, when future economic benefits will flow into the Group and when the specific criteria for all the Group's activities described below are met. Revenues are recognized in accordance with International Financial Reporting Standard 15 - *Revenue from Contracts with Customers*.

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

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

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

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

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

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

Notes to the consolidated annual financial statements (continued)

for the year ended 31 December 2022

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.9 Revenue recognition (continued)

(iii) Service sales

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

(iv) Financial income

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

3.10 Foreign currencies

(i) Foreign-currency transactions and balances

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

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

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

At 31 December 2022 the official exchange rate of the Croatian kuna against 1 euro (EUR) was HRK 7.53450; and at 31 December 2021 it was HRK 7.517174.

(ii) Group members

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

3.11 Borrowing costs

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

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

Notes to the consolidated annual financial statements (continued)

for the year ended 31 December 2022

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.12 Governments grants and subsidies

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

3.13 Employee benefits

(i) Pension obligations and other post-employment benefits

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

(ii) Long-term employee benefits

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

(iii) Short-term employee benefits

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

(iv) Share-based payments

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

3.14 Dividend

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

3.15 Operating segment reporting

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

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

- Milling
- Dairy
- Wholesale
- Other

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

Notes to the consolidated annual financial statements (continued)

for the year ended 31 December 2022

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**3.16 Taxation****(i) Income tax**

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

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

(ii) Deferred tax assets and liabilities

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

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

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

(iii) Tax exposure

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

(iv) Value added tax (VAT)

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

3.17 Property, plant and equipment

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

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

Notes to the consolidated annual financial statements (continued)

for the year ended 31 December 2022

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.17 Property, plant and equipment (continued)

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

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

Freehold land is not depreciated.

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

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

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

	<u>2022</u>	<u>2021</u>
Buildings	40 years	40 years
Plants and equipment	10 years	10 years
Office equipment	4 years	4 years
Telecommunications equipment	2 years	2 years
Personal cars	2.5 years	2.5 years
Delivery vehicles	4 years	4 years

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

3.19 Investment property

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

Notes to the consolidated annual financial statements (continued)

for the year ended 31 December 2022

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**3.20 Intangible assets**

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

(i) Computer software

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

3.21. Impairment of property, plant, equipment and intangible assets

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

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

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

When an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. Impairment loss reversal is immediately recognised as income, unless the relevant asset is not stated as a revalued amount, in which case the reversed impairment loss is stated as an increase due to revaluation in line with the applicable Standard stipulating the requirements concerning the relevant asset revaluation. In 2020, the Group made a loss from the sale of brands.

Notes to the consolidated annual financial statements (continued)

for the year ended 31 December 2022

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.22 Leases

All leases are calculated by recognizing the right-of-use asset and the lease liabilities except for:

- Low value leases; and
- Leases whose lease term ends in a period of 12 months from the date of first application or less.

The lease liability is calculated at the present value of the contractual future payments to the lessor over the term of the lease, less the discount rate determined in relation to the rate inherent in the lease, unless it is (as is usually the case) not easy to determine, in which case the Company's incremental borrowing rate at the inception of the lease is used. Variable lease payments are included in the calculation of lease obligations only if they depend on an index or rate. In this case, the initial calculation of the lease liability assumes that the variable element will remain unchanged for the duration of the lease. Other variable lease payments represent an expense in the period to which they relate.

At the date of initial recognition, the carrying amount of the lease liability includes:

- amounts expected to be paid by the lessee under residual value guarantees;
- the cost of executing the purchase option if it is certain that the lessee will use that option; and
- payment of fines for termination of the lease if the lease period reflects that the lessee will take the opportunity to terminate the lease

Right-of-use assets are initially measured at the amount of the lease liability, less all lease incentives received and increased by:

- all lease payments made on or before the start date of the lease;
- all initial direct costs; and
- the amount of the provision recognized in the event that the Company contractually bears the costs of dismantling, removing or rebuilding the location of the property.

Right-of-use assets are reduced by the accumulated depreciation calculated on a straight-line basis over the term of the lease, or the remaining economic life of the asset, if it is considered to be shorter than the lease term.

The useful life of the asset with the right of use is shown as follows:

	2022	2021
Land	50 years	50 years
Vehicles	5 years	5 years
Equipment	10 years	10 years

After the initial measurement, the lease liability increases to reflect interest on lease obligations and decreases to reflect lease payments made.

The lease liability is subsequently measured when there is a change in future lease payments resulting from a change in the index or rate, or when there is a change in the estimate of the term of any lease.

For financial leases, the Company recognizes right-of- use assets and the lease liability.

3.23 Inventories

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

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

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

Small inventory and tools are expensed when put into use.

Notes to the consolidated annual financial statements (continued)

for the year ended 31 December 2022

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.24. Biological assets

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

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

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

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

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

3.25. Trade receivables

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

3.26. Cash and cash equivalents

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

3.27. Share capital

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

3.28. Financial instruments

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

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

Notes to the consolidated annual financial statements (continued)

for the year ended 31 December 2022

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**3.29 Financial assets**

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

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

Classification of financial assets

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

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

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

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

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

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

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

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

Interest income is recognised in profit or loss.

Notes to the consolidated annual financial statements (continued)

for the year ended 31 December 2022

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**3.29 Financial assets (continued)***Impairment of financial assets*

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

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

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

(i) Significant increase in credit risk

When assessing whether the credit risk for the financial instrument significantly increased since the initial recognition, the Group compares the risk of default on the reporting date to the risk of default of the financial instrument on the date of initial recognition.

During the assessment, the Group considers both quantitative and qualitative information which are reasonable and available, including the historical experience, which can be accessed without unnecessary costs or engagements.

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

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

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

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

Notes to the consolidated annual financial statements (continued)

for the year ended 31 December 2022

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**3.29 Financial assets (continued)***(ii) Definition of default status*

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

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

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

(iii) Credit-impaired financial assets

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

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

(iv) Write-off policy

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

(v) Measurement and recognition of expected credit losses

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

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

Notes to the consolidated annual financial statements (continued)

for the year ended 31 December 2022

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**3.29 Financial assets (continued)**

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

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

End of financial asset recognition

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

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

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

Loans and receivables

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

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

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

Notes to the consolidated annual financial statements (continued)

for the year ended 31 December 2022

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**3.30 Financial liabilities**

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

The Group measures all financial liabilities amortised cost.

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

Financial liabilities subsequently measured at amortised cost

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

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

Classification as debt or equity

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

Equity instruments

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

Financial liabilities

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

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

Derecognition of financial liabilities

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

3.31 Provisions

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

Notes to the consolidated annual financial statements (continued)

for the year ended 31 December 2022

4. KEY ACCOUNTING JUDGEMENTS AND ESTIMATES

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

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

Critical judgements in the application of accounting policies

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

(i) Revenue recognition

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

(ii) Consequences of certain legal actions

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

(iii) Recoverable amount of trade and other receivables

The company always shows provisions for losses of receivables from customers in an amount equal to the lifetime ECL. Expected credit losses on trade receivables are estimated on the basis of a matrix of days past due, taking into account the historical experience of the debtor's default status, and an analysis of the debtor's current financial position.

(iv) Useful life of property, plant and equipment

As described in Note 3.19 above, the Group reviews the estimated useful lives of property, plant and equipment at the end of each reporting period.

5. IMPACT OF GEOPOLITICAL MOVEMENTS IN UKRAINE

Although the Granolio Group does not operate directly with companies from Ukraine or Russia, it expects an impact on the further increase in energy prices, the increase in wheat prices, and other inputs in the Group's production that could lead to an increase in the final prices of our products.

The Group undertakes all necessary actions to minimize all risks. Given that we successfully overcame the challenges related to market trends after the COVID pandemic, it is expected that we will also successfully overcome potential difficulties related to the recent development of the situation in Ukraine through adequate adaptation of the procurement, sales and finance processes.

Notes to the consolidated annual financial statements (continued)

for the year ended 31 December 2022

6. SALES REVENUES

	In HRK '000	
	2022	2021
Sales revenue – domestic	587,537	418,579
Sales revenue – foreign	127,927	132,852
	715,464	551,431

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

The Group monitors its performance through the following operating segments:

- Milling
- Dairy
- Wholesale
- Other

Segment information – industry analysis:

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

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

	In HRK '000	
	2022	2021
Milling	369,156	240,579
Dairy	224,783	155,383
Wholesale	117,634	148,645
Other	3,891	6,824
	715,464	551,431

Notes to the consolidated annual financial statements (continued)

for the year ended 31 December 2022

6. SALES REVENUE CONTINUED)**Territorial analysis of sales revenues**

Country	In HRK '000	
	2022	2021
Croatia	587,537	418,552
Slovenia	38,529	25,915
Serbia	36,006	54,043
Bosnia and Herzegovina	24,378	23,888
Italy	13,472	18,829
Austria	5,104	-
Montenegro	4,185	4,133
Macedonia	3,092	2,614
Kosovo	1,603	-
Bulgaria	508	-
Germany	501	-
Canada	282	-
Hungary	31	292
Romania	-	188
Other countries	236	2,977
	715,464	551,431

Notes to the consolidated annual financial statements (continued)

for the year ended 31 December 2022

6. OTHER OPERATING INCOME

	In HRK '000	
	2022	2021
Income from subsidies	8,360	5,389
Inventory surpluses	8,200	5,235
Income from the collection of damages	5,691	1,660
Profits from stock exchange transactions	3,782	-
Incomes based on herd growth	3,380	3,116
Subsequent approvals from suppliers	469	249
Income from the sale of fixed assets	226	140
Subsequently determined income	192	841
Write-off of liabilities	-	60,500
Other operating income	2,871	5,436
	33,169	82,566

Income from damages is related to income from damages from insurance companies. Other operating income comprises rental income, sale of raw materials, use of own products and subsequently collected sued receivables.

7. MATERIAL EXPENSES

Material expenses structure is as follows:

	In HRK '000	
	2022	2021
Cost of raw material	435,766	291,734
Energy	29,048	14,905
Waste, breakage and stock failure	2,291	896
Cost of cattle sold	-	131
Other material expenses	3,588	3,149
	470,693	310,815
<i>Cost of goods sold</i>	114,774	144,759
Transport, telephone and postal services	20,714	17,310
Maintenance and security services	4,746	4,015
Lease and rental services	3,018	2,084
Intellectual services	2,999	2,240
Advertising, sponsorship	2,272	1,606
Quality control services	1,289	1,530
Other sales services	465	546
Other external expenses	4,446	4,329
	39,949	33,660
	625,416	489,234

The total fee to the auditor for 2022 amounts to HRK 125 thousand, of which HRK 125 thousand relates to the Group's audit. The total fee to auditors for 2021 amounted to HRK 118 thousand, of which HRK 118 thousand relates to the Group's audit. Other external costs are mostly brokerage services, foreign trade services, other export services, highway costs, registration services, and utilities,

Notes to the consolidated annual financial statements (continued)

for the year ended 31 December 2022

8. EMPLOYEE COST

	In HRK '000	
	2022	2021
Net salaries	30,231	26,703
Cost of taxes and contributions from salaries	9,995	8,495
Contributions on salaries	5,584	4,997
	45,810	40,195

9. VALUE ADJUSTMENT

	In HRK '000	
	2022	2021
Trade receivables (Note 20)	-	5,352
Other receivables	-	10,096
	-	15,448

10. OTHER EXPENSES

	In HRK '000	
	2022	2021
Employee benefits, gifts and assistance	4,556	3,621
Insurance premiums	1,685	1,764
Contributions, membership fees and other	755	674
Banking services and payment costs	427	435
Business travel expenses	414	120
Taxes independent of result	173	-
Other costs	295	413
	8,305	7,027

Notes to the consolidated annual financial statements (continued)

for the year ended 31 December 2022

11. OTHER OPERATING EXPENSES

	In HRK '000	
	2022	2021
Subsequently approved cassa sconto	3,110	2,985
Write-offs of outstanding claims	1,310	292
Loss, wastage, breakage and damage to the goods	1,214	833
Entertainment and presents	668	635
Costs of death and write-off	596	-
Fines, penalties, damages	548	64
Donations and sponsorships	386	-
Depreciation cost of assets and undepreciated value of assets sold and disposed of	298	-
Subsequently determined business costs	87	-
Loss from the sale of fixed tangible and intangible assets	1	227
Other operating expenses	187	2,494
	8,402	7,530

The category "Other operating expenses" includes losses from the adjustment of the value of the basic herd, the costs of death and write-off of biological assets, the costs of allowable production deficits and other operating expenses.

12. FINANCIAL INCOME AND EXPENSES

Financial income

	In HRK '000	
	2022	2021
Positive exchange rate differences	750	573
Interest on loans granted	127	159
Default interest	42	33
Other financial income	-	2
	919	767

Financial expenses

	In HRK '000	
	2022	2021
Interest on loans, borrowings and leases	5,583	2,869
Negative exchange rate differences	1,213	674
Discount interest on bills of exchange	59	175
Default interest	451	151
Other financial expenses	48	3,094
	7,354	6,963

Notes to the consolidated annual financial statements (continued)

for the year ended 31 December 2022

13. INCOME TAX

Income tax recognised in profit or loss

Tax expense/(income) comprises:

	In HRK '000	
	2022	2021
Current tax expense	8,143	6,371
Release of deferred tax assets	-	-
Deferred tax expense	(659)	(659)
Tax expense	7,484	5,712

Effective tax rate reconciliation

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

	In HRK '000	
	2022	2021
Profit before taxation	43,276	49,927
Income tax at a rate of 18%	7,790	9,535
Effect of non-taxable income	(377)	(399)
Effect of non-deductible expenses	1,142	8,625
Effect of unused tax losses and offsets not recognised as deferred tax assets	(412)	(24,132)
Income tax expense recognised in profit or loss (relating to continuing operations)	8,143	6,371
Effective tax rate	18.82%	12.76%

Deferred tax assets and deferred tax liabilities

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

	In HRK '000	
	2022	2021
Deferred tax asset	-	-
	-	-

Notes to the consolidated annual financial statements (continued)

for the year ended 31 December 2022

14. INCOME TAX (CONTINUED)

Unused tax losses

In accordance with tax regulations, the Group had transferable tax losses in the amount of HRK 2.289 thousand as at 31 December 2022 (as at 31 December 2021, it had transferable tax losses in the amount of HRK 924 thousand). These tax losses are transferable 5 years in advance from the year of the tax loss.

Deferred tax assets are not recognized in balance sheet.

Deferred tax liabilities arise from:

	Opening balance	Income tax	In HRK '000 Closing balance
2022			
Revaluation depreciation	10,684	(659)	10,025
Deferred tax liability	10,684	(659)	10,025

	Opening balance	Income tax	in HRK '000 Closing balance
2021			
Revaluation depreciation	11.343	(659)	10.684
Deferred tax liability	11.343	(659)	10.684

Movements in deferred tax assets

	In HRK '000	
	31 Dec 2022	31 Dec 2021
Balance at 1 January	10,684	11,343
Decrease	(659)	(659)
	10,025	10,684

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

Notes to the consolidated annual financial statements (continued)

for the year ended 31 December 2022

15. INTANGIBLE ASSETS

Movement of intangible assets in 2022

	In HRK '000		
	Trademarks, concessions, licenses, goods and services brands	Software and other rights	TOTAL
<u>Purchase value</u>			
Balance on 1 Jan 2021	41	5,037	5,078
Increase	-	85	85
Decrease	-	-144	-144
Balance on 31 Dec 2021	41	4,979	5,019
<u>Value adjustment</u>			
Balance on 1 Jan 2021	1	4,534	4,535
Amortisation	1	130	131
Decrease	-	-144	-144
Balance on 31 Dec 2021	2	4,520	4,522
Carrying value 1 Jan 2021	40	503	543
Carrying value 31 Dec 2021	39	459	497

Movement of intangible assets during 2021

	in HRK '000		
	Trademarks, concessions, licenses, goods and services brands	Software and other rights	TOTAL
<u>Purchase value</u>			
Balance on 1 Jan 2021	-	4,517	14,517
Increase	41	520	561
Balance on 31 Dec 2021	41	5,037	15,078
<u>Value adjustment</u>			
Balance on 1 Jan 2021	-	4,369	4,369
Amortisation	1	165	166
Balance on 31 Dec 2021	1	4,534	4,535
Carrying value 1 Jan 2021	-	147	147
Carrying value 31 Dec 2021	40	503	543

Notes to the consolidated annual financial statements (continued)

for the year ended 31 December 2022

16. RIGHT-OF-USE ASSETS

(a) Right-of-use assets

	In HRK '000			
	Land	Vehicles	Equipment	TOTAL
Balance at 1 Jan 2021	2,263	101	2,533	4,897
Increase	-	490	-	490
Transfer to assets	-913	-	-	-913
Depreciation	-	-572	-308	-880
Balance at 1 Jan 2022	1,350	19	2,225	3,594
Increase	-	-	2253	2,253
Transfer to assets	-	-	-	-
Depreciation	-35	-19	-988	-1,042
Balance at 31 Dec 2022	1,315	-	3,490	4,805

(b) Lease liability

	In HRK '000			
	Land	Vehicles	Equipment	TOTAL
Balance at 1 January 2021	2,141	104	2,513	4,758
Increase	49	-	490	539
Lease payment	-694	-85	-889	-1,668
Exchange rate differences	-21	-4	-112	-137
Balance at 31 December 2021	1,475	15	2,002	3,492
Increase	-	-	2253	2253
Transfer of liability	-50	-	50	-
Lease payment	-31	-12	-942	-985
Exchange rate differences	-	-1	-	-1
Balance at 31 December 2022	1,394	2	3,363	4,759

	2022	31 Dec	31 Dec 2021
Long term liability		4,753	3,486
(Current maturity)		(1,357)	(831)
Lease liability		3,396	2,655

Notes to the consolidated annual financial statements (continued)

for the year ended 31 December 2022

17. PROPERTY, PLANT AND EQUIPMENT

Movement of property, plant and equipment in 2022

	Land	Buildings	Plant and equipment	Tools, inventory and vehicles	Biological assets	Other tangible assets	Assets under construction	Investment property	TOTAL
<u>Purchase cost or revaluation</u>									
Balance at 1 January 2022	14,324	292,356	241,777	10,234	9,235	195	9,765	5,047	582,933
Procurement during the year	-	1,063	507	468	-	-	10,674	-	12,713
*Transfer from assets under construction	-	493	4,883	796	-	-	(6,172)	-	-
Natural growth	-	-	-	-	3,380	-	-	-	3,380
Reclassification	-	-	-	-	-	-	-	-	-
Revaluation	-	-	-	-	-	-	-	-	-
Sale	-	-	(390)	(541)	(1,888)	-	-	-	(2,818)
Write-off	-	(3)	(2,249)	(467)	(957)	-	-	-	(3,676)
Balance at 31 December 2022	14,324	293,909	244,528	10,490	9,770	195	14,267	5,047	592,532
<u>Value adjustment</u>									
Balance at 1 January 2022	-	144,430	182,188	9,510	2,437	122	-	-	338,688
Cost for the period	-	6,445	9,832	619	1,274	-	-	-	18,170
Reclassification	-	-	-	-	-	-	-	-	-
Sale	-	-	(179)	(938)	(707)	-	-	-	(1,824)
Write-off	-	(3)	(2,139)	(134)	(360)	-	-	-	(2,636)
Depreciation of revaluation (from total cost)	-	2,189	1,442	30	-	-	-	-	3,661
Balance at 31 December 2022	-	153,061	191,144	9,087	2,644	122	-	-	356,059
Carrying value at 1 January 2022	14,324	147,926	59,589	724	6,798	73	9,765	5,047	244,245
Carrying value at 31 December 2022	14,324	140,848	53,384	1,403	7,126	73	14,267	5,047	236,473

Tangible assets in the amount of HRK 114,514 thousand (2021: HRK 119,066 thousand) are pledged as collateral for the Group's loan liabilities (Note 26 and Note 27)

Notes to the consolidated annual financial statements (continued)

for the year ended 31 December 2022

17. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Movement of property, plant and equipment in 2021

	Land	Buildings	Plant and equipment	Tools, inventory and vehicles	Biological assets	Other tangible assets	Assets under construction	Investment property	TOTAL
<u>Purchase cost or revaluation</u>									
Balance at 1 January 2021	13,824	281,943	199,207	9,682	9,077	206	13,924	5,047	532,910
Transfer from right-of-use assets	-	-	-	-	-	-	-	-	-
Procurement during the year	500	6,199	1,106	213	-	-	42,640	-	50,658
Transfer from assets under construction	-	4,214	41,942	643	-	-	(46,799)	-	-
Natural increase	-	-	-	-	3,116	-	-	-	3,116
Sale	-	-	(203)	(281)	(1,986)	-	-	-	(2,470)
Write-off	-	-	(275)	(23)	(972)	(11)	-	-	(1,281)
Balance at 31 December 2021	14,324	292,356	241,777	10,234	9,235	195	9,765	5,047	582,933
<u>Value adjustment</u>									
Balance at 1 January 2021	-	135,749	172,090	9,352	2,556	131	-	-	319,878
Transfer from right-of-use assets	-	-	-	-	-	-	-	-	-
Transfer from property with right of use	-	6,493	9,076	463	1,233	-	-	-	17,265
Depreciation	-	-	(179)	(281)	(945)	-	-	-	(1,405)
Sale	-	-	(241)	(54)	(407)	(9)	-	-	(711)
Write-off	-	2,188	1,442	30	-	-	-	-	3,661
Depreciation of revaluation	-	144,430	182,188	9,510	2,437	122	-	-	338,688
Carrying value at 1 January 2021	13,824	146,195	27,117	330	6,521	75	13,925	5,047	213,032
Carrying value at 31 December 2021	14,324	147,926	59,589	724	6,798	73	9,765	5,047	244,245

Tangible assets in the amount of HRK 119,066 thousand (2020: HRK 190,643 thousand) are pledged as collateral for the Group's loan liabilities (Note 27)

Notes to the consolidated annual financial statements (continued)

for the year ended 31 December 2022

18. NON-CURRENT FINANCIAL ASSETS

(a) Share at fair value through profit or loss

	In HRK '000	
	31 Dec 2022	31 Dec 2021
Prehrana trgovina d.d., Zagreb	-	536
Zagrebačke pekare Klara d.d., Zagreb	-	500
Žitozajednica d.o.o., Zagreb	1	1
	1	1,037

Share in equity

	31 Dec 2022	31 Dec 2021
Prehrana trgovina d.d. , Zagreb	-	11.48%
Zagrebačke pekare Klara d.d., Zagreb	-	0.99%
Žitozajednica d.o.o. , Zagreb	1%	1%

(b) Given loans, deposits and similar

	In HRK '000	
	31 Dec 2022	31 Dec 2021
Loans to natural persons	115	120
Deposits	76	76
	191	196

The movement of long - term loans during the year is shown within Note 20.

19. INVENTORIES

	In HRK '000	
	31 Dec 2022	31 Dec 2021
Raw materials	31,773	25,040
Merchandise	13,402	10,992
Finished products	15,731	8,438
Production in progress	7,583	2,861
	68,490	47,331

Notes to the consolidated annual financial statements (continued)

for the year ended 31 December 2022

20. RECEIVABLES

a) Trade receivables and receivables from related parties

	In HRK '000	
	31 Dec 2022	31 Dec 2021
Customers in the country	128,240	110,113
Receivables from subcontractors	15,397	13,900
Customers abroad	5,098	4,931
Expected credit losses	(41,400)	(43,240)
	107,335	85,704

Receivables from subcontractors refer to commodity loans in raw materials for sowing given to farmers who are at the same time suppliers of raw materials for production and trade goods.

Expected credit losses on trade receivables

	In HRK '000	
	2022	2021
Balance on 1 Jan	43,240	38,466
Increase in expected credit losses	-	5,352
Write-off of corrected receivables	(1,636)	(15)
Collection of value-adjusted receivables and receivables from subcontractors	(204)	(563)
Balance on 31 Dec	41,400	43,240

The age analysis of overdue receivables from customers for which no impairment was performed is shown in the following table:

	In HRK '000	
	31 Dec 2022	31 Dec 2021
Not yet due	86,006	71,156
0-90 days past due	19,022	12,201
91-180 days past due	1,875	813
181-360 days past due	405	181
> 360 days	27	1,353
	107,335	85,704

The Group carried out a test of impairment of all receivables from customers and receivables from subcontractors and estimated that receivables from customers and subcontractors as at 31 December 2022 were reported in the age of 360 days, are collectible..

Notes to the consolidated annual financial statements (continued)

for the year ended 31 December 2022

20. RECEIVABLES (CONTINUED)

b) Receivables from the state and other institutions

	In HRK '000	
	31 Dec 2022	31 Dec 2021
Grant and subsidies receivables	1,765	1,637
VAT receivables	1,601	7,073
Profit tax advances	110	110
Other receivables from the state and other institutions	157	144
	3,633	8,964

c) Other receivables

	In HRK '000	
	31 Dec 2022	31 Dec 2021
Interest receivables	979	979
Advances given	578	2,631
Receivables from insurance companies	-	190
Other receivables	3,139	132
	4,697	3,932

Notes to the consolidated annual financial statements (continued)

for the year ended 31 December 2022

21. CURRENT FINANCIAL ASSETS

a) Investment in securities

	In HRK '000	
	31 Dec 2022	31 Dec 2021
Investments in bills of exchange	150	150
	150	150

b) Given loans, deposits and similar

	In HRK '000	
	31 Dec 2022	31 Dec 2021
Loans to legal entities	8,413	8,413
Short - term loans granted to natural persons	32	32
Deposits	3	14
Loans, deposits and similar	8,447	8,459
Loans given to related parties	6,491	10,191
	14,939	18,650

Notes to the consolidated annual financial statements (continued)

for the year ended 31 December 2022

21. CURRENT FINANCIAL ASSETS (CONTINUED)

Movements from receivables from granted loans in 2022

In HRK '000

	1 Jan 2022	Increase in given loans	Collection of given loan	Transfer from long to short term and vice versa	Increase in given loans	31 2022	Dec
Given long-term loans							
Given long-term loans to natural persons	147			-32			115
	147	-	-	-32	-		115
Given short-term loans							
Given loans to related parties	10,191	1,000	-4,700				6,491
Given loans to companies	8,413	-	-				8,413
Given loans to natural persons	32		-32	32			32
Total short-term loans	18,636	1,000	-4,732	32	-		14,936
TOTAL	18,783	1,000	-4,732	-	-		15,051

Notes to the consolidated annual financial statements (continued)
for the year ended 31 December 2022

21. CURRENT FINANCIAL ASSETS (CONTINUED)

Movements from receivables from granted loans in 2021

In HRK '000

	1 Jan 2021	Increase in given loans	Collection of given loan	Transfer from long to short term and vice versa	Exchange rate differences	31 Dec 2021
Given long-term loans						
Given long-term loans to natural persons	144	40	-	(37)	-	147
Given short-term loans						
Given loans to related parties	11,261	400	(1,470)	-	-	10,191
Given loans to companies	11,113	2,500	(5,200)	-	-	8,413
Given loans to natural persons	25	-	(29)	37	-	32
Total short-term loans	22,399	2,900	(6,699)	-	-	18,636
TOTAL	22,543	2,940	(6,699)	-	-	18,783

Notes to the consolidated annual financial statements (continued)

for the year ended 31 December 2022

22. CASH AND CASH EQUIVALENTS

	In HRK '000	
	31 Dec 2022	31 Dec 2021
Bank accounts – domestic currency	25,776	5,117
Bank accounts – foreign currency	3,980	1,750
Cash in hand	-	2
	29,756	6,869

23. PREPAID EXPENSES AND ACCRUED INCOME

	In HRK '000	
	31 Dec 2022	31 Dec 2021
Prepaid expenses	397	752
Accrued income	-	16
	397	768

Movement in prepaid expenses was as follows:

	In HRK '000	
	2022	2021
Balance at 1 January	752	383
Increase in prepaid expenses	895	4,069
Decrease in prepaid expenses	(1,268)	(3,700)
Balance at 31 December	379	752

24. SHARE CAPITAL

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

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

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

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

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

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

Notes to the consolidated annual financial statements (continued)

for the year ended 31 December 2022

24. SHARE CAPITAL (CONTINUED)

The ownership structure of the share capital at 31 December 2022 is presented below, with the largest 10 shareholders holding 99.42% of the shares at that date:

	31 Dec 2022		31 Dec 2021	
	Number of shares (in thousands)	Ownership %	Number of shares (in thousands)	Ownership %
Filipović Hrvoje	1,105	58.11%	1,105	58.11%
HOK - osiguranje d.d.	379	19.90%	379	19.90%
Societe Generale-Splitska banka d.d./Erste plavi OMF kategorija B	149	7.83%	149	7.83%
C.I.M Banque	105	5.52%	105	5.52%
Auctus j.d.o.o.	38	2.00%	38	2.00%
Agram banka d.d. (2021:Capturis d.o.o.)	26	1.11%	26	1.35%
OTP banka d.d./1MO	14	0.74%	14	0.74%
OTP banka d.d./ SZAIF d.d.	6	0.30%	6	0.30%
OTP banka d.d./Generali Victoria fond			6	0.29%
HITA vrijednosnice d.d./1195	4	0.23%	4	0.23%
Others	76	4.15%	70	3.68%
	1,902	100.00%	1,902	100.00%

25. NON-CONTROLLING INTEREST

	In HRK '000	
	2022	2021
Balance at 1 January	29,480	28,852
Reconciliation	-	-
Increase in retained earnings of non-controlling interests	3,378	628
Balance at 31 December	32,857	29,480

Notes to the consolidated annual financial statements (continued)

for the year ended 31 December 2022

26. LIABILITIES FOR LOANS AND DEPOSITS

	Opening balance 1 January 2022	Increase in loan liabilities	Repayment of loan principle	Transfer from long to short term and vice versa	Exchange rate differences	Closing balance 31 Dec 2022
Non-current liabilities						
Liabilities for loans to trading companies	2,000	-	-	-	-	2000
Total non-current loans	2,000	-	-	-	-	2,000
Current liabilities						
Current liabilities for deposits received	-	-	-	-	-	-
Current liabilities for corporate loans	49,665	9,800	-49,000	-	35	10,500
Current loan liabilities to individuals	2,000	-	-	-	-	2000
Total current loans and deposits	51,665	9,800	-49,000	-	35	12,500
TOTAL	53,665	9,800	-49,000	-	35	14,500

Notes to the consolidated annual financial statements (continued)

for the year ended 31 December 2022

27. LIABILITIES TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	In HRK '000	
	31 Dec 2022	31 Dec 2021
Non-current liabilities to banks	101,727	57,641
Current liabilities to banks	23,618	8,549
	125,345	66,190

Summary of borrowing arrangements

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

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

Current bank loans contain short-term loans intended for financing current liquidity and a part of long-term loans maturing in the next year.

The value of assets secured by a mortgage to credit borrowings from banks as at 31 December 2022 amounted to HRK 114,514 thousand (as at 31 December 2021: HRK 20,146 thousand) which refer to:

Mortgages Granolio d.d., Zagreb:

1. Tangible assets: HRK 71,747 thousand (31 December 2021: HRK 56,153 thousand)
2. Shares in Zdenka: HRK 42,767 thousand (31 December 2021: HRK 42,767 thousand)

Total value of mortgaged assets: HRK 97,384 (2020: HRK zero)

Zdenka - mliječni proizvodi d.o.o., Veliki Zdenci- value of tangible assets encumbered by mortgage: HRK 17,130 thousand (2021: HRK 20,146 thousand)

Zdenačka farma d.o.o . - value of tangible assets encumbered by mortgage: HRK zero (2021: HRK zero).

Notes to the consolidated annual financial statements (continued)

for the year ended 31 December 2022

27. LIABILITIES TO BANKS AND OTHER FINANCIAL INSTITUTIONS (CONTINUED)

Movement of liabilities to banks and other financial institutions in 2022

	Opening balance 2022	1 Jan	Increase in loan liabilities	Repayment of loan principle	Write-off	Transfer from long to short term and vice versa	Exchange rate differences	In HRK '000 Closing balance 31 Dec 2022
Long-term loans								
Long-term bank loans		57,641	69,286	(5,399)	-	(20,066)	265	101,727
Short-term loans								
Short-term bank loans		8,549	10,000	(15,001)	-	20,066	4	23,618
TOTAL		66,190	79,286	(20,400)	-	-	269	125,345

Notes to the consolidated annual financial statements (continued)

for the year ended 31 December 2022

27. LIABILITIES TO BANKS AND OTHER FINANCIAL INSTITUTIONS (CONTINUED)

Movement of liabilities to banks and other financial institutions in 2021:

	In HRK '000							
	Opening balance 2021	1 Jan	Increase in loan liabilities	Repayment of loan principle	Write-off	Transfer from long to short term and vice versa	Exchange rate differences	Closing balance 31 Dec 2021
Long-term loans								
Long-term bank loans		121,557	34,712	(48,789)	(38,572)	(11,235)	(32)	57,641
Short-term loans								
Short-term bank loans		10,390	13,643	(26,694)	-	11,235	(25)	8,549
TOTAL		131,947	48,355	(75,483)	(38,572)	-	(57)	66,190

Maturity of liabilities to banks:

	In HRK '000					
	31 Dec 2022	2023	2024	2025	2026	After 2027
Liability to banks	125,345	19,451	22,426	16,330	18,323	48,815
	125,345	19,451	22,426	16,330	18,323	48,815

Notes to the consolidated annual financial statements (continued)

for the year ended 31 December 2022

27. LIABILITIES TO BANKS AND OTHER FINANCIAL INSTITUTIONS (CONTINUED)

Loan balance in foreign currency (EUR) is as follows:

	31 Dec 2022	31 Dec 2021
Granolio d.d., Zagreb	5,147	-
Zdenka-mliječni proizvodi d.o.o., Veliki Zdenci	6,327	4,099
Zdenačka farma d.o.o., Veliki Zdenci	-	-
	11,474	4,099

28. LIABILITIES UNDER SECURITIES

	In HRK '000		
	31	Dec	31 Dec 2021
	2022		
Long-term liabilities under securities	5,013	6,266	6,266
Short-term liabilities under securities	1,856	3,848	3,848
	6,869	10,114	10,114

Liabilities under securities refer to liabilities for bills of exchange to the companies CIM Bank HRK 6,869 thousand (2021: HRK 10,114 thousand).

Movement of liabilities under securities in 2022

	Opening balance 1 Jan 2022	Repayment	Write- off	Transfer from long to short term	Closing balance 31 Dec 2022
Long term liabilities					
Liabilities under securities	6,266			-1253	5,013
Short term liabilities					
Liabilities under securities	3,848	-3245		1253	1,856
TOTAL	10,114	-3,245	-	-	6,869

Notes to the consolidated annual financial statements (continued)

for the year ended 31 December 2022

28. LIABILITIES UNDER SECURITIES (CONTINUED)

Movement of liabilities under securities in 2021

	Opening balance 1 Jan 2021	Repayment	Write- off	Transfer from long to short term	Closing balance 31 Dec 2021
Long term liabilities					
Liabilities under securities	26,983	-	(18,232)	(2,485)	6,266
Short term liabilities					
Liabilities under securities	8,522	(3,463)	(3,696)	2,485	3,848
TOTAL	35,505	(3,463)	(21,928)	-	10,114

The maturity of the securities is shown as follows:

	Balance 31 Dec 2022	In HRK '000				
		2023	2024	2025	2026	After 2027
Liabilities under securities	6,869	1,857	1,253	1,253	1,253	1,253
	6,869	1,857	1,253	1,253	1,253	1,253

29. LONG-TERM TRADE PAYABLES

	In HRK '000	
	31 Dec 2022	31 Dec 2021
Domestic suppliers	80	9,993
Foreign suppliers	-	962
	80	10,955

Liabilities refer to liabilities to suppliers that will be paid according to the adopted pre-bankruptcy settlement from 2018. Liabilities mature in 48 equal monthly instalments, starting in July 2019.

30. SHORT-TERM LIABILITIES

(a) Trade payables

	In HRK '000	
	31 Dec 2022	31 Dec 2021
Domestic suppliers	74,823	87,140
Foreign suppliers	16,338	9,977
Liabilities for uninvoiced goods	3	-
	91,164	97,117

Notes to the consolidated annual financial statements (continued)

for the year ended 31 December 2022

30. SHORT-TERM LIABILITIES (CONTINUED)

Ageing analysis of trade payables as at 31 December 2022

	In HRK '000	
	31 Dec 2022	31 Dec 2021
Not yet due	51,749	64,534
0-90 days past due	34,773	29,218
91-180 days past due	2,479	1,559
181-360 days past due	616	1,047
> 360 days	1,547	759
	91,164	97,117

(b) Liabilities for taxes and contributions

	In HRK '000	
	31 Dec 2022	31 Dec 2021
VAT payable	3,459	1,644
Taxes and contributions from and on salaries	1,299	1,150
Other taxes and contributions payable	4,174	6,624
	8,932	9,418

31. ACCRUED EXPENSES AND DEFERRED INCOME

	In HRK '000	
	31 Dec 2022	31 Dec 2021
Deferred income	830	12,065
Accrued expenses	19,417	298
	20,247	12,363

Movements in deferred income during the year were as follows:

	In HRK '000	
	2022	2021
Balance at 1 January	12.065	2.149
Movements during the year	7.352	9.916
Balance at 31 December	19.417	12.065

Movements in deferred income during the year were as follows:

	In HRK '000	
	2022	2021
Balance at 1 January	298	40
Movements during the year	532	258
Balance at 31 December	830	298

Notes to the consolidated annual financial statements (continued)

for the year ended 31 December 2022

32. CONTINGENT LIABILITIES

As at 31 December 2022, the Group has liabilities under lease agreements in the total amount of HRK 549 thousand, which have not yet been realized or disclosed in the statement of financial position.

Contractual payment of obligations under contracted leases is shown as follows:

In HRK '000

	31 Dec 2022	2023	2024	2025	2026	after 2027
Rentals	3,850	1,179	72	72	72	2,455

33. TRANSACTIONS WITH RELATED PARTIES

In HRK '000

31 December 2022

	Assets		Liabilities	
	Trade and receivables	other	Loans given	Long-term liabilities
				Short-term liabilities
Stan arka d.o.o.			730	
Pet na treću d.o.o.	3,687			64
SP ONE d.o.o.				14,666
Key management	966		5,761	10,000
Cautio	24			58
	4,677		6,491	10,000
				14,788

In HRK '000

31 December 2022

	Assets		Liabilities	
	Loans given	Long-term liabilities	Loans given	Long-term liabilities
Stan arka d.o.o.	160	4,430	-	-
Pet na treću d.o.o.	5,312	-	-	145
SP ONE d.o.o.	-	-	-	12,447
Key management	851	5,761	10,000	-
	6,323	10,191	10,000	12,592

The key management of the Group consists of members of the Management Board of Granolio d.d. and directors of subsidiaries.

Fees paid to key management during 2022 amount to HRK 3,224 thousand (in 2021: HRK 2,182 thousand).

During 2022, HRK 209 thousand of remuneration was paid to the members of the Supervisory Board (in 2021: HRK 133 thousand).

Income and expenses for the years ended 31 December 2021 and 31 December 2020, arising from transactions with related parties, were as follows:

Notes to the consolidated annual financial statements (continued)

for the year ended 31 December 2022

33. TRANSACTIONS WITH RELATED PARTIES

Income and expenses for the years ended 31 December 2022 and 31 December 2021, arising from transactions with related parties, were as follows:

	2022		2021	
	Income	Expenses	Income	Expenses
Cautio d.o.o.	26	-	-	-
SP ONE d.o.o.	71	16,482	-	21,546
Pet na treću d.o.o.	-	2,034	-	1,170
Key management	-	-	115	-
	97	18,516	115	22,716

In HRK '000

34. ZARADA PO DIONICI

	31 Dec 2022	31 Dec 2021
Profit attributable to the Group	32,415	43,588
Weighted average number of ordinary shares used in the calculation of the basic earnings per share	1,901,643	1,901,643
Earnings per share (in HRK and lp)	17,04	22,92

Notes to the consolidated annual financial statements (continued)

for the year ended 31 December 2022

35. RISK MANAGEMENT

35.1. Financial risks

Equity risk management

Net debt-to-equity (Gearing ratio)

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

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

	In HRK '000	
	31 Dec 2022	31 Dec 2021
Debt (long-term and short-term loans and liabilities for securities)	156,714	139,968
Lease liabilities (long-term and short-term)	4,712	3,486
Cash and cash equivalents	-29,756	(6,868)
Net debt	131,670	136,586
Equity	163,650	127,797
Debt to equity ratio	80%	107%

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

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

Categories of financial instruments

	In HRK	
	31 Dec 2022	31 Dec 2021
Financial assets		
Cash	132,387	115,767
Loans and receivables	29,756	6,868

Financial liabilities held at amortised cost:

Liabilities under loans and securities	132,214	76,303
Trade payables	91,285	108,152
Loan liabilities	14,500	53,665
Lease liabilities	4,712	3,486
Other liabilities	44,894	38,842

Financial risk management objectives

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

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

Notes to the consolidated annual financial statements (continued)

for the year ended 31 December 2022

35. RISK MANAGEMENT (CONTINUED)

35.1. Financial risks (continued)

Price risk management

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

Currency risk

The Group is exposed to the risk of changes in foreign exchange rates. The exchange rate risk arises from the portion of the Group's loan debt tied to the movements in the exchange rate of the Croatian kuna (HRK) against the euro (EUR). Significant fluctuations in the HRK/EUR exchange rate could affect the value of the Group's foreign-currency denominated assets and liabilities. In addition, according to the 2021 data, the Group generates around 23% of its total revenue on foreign markets and in euros, which is another aspect of the Group's performance being subject to the fluctuations in the EUR/HRK exchange rate.

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

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

	Assets		Original currency in '000 Liabilities	
	<u>31 Dec 2022</u>	<u>31 Dec 2021</u>	<u>31 Dec 2022</u>	<u>31 Dec 2021</u>
European Union (EUR)	2,325	1,282	15,071	6,542

Foreign currency sensitivity analysis

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

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

	In HRK '000		
	Increase/decrease exchange rate	in	Effect on profit before tax
2022			
EUR	+5%		4,802
	-5%		(4,802)
2021			
EUR	+5%		1,977
	-5%		(1,977)

Notes to the consolidated annual financial statements (continued)

for the year ended 31 December 2022

35. RISK MANAGEMENT (CONTINUED)**35.1. Financial risks (continued)****Credit risk**

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

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

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

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

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

Interest rate risk

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

Due to the fact that the Group uses loans with fixed and variable interest rates, it is exposed to the risk of changes in interest rates. Most loans are nevertheless contracted with fixed interest rates (as a result of the parent company's pre-bankruptcy settlement).

The sensitivity analysis below is based on the risk of changes in interest rates at the date of the statement of financial position. For variable-rate debt, the analysis is prepared assuming the amount of the liability outstanding at the date of the statement of financial position was outstanding for the whole year. If the interest rates would change by 0.5 percent, and all other variables remained constant, there would be a change in the interest expense of the Group in the amount of HRK 5 thousand at 31 December 2022 (2021: HRK 2 thousand). The increased level of long-term debt at variable rates increases the impact of a potential change in the interest rates on the Group's profit.

Notes to the consolidated annual financial statements (continued)

for the year ended 31 December 2022

35. RISK MANAGEMENT (CONTINUED)

35.1. Financial risks (continued)

Liquidity risk

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

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

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

	Weighted average effective interest rate	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
	%						
31 Dec 2022							
Non-interest bearing		50,482	23,094	46,513	2,647	-	122,736
Interest bearing		324	129	903	15,453	37	16,846
		50,806	23223	47416	18100	37	139,582
31 Dec 2021							
Non-interest bearing		44,604	18,111	29,817	3,132	354	96,019
Interest bearing		5	3	40	9,723	37	9,809
		44,609	18,114	29,857	12,855	391	105,828

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

Notes to the consolidated annual financial statements (continued)

for the year ended 31 December 2022

35. RISK MANAGEMENT (CONTINUED)

35.1. Financial risks (continued)

	Weighted average effective interest rate %	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
31 Dec 2022							
Non-interest bearing		29,757	26,568	44,643	5,323	3,345	109,636
Interest bearing		1,577	1,570	41,990	45,940	16,694	107,771
		31,334	28,138	86,633	51,263	20,039	217,407
31 Dec 2021							
Non-interest bearing		54,133	19,502	25,627	17,357	4,481	121,102
Interest bearing		3,804	8,104	57,649	62,731	14,411	146,699
		57,937	27,606	83,276	80,088	18,892	267,801

Notes to the consolidated annual financial statements (continued)

for the year ended 31 December 2022

35. RISK MANAGEMENT (CONTINUED)

35.1. Financial risks (continued)

Fair value measurement

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

Financial assets and financial liabilities	Fair value on the day		Fair value level	Valuation method and main input	Relevant unavailable input	Unavailable input in relation to fair value
	31.12.2022.	31.12.2021.				
Shares and units in private equity firms (Note 16).	During 2022, the shares of Zagrebačka pekarna Klara d.d. and Prehrana trgovina d.d. were completely sold.	1% in shares of Zagrebačka pekarna Klara d.d. engaged in the industrial production of bread, pastries and other related food products - HRK 494 thousand; and 11.48% in shares of Prehrana trgovina d.d. engaged in trade - HRK 536 thousand	Level 3	Income (profit) approach - the method of discounted cash flow is used to determine the present value of future economic benefits to be realized on the basis of ownership of the entities in which the investment is made.	<p>Long-term revenue growth rates determined according to management experience and knowledge of market conditions in the above economic segments, which amount to 3% (2020: 3%).</p> <p>Long-term operating profit margins before tax determined based on management experience and knowledge of market conditions in the above economic segments, ranging from 8 to 11 percent.</p> <p>The weighted average cost of capital determined by the capital asset valuation model (CAPM) is 12%.</p>	<p>A slight increase in revenue growth rates, observed in isolation, would lead to an increase in fair value (see under 1).</p> <p>A significant increase in operating profit margin before tax would, in isolation, lead to an increase in fair value.</p> <p>A slight increase in the weighted average cost of capital would, observed in isolation, lead to a decline in fair value.</p>

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

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

Notes to the consolidated annual financial statements (continued)

for the year ended 31 December 2022

35. RISK MANAGEMENT (CONTINUED)**35.2. Industry risks**

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

Flour production

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

Dairy production

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

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

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

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

Livestock operations

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

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

Notes to the consolidated annual financial statements (continued)

for the year ended 31 December 2022

35. RISK MANAGEMENT (CONTINUED)

35.2. Industry risks (continued)

Crop operations

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

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

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

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

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

Market risk

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

Input commodity and product delivery risks

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

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

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

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

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

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

The mentioned risks of raw material procurement and product delivery may be affected by the COVID-19 virus pandemic.

Notes to the consolidated annual financial statements (continued)

for the year ended 31 December 2022

35. RISK MANAGEMENT (CONTINUED)**35.2. Industry risks (continued)****Competition risk**

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

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

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

35.3. Risks arising from the ordinary course of business**Key supplier and key customer concentration risk**

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

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

The risk of change in ownership

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

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

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

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

35. RISK MANAGEMENT (CONTINUED)**35.3. Risks arising from the ordinary course of business (continued)****Acquisition risk**

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

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

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

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

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

Working capital risk

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

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

Notes to the consolidated annual financial statements (continued)

for the year ended 31 December 2022

35. RISK MANAGEMENT (CONTINUED)**35.3. Risks arising from the ordinary course of business (continued)****Input commodity price risk**

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

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

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

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

Dependence on the management and key personnel

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

IT risks

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

Notes to the consolidated annual financial statements (continued)

for the year ended 31 December 2022

35. RISK MANAGEMENT (CONTINUED)**35.3. Risks arising from the ordinary course of business (continued)****Antitrust and competition law non-compliance risk**

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

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

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

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

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

Litigation risk

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

The risk of liabilities or losses not covered by insurance

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

Notes to the consolidated annual financial statements (continued)

for the year ended 31 December 2022

35. RISK MANAGEMENT (CONTINUED)

35.4. General risks

Business environment risk

The business environment risk includes political, legal and macroeconomic risks prevailing in the business environment of the Group, which is primarily the Croatian market on which the Group generates almost 83.7% of its total revenue (2018: 87.2%), followed by the markets of Bosnia and Herzegovina, Italy, Serbia, Hungary and Slovenia. The Group cannot provide any guarantee that the Croatian market where the Group realizes most of its revenues will continue with the successful implementation of political and economic reforms. Delays or failures in carrying them out could have an impact on the Group's business. The state budget savings and tax burden currently being implemented in the Republic of Croatia could result in slowing economic growth or reducing disposable income, which could affect both revenue and profitability of the Group.

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

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

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

Notes to the consolidated annual financial statements (continued)

for the year ended 31 December 2022

35. RISK MANAGEMENT (CONTINUED)**35.4. General risks****Business environment risk**

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

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

Risk of changes in legal framework

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

Notes to the consolidated annual financial statements (continued)

for the year ended 31 December 2022

36. CONTINGENT LIABILITIES

On 31 December 2022 the Group has no contingent liabilities under guarantees or co-borrowings.

Litigation

There are no significant lawsuits against the Group. Consequently, the cost of provisions for litigation is not recognized.

37. EVENTS AFTER THE REPORTING DATE

After the balance sheet date, in accordance with the Law on the introduction of the euro, the euro was introduced as the official currency in the Republic of Croatia. The financial statements for the year 2022 were drawn up in Croatian Kuna as the reporting currency that was valid until 31 December 2022, while the financial statements of future periods will be drawn up in euros as the new reporting currency.

Besides this, there were no events after the balance sheet date that would significantly affect the Group's annual financial statements for 2022, which should therefore be published.

38. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Management Board and authorized for issue on 28 April 2023

Signed on behalf of and for the Management Board:

Hrvoje Filipović dipl.oec.
President of the Management Board

Vladimir Kalčić dipl.oec.
Member of the Management Board

Davor Mitrović dipl.oec.
Member of the Management Board
