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Unofficial English translation of the

Prospectus for the Public Offering of New Ordinary Shares marked GRNL-R-A

(“Prospectus")

The General Assembly of Granolio joint-stock company (Granolio d.d.) for production, trade and services (“Granolio", “Company" or “Issuer") held on 2 September 2014 reached a Decision on the increase of the share capital and issuing of new ordinary shares at a public offering by cash with complete exclusion of the pre-emptive right of the existing shareholders with regard to the subscription of New Shares, as well as the decision on granting permission to acquirers to acquire voting shares of the Company without an obligation to announce a takeover bid, should the mentioned acquisition of voting shares by the acquirer impose an obligation to announce a takeover bid, in accordance with article 14, paragraph 1, item 3 of the Act on the Takeover of Joint Stock Companies (“Decision on the increase of share capital").

Based on the aforementioned Decision on the increase of share capital, the Issuer has issued 701,643 new ordinary shares in personal shares in dematerialized form, each with a nominal value of HRK 10.00 at a unique Final Issuing Price of HRK 134.00 for a new share (“New Shares"). After the increase of the share capital was incorporated into the court registry, the share capital of the Issuer has increased from the amount of HRK 12,000,000 divided into 1,200,000 existing ordinary shares of the Issuer ("Existing Shares") by the amount of HRK 7,016,430.00 to the amount of HRK 19,016,430.00 divided into 1,901,643 ordinary shares marked GRNL-R-A (Existing Shares and New Shares combined into “Shares”). After the increase of the share capital is incorporated into the court registry of the Commercial Court in Zagreb, share capital of the Company amounts to HRK 19,016,430.00 and is divided into 1,901,643 Shares each of which has the nominal value of HRK 10.00. Share capital of the Company has been paid in full.

Central Depository and Clearing Company (CDCC) (Središnje klirinško depozitarno društvo - "SKDD") incorporated the increase of share capital of Granolio in its computer system on 9 December 2014.

The Issuer retained the right of exemption from the obligation of publishing the Issue Prospectus for the public offering of New Shares in accordance with article 351, paragraph 1, item 3, of the Capital Market Act (OG 88/2008, 146/2008, 74/2009, 54/2013 and 159/13), considering that the Offer of Issuer’s New Shares was intended for investors in the Republic of Croatia, who were obligated to pay a minimum amount of EUR 100,000.00 in HRK equivalent for subscribed New Shares, per investor and for each separate offer.

Subject of listing into the Official market of the Zagreb Stock Exchange comprises of 1,901,643 Shares, marked GRNL-R- A and ISIN HRGRNLRA0006.

Following the approval of the Admission Prospectus by HANFA, the Issuer will publish this Prospectus pursuant to Article 374 of the Capital Market Act, before listing the Shares to the Official Market of the Zagreb Stock Exchange.

Investing in shares entails risks. Before investing in Shares, investors should access and take into consideration important factors stated in part II of the Prospectus, section 4 RISK FACTORS SPECIFIC TO THE ISSUER and in part III of the Prospectus, section 2 RISK FACTORS RELATED TO INVESTMENT IN SHARES.

Placement Agents

ERSTE&STEIERMÄRKISCHE BANK d.d.

Privredna banka Zagreb d.d.

The date of this Prospectus is 18 February 2015.

IMPORTANT NOTICE

In public offering of New Shares the Issuer retained the right of exemption from the obligation to publish a prospectus in accordance with Article 351, paragraph 1, item 3 of the Capital Market Act (OG 88/2008, 146/2008, 74/2009, 54/2013, 159/13; hereinafter "CMA"), considering the fact that the offering of New Shares was intended for investors in the Republic of Croatia, who were obligated to pay a minimum amount of EUR 100.000.00 in HRK equivalent for the subscribed New Shares, per investor and for each separate offer. Pursuant to Article 354 of the CMA, the Issuer has notified Croatian Financial Services Supervisory Agency (Hrvatska agencija za nadzor financijskih usluga - “HANFA”) on the use of the mentioned exemption three working days before the start of the public offering.

After the approval of the Admission Prospectus by HANFA, its publication and the approval of admission by Zagreb Stock Exchange (Zagrebačka burza d.d.), the Issuer will list the Shares on the Official Market of the Zagreb Stock Exchange.

The Issuer assumes responsibility for the accuracy and completeness of this Prospectus, i.e. the information contained in it. In accordance with the information available to the Issuer, to the best of its knowledge, information contained in this Prospectus is a truthful and complete representation of its assets, including but not limited to rights and obligations, profit and loss, its financial position and the rights and obligations arising from or related to the New Shares of the Issuer. As far as the Issuer is aware, there are no omissions of facts that could affect the truthfulness and/or completeness of this Prospectus, including but not limited to the information that could significantly influence the decision whether to invest in the Issuer's New Shares and the related risks.

Placement Agents ERSTE & STEIERMÄRKISCHE BANK d.d. and Privredna banka Zagreb d.d. as well as the Company's legal adviser BUTERIN & POSAVEC, odvjetničko društvo j.t.d., are not in any way responsible for nor do they guarantee to the Issuer or any third party (investors, shareholders, owners of New Shares etc.), directly or indirectly, the fulfilment of obligations by the Issuer regarding the Shares, the truthfulness and content of the Prospectus or the completeness of the data contained in it.

Only the information contained in this Prospectus is relevant for reaching a decision on investing in New Shares of the Issuer. Each potential investor should decide whether to invest in the Issuer's New Shares based on their own assessment of the Issuer and the conditions of the offering of New Shares. The Issuer did not authorize any natural and/or legal person to provide information relative to its New Shares, and any information by third persons differing from the information contained in this Prospectus is not considered relevant. Furthermore, the Issuer does not explicitly nor implicitly confirm the truthfulness of unauthorized information or statements, neither give its consent for such information or statements, nor take any responsibility for the damage that the investors may consequently suffer from it.

The truthfulness and completeness of the information contained in this Prospectus is established in accordance with the situation as on the day of creation of this Prospectus, unless explicitly stated that it refers to a different date. The Issuer emphasizes that the information related to the Issuer's performance, its financial position and financial results contained in this Prospectus may change after the date of creation of this Prospectus.

The law applicable in the matter of this Prospectus is the law of the Republic of Croatia, with the exclusion of the collision norms of the private international law. For disputes relating to the Issuer's New Shares, including disputes relating to matters of validity of their issuing, as well as any legal effects arising therefrom, the jurisdiction lies with the competent courts of the Republic of Croatia. Foreign investors shall also comply with the relevant regulations of their country of origin.

This Prospectus should not be considered as a recommendation for purchase or offer for sale of the Issuer's New Shares in its name or for its account or in the name and for the account of affiliated companies of the Issuer, their affiliated companies and representatives. The Prospectus does not contain any advice, including but not limited to the advice whether to invest in the Issuer's New Shares, legal or financial advice.

The Issuer advises each investor who considers subscribing for or purchasing and selling New Shares, to consider, evaluate and form their own opinion on all pieces of information related to facts, risks, trends, estimates and projections relative to the Issuer, New Shares and the business environment.

The distribution of the Prospectus, as well as the offer and sale of the New Shares in certain countries may be restricted by relevant regulations. Investors are obliged to inform themselves on the mentioned regulations and act accordingly. Investors are obliged to act in accordance with the laws and regulations applicable in the country where the New Shares are bought, offered or sold, i.e. on the territory where the Prospectus is owned or distributed and are required to obtain approvals, consents or authorizations as stipulated by applicable regulations. The Issuer does not hereby enable offers for the purchase of New Shares to be made on any territory, other than the territory permitted by applicable law.

FORWARD-LOOKING STATEMENTS

The Issuer does not state certain information contained in the Prospectus as historical but as specific facts related to the future; such facts are given in different parts of the Prospectus, including but not limited to the facts given in section 12 "Information on Trends".

Expressions such as "believes", "foresees", "estimates", "expects", "intends", "announces", "aims", "may", "can", "will, "plans" and other similar expressions refer exclusively to statements regarding the future. Taking into consideration their nature, statements regarding the future entail inseparable general and/or specific risks and uncertainties and there is a possibility that some statements regarding the future may not be fulfilled.

Forward-looking statements relate to, among other things, the risk factors listed in part II of the Prospectus, section 4 - "Risk factors specific to the Issuer" and in part III of the Prospectus, section 2 - "Risk factors related to investment in shares", as well as all other factors listed in other parts of the Prospectus.

When making specific decisions based on the forward-looking statements, investors are cautioned to take into consideration all stated and other known risk factors, uncertainties or events that could influence the Issuer's regular business operations in any way. Forward-looking statements refer exclusively to the time when they are made, and the Issuer undertakes no obligation to publicly update or revise any forward- looking statements as a result of new information, future events or otherwise, unless it would be required by applicable rules or regulations of Zagrebačka burza d.d.

The Issuer hereby does not state, predict nor guarantee that the statements regarding the future will be fulfilled. Statements regarding the future cannot be considered as the most likely or usual scenario but only represent one of the possible scenarios regarding the Issuer's business operations.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

All annual information, including but not limited to the consolidated financial statements of the Issuer in this Prospectus refer to calendar years. At certain places in the Prospectus numbers have been rounded; therefore there is a possibility that sum totals in the Prospectus do not correspond to the arithmetic sum of their constituent parts.

The Prospectus contains:

- restated audited consolidated financial statements of the Issuer for years that ended on 31 December 2011, 31 December 2012 and 31 December 2013.
- audited consolidated financial statements of the Issuer for the first half of 2014

The abovementioned financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS). Presentation of financial information in accordance with IFRS requires the Issuer to give estimates and make assumptions regarding the future that could influence the values presented in the financial statements and notes. The resulting accounting estimates are, by definition, in rare cases identical to actual results.

All aforementioned statements have been audited by Baker Tilly Discordia Ltd. With registered office in Zagreb, Ulica grada Vukovara 269F, registered with the court register of the Commercial Court in Zagreb under court registration number (MBS): 080022264, PIN: 71665824084.

Potential investors are required to evaluate Issuer’s business operations, conditions of the Offer as well as financial information stated in the Prospectus before reaching a decision on investing in the Issuer’s shares.

PRESENTATION OF OTHER INFORMATION

Unless explicitly stated otherwise or unless otherwise arises from the context in which they are mentioned, the below stated terms in this Prospectus have the following meaning:

- the term “Granolio Group" or “Group" applies to the joint-stock parent company Granolio together with the companies over which it exercises a controlling influence (Zdenačka farma Ltd., Prerada žitarica Ltd., Zdenka mliječni proizvodi Ltd. and Žitar Ltd.)
- the terms “Issuer", “Company" or “Granolio" refers to the joint-stock parent company Granolio, with registered office in Zagreb, Budmanijeva 5,
- the term “Zdenka" refers to the company ZDENKA - MLIJEČNI PROIZVODI Ltd., with registered office in Veliki Zdenci, Trg kralja Tomislava 15
- the term “Žitar" refers to the company ŽITAR Ltd., with registered office in Donji Miholjac, Kralja Držislava 1
- the term “Prerada žitarica" refers to the company PRERADA ŽITARICA Ltd., with registered office in Grubišno polje, Braće Radića 45
- the term “Zdenačka farma" refers to the company ZDENAČKA FARMA Ltd., with registered office in Veliki Zdenci, Mate Lovraka 118/b
- the term “Belje" refers to the joint-stock company Belje Darda, with registered office in Darda, Svetog Ivana Krstitelja 1a
- the term “PIK-Vinkovci" refers to the joint-stock company PIK-Vinkovci, with registered office in Vinkovci, Matije Gupca 130
- the term “HRK", “kuna", “kn" are used as a designation for the currency unit of the Republic of Croatia;
- the terms “euro" or „EUR" or „€" are used as a designation for the currency unit applicable in countries participating in the European monetary Union; and
- the term “dollar" or “USD" or “$" refer to the currency units applicable in the United States of America.

It is possible that the sum totals in certain tables of this Prospectus do not correspond to the exact arithmetic sum of separate amounts because the separate amounts have been rounded in the process.

CONTENTS

I. PROSPECTUS SUMMARY

A. INTRODUCTION AND IMPORTANT NOTICE

A.1 Important notice

Hereafter is the summary (further in the text “Summary”) of key information regarding the joint-stock company Granolio, d.d. and its Shares which are to be listed.

Summary should be read as an introduction into the Prospectus. The investor should reach their decision on investing into Shares after analysing the whole Prospectus. Before making a decision to invest, potencial investors should review the whole Prospectus in detail, including information stated in Part II, section 4 “Risk factors specific to the Issuer”, and Part III, section 2 “Risk factors related to investment in shares”, restated audited consolidated financial statements of the Issuer for years 2011, 2012 and 2013, audited consolidated financial statements for the first half of 2014 mentioned in Part II, section 20.1 and other financial information.

Prospectus is prepared in Croatian language exclusively. There is no translation of the Summary published in any other language other than Croatian, neither notification of the Prospectus has been requested.

Should there be a law suit filed with the court of law regarding the information contained in this Prospectus, the investor filing the suit might be liable to bear, according to national legislation of Member State, translation costs of the Prospectus before the legal proceedings commence.

Civil duty lies only with persons who have issued the Summary, including its translation, but only if the information contained within the Summary is misleading, inaccurate or inconsistent when read with other parts of the Prospectus; or, if the Summary, when read with other parts of the Prospectus, does not give key information which represent help for the investors in making a decision on possible investment in sucject securities.

The Issuer has retained the right of exemption from the obligation to publish the Prospectus in accordance with Article 351, paragraph 1, item 3 of the Capital Market Act considering the fact that the offering of New Shares was intended for investors in the Republic of Croatia, who were obligated to pay a minimum amount of EUR 100.000.00 in HRK equivalent for the subscribed New Shares, per investor and for each separate offer. On 14 September 2014 the Issuer notified the Croatian Financial Services Supervisory Agency (Hrvatska agencija za nadzor financijskih usluga (“HANFA") on the use of the mentioned exemption.

After the approval and publication of this Prospectus and the approval of admission by Zagreb Stock Exchange (Zagrebačka burza, d.d.), Shares will be listed on the Official Market of the Zagreb Stock Exchange.

A.2 Compliance for the use of the Prospectus for subsequent resale or final placement of securities by financial intermediaries

Not applicable.

B INFORMATION ON THE ISSUER SUMMARY

B.1 Issuer's company name

Full company name: Granolio joint stock company for production, trade and services (Granolio d.d. za proizvodnju, trgovinu i usluge)

Abbreviated company name: Granolio d.d.

B.2 Issuer's registered seat and legal form, legislature on basis of which the Issuer operates and country of establishment

Issuer's registered seat: Zagreb, Budmanijeva 5

Issuer's legal form: Joint-stock company

Legislature on basis of which the Issuer operates: Legislature of the Republic of Croatia

Country of establishment: Republic of Croatia

B.3 Description and key factors related to the Issuer's business activities, main categories of products sold and services provided by the Issuer and main markets on which the Issuer is competitive

The principal activities of Granolio d.d. and its subsidiaries include the production of food products, agricultural production, storage of agricultural products and trade in bakery products, agricultural products and production materials for agricultural production.

By acquisition of the part of milling business in 2014 from the company under the Agrokor Group, which is described in paragraph 5.2.4 of the Prospectus, conditions were achieved for an expansion of business, and, on the basis of the decision of the Issuer's Management Board of 6 May 2014, new business units were set up; Mill Belje and Mill Vinkovci.

The Group operates in eight different business segments, wherein the basic division is: food industry (milling, dairy industry) agriculture (crop production, cattle breeding, storage of grains and oil crops, production of feed) and trade (trade in grains and oil crops, trade in planting material for agricultural production).

The Issuer makes most of the income on the domestic market (between 70% and 90%), whereas the rest is made on the foreign markets, such as Italy, Switzerland, Bosnia and Herzegovina, the Netherlands, Serbia and other.

B.4. a Description of the most significant new trends which affect the Issuer and industrial sector it operates in

Within the milling business, in the first eleven months of 2014 the Group sold 123.87 thousand tonnes of flour, which is an increase of 25% in comparison to the same period of the previous year. The average wheat purchase price was HRK1,381.92 per tonne, which is 8.3% less in comparison to the wheat purchase price in the first eleven months of 2013. In the first eleven months of 2014, the Group sold 123 thousand tonnes of flour, which is 25% more than in the same period of the preceding year. The average flour selling price in the first eleven months of 2014 was HRK 1.89 per kg, while in the same period last year the price was 11.64% higher. In September 2014 the Group started delivering flour to a new customer on the EU market, with an expected volume of sales of 9,600 metric tonnes annually.

Within the dairy business segment, in the first eleven months of 2014, the Group sold 3,618.9 million kg of finished products which is1.26% less compared to the the same period in the previous year. Key reason for such a decrease in the sales results is the increase in imports of cheaper cheese, which had an adverse impact on the whole milk processing industry. The average selling price of finished products in the first eleven months of 2014, was HRK 33.60 per kg which is 2.15% less compared to the same period in the previous year.

This year, Žitar expects less income from the production of autumn cultures.

Investment in acquisition of Agrokor’s milling business

On 6 May 2014, the Issuer purchased the milling business of the companies Belje and PIK-Vinkovci d.d., from the Agrokor Group, including:

- lease of mills in Vinkovci and Belje;
- workers included in the mill production process (28 workers total);
- equipment necessary for the production of mill products;
- stocks found at the moment of joint inventory taking
- Brands (trademarks) of Mlineta and Brašno and the rights from the applications for the registration of trademarks (Belje smooth wheat flour, Belje coarse wheat flour, Belje half-white wheat flour);
- the rights and obligations from the contracts concluded with third parties related to the milling business, especially contracts with customers, including Konzum d.d.

The value of the realized transaction of taking over of the milling business from Agrokor Group amounts to HRK 204 mil. (excl. VAT), of which HRK 193.54 mil. relate to the acquisition of fixed assets (out of which intangible long term assets amount to HRK 190.3 million), while the remaining amount relates to current assets in the total amount of HRK 10.46 mil. The stated amount does not include the purchase of mills (real estates) used by Granolio during the first year based on the lease agreement.

Part of the transaction in the amount of HRK 153 mil. was financed by a short term bridge loan provided by Zagrebačka banka, HRK 28 mil. for VAT was settled by compensation with the state and members of the Agrokor Group (Belje, Vinkovci, Konzum), while the remaining amount up to the gross amount of the transaction with VAT (HRK 255 mil.) will be paid within 180 days as from the date of the transfer of the milling business. As on 30 June 2014, this liability amounted to HRK 74 million in the business books, and on 30 September 2014 to HRK 50 mil. (incl. VAT). The Company plans to settle this liability also through the loan borrowing. Agrokor d.d. issued a guarantee for insuring the fulfilment of all Issuer's liabilities under the mentioned loan. This guarantee will cease in case the loan would be refinanced under another long- term loan or another form of financing.

Since, before the acquisition, Granolio produced app. 100 thousand tonnes of flour per year, it is expected that the taking over of the milling business from Agrokor's companies will make the production increase to approximately 190 thousand tonnes per year (90 thousand tonnes is the annual production realized in 2012 and 2013 by PIK-Vinkovci and Belje). Granolio is planning an optimization of the production capacities which could result in the concentration of production in certain production plants in order to decrease the share of fixed costs in the product’s unit of measurement and to make production more competitive.

B.5 Description of the Group and Issuer's position within the Group

Granolio Group is represented by: the holding company Granolio d.d. Zagreb and dependent companies:

- Zdenačka farma d.o.o. Veliki Zdenci,
- Prerada žitarica d.o.o. Grubišno Polje,
- Zdenka-mliječni proizvodi d.o.o. Veliki Zdenci and
- Žitar d.o.o. Donji Miholjac

The Issuer is the company Granolio d.d. which also holds a leading position in relation to the dependent companies.

B.6 Majority shareholders

List of shareholders holding at least 5% of voting rights in the Issuer prior to and after the recapitalization is given in the table below.

Table 1 Information on shareholders holding at least 5% of voting rights in the Issuer

Shareholder	Number of ordinary shares before recapitalization	Share in the voting rights of the Issuer	Number of ordinary shares after recapitalization	Share in the voting rights of the Issuer
FILIPOVIĆ HRVOJE	1,155,000	96.25%	1,155,000	60.74%
PBZ CROATIA OSIGURANJE OMF - B CATEGORY	-	-	150,000	7.89%
ERSTE PLAVI OMF - B CATEGORY	-	-	149,250	7.85%
PRIMA ULAGANJA d.o.o.	-	-	111,941	5.89%

Source: Granolio

After recapitalisation, majority shareholder's share in the Issuer was decreased from 96.25% to 60.74%.

B.7 Selected historical financial information of the Issuer, for each financial year during the period covered by the historical financial information and description of significant changes in financial position and business results of the Issuer for the period covered by the historical key financial information

In order to issue a new series of shares on the capital market and publish the Prospectus, the Group has disclosed restated results from the previous years for the purpose of transparency, comparability and comprehensive overview of information in compliance with the International Accounting Standard (IAS) 8.

Selected financial information expressed in Croatian kuna (HRK) and referred to further in the document, have been obtained from restated audited consolidated financial statements of the Issuer for years that ended on 31 December 2011, 31 December 2012 and 31 December 2013 and from audited consolidated financial statements of the Issuer for the first half of 2014, and should be analysed in combination with them. The aforementioned financial statements of the Issuer are presented in section 20.1 in Section II of the Prospectus and audited consolidated financial statements for the first half of 2015 are presented in paragraph 20.5 “Interim financial information” in part II of the Prospectus.

The profitability of the Group's operations in 2013 and in the first half of 2014 was significantly influenced by the following value adjustments:

2013

Business operations (total of HRK 13.7 million)

- value adjustment of non-current intangible assets in the amount of HRK 7.37 million,
- value adjustment of other receivables in the amount of HRK 0.16 million,
- inventory write off in the amount of HRK 6.22 million

2014 – first half

Business operations (total of HRK 18.3 million)

- value adjustment of trade receivables in the amount of HRK 13.8 million,
- value adjustment of other receivables in the amount of HRK 1.6 million,
- value adjustment of receivables for farming incentives in the amount of HRK 2.2 million,
- inventory write off in the amount of HRK 0.7 million

Financial activities – loss from adjustment of financial assets (total of HRK 16.8 million)

- impairment of loans given to affiliated companies (HRK 2,609 thousand) and loans in goods for sowing (HRK 4,313 thousand)
- decrease of investment in Ecofarm d.o.o. BiH (HRK 2,940 thousand) and impairment of investment in PZ Zabara (HRK 990 thousand)
- impairment of investment in the joint-stock company Zagrebačke pekarne Klara in the amount of HRK 3,204.9 thousand. Klara shares were reclassified to the adjusted amount at value through profit and loss, according to IAS 39; consequently, the revaluation reserve formed by the change in share value in previous year and due to the constant loss created by the company Klara zagrebačke pekarne d.d. was expensed to the current year income statement.
- impairment of bills of exchange from commercial dealings (HRK 2 million) and share portfolio (HRK 774 thousand)

Table 2 Consolidated statement of financial position of the Issuer on 31 December 2011, 31 December 2012, 31 December 2013 and 30 June 2014

in thousands of HRK

	Position	31.12.2011 restated	31.12.2012 restated	31.12.2013 restated	30.6.2014
	ASSETS				
A)	**LONG-TERM ASSETS**	**503,016**	**489,584**	**451,005**	**622,537**
I.	**Intangible assets**	**8,833**	**9,608**	**1,258**	**191,321**
II.	**Fixed assets**	**441,095**	**425,883**	**402,192**	**394,909**
III.	**Financial assets**	**52,857**	**53,971**	**47,447**	**36,267**
IV.	**Long term receivables**	231	122	108	40
B)	**SHORT-TERM ASSETS**	**342,742**	**368,048**	**391,052**	**414,211**
I.	**Inventories**	93,027	131,604	121,966	94,576
II.	**Receivables**	148,971	131,106	175,475	167,886
III.	FINANCIAL ASSETS	96,416	97,327	83,646	141,822
IV.	CASH AND CASH EQUIVALENTS	4,328	8,011	9,965	9,927
C)	**PREPAID EXPENSES AND ACCRUED INCOME**	**1,107**	**2,349**	**1,220**	**2,957**
D)	**TOTAL ASSETS**	**846,865**	**859,981**	**843,277**	**1,039,705**
	CAPITAL, RESERVES AND LIABILITIES				
A)	**CAPITAL AND RESERVES**	**147,211**	**124,301**	**110,756**	**72,974**
I.	SUBSCRIBED CAPITAL	12,000	12,000	12,000	12,000
II.	LEGAL RESERVES	-	116	161	183
III.	REVALUATION RESERVES	92,528	89,620	83,504	68,840
IV.	RETAINED EARNINGS	49,566	40,123	27,524	30,584
V.	RESULT FOR THE YEAR	(6,883)	(17,558)	(12,433)	(38,633)
B)	**NON-CONTROLLING INTERESTS**	**70,855**	**63,203**	**56,399**	**49,127**
C)	**LONG-TERM LIABILITIES**	**237,073**	**232,814**	**241,699**	**191,440**
D)	**SHORT-TERM LIABILITIES**	**373,239**	**419,589**	**416,648**	**707,153**
E)	**ACCRUED LIABILITIES AND DEFERRED INCOME**	**18,487**	**20,074**	**17,775**	**19,011**
F)	**TOTAL CAPITAL, RESERVES AND LIABILITIES**	**846,865**	**859,981**	**843,277**	**1,039,705**

Source: Restated audited consolidated financial statements of the Issuer for years 2011, 2012 and 2013 and audited consolidated financial statements of the Issuer for the first half of 2014

Table 3 Consolidated statement on comprehensive income of the Issuer for 2011, 2012 and 2013

in thousands of HRK

	Position	31.12.2011 restated	31.12.2012 restated	31.12.2013 restated
A)	**OPERATING REVENUE**	**804,175**	**829,485**	**780,773**
B)	**OPERATING EXPENSES**	**(783,051)**	**(822,166)**	**(773,164)**
	Operating profit	**21,124**	**7,319**	**7,609**
	EBITDA	**50,215**	**43,293**	**42,053**
C)	FINANCIAL INCOME	5,190	10,475	7,468
D)	FINANCIAL EXPENSE	(35,925)	(38,298)	(32,668)
	Net financial result	**(30,735)**	**(27,823)**	**(25,200)**
	Result before taxation	**(9,611)**	**(20,504)**	**(17,591)**
	Profit tax	(1,968)	(1,908)	(1,646)
E)	**PROFIT/LOSS AFTER TAXATION**	**(11,579)**	**(22,412)**	**(19,237)**
	Total comprehensive profit	**(11,579)**	**(22,412)**	**(22,442)**
	Profit/(loss) attributable to:			
	Group	*(6,882)*	*(17,558)*	*(12,433)*
	Non-controlling interests	*(4,697)*	*(4,854)*	*(6,804)*
	Total comprehensive profit attributable to:			
	Group	*(6,882)*	*(17,558)*	*(15,638)*
	Non-controlling interests	*(4,697)*	*(4,854)*	*(6,804)*

Source: Restated audited consolidated financial statements of the Issuer for 2011, 2012 and 2013

Table 4 Consolidated statement on comprehensive income of the Issuer for the first half of 2013 and 2014

in thousands of HRK

	Position	30.6.2013	30.6.2014	30.6.2014 no value adj.
A)	**OPERATING REVENUE**	**325,234**	**355,724**	**355,724**
B)	**OPERATING EXPENSES**	**(340,703)**	**(372,655)**	**(354,319)**
	Operating profit	**(15,469)**	**(16,931)**	**1,405**
	EBITDA	**2,808**	**(1,051)**	**17,285**
C)	FINANCIAL INCOME	2,893	6,387	6,387
D)	FINANCIAL EXPENSE	(13,817)	(35,361)	(18,530)
	Net financial result	**(10,924)**	**(28,974)**	**(12,143)**
	Result before taxation	**(26,393)**	**(45,905)**	**(10,738)**
	Profit tax	-	-	-
E)	**PROFIT/LOSS AFTER TAXATION**	**(26,393)**	**(45,905)**	**(10,738)**
	Total comprehensive profit	**(26,393)**	**(42,700)**	**(7,533)**
	Profit/(loss) attributable to:			
	Group	*(21,217)*	*(38,633)*	*(9,037)*
	Non-controlling interests	*(5,176)*	*(7,272)*	*(1,701)*
	Total comprehensive profit attributable to:			
	Group	*(21,217)*	*(35,428)*	*(6,250)*
	Non-controlling interests	*(5,176)*	*(7,272)*	*(1,283)*

Source: audited consolidated financial statements of the Issuer for the first half of 2014

Table 5 Issuer's consolidated statement on cash flow (indirect method) for 2011, 2012 and 2013 and the first half of 2013 and 2014

in thousands of HRK

Position	31.12.2011	31.12.2012	31.12.2013	30.6.2013	30.6.2014
Net operating cash flow	83,352	116,622	138,149	103,004	169,435
Net cash flow from investment activities	(247,328)	(137,493)	(112,202)	(81,764)	(282,937)
Net cash flow from financing activities	162,258	24,554	(23,993)	(24,681)	113,464
Cash and cash equivalents at the beginning of the period	6,046	4,328	8,011	8,011	9,965
Cash and cash equivalents at the end of the period	4,328	8,011	9,965	4,570	9,927

Source: Restated audited consolidated financial statements of the Issuer for 2011, 2012 and 2013, and audited consolidated financial statements of the Issuer for the first half of 2014 and internal Issuer's data for the first half of 2013

B.8 Selected key pro forma information

The Issuer has not prepared pro forma financial information.

B.9 If there are profit projections or estimates, amount should be stated

The Issuer has not included profit projections or estimates in the Prospectus.

B.10 Description of nature of possible restrictions in the audited historical financial statements

Baker Tilly Discordia d.o.o., with its registered seat in Zagreb, Ulica grada Vukovara 269F, entered in the court register of the Commercial Court in Zagreb under company registration number (MBS): 080022264, PIN: 71665824084, and in the Register of Audit Companies kept by the Croatian Audit Chamber, under registration number 100000500 audited the following financial statements of the Issuer which are included in the Prospectus:

- The Issuer´s restated audited consolidated financial statements for the years that ended on 31 December 2011, 31 December 2012 and 31 December 2013

- The Issuer´s audited consolidated financial statements for the first half of 2014.

The auditors´ reports on consolidated financial statements were signed by Olivio Discodia, managing director and certified auditor.

The Baker Tilly Discordia d.o.o. auditor issued a qualified opinion on the Company´s original consolidated financial statements for years which ended on 31 December 2011, 31 December 2012 and 31 December 2013 together with audited consolidated financial for the first half of 2014 set out in section 20.1, in part II of the Prospectus, and is also quoted below as follows: ”Basis for qualified opinion“:

a) ”We were engaged to audit the Group in September 2014, and for that reason we could not attend inventory counting on 30 June 2014. Due to the nature of the Group´s accounting records we were unable to apply other procedures in order to ascertain the reliability of inventory quantity as on 30 June 2014.”

In order to issue a new series of shares on the capital market and publish the Prospectus, the Group has disclosed restated results from the previous years for the purpose of transparency, comparability and comprehensive overview of information in compliance with the International Accounting Standard (IAS) 8 as follows:

a) In 2013, 2012 and 2011 current and non-current liabilities to leasing companies were reclassified from „Liabilities for loans, deposits and similar" to „Liabilities to banks and other financial institutions".

b) In 2013, 2012 and 2011 receivables for loans in goods for sowing were reclassified from "Trade receivables" to "Current loans, deposits and similar".

c) In 2013, 2012 and 2011 deferred tax liabilities were extracted from revaluation surplus in accordance with IAS 12.

d) In 2012 and 2013 the value of inventories was corrected in line with IAS 2 by their revalued amount. The result for the period decreased by HRK 9,511 thousand in 2012 and by HRK 3,817 thousand in 2013, and in 2013 also increased by HRK 9,511 thousand due to the sale of inventories subject to revaluation in 2012. Furthermore, in 2013 the Group corrected the value of obsolete inventory from PZ Osatina in the amount of HRK 6,215 thousand recognized in the result for the period.

e) In 2013,"Prepayments and accrued income" and „Accrued expenses and deferred income" were corrected by the value of the dispute with PZ Osatina. The result for the current period thus decreased by HRK 3,018 thousand.

   Furthermore, „Accrued expenses and deferred income" were corrected in 2011, 2012 and 2013 for the amount of incentives recognized in previous years as income on a one-off cash basis. In 2013, "Prepayments and accrued income" decreased by HRK 4,238 thousand, whereas "Accrued expenses and deferred income" decreased by HRK 1,221 thousand, which was the value of the dispute with PZ Osatina, and increased by HRK 17,714 thousand for the incentives received. "Accrued expenses and deferred income" increased by HRK 19,704 thousand in 2012 and by HRK 18,278 thousand in 2011 relating to incentives received, which were incorrectly reported in the previous years as „Other income".

f) In 2013, the amount of HRK 7,373 thousand relating to the Zdenka brand was corrected and recognized as loss of the current period in line with IAS 36. Furthermore, the result for the current period was allocated to the Group and to the non-controlling interest which decreased accordingly.

g) The Group decreased its sales revenue and other costs, as well as trade receivables by rebates for 2013, 2012 and 2011 in line with IAS 18.

h) The Group corrected one-time recognition of incentives revenue in the previous years and deferred them to the lifetime of respective assets. Consequently, the 2011, 2012 and 2013 retained earnings decreased, and deferred income increased in line with IAS 20.

B.11 Statement on working capital

The working capital of the Issuer is currently not positive, which is largely due to the acquisition of the milling business in the second quarter of this year. This acquisition was partly financed by a current bridging loan from a commercial bank. The Issuer has undertaken the process of recapitalisation in order to collect funds for the partial repayment of the mentioned loan which was due on15 December 2014, and which will have a positive impact on the working capital. Following recapitalisation, there is a plan to raise adequate maturity structure funds from commercial banks, thereby bringing working capital into a positive framework.

Elements from B.12 to B.50 from the Appendix XXII Commission Regulation (EC) No. 809/2004 from 29 April 2004 on implementation of the Directive 2003/71/EC of the European Parliament and of the Council regarding information contained in prospectuses as well as the format, incorporation by reference and publication of such prospectuses and dissemination of advertisements (Official journal of the European Union from 2004 L149/1), and its amendments which are effective (Commission Regulation No. 1787/2006, Commission Regulation 211/2007,

Commission Regulation 1289/2008, Delegated Commission Regulation No. 311/2012, Delegated Commission Regulation No. 486/2012, Delegated Commission Regulation No. 862/2012 and Delegated Commission Regulation No. 759/2013) (hereafter "Regulation") are not applicable.

C. SHARES

C.1 Description of the type and class of Shares which are the subject of the offer, including all identification numbers of Shares

Subject of listing into the Official market of the Zagreb Stock Exchange comprises of 1,901,643 Shares, marked GRNL-R- A and ISIN (International Securities Identification Number) HRGRNLRA0006.

C.2 Security issue currency

The New Shares are denominated in Croatian kuna.

C.3 Number of shares issued and paid in full and the nominal value per share

On 10 December the Issuer issued 701,643 of New Shares registered in non-materialised form, with a nominal amount of HRK 10.00 each, at a unique Final Price of issuance for one new share of HRK 134.00. New Shares have been paid in full.

Thereby the share capital of the company increased from HRK 12,000,000.00 divided into 1,200,000 ordinary shares, by the amount of HRK 7,016,430.00 to the new amount of HRK 19,016,430 divided into 1,901,643 shares with the nominal amount of HRK 10,00 each. The share capital of the company has been paid in full.

C.4 Description of the rights deriving from the New Shares

In accordance with the provisions of the Companies Act, the New Shares after their registration with the Commercial Court give the same rights as the existing ordinary shares of the Issuer (security ticker: GRNL-R-A).

Pursuant to the provisions of the Companies Act (Article 167), all existing shares of the Issuer give the following rights:

1. **the right to vote** at the general Assembly of the Company;
2. **the right to a portion of the Company's profit** (dividend);
3. **the right to a payment from the remainder of the liquidation or the bankruptcy estate** of the Company**;**
4. **pre-emption rights, the right of redemption and conversion issues** are not regulated by the Company's Articles of Association. Such issues are resolved on a case-by-case basis in accordance with the regulations which govern them.

C.5 Description of all restrictions on the free transferability of the New Shares

There are no restrictions on the transfer of the New Shares.

C.6 Indication of whether the New Shares are subject to a request for admission to trading with a view to their distribution in a regulated market or equivalent market with an indication of the market in question

After the approval of the Prospectus by the Croatian Financial Services Agency (HANFA) and its disclosure, the Issuer will submit a request for listing of 1,901,643 shares on the Official Market of the Zagreb Stock Exchange,which will be listed upon the decision on listing made by Zagreb Stock Exchange.

The Issuer does not guarantee that the admission for trading will definitely be approved by the competent authority.

C.7 Dividend policy

The Issuer does not have a specific dividend policy.

In the period included in the historical financial information the Issuer paid dividends for the below mentioned periods;

- On 27 February 2013 payment in the amount of HRK 8,040,000.00, i.e. HRK 6.70 per each ordinary share, according to the decision by Company's General Assembly from 27 February 2012.
- On 16 January 2014 profit was distributed in the amount of HRK 2,280,000.00, i.e. HRK 1.90 per each ordinary share out of which HRK1,560,000.00 was based on the General Assembly´s decision of 27 February 2012, the payment being non-taxable, whereas HRK 720,000.00 was based on the General Assembly´s decision of 16 December 2013. The tax and surtax on the latter amount were paid in the amount of HRK 118,664.93.

Elements from C.8 to C.22 from Appendix XXII of the Regulation are not applicable.

D RISKS

D.1 Key information on key risk factors specific to the Issuer

Risk factors specific to the Issuer are fully stated and described in Paragraph 4 "Risk factors specific to the Issuer" in Part II of the Prospectus in abbreviated form.

OPERATING RISKS

Market risk

The demand for food products is relatively inelastic in relation to product prices. The key factors influencing food products demand are demographic, economic, social and political factors. The proximity of the border with the Republic of Hungary can influence the raw material market for the needs of Žitar's production process.

Risk connected with purchase of raw materials and product delivery

The production of wheat, as the most important raw material for the production of flour, and wheat price trends on the domestic and foreign markets have a significant influence on the production and trends of the price of flour.

The risk of obtaining raw materials is reduced by the fact that Granolio has a wide base of subcontractors on the domestic market, as well as an organizational trade unit present on the international commodities exchanges and can at present, at all moments, purchase sufficient amounts of wheat at the current market price. The risk of product non-delivery exists because of a possible production halt following a malfunction at the milling plant.

In the dairy production segment, the risk of shortage of raw materials for the production of processed cheese is within reasonable limits, considering that there is a sufficient number of providers on the market, and Zdenka has its own production facility for the production of raw materials for processed cheese and is, in case of need, able to produce the necessary quantity of raw materials.

Competition risk

Croatia's accession to the European Union has facilitated its entry onto the markets of other member states in terms of administration, but it has also brought foreign competition onto the domestic market.

The Issuer estimates that the potential arrival of new competitors on the domestic market of processed cheeses following Croatia's accession to the European Union does not pose a significant risk for business results, considering consumer habits and Zdenka's long-term presence on the domestic market on which it is competitive both in price and in quality. As regards its export, Zdenka is currently more focused on the Middle East market where it sees greater potential than on the European market.

Risk of exposure to biggest customers and suppliers

The Issuer's biggest customers are chain retail stores on the Croatian market and ADM International, with registered seat in Chicago, Illinois 6061, 77 West Wacker Drive (one of the world's major grain traders). According to the figures for 2013, the share of the Issuer's five biggest customers in total turnover is 20%, which means that the Issuer is not significantly exposed to its biggest customers. The cooperation agreement with Konzum d.d. concluded on 2 May 2014 for a period of three years defined the presence in Konzum's retail sale and wholesale network with flour from the Company's assortment, in accordance with its market share. Therefore, in the future the Issuer expects to be mostly exposed to Konzum as the biggest individual customer, and thus to the potential risk of change of commercial relations after the expiry of the three-year agreement.

The Group's biggest suppliers are the suppliers of raw materials and production materials for sowing. According to the figures for 2013, the share of the five biggest suppliers is around 25%. When purchasing key raw materials, the Issuer attempts to cooperate with a larger number of suppliers in order to reduce the risks of effects on business activities in case of termination of cooperation with some of the biggest suppliers.

Risk of change in ownership

The Issuer's majority shareholder is Hrvoje Filipović. After the execution of the Offer of New Shares, his share in ownership was decreased from 96.25% to 60.74%, and it is not expected that a change in the ownership structure will have a negative effect on the Company's future operating activities.

The possibility of the major shareholder's influence on interests that may differ from the Issuer's interests

The majority shareholder, Hrvoje Filipović, has the controlling influence in the Company's General Assembly by way of rights and authority to which he is entitled to in his capacity as the Company's shareholder. Mr. Filipović's share in the Company ownership at the date of the report is 60.74%.

The majority share in the ownership of the Company gives Mr Filipović the right to influence all decisions in the Company's General Assembly.

Risk of acquisitions

In the future, it is possible to execute acquisitions of larger scale as well as acquisitions outside the Issuer's operating market.

Even though the Issuer conducts a due diligence and other analyses of the company at the time of the acquisition, and tries to obtain adequate commitments and guarantees about assets and liabilities, the

Issuer cannot provide any guarantees that it will be able to identify all actual and potential liabilities prior to the execution of the acquisition.

Risk connected with working capital management

The Issuer might be susceptible to strong pressure, both from the competition and from key suppliers in terms of shortening the payment terms, while at the same time it might be under pressure from customers in terms of prolonging payments.

The Issuer has made significant investments into the improvement of logistics (item 5.2.1 Prospectus) with the goal of increasing stock turnover and overall operational efficiency. Although the Issuer has so far managed the working capital successfully, it is not possible to give any guarantees that this will continue in the future.

Risk connected with fluctuation of major raw material prices

Business results are strongly influenced by the price of wheat, which is a traded commodity, as the most important raw material in Granolio's production. General economic conditions, unexpected demand, problems in production and distribution, plant diseases, weather conditions during the periods of crop growth and harvesting can have a negative effect on the price of wheat. Regardless of the fact that the Issuer can satisfy all its needs for wheat on the domestic market, the price trends on the domestic market are under the influence of wheat price trends on the international commodity exchanges. Granolio attempts to reduce the risk of change in the price of wheat by an active approach to futures markets.

In the segment of dairy production, in case of a considerable increase in the price of raw milk, it is possible to redirect the production of Zdenačka farma and Žitar to the supply of Zdenka, if it would be estimated that this would be in the interest of the entire Granolio Group.

Dependence on management and key personnel

The Issuer greatly relies on its employees as one of its main competitive advantages. The Issuer must thus strive to keep the best personnel on all levels in order to maintain its position as a market leader.

Risk of IT system malfunction

The Issuer's operating activities are becoming increasingly more dependent on the use of IT systems that allow efficient management of distribution capacities, communication with customers and suppliers, evaluation of employees and gathering necessary information that the management may rely on during decision-making. Any malfunctions in the operation of IT systems could have a strong impact on the Issuer's operating activities and financial position.

Risk connected with infringement of competition rules

The regulations of the Republic of Croatia that govern competition and that are harmonized with the European Union regulations forbid any abuse of the dominant position. Even though the Issuer is not aware of any violation of regulations that govern competition, nor has the Croatian Competition Agency initiated any proceedings against it, the Issuer cannot guarantee that there will be no such proceedings.

In order to reduce this risk, the Issuer intends to train its employees further on positive regulations regarding competition protection, and to set up procedures for concluding contracts and performing other activities that might result in violation of competition regulations and ensure their consistent application.

Risk connected with judicial proceedings against the Group

The Issuer, just as any other commercial entity, is susceptible to the risk of proceedings before courts, regulatory or other supervisory bodies, within its regular operational activities. Such actions primarily concern proceedings with debtors or suppliers. The risk of potential lawsuits from the Issuer's customers as a result of damages occurred by product consumption cannot be excluded in the future. The Issuer cannot offer any guarantees that the results of future legal and regulatory actions or measures will have no significant effect on the Issuer's operating activities and financial position.

Risk connected with liabilities or losses not covered by insurance

The level of insurance coverage is at the level typical for industries which the Group operates in. Contracted insurance policies are primarily related to workplace injuries, machine malfunction, damage of property and other tangible assets, insurance of livestock and insurance of crops. However, it is not possible to ensure all potential liabilities and losses.

FINANCIAL RISKS

Exchange rate risk

A significant part of the Issuer's loan liabilities is dependent on exchange rate fluctuations of HRK in relation to EUR. Strong fluctuations in the exchange rate EUR/HRK might affect the borrowing of the Issuer in foreign currency. In the future, the Group may be exposed to derivative contracts with financial institutions such as currency hedging, for the purpose of hedging certain financial risks.

Credit risk

The Group is exposed to the risk of inability to collect a part of trade receivables, what is trying to reduce by monitoring customers' financial position, strict measures of collection control and through acquiring different insurance instruments, such as promissory notes and bills of exchange.

In addition to the credit risk related to customers, the Issuer is exposed to credit risk related to subcontractors in the production of grain and oil crops, considering that, at the time of sowing, it provides them with commodity loans in the form of necessary production materials. Insurance instruments are arranged with each subcontractor individually, depending on the previous arrangement.

The Group cannot offer any guarantees that monitoring of the customers' financial position, measures of collection control or insurance instruments will be effective and that possible credit risk will have no significant impact on the Group's operating activities and financial position, nor that the balance of given commodity loans with repayment problems will not increase.

Interest rate risk

Considering the level of received loans from financial institutions which have been mostly agreed with a variable interest rate based on the usual benchmark interest rates (EURIBOR, LIBOR, ZIBOR and interest rates for treasury bills), the Group is exposed to the risk related to increase in interest rates. At this moment, the Group does not use any financial instruments to protect itself against unfavourable interest rates.

Liquidity risk

In order to reduce the liquidity risk, the Issuer continuously implements measures of active collection of receivables, monitors customers' liquidity, and attempts to optimize the structure of debt maturity and ensure free credit lines with financial institutions in order to be able to settle its obligations even in unexpected circumstances.

In order to finance the acquisition of the milling business from Belje and PIK Vinkovci from Agrokor Group, the Issuer took a short-term loan from Zagrebačka banka in the amount of HRK 153 million. The Issuer fully used the funds raised from the issuing of New Shares that are the subject-matter of this Offer for the partial settlement of the principal of that loan. Furthermore, the Issuer estimates to reduce the level of total interest-bearing debt in the mid-term and consequently additionally reduce liquidity risk.

In July 2008, the Issuer, with the Croatian Privatization Fund as the transferor, concluded a contract on the transfer of 99.91 % of business shares in the company Prerada žitarica for HRK 3.3 million, and obliged to settle the debt towards the company Zdenka d.d. Veliki Zdenci in the amount of HRK 1.7 million. Under the share transfer contract, the Issuer was also obliged to implement an investment programme for Prerada žitarica in the amount of HRK 40.7 mil., initially within 5 years; the deadline was subsequently extended to 7 years from contract conclusion. To ensure the fulfilment of contractual obligations, the Issuer provided the Croatian Privatization Fund with a corporate guarantee and bill of exchange with a bill of exchange statement in the total amount of the subsequent investment. So far, the Issuer has invested into Prerada žitarica according to the investment programme approximately HRK 12 million and requested the transferor to grant it a prolongation of the deadline for carrying out the investment in the entire amount, but it has not received an answer yet. Therefore, there is a possibility that the Restructuring and Sale Centre (CERP), as the legal successor of the Croatian Privatization Fund, will activate insurance instruments in the amount of the investment that will not be carried out within the contracted deadline, which might have a negative effect on the Issuer's financial position. The Issuer's Management Board is in the process of preparing a proposal of amendments to the investment contract which they will submit to CERP for consideration for the purpose of reaching a satisfactory agreement on the manner, type and deadlines for the Issuer’s remaining investment.

The Group cannot offer any guarantees that the liquidity risk management will be efficient and that possible liquidity risk will have no significant impact on the Group’s operating activities and financial position.

INDUSTRY RISKS

One of the risks that occur in the food industry is the fact that consumers’ eating habits and their awareness of the impact the food has on our health have changed greatly in the last 20 years. Such trends make it necessary for manufacturers to expand the existing assortment of products and to further improve the quality of existing products, both in flour milling and in milk processing (Zdenka).

Flour production

Negative impacts on the production of flour can be caused by extraordinary events such as fire, explosion, malfunction of the processing equipment, prolonged or emergency maintenance, road construction or closing of main traffic routes, floods, storms, or other extremely unfavourable weather conditions. Even though the Issuer uses insurance against damages to such facilities, such insurance may be limited in regard to the maximum amount of damages and may not be sufficient to cover all expenses. Likewise, the Issuer may be susceptible to costs not covered by insurance.

Dairy production

The risks of raw material shortage for processed cheese or risk of contract cancellation by one of the suppliers are not significant at the moment, considering that at present the supply of such products is bigger than the manufacturers’ demand, and that in case of significant disruptions on the market, Zdenka can start its own production.

An attempt to reduce risk of product spoilage is made through strict quality control of the raw materials, processing in technologically advanced facilities, and maintaining high standards of hygiene in the production facilities.

A significant market risk is present in Zdenka’s operating activities, primarily manifested through import of cheap cheeses from the EU. Therefore, with the goal of protecting its margins, Zdenka focuses on the production and distribution of brand products, which are also Zdenka’s great value.

Livestock farming

In the milk production segment in order to prevent diseases and death, veterinary clinics were established on the farms where they take constant care of livestock, and in order to achieve high-quality milk production, optimal nutrition and hygiene standards are followed.

Risks that the produced milk and meat would not satisfy high-quality standards are greatly reduced by the implementation of high production standards, such as ISO and HACCP.

Crop production

Crop production is directly exposed to weather conditions. Unfavourable weather conditions can result in smaller yield of field crops or reduced quality, or both, and in certain circumstances, even complete ruin of crops.

The risks of unfavourable weather conditions are reduced by crop insurance; the state also has an important role in this issue by subsidizing 25% of the insurance costs. The Issuer also protects itself from unfavourable weather conditions risks by geographical diversification.

Because of that, preventive plant disease control is implemented in the production nowadays, as the cheapest and most efficient way of maintaining the expected level of crop yield.

GENERAL RISKS

Business environment risks

The business environment risk includes political, legal and macroeconomic risks in the environment in which the Group operates, primarily the Croatian market where the Issuer makes 74% of its total revenues (data for 2013) and to a lesser extent, Bosnia and Herzegovina, Italy and Slovenia. The Group cannot offer any guarantees that the Croatian market where the Group makes most of its turnover will continue the successful implementation of political and economic reforms.

International trends also affect the Group, considering that wheat, which is the basic raw material in Granolio's production, is a traded commodity and therefore susceptible to the influence of possible political instabilities in countries that are major manufacturers of this grain (China, Russia, the USA). However, as stated previously, the Issuer can fully settle its demand for raw materials from domestic sources, and oscillations in the price are neutralized by an active approach to futures markets.

Risk of changes in legal framework

The Issuer believes that at present it complies with existing rules and regulations and deadlines prescribed by different regulatory bodies. However, it cannot offer any guarantees that it will not face significant costs of settling possible violations or obligations to respond to any negative publicity based on those rules and regulations, or to adjust to changes in the existing regulations, which might have a significant effect on the Issuer's operating activities and financial postion.

Element D.2. from Appendix XXII of the Regulation is not applicable.

D. 3 Key information on key risks specific to the Shares

Risk factors connected to Issuer's shares, which are mentioned and described in paragraph 2 "Risk factors related to investment in shares" in part III of the Prospectus are shown here in an abbreviated form.

As they are the riskiest type of asset, the market value of shares may be of a highly volatile character, influenced by overall capital market volatility, macro-economic trends on the markets where the Issuer operates, gaps in the expectations of financial analysts in respect of the realised results, dividend policy volatility, mergers, acquisitions and the conclusion of strategic partnerships, the amount of industry cyclicality where the Issuer operates, potential problems with related parties (suppliers, clients, strategic partners, etc.), volatility of the Issuer's business model, and fluctuations in financial performance. Should these factors carry a negative connotation, there is a substantial risk that the market value of the shares will fall. Furthermore, each investor must be aware that there is a market risk that he might not be able to sell his shares at any time at a fair market price.

Other risks connected with the Issuer's shares are:

- Price volatility - the market price of shares is volatile and can become subject to sudden and substantial falls. As result, shareholders may experience a significant decline in the market price of their shares, which may be due to several factors, including the difference between the results of the Issuer and the publication of analysts' forecasts, important agreements, mergers, acquisitions, strategic partnerships related to the Issuer, fluctuations in financial position and the results of operations, and the general volatility of prices on the Zagreb Stock Exchange. After the listing there might be no active or liquid market and the Investor might not sell its shares at or over the initial price in the Offer
- Liquidity of shares - active trading of shares may at some point fail.
- Pre-emptive right – a pre-emptive right of the existing shareholders with regard to the subscription of New Shares might be limited or excluded by the decision of the Issuer's General Assembly, by which the share of these shareholders in Issuer's share capital might be decreased.
- Risk of not paying the dividend – the ability of the Issuer to pay the dividend in the future depends on future earnings, financial conditions, the cash flow, needs for working capital, capital expenditures and other factors
- Risk connected with the Croatian capital market - The domestic capital market has in recent years gone through significant price and turnover fluctuations. Such fluctuations in the future may pose an increased risk of adverse impact on the market price of the Issuer's ordinary shares.
- Pursuant to the Takeover Act, any natural or legal person is required to disclose a takeover bid when directly or indirectly, acting alone or together with others, acquires voting shares of the target company, so that, together with the previously acquired shares they exceed the threshold of 25% of the voting shares (control threshold). Exceptions from publishing the bid are determined by the Takeover Act.
- Risks connected with financing investments in shares with borrowed funds - if investing in shares financed with borrowed funds, the investor needs to calculate the return on the investment or the loss if the market price of the shares drops significantly, taking into account the cost of servicing the loan or credit. The financing of investments in shares with loans or credit might significantly increase the investor's risk
- Transaction costs/fees - In the course of secondary share trading, transaction costs can occur. These costs can significantly reduce or fully eliminate any potential profit from share trading.
- Risks associated with taxation of investment in shares – as from 1 January 2015 as the day the Amendments to Income Tax Act (NN 143/2014) came into force, capital income is comprised of proceeds from dividends and share in profit based on share in capital, regardless of the amount. Likewise, on the basis of the same Act, capital gains, i.e. capital profit is the difference between the sale price, i.e. proceed established according to the market value of the financial asset acquired after 1 January 2016 (shares among other) which is alienated and its purchase price, with exceptions determined by the law. The Issuer cannot guarantee that the future tax rate will not change and there will be no new taxes related to the rights referred to in connection with the shares.
- Investments by certain types of institutional investor are defined by regulations whose compliance is subject to the control of the regulator.
- The Issuer cannot guarantee that the shares will be actively traded after their listing on the official market of the Zagreb Stock Exchange. In addition, due to significant disturbances in market conditions, regulatory measures or technical and other problems, the secondary trading of the Issuer might be affected and there could be a temporary suspension of trading.

Elements form D.4 to D.6 from the Appendix XXII of the Regulation are not applicable.

E. OFFER

E.1 Total net proceeds and an estimate of total expenses of the Issue/Offer, including estimated costs the investor will be charged by the Issuer

Total amount of proceeds collected by offering New Shares is HRK 94,020,162.00.

The Issuer estimates that all costs related to the Issue/Offer of the New Shares, including but not limited to the costs of Placement Agents for providing a subscription service for the New Shares without a firm commitment basis, the costs of legal advisers, the costs of independent auditors, HANFA, CDCC, the Zagreb Stock Exchange and other material costs and the like will amount to about HRK 2 million which represents around 2.12% of the total proceeds collected through recapitalisation.

E.2.a Reasons for offer, usage of funds, estimated net amount of funds

Funds raised from the issuing of New Shares have been fully used for partial settlement of the principal of the short-term loan in the amount of HRK 153 million realised in Zagrebačka banka in order to finance the acquisition of the milling business from Belje and PIK-Vinkovci belonging to Agrokor Group. Net amount of funds raised by the Offer of New Shares is around HRK 92 million.

Element E.2.b from Appendix XXII of the Regulation is not applicable.

E.3 Description of the general conditions of the Offer

The increase of Company's share capital was conducted by payment in cash by issuing a minimum of 671,642 and a maximum of 789,157 new ordinary registered shares with a nominal value of HRK 10.00 each.

The New Shares were offered at prices ranging from HRK 134.00 to HRK 166.00 per share (the Price Range). Upon the completion of the tender procedure for the subscription and payment of the shares in the offering procedure of the New Shares, The Management Board has determined, with approval of the Supervisory Board, a unique Final Price of the New Shares in the amount of HRK 134.00 which was published on 1 December 2014 on Company's website and Business Daily (Poslovni Dnevnik).

The procedure of increasing Company's share capital based on the Decision on increase of the share capital, was conducted with partial exclusion of pre-emptive rights of Company's existing shareholders provided they pay for the subscribed shares in the amount not less than EUR 100,000.00 the countervalue in Croatian kuna according to current exchange rate of the Croatian National Bank (Hrvatska narodne banke), for each individual offer.

During the subscription period, which lasted from 25 November 2014 at 8:30h until 27 November, 2014 at16:30h („the Subscription period"), all investors had the right to subscribe to the New Shares. In public offering for the subscription of the New Shares time and place for subscription for New Shares were specifically mentioned in Subscription Forms. Investors were obligated to pay for the subscribed New Shares by the end of the Subscription period.

The minimum number of the New Shares a single investor could subscribe to was 5,800.

There were no Subscription Forms with less than the prescribed minimum subscription, i.e. more than maximum number of offered New Shares, i.e. 789,157 New Shares. The total number of subscribed to and paid for New Shares was not greater than the maximum number of offered shares, i.e. 789,157 shares, therefore there was no need for allocation of New Shares in accordance with the Allocation rules of Shares adopted by the Management Board with the consent of Supervisory Board which was released in the public invitation to subscribe to the New Shares.

The New Shares were subscribed to and paid for in the manner specified in the invitation to subscribe to the New Shares. The Management Board of the Company was authorised to independently decide when to announce the invitation to subscribe to the New Shares. The invitation to subscribe to the New Shares was released on the Company's website and in the Business Daily (Poslovni dnevnik).

By the Decision to increase the Company's share capital, the General Assembly of the Company granted an approval to acquirers to acquire New Shares without the obligation of publishing a takeover bid, if the acquisition of the New Shares would induce an obligation to publish a takeover bid, all in accordance with the provisions of Article 14, Paragraph 1, Item 3 of the Takeover Act.

Pursuant to Article 351, Paragraph 1, Item 3 of the Capital Market Act, the Company retained the right of exemption from the obligation of publishing the Issue Prospectus for public offerings and did not publish a Prospectus for the purposes of issuing New Shares. The Issuer made a commitment, if the Offer of New Shares would be successfully implemented, to create a Listing Prospectus that will be submitted for approval to Croatian Financial Services Supervisory Agency (HANFA). If HANFA decides to approve the Listing Prospectus, the Issuer will publish it in accordance with Article 374 of the Capital Market Act, and thereafter intends to include it on the Official Market of the Zagreb Stock Exchange.

In the process share capital increase, total of 701,643 Issuer's New Shares were subscribed to and paid for at the unique Final Price of HRK 134.00 by which the Issuer collected HRK 94,020,162.00 from recapitalisation.

E.4 Description of all interests, including those where there is a conflict of interests, important for the Issue/Offer

1. ERSTE&STEIERMARKISCHE BANK d.d. with its headquarters in Rijeka at Jadranski trg 3/a, registered at the Commercial Court in Rijeka under the registration number (MBS) 040001037, personal identification number (PIN): 23057039320, and Privredna banka Zagreb d.d., with its headquarters in Zagreb at Radnička cesta 50, registered at the Commercial Court in Zagreb under the registration number (MBS) 080002817, personal identification number (PIN): 02535697732, are the Placement Agents in charge of providing the services of underwriting or selling the New Shares without a firm commitment basis. The total amount of the Agent's remuneration for these services depends on the amount of funds that will be collected by the Issuer from the recapitalisation. The Placement Agents are at the same time lenders to the Issuer. The Placement Agents do not own shares in the Issuer.

2. Legal advisor: BUTERIN & POSAVEC odvjetničko društvo a public company headquartered in Zagreb at Draškovićeva 82, registered at the Commercial Court in Zagreb under registration number (MBS): 080752526, personal identification number (PIN): 88443826619 (hereinafter: "the Law Firm"). In the process of preparing and implementing the Offer and issuance of the New Shares Law firm has provided the Issuer with legal counselling services and services of monitoring the recapitalisation process of the Company for a fixed fee, and has drawn up legal due diligence**.**

3. Baker Tilly Discordia d.o.o., a limited liability company headquartered in Zagreb at Ulica grada Vukovara 269 F, registered at the Commercial Court in Zagreb under registration number (MBS): 080022264, personal identification number (PIN): 71665824084, has performed the audit of the annual consolidated financial statements of the Issuer for the years 2011, 2012 and 2013, and the interim consolidated financial statement of the Issuer as on 30 June 2014. The Company has issued an opinion stating that the Auditor's opinion on the forecasts or estimates of profits was correctly prepared on the basis of accounting practices used to forecast or estimate profits in accordance with the accounting policies of the Issuer for a fixed fee.

4. KPMG Croatia d.o.o., a limited liability company headquartered in Zagreb at Ivana Lučića 2a, registered at the Commercial Court in Zagreb under registration number (MBS) 080098593, personal identification number (PIN): 20963249418, has in the process of preparing and implementing the Offer provided the Issuer with financial and tax due diligence services and an analysis of the business plan for a fixed fee.

E.5 Name of the person or subject who offers securities for sale

There are no shareholders who sold the ordinary shares of the Issuer in a public bid, and there are no binding agreements in relation to this.

E.6 Amount and percentage of immediate dilution resulting from the Offer

An individual shareholder who owned 1.00% of the Issuer's Shares before recapitalisation, and did not participate in the subscription of New Shares, after the recapitalisation of the share capital will own 0.63% of the Issuer's shares.

E.7 Estimated costs the Issuer will charge the investor with

The Issuer does not charge the investor with any costs.

As regards to the possible costs and taxes charged specifically to the subscriber or customer, these could include the costs of subscription and payment for New Shares in the form of money transfer costs, postal services costs, etc. Also, there are opportunity costs in the period from the moment of payment by individual investors to the moment when the New Shares are at their disposal, or the funds have been reimbursed to the investor's account as specified in the Subscription, inasmuch as the investors have not earned any interest in the mentioned period.

II. REGISTRATION DOCUMENT

1 PERSONS RESPONSIBLE

1.1 All persons responsible for information contained in the Registration Document

The persons responsible for information contained in the Registration Document are:

Granolio d.d. for production, trade and services, headquartered in Zagreb, Budmanijeva 5, and registered in the Commercial Court Registry in Zagreb under court registration number (MBS) 080 111 595 and personal identification number (PIN): 59064993527

Members of the Management Board:

Hrvoje Filipović, President of the Management Board, represents the Company independently and individually

Vladimir Kalčić, Member of the Management Board, represents the Company together with the President of the Management Board or a Member of the Management Board

Drago Šurina, Member of the Management Board, represents the Company together with the President of the Management Board or a Member of the Management Board

Tomislav Kalafatić, Member of the Management Board, represents the Company together with the President of the Management Board or a Member of the Management Board

Members of the Supervisory Board:

Franjo Filipović, President of the Supervisory Board

Jurij Detiček, Member of the Supervisory Board

Braslav Jadrešić, Member of the Supervisory Board

Davor Štefan, Member of the Supervisory Board

Josip Lasić, Member of the Supervisory Board

1.2 Statement of Responsibility

By signing this Registration Document, the persons stated in the previous paragraph of this Registration Document, who are responsible for the information contained in the Registration Document, declare as follows:

"By taking all necessary measures, we declare that to the best of our knowledge the information contained in the Registration Document are in accordance with the facts and that information which could possibly affect the meaning of the Registration Document have not been omitted."

Signatories to the statement:

Management Board of Granolio d.d. for production, trade and services

Hrvoje Filipović
Predsjednik Uprave

President of the Management Board

Vladimir Kalčić
Član Uprave

Member of the Management Board

Drago Surina
Član Uprave

Member of the Management Board

Tomislav Kalafatić
Član Uprave

Member of the Management Board

Granolio
d.d., Budmanijeva 5
Zagreb
4

Supervisory Board of Granolio d.d.

Franio Filipović
Predsjednik Nadzornog odbora

President of the Supervisory Board

Jurij Detiček
Član Nadzornog odbora

Member of the Supervisory Board

Braslav Jadrešić
Član Nadzornog odbora

Member of the Supervisory Board

Davor Štefan
Član Nadzornog odbora

Member of the Supervisory Board

Member of the Supervisory Board

2 CERTIFIED AUDITOR

This Prospectus contains:

- restated audited consolidated financial statements of the Issuer for years that ended on 31 December 2011, 31 December 2012 and 31 December 2013
- audited consolidated financial statements of the Issuer for the first half of 2014

The aforementioned consolidated financial statements of the Company were audited by Baker Tilly Discordia d.o.o. with registered office in Zagreb, Ulica grada Vukovara 269F, registered with the court registry of the Commercial Court in Zagreb under court registration number (MBS): 080022264, PIN: 71665824084 and registered at the Authorized Auditors Registry of the Croatian Chamber of Auditors, under inscription number 100000500. Audit reports on the consolidated financial statements were signed by managing director and certified auditor Olivio Discordia.

3 SELECTED FINANCIAL INFORMATION

For the purpose of issuing new series of shares on the capital market and publishing the Prospectus the Group has presented restated previous years for transparency, comparability and overall review of information in accordance with the International Accounting Standards (IAS) 8.

Selected financial information expressed in Croatian kuna (HRK) and referred to further in the document, has been obtained from:

- restated audited consolidated financial statements of the Issuer for years that ended on 31 December 2011, 31 December 2012 and 31 December 2013
- audited consolidated financial statements of the Issuer for the first half of 2014

and should be analysed in combination with them. The financial statements of the Issuer are presented in section 20.1 and 20.5 Interim financial information in part II of the Prospectus. The following information should also be analysed in combination with section 9 Overview of Operations and Finances from part II of this Prospectus.

Table 6 Consolidated statement of financial position of the Issuer on 31 December 2011, 31 December 2012, 31 December 2013 and 30 June 2014

in thousands of HRK

	Position	31.12.2011 restated	31.12.2012 restated	31.12.2013 restated	30.6.2014
	ASSETS				
A)	**LONG-TERM ASSETS**	**503,016**	**489,584**	**451,005**	**622,537**
I.	**Intangible assets**	**8,833**	**9,608**	**1,258**	**191,321**
1.	Goodwill	-	-	-	60,379
2.	Trademarks, concessions, licences	7,274	8,195	-	120,000
3.	Clients list	-	-	-	9,861
4.	Software and other intangible assets	1,559	1,413	1,258	1,081
II.	**Fixed assets**	**441,095**	**425,883**	**402,192**	**394,909**
1.	Land	26,509	27,065	27,980	28,092
2.	Buildings	276,396	267,717	254,162	248,218
3.	Plants and machinery	101,273	99,853	88,147	86,147
4.	Biological assets	11,636	10,983	10,761	11,005
5.	Advance payments for fixed assets	962	934	1,522	773
6.	Other fixed assets	60	57	60	59
7.	Fixed assets in preparation	23,875	18,901	18,767	19,827
8.	Property investment	384	373	793	788
III.	**Financial assets**	**52,857**	**53,971**	**47,447**	**36,267**
1.	Participating interests (stakes)	28,712	36,219	33,011	22,935
2.	Granted loans, deposits and alike	24,145	17,752	14,436	13,332
IV.	**Long term receivables**	231	122	108	40
B)	**SHORT-TERM ASSETS**	**342,742**	**368,048**	**391,052**	**414,211**
I.	**Inventories**	93,027	131,604	121,966	94,576
II.	**Receivables**	148,971	131,106	175,475	167,886
1.	Trade receivables	136,319	120,628	142,452	136,859
2.	Receivables from employees	66	50	19	35
3.	Receivables from government and other institutions	9,297	8,119	24,536	26,294
4.	Other receivables	3,289	2,309	8,468	4,698
III.	FINANCIAL ASSETS	96,416	97,327	83,646	141,822
1.	Investment in securities	6,481	4,184	4,121	1,071
2.	Granted loans, deposits and alike	89,935	93,143	79,525	140,751
IV.	CASH AND CASH EQUIVALENTS	4,328	8,011	9,965	9,927
C)	**PREPAID EXPENSES AND ACCRUED INCOME**	**1,107**	**2,349**	**1,220**	**2,957**
D)	**TOTAL ASSETS**	**846,865**	**859,981**	**843,277**	**1,039,705**

in thousands of HRK

	Position	31.12.2011 restated	31.12.2012 restated	31.12.2013 restated	30.6.2014.
	CAPITAL, RESERVES AND LIABILITIES				
A)	**CAPITAL AND RESERVES**	**147,211**	**124,301**	**110,756**	**72,974**
I.	SUBSCRIBED CAPITAL	12,000	12,000	12,000	12,000
II.	LEGAL RESERVES	-	116	161	183
III.	REVALUATION RESERVES	92,528	89,620	83,504	68,840
IV.	RETAINED EARNINGS	49,566	40,123	27,524	30,584
V.	RESULT FOR THE YEAR	(6,883)	(17,558)	(12,433)	(38,633)
B)	**NON-CONTROLLING INTERESTS**	**70,855**	**63,203**	**56,399**	**49,127**
C)	**LONG-TERM LIABILITIES**	**237,073**	**232,814**	**241,699**	**191,440**
1.	Liabilities for loans, deposits and alike	-	-	-	13
2.	Liabilities to banks and other financial institutions	209,227	207,643	219,149	173,648
3.	Liabilities to suppliers	372	318	318	292
4.	Deferred tax liabilities	27,474	24,853	22,232	17,487
D)	**SHORT-TERM LIABILITIES**	**373,239**	**419,589**	**416,648**	**707,153**
1.	Liabilities for loans, deposits and alike		4,270	4,796	23,822
2.	Liabilities to banks and other financial institutions	272,553	296,156	256,950	399,277
3.	Liabilities for advances	573	2,866	3,798	1,287
4.	Liabilities to suppliers	88,610	96,030	125,371	195,612
5.	Liabilities for securities	2,400	6,908	18,044	66,800
6.	Liabilities to employees	2,562	2,436	2,014	2,060
7.	Liabilities for taxes, contributions and similar payments	4,168	7,411	3,545	13,697
8.	Other short-term liabilities	2,373	3,512	2,130	4,598
E)	**ACCRUED LIABILITIES AND DEFERRED INCOME**	**18,487**	**20,074**	**17,775**	**19,011**
F)	**TOTAL CAPITAL, RESERVES AND LIABILITIES**	**846,865**	**859,981**	**843,277**	**1,039,705**

Source: Restated audited consolidated financial statements of the Issuer for years 2011, 2012 and 2013 and audited consolidated financial statements of the Issuer for the first half of 2014

Table 7 Consolidated statement on comprehensive income of the Issuer for 2011, 2012 and 2013

in thousands of HRK

	Position	31.12.2011 restated	31.12.2012 restated	31.12.2013 restated
A)	**OPERATING REVENUE**	**804,175**	**829,485**	**780,773**
1.	Revenue from sales	773,188	804,740	753,237
2.	Other operating revenue	30,987	24,745	27,536
B)	**OPERATING EXPENSES**	**(783,051)**	**(822,166)**	**(773,164)**
I.	Inventories value adjustment	6,477	1,528	(3,190)
1.	Material costs	(683,929)	(718,163)	(655,840)
2.	Expenses for the period	(46,676)	(47,178)	(42,654)
3.	Depreciation and amortisation	(29,091)	(35,974)	(34,444)
4.	Other costs	(13,417)	(12,484)	(9,284)
5.	Value adjustment	(895)	(184)	(13,746)
6.	Other operating expenses	(15,520)	(9,711)	(14,006)
	Operating profit	**21,124**	**7,319**	**7,609**
	EBITDA	**50,215**	**43,293**	**42,053**
C)	FINANCIAL INCOME	5,190	10,475	7,468
D)	FINANCIAL EXPENSE	(35,925)	(38,298)	(32,668)
	Net financial result	**(30,735)**	**(27,823)**	**(25,200)**
	Result before taxation	**(9,611)**	**(20,504)**	**(17,591)**
	Profit tax	(1,968)	(1,908)	(1,646)
E)	**PROFIT/LOSS AFTER TAXATION**	**(11,579)**	**(22,412)**	**(19,237)**
	Other comprehensive profit			
	Financial assets held for sale, reclassified to profit or loss			(3,205)
	Total comprehensive profit	**(11,579)**	**(22,412)**	**(22,442)**
	Profit/(loss) attributable to:			
	Group	*(6,882)*	*(17,558)*	*(12,433)*
	Non-controlling interests	*(4,697)*	*(4,854)*	*(6,804)*
	Total comprehensive profit attributable to:			
	Group	*(6,882)*	*(17,558)*	*(15,638)*
	Non-controlling interests	*(4,697)*	*(4,854)*	*(6,804)*

Source: Restated audited consolidated financial statements of the Issuer for 2011, 2012 and 2013

Table 8 Consolidated statement on comprehensive income of the Issuer for the first half of 2013 and 2014

in thousands of HRK

	Position	30.6.2013	30.6.2014	30.6.2014 without value adj.
A)	**OPERATING REVENUE**	**325,234**	**355,724**	**355,724**
1.	Revenue from sales	319,951	346,723	346,723
2.	Other operating revenue	5,283	9,001	9,001
B)	**OPERATING EXPENSES**	**(340,703)**	**(372,655)**	**(354,319)**
I.	Inventories value adjustment	(6)	11,286	11,286
1.	Material costs	(286,568)	(323,276)	(323,276)
2.	Expenses for the period	(21,677)	(17,955)	(17,955)
3.	Depreciation and amortisation	(18,277)	(15,880)	(15,880)
4.	Other costs	(5,617)	(4,447)	(4,447)
5.	Value adjustment	(35)	(18,336)	-
6.	Other operating expenses	(8,523)	(4,047)	(4,047)
	Operating profit	**(15,469)**	**(16,931)**	**1,405**
	EBITDA	**2,808**	**(1,051)**	**17,285**
C)	FINANCIAL INCOME	2,893	6,387	6,387
D)	FINANCIAL EXPENSE	(13,817)	(35,361)	(18,530)
	Net financial result	**(10,924)**	**(28,974)**	**(12,143)**
	Result before taxation	**(26,393)**	**(45,905)**	**(10,738)**
	Profit tax	-	-	-
E)	**PROFIT/LOSS AFTER TAXATION**	**(26,393)**	**(45,905)**	**(10,738)**
	Other comprehensive profit	-	-	-
	Financial assets held for sale, reclassified to profit or loss	-	3,205	3,205
	Total comprehensive profit	**(26,393)**	**(42,700)**	**(7,533)**
	Profit/(loss) attributable to:			
	Group	*(21,217)*	*(38,633)*	*(9,037)*
	Non-controlling interests	*(5,176)*	*(7,272)*	*(1,701)*
	Total comprehensive profit attributable to:			
	Group	*(21,217)*	*(35,428)*	*(6,250)*
	Non-controlling interests	*(5,176)*	*(7,272)*	*(1,283)*

Source: audited consolidated financial statements of the Issuer for the first half of 2014

Table 9 Consolidated statement of cash flow of the Issuer (indirect method) for 2011, 2012 and 2013, and for 30.06.2014

in thousands of HRK

Position	31.12.2011 restated	31.12.2012 restated	31.12.2013 restated	30.6.2013	30.6.2014
Cash flow from operating activities					
Loss/ profit after taxation	(6,883)	(17,558)	(12,433)	(21,217)	(38,633)
Long-term fixed assets depreciation	27,466	34,865	33,298	17,755	15,565
Long-term intangible assets amortisation	1,625	1,109	1,146	497	315
Increase/decrease of prepaid expenses	(702)	(1,242)	1,128	(1,332)	(1,736)
Increase/decrease of accrued expenses	15,148	1,587	(2,299)	118	1,236
Long term fixed assets write-off expenses	(988)	911	8,154	-	1,521
Other cash flow increase/decrease	(6,033)	(10,067)	(4,632)	(8,583)	9,828
Increase/decrease of inventories	(10,118)	(38,577)	9,638	77,400	27,390
Increase/decrease of short term liabilities	124,378	127,730	148,515	48,583	146,360
Decrease/increase of short term receivables	(60,541)	17,864	(44,366)	(10,217)	7,589
Net operating cash flow	**83,352**	**116,622**	**138,149**	**103,004**	**169,435**
Cash flow from investment activities					
Proceeds from sale of fixed assets	4,595	1,983	3,327	503	979
Increase of fixed and intangible assets	(117,134)	(24,430)	(13,885)	(4,573)	(140,781)
Goodwill acquisition	-	-	-	-	(60,379)
Expenditure from acquisition/sales of ownership and debt financial instruments	(161,821)	(224,040)	(366,649)	(122,517)	(363,633)
Proceeds from lendings	27,032	108,994	265,005	44,823	280,877
Net cash flow from investment activities	**(247,328)**	**(137,493)**	**(112,202)**	**(81,764)**	**(282,937)**
Cash flow from financing activities					
Proceeds from principals, loans and other borrowings	494,814	783,541	812,478	365,013	493,012
Expenditure for loan principal repayment	(335,840)	(751,175)	(839,208)	(389,707)	(375,464)
Paid-out profit from previous years	(18)	(8,040)	-	-	(2,399)
Other cash expenditures from financing activities	3,302	228	2,737	13	(1,685)
Net cash flow from financing activities	**162,258**	**24,554**	**(23,993)**	**(24,681)**	**113,464**
Net cash and cash equivalents changes	**(1,718)**	**3,683**	**1,954**	**(3,441)**	**(38)**
Cash and cash equivalents at the beginning of the period	6,046	4,328	8,011	8,011	9,965
Cash and cash equivalents at the end of the period	**4,328**	**8,011**	**9,965**	**4,570**	**9,927**

Source: Restated audited consolidated financial statements of the Issuer for years 2011, 2012 and 2013 and audited consolidated financial statements of the Issuer for the first half of 2014, and internal Issuer's data for the first half of 2013

Table 10 Key performance indicators of the Issuer for 2011, 2012 and 2013

Position	31.12.2011	31.12.2012	31.12.2013
Liquidity indicators			
Current liquidity ratio (cash and cash equivalents/current liabilities)	0.01	0.02	0.02
Quick ratio ((current assets – inventories)/current liabilities)	0.67	0.56	0.65
Current ratio (current asset/current liabilities)	0.92	0.88	0.94
Debt indicators			
Total interest bearing debt/assets ratio (total interest bearing debt/total assets)	0.57	0.59	0.57
Equity/total assets ratio (capital and reserves/total assets)	0.26	0.22	0.20
Debt/EBITDA ratio (net debt/(EBIT + depreciation))	6,46	7,59	8,63
EBITDA interest coverage (EBITDA/interest cost)	1,67	1,28	1,41
EBIT interest coverage ((operational income - operational expenses)/interest cost)	0.70	0.22	0.25
Activity indicators			
Total assets turnover (operating income/total assets)	0.95	0.96	0.93
Current assets turnover (operating income/current assets)	2.35	2.25	2.00
Receivables turnover ratio (operating income/account receivables)	5.90	6.88	5.48
Inventory turnover ratio (material cost/inventories)	7.35	5.46	5.38
Accounts payable turnover ratio (material cost/account payables)	7.72	7.48	5.23
Profitability indicators			
Return on equity (ROE) (net profit/capital and reserves)	-0.05	-0.12	-0.13
Return on assets (ROA) (net profit/total assets)	-0.01	-0.03	-0.03
Profit margins			
EBITDA margin (EBITDA/operational income)	0.06	0.05	0.05
EBIT margin (EBIT/operational income)	0.03	0.01	0.01
Net margin (net profit/operational income)	-0.01	-0.03	-0.03
Indicators per share			
Average share number	500	1,200,000	1,200,000
Earnings per share (HRK) (net profit/average share number)	(14)	(21)	(10)
Book value per share (HRK) ((capital and reserves+non controlling interest)/average share number)	0.44	0.16	0.14

Note: Indicators are calculated on the basis of the restated audited consolidated financial statements of the Issuer

Source: Granolio

Table 11 Key performance indicators of the Issuer for the first half of 2013 and 2014

Position	30.6.2013	30.6.2014
Liquidity indicators		
Current liquidity ratio (cash and cash equivalents/current liabilities)	-	0.01
Quick ratio ((current assets – inventories)/current liabilities)	-	0.45
Current ratio (current asset/current liabilities)	-	0.59
Debt indicators		
Total interest bearing debt/assets ratio (total interest bearing debt/total assets)	-	0.57
Equity/total assets ratio (capital and reserves/total assets)	-	0.12
Debt/EBITDA ratio (net debt/(EBIT + depreciation))	-	n/a
EBITDA interest coverage (EBITDA/interest cost)	0.21	-0.06
EBIT interest coverage ((operational income - operational expenses)/interest cost)	-1.18	-0.99
Activity indicators		
Total assets turnover (operating income/total assets)	-	0.34
Current assets turnover (operating income/current assets)	-	0.86
Receivables turnover ratio (operating income/account receivables)	-	2.60
Inventory turnover ratio (material cost/inventories)	-	3.42
Accounts payable turnover ratio (material cost/account payables)	-	1.65
Profitability indicators		
Return on equity (ROE) (net profit/capital and reserves)	-	-0.35
Return on assets (ROA) (net profit/total assets)	-	-0.04
Profit margins		
EBITDA margin (EBITDA/operational income)	0.01	0.00
EBIT margin (EBIT/operational income)	-0.05	-0.05
Net margin (net profit/operational income)	-0.08	-0.12
Indicators per share		
Average share number	1,200,000	1,200,000
Earnings per share (HRK) (net profit/average share number)	(17)	(34)
Book value per share (HRK) ((capital and reserves+non controlling interest)/average share number)	-	0.10

Note: Indicators are calculated on the basis of the audited consolidated semi-annual financial statements of the Issuer for the first half of 2014. Performance indicators for the first six months of the year, based on the ratio between income statement and balance sheet items (e.g. inventory turnover ratios), are not comparable with such indicators calculated on the basis of the information obtained at the end of the financial year because the income statement items only show the situation for a part of the year.

Source: Granolio

The profitability of the Group's operations in 2013 and in the first half of 2014 was significantly influenced by the following value adjustments:

2013

Business operations (total of HRK 13.7 million)

- value adjustment of long term intangible assets in the amount of HRK 7.37 million,
- value adjustment of other receivables in the amount of HRK 0.16 million,
- inventory write off in the amount of HRK 6.22 million

2014 – first half

Business operations (total of HRK 18.3 million)

- value adjustment of trade receivables in the amount of HRK 13.8 million,
- value adjustment of other receivables in the amount of HRK 1.6 million,
- value adjustment of receivables for farming incentives in the amount of HRK 2.2 million,
- inventory write off in the amount of HRK 0.7 million

Financial activities – loss from adjustment of financial assets (total of HRK 16.8 million)

- impairment of loans given to affiliated companies (HRK 2,609 thousand) and loans in goods for sowing (HRK 4,313 thousand)
- decrease in investment in Ecofarm d.o.o. BiH (HRK 2,940 thousand) and impairment of investment in PZ Zabara (HRK 990 thousand)
- impairment of investment in the joint-stock company Zagrebačke pekarne Klara in the amount of HRK 3,204.9 thousand. Klara shares were reclassified to the adjusted amount at value through profit and loss, according to IAS 39; consequently, the revaluation reserve formed by the change in share value in previous year and due to the constant loss created by the company Klara zagrebačke pekarne d.d. was expensed to the current year income statement.
- impairment of bills of exchange from commercial dealings (HRK 2 million) and share portfolio (HRK 774 thousand)

The following is an overview of EBITDA, EBIT and net profit calculations without the previously mentioned value adjustments and the selected indicators for the calculation of profitability elements.

Table 12 Overview of EBITDA, EBIT and net profit calculations without value adjustments of the Issuer for 2011, 2012, 2013 and for the first half of 2013 and 2014

Position	31.12.2011 restated	31.12.2012 restated	31.12.2013 restated	30.6.2013	30.6.2014
EBITDA	50,215	43,293	42.053	2,808	(1,051)
- adjustment of trade receivables	(895)	(184)	(13,746)	(35)	(18,336)
EBITDA without value adjustment	**51,110**	**43,477**	**55,799**	**2,843**	**17,285**
EBIT	21,124	7,319	7,609	(15,469)	(16,931)
- adjustment of trade receivables	(895)	(184)	(13,746)	(35)	(18,336)
EBIT without value adjustment	**22,019**	**7,503**	**21,355**	**(15,434)**	**1,405**
Net profit	(11,579)	(22,412)	(22,442)	(26,393)	(42,700)
- adjustment of trade receivables	(895)	(184)	(13,746)	(35)	(18,336)
- financial assets adjustment	-	-	-	-	(16,831)
Net profit without value adjustment	**(10,684)**	**(22,228)**	**(8,696)**	**(26,358)**	**(7,533)**

Source: Granolio

Table 13 The selected financial performance indicators on the basis of the profitability of the Issuer without value adjustments for 2011, 2012, 2013 and for the first half of 2013 and 2014

Position	31.12.2011 restated	31.12.2012 restated	31.12.2013 restated	30.6.2013	30.6.2014
Debt indicators					
Net debt/EBITDA ratio (net debt/(EBIT + depreciation))	6.34	7.56	6.50	-	25.04
EBITDA interest coverage (EBITDA/interest cost)	1.70	1.29	1.87	0.22	1.01
Profitability indicators					
Return on equity (ROE) (net profit/capital and reserves)	-4.9%	-11.9%	-5.2%	-	-6.2%
Return on assets (ROA) (net profit/total assets)	-1.3%	-2.6%	-1.0%	-	-0.07%
Profit margins					
EBITDA margin (EBITDA/operational income)	6.36%	5.24%	7.15%	0.87%	4.86%
EBIT margin (EBIT/operational income)	2.74%	0.90%	2.74%	-4.75%	0.39%
Net margin (net profit/operational income)	-1.33%	-2.68%	-1.11%	-8.10%	-2.12%

Note: Indicators are calculated on the basis of the restated audited consolidated financial statements of the Issuer for years 2011, 2012, 2013 and the audited consolidated semi-annual financial statements of the Issuer for 2014.Performance indicators for the first six months of the year, based on the ratio between income statement and balance sheet items (e.g. profitability ratios), are not comparable with such indicators calculated on the basis of the information obtained at the end of the financ ial year because the income statement items only show the situation for a part of the year

Source: Granolio

4 RISK FACTORS SPECIFIC TO THE ISSUER

By investing in shares, including New Shares, investors expose themselves to a number of risks; therefore, before investing, each investor should study in detail all the information on the relevant risks, together with other information provided in the Prospectus, since such an investment may significantly affect the investor's realised profit or loss.

The risks which the Issuer and its business are exposed to are stated below in this Chapter and these represent the minimum of information potential investors should take into consideration upon the adoption of the decision on the potential subscription of New Shares. The risks listed below represent only the most important Issuer-specific risks; however, these do not include additional risks which, at the time of preparation of this Prospectus, were not known or which the Issuer considered insignificant at the given moment, and which might seriously affect the Issuer's operating and financial situation and business results, and would also result in a decrease in the price of New Shares.

In addition to the risks listed here, it is paramount that potential investors themselves assess the financial situation, potential and risks related to the Issuer and then adopt a decision on the potential subscription of New Shares.

4.1. Operating risks

4.1.1. Market risk

The demand for food products is relatively inelastic in relation to product prices. The key factors influencing food products demand are demographic (increase in population), economic (increase in the number of tourists and consumption of food in the catering industry; increase of production in confectionery and bakery industry), social (changes in the living standard and eating habits of the population) and political factors (EU membership that allows unobstructed export into the countries of the European Union, but also increases competition on the domestic market with the arrival of producers from other member states). The proximity of the border with the Republic of Hungary can influence the raw material market for the needs of Žitar’s production process.

4.1.2. Risk connected with purchase of raw materials and product delivery

The production of wheat, as the most important raw material for the production of flour, and wheat price trends on the domestic and foreign markets have a significant influence on the production and trends of the price of flour. In the last six years, the average annual production of wheat in the Republic of Croatia amounted to over 809 thousand tonnes (according to sources from Croatian Bureau of Statistics, Statistical Yearbook, taken over from Table 26 Surface area and production of wheat and corn, page 70) which not only meets Croatia's need for wheat, but also allows Croatia to export this grain.

An important local source of raw materials is a wide base of subcontractors with whom Granolio cooperates by providing them with the necessary seed and other production materials for sowing, which it settles through offsetting with the purchase price of the produced wheat/grain.

The risk of obtaining raw materials is also reduced by the fact that Granolio has an organizational trade unit present on the international commodities exchanges and can at present, at all moments, purchase sufficient amounts of wheat at the current market price. With the accession to the European Union, all administrative obstacles for the purchase of raw materials from the European Union have disappeared.

The risk of product non-delivery exists because of a possible production halt following a malfunction at the milling plant or a possibility of contract cancellation by the flour transporter.

The Issuer tries to reduce the risk of a production halt by hiring workers at mills who are adequately trained to handle malfunctions within a reasonable timeframe. Since larger orders of finished products are expected due to the expansion of the milling business, warehousing capacities are currently being expanded with the goal of creating product stock in order to fill orders on time.

The Issuer tries to reduce the risk of non-delivery of products due to cancellation of a contract with the flour transporter through its large base of transporters and the fact that it is not dependent on any one transporter in proportion to the volume of their services.

In the dairy production segment, the risk of shortage of raw materials for the production of processed cheese is within reasonable limits, considering that there is a sufficient number of providers on the market, and that, in case one supplier cannot deliver, it is possible to acquire raw materials from another supplier in a relatively short time period. In addition, Zdenka has its own production facility for the production of raw materials for processed cheese and is able, if the need arises, to produce the necessary amount of raw materials.

4.1.3. Competition risk

The Issuer mostly sells its products and goods on the domestic market. Croatia's accession to the European Union eased its entry onto the markets of other member states in terms of administration, but it has also brought foreign competition onto the domestic market.

The flour market shows tendencies towards greater concentration, that is a reduction in the total number of flour producers (through enlargement or closing down of small mills) in order to minimise production costs per unit of product through economies of scale and to strengthen the competitive position on the market in turn. With that aim, in May 2014, Granolio carried out an acquisition, which shall be discussed in more detail further in the text, of the milling operations of the companies Belje and PIK Vinkovci from Agrokor Group, whose market share was around 21% (Issuer's estimate).

The Issuer estimates that the potential arrival of new competitors on the domestic market of processed cheeses following Croatia's accession to the European Union does not pose a significant risk for business results, considering consumer habits and Zdenka's long-term presence on the domestic market on which it is competitive both in price and in quality.

As regards its export, Zdenka is currently more focused on the Middle East market where it sees greater potential than on the European market.

By investing in the modernization of cheese production plants (Zdenka) and increasing the production capacity of lactating cows (Zdenačka farma and Žitar), the pre unit production costs are decreased, and it is expected that, at the current levels of market prices, these will positively affect the companies' profitability.

4.1.4 Risk of exposure to biggest customers and suppliers

The Issuer's biggest customers are chain retail stores on the Croatian market and ADM International (one of the world's major grain traders). According to the figures for 2013, the share of the Group's five biggest customers is 20%, which means that the Issuer is not significantly exposed to its biggest customers. The cooperation agreement with Konzum d.d. concluded on 2 May 2014 for a period of three years defined the presence in Konzum's retail sale and wholesale network with flour from the Company's assortment, in accordance with its market share. Therefore, in the future the Issuer expects to be mostly exposed to Konzum as the biggest individual customer, and thus to the potential risk of change of commercial relations after the expiry of the three-year agreement.

The Issuer's biggest suppliers are the suppliers of raw materials and production materials for sowing. According to the figures for 2013, the share of the five biggest suppliers is around 25%. In addition, when purchasing key raw materials, the Issuer attempts to cooperate with a larger number of suppliers in order to reduce the risks of effects on business activities in case of termination of cooperation with one of the biggest suppliers. Despite that, the Issuer cannot offer any guarantees that a termination of cooperation with one of the biggest suppliers shall not have a significant effect on the Issuer's operating activities and financial position.

4.1.5. Risk of change in ownership

The Company's majority shareholder is Hrvoje Filipović. After the execution of the Offer of New Shares his share in ownership decreased from 96.25% to 60.74%, and it is not expected that the change in ownership structure shall have a negative effect on Issuer's future operating activities.

4.1.6 The possibility of the major shareholder's influence on interests that may differ from the Issuer's interests

The majority shareholder, Hrvoje Filipović, has the controlling influence in the Company's General Assembly by way of rights and authority to which he is entitled in his capacity of the Company's shareholder. Mr Filipović's share in the Company ownership at the date of the report is 60.74%.

The majority share in the ownership of the Company gives Mr. Filipović the right to influence all decisions in the Company's General Assembly.

It is not possible to provide any guarantees that the influence of Mr Filipović, as the major shareholder, will not have a significant effect on the Issuer's operating activities and financial position.

4.1.7 Risk of acquisitions

The Issuer's strategy includes an expansion of business, both organically and through acquisitions. The continuation of implementation of this strategy will be contingent on, among other things, identifying acquisition opportunities and their successful execution. Future acquisitions may require an evaluation of concentration by the Croatian Competition Agency (AZTN), that is, there is a risk that they will be evaluated as disallowed or allowed with the condition of fulfilling certain measures and conditions.

The Issuer's ability to efficiently integrate and manage the acquired business or economic subject and to successfully deal with future growth depends on a number of factors; a possible failure could have a negative impact on the Issuer's operating activities and financial position. In the future, it is possible to execute acquisitions of larger scale as well as acquisitions outside the Issuer's operating market. The Issuer has no experience with the execution of acquisitions outside its operating market, which can affect the successfullness of the acquisition as well as increase the expenses of the acquisition and integration. Larger scale acquisition may be considerably more difficult for the process of integration and may call for considerably higher financial means than in the past. Acquisitions outside the Issuer's operating market may present challenges in terms of cultural or language obstacles but also in terms of integration and management of a business that is geographically considerably further away than the Issuer's current operating market.

The Issuer cannot offer any guarantees that it will be able to address adequately all the risks in executing future acquisitions or their integration. Acquisitions may increase the Issuer's indebtedness, both through the indebtedness for financing the acquisition and through the obligations of the acquired business or economic entity, which may considerably limit the Issuer's future borrowing. Any significant borrowing in relation with the acquisition may have an important effect on the Issuer's operating activities.

In future acquisitions, as part of the process of acquisition evaluation, the Issuer will have to assume expected savings in costs synergies. Such evaluations are uncertain and subject to an array of significant business, economic and competition risks, which might have considerable influence on the deviation of actual results from those initially estimated. The Issuer risks a failure to accomplish a part or all of the savings and synergies, which were estimated at the time of the acquisition.

Furthermore, while carrying out acquisitions, the Issuer usually takes over all the liabilities and assets of the business or economic entity that is the subject of the acquisition. Even though the Issuer conducts a due diligence and other analyses of the company at the time of the acquisition, and tries to obtain adequate commitments and guarantees about assets and liabilities, the Issuer cannot provide any guarantees that it will be able to identify all actual and potential liabilities prior to the execution of the acquisition. In case the acquisition results in taking over of some unexpected liabilities, and in case the Issuer did not receive adequate insurance, this might have a significant influence on the Issuer's operating activities and financial position.

4.1.8 Risk connected with working capital management

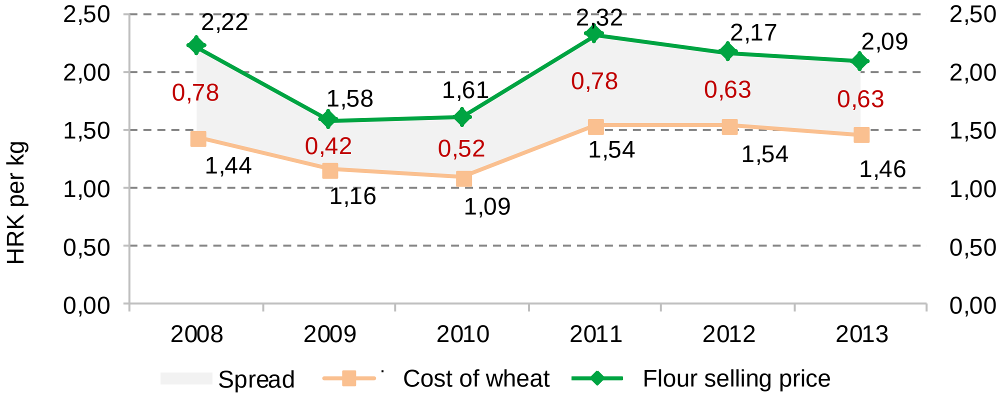
Successful working capital management is an important segment of the Issuer's operating activities. The Issuer may be susceptible to strong pressure, both from the competition and from key suppliers in terms of shortening the payment terms, while at the same time it might be under pressure from customers in terms of prolonging payments.

The Issuer has made significant investments into the improvement of logistics (stated in item 5.2.1 of this Prospectus) with the goal of increasing stock turnover and overall operational efficiency. Although the Issuer has so far managed the working capital successfully, it is not possible to give any guarantees that this will continue in the future, which might have a significant impact on the Issuer's operating activities and financial position.

4.1.9 Risk connected with fluctuation of major raw material prices

Business results are strongly influenced by the price of wheat, which is a traded commodity, as the most important raw material in Granolio's production. The volatility of the price of wheat can be the result of unfavourable weather conditions, plant diseases, political instability and other extreme factors. General economic conditions, unexpected demand, problems in production and distribution, plant diseases, weather conditions during the period of crop growth and harvesting can have a negative effect on the price of wheat. Regardless of the fact that the Issuer can satisfy all its needs for wheat on the domestic market, the price trends on the domestic market are under the influence of wheat price trends on the international commodity exchanges. Based on past dealings of the Issuer, it has been established that purchase price trends for wheat were positively correlated with the price trends for flour. However, it is important to point out that it takes a certain amount of time in order for the price of flour to adjust to the changes in the price of wheat, which in certain shorter periods has a negative effect on the Issuer's margin in case of an increase in the price of wheat. Regardless of the past indicators that exhibit a correlation between the prices of flour and wheat, the Issuer cannot guarantee that it will be able to compensate fully for a future possible increase in the price of wheat by an increase in the price of flour in a way to keep the past margins.

Chart 1 Spread fluctuations between prices of wheat and flour



Source: Internal Issuer's data

Granolio attempts to reduce the risk of change in the price of wheat by an active approach to futures markets.

Granolio actively manages the risks and purchase prices of raw materials applying, as needed, different techniques of trading with futures contracts on world commodity exchanges, where the Group has no prominent open positions.

In the segment of dairy production, the change in the price of raw milk can have a crucial effect on Zdenka's business results. In case of a considerable increase in the price of raw milk, it would be possible to redirect the production of Zdenačka farma (Zdenačka farma currently does not supply Zdenka with milk strictly for commercial reasons, because it receives a better selling price for milk from another customer) and Žitar for the supply of Zdenka, if it would be estimated that this is in the interest of the entire Granolio Group.

4.1.10 Dependence on management and key personnel

The Issuer greatly relies on its employees as one of its main competitive advantages. The Issuer must thus strive to keep the best personnel on all levels in order to maintain its position of a market leader. The Issuer cannot offer any guarantees that it will manage to keep its current management and other key personnel or that it will be able to attract other valuable employees in the future. The loss of key personnel and the inability to attract new ones may have a significant impact on the Issuer's operating activities.

4.1.11 Risk of IT system malfunction

The Group relies on a number of IT systems that allow it to efficiently manage the distribution capacities, communicate with customers and suppliers, manage and evaluate employees and gather all the necessary information that the management may rely on for decision-making. The Issuer's operating activities are becoming increasingly more dependent on the use of such systems and any malfunctions in the operation of IT systems through computer viruses, hacker attacks, malfunction in the operation of IT equipment and programs, or some other reasons, might have a strong impact on the Issuer's operating activities and financial position.

4.1.12 Risk connected with infringement of competition rules

One part of the Issuer's overall strategy is to become a leading manufacturer of flour on the Croatian market and supplier to the customers in the region; as a result, its position can be described as dominant, in terms of the regulations governing competition. The regulations of the Republic of Croatia that govern competition and that are harmonized with the European Union regulations forbid any abuse of the dominant position, and especially of the direct and indirect imposing of unfair buying or selling prices, i.e. other unfair market conditions, limiting of the production, market or technological development at the expense of the consumer, application of unequal conditions to identical dealings with other entrepreneurs, which brings them into a less favourable position with regards to the competition, as well as making other contractual parties agree to additional obligations as a condition for concluding contracts, and which, by their nature or trade customs, are not in a direct connection with the subject-matter of those contracts.

Furthermore, these regulations also prohibit all agreements, decisions by associations of undertakings and concerted practices, which have as their object or effect the distortion of competition in the relevant market.

Even though the Issuer is not aware of any violation of regulations that govern competition, nor has the Croatian Competition Agency initiated any proceedings against it, the Issuer cannot guarantee that there will be no such proceedings. Any violation of competition regulations results in the possibility of significant administrative fines and penalties. For example, the penalty for concluding illegal agreements and abusing the dominant position amounts up to 10% of the total annual revenue of the company in the last year for which financial statements have been concluded. Therefore, a possible imposition of fines might have an unfavourable effect on the operating activities and financial position of the Issuer/Group.

In order to reduce this risk, the Issuer intends to further train its employees on positive regulations regarding competition protection, and to set up procedures for concluding contracts and performing other activities that might result in violation of competition regulations and ensure their consistent application.

Furthermore, before any future acquisition, the Issuer may have to ask for an evaluation of concentration by the Croatian Competition Agency. The Issuer cannot offer any guarantees that in any such case the concentration will be appraised as approved, or that it will not be approved solely after implementing certain measures and meeting certain conditions, such as sale of certain assets or taking other actions that might affect the revenue, profit or Issuer's cash flow. Moreover, the concentration evaluation procedure might affect the duration of the acquisition.

4.1.13 Risk connected with judicial proceedings against the Group

The Issuer, just as any other economic operator, is susceptible to the risk of proceedings before courts, regulatory or other supervisory bodies, within its regular operational activities. Such actions primarily concern proceedings with debtors or suppliers. The risk of potential lawsuits from the Issuer's customers as a result of damages occurred by product consumption cannot be excluded in the future. The Issuer cannot offer any guarantees that the results of future legal and regulatory actions or measures will have no significant effect on the Issuer's operating activities and financial position. The assessment of the impact of court and arbitration proceedings on the Issuer's financial situation is presented in section 20.7 of this Prospectus.

4.1.14 Risk connected with liabilities or loss not covered by insurance

The level of insurance coverage is at the level typical for industries in which the Group operates. Contracted insurance policies are primarily related to workplace injuries, machine malfunction, damage of property and other tangible assets, insurance of livestock and insurance of crops. However, it is impossible to ensure all potential liabilities and losses and therefore, the Issuer cannot offer any guarantees that it will not be exposed to situations that are not covered by insurance and that such situations will have no significant effect on the Issuer's operating activities and financial position.

4.2. Financial risks

4.2.1 Exchange rate risks

The Issuer is exposed to the exchange rate risk. The exchange rate risk is related to the fact that a significant part of the Issuer's loan liabilities is dependent on exchange rate fluctuations of HRK in relation to EUR. Strong fluctuations in the exchange rate EUR/HRK might affect the borrowing of the Issuer in foreign currency. Furthermore, according to the figures for 2013, the Group generates approximately 26% of total revenue on foreign markets in EUR, so fluctuations in the exchange rate EUR/HRK may affect Group operational activities on this basis as well.

In the future, the Group may be exposed to derivative contracts with financial institutions such as currency hedging, with the aim of hedging certain financial risks.

Changes in fair values of such derivative contracts might affect the Group's profitability in the future.

Currently, the Group does not use financial instruments of protection against unfavourable exchange rate movements.

4.2.2 Credit risk

The Group is exposed to the risk of inability to collect a part of its customers' obligations. As a rule, the Group primarily does business with chain retail stores that present the most important customers and with whom it has maintained business cooperation for a number of years. In doing so, the Group's credit risk is primarily reflected in possible problems in the retail sector. The Issuer attempts to reduce its exposure to credit risk by monitoring the customers' financial position, through strict measures of collection control and through different insurance instruments, such as promissory notes and bills of exchange.

In addition to the credit risk related to customers, the Issuer is exposed to credit risk related to subcontractors in the production of grain and oil crops, considering that, at the time of sowing, it provides them with merchandise credit in the form of necessary production materials. Subcontractors usually settle their obligations with regards to production materials through the delivery of oil crops and grains, providing the parties are in consent regarding the price of the product at harvest time. It is possible, and it happens in practice, that some subcontractors do not produce sufficient amounts of grains and oil crops, due to various reasons, to settle the merchandise credit. The Issuer is protected from such situations by additional insurance instruments, such as personal guarantees from the farm owner, personal guarantees of the family members, collateral of farming equipment and real estate, fiduciary for the crops or crop reserves, co-ownership of crop and similar. It is important to emphasize that insurance instruments are arranged with each subcontractor individually, depending on the previous arrangements. So far, in its operational activities, the Issuer has kept the level of merchandise credit with problems in amortization at an acceptable level. At this moment, the state of merchandise credits outposition for more than 90 days as of 30 June 2014 is HRK 7.9 million.

In situations when the subcontractor is not able to repay the merchandise credit due to unfavourable weather conditions and/or unfavourable market price of grain/oil crops, they typically get a postponement of repayment with the payment of contractual interest; the debt repayment is contracted for the next sowing season, or repayment is contracted in some other field crop that was not affected by weather conditions (e.g. rain at the time of wheat harvest can decrease its quality and at the same time have a positive effect on crops being harvested in autumn). Subcontractors usually sow several different crops with the goal of reducing the risks of unfavourable weather conditions for a certain crop, but in that way also protect themselves against unfavourable market price trends for a certain crop (risk dispersion).

The Group cannot offer any guarantees that monitoring of the customers' financial position, measures of collection control or insurance instruments will be effective and that possible credit risk will have no significant impact on the Group's operating activities and financial position, nor that the amount of merchandise credit with repayment problems will not increase

4.2.3 Interest rate risk

Considering the level of received loans from financial institutions which have been mostly concluded with a variable interest rate based on the usual benchmark interest rates (EURIBOR, LIBOR, ZIBOR and interest rates for treasury bills), the Group is exposed to the risk related to increase in interest rates. At this moment, the Group does not use financial instruments of protection against unfavourable interest rates.

In the future, the Group may be exposed to derivative contracts with financial institutions such as currency or interest rate hedging, with the goal of hedging certain financial risks.

Changes in the fair value of such derivative contracts might affect the Group profitability in the future.

4.2.4 Liquidity risk

There is a risk that the Issuer will not be able to settle its obligations in accordance with their maturity, which can be the result of an inadequate collection of customers' debts, unfavourable time-frame for debt maturity or inability to ensure credit financing from financial institutions. In order to reduce the liquidity risk, the Issuer continuously implements measures of active collection of receivables, monitors customers' liquidity, and attempts to optimize the structure of debt maturity and ensure free credit lines with financial institutions in order to be able to settle its obligations even in unexpected circumstances. Additionally, the Issuer strives to finance its long-term investments from long-term sources and to turn current loans, which were previously used to finance long-term investments, into non-current ones.

In order to finance the acquisition of the milling business from Belje and PIK Vinkovci from the Agrokor Group, the Issuer took a current loan in the amount of HRK 153 million from Zagrebačka banka, which is due on 15 December 2014. The Issuer will fully use the funds raised from the issuing of New Shares that are the subject-matter of this Offer for the partial settlement of the principal of that loan. Furthermore, the Issuer estimates to reduce the level of total credit debt in the mid-term and in doing so, it will additionally reduce its liquidity risk.

In July 2008, the Issuer, with the Croatian Privatization Fund as the transferor, concluded a contract on the transfer of 99.91 % of business shares in the company Prerada žitarica for HRK 3.3 million, and obliged to settle the debt towards the company Zdenka d.d. Veliki Zdenci in the amount of HRK 1.7 million. Under the share transfer contract, the Issuer was also obliged to implement an investment programme for Prerada žitarica in the amount of HRK 40.7 mil., initially within 5 years; the deadline was subsequently extended to 7 years from contract conclusion. To ensure the fulfilment of contractual obligations, the Issuer provided the Croatian Privatization Fund with a corporate guarantee and bill of exchange with a bill of exchange statement in the total amount of the subsequent investment. So far, the Issuer has invested into Prerada žitarica according to the investment programme approximately HRK 12 million and requested the transferor to grant it a prolongation of the deadline for carrying out the investment in the entire amount, but it has not received an answer yet. Therefore, there is a possibility that the Restructuring and Sale Centre (CERP), as the legal successor of the Croatian Privatization Fund, will activate insurance instruments in the amount of the investment that will not be carried out within the contracted deadline, which might have a negative effect on the Issuer's financial position. The Issuer's Management Board is in the process of preparing a proposal of amendments to the investment contract which they will submit to CERP for consideration for the purpose of reaching a satisfactory agreement on the manner, type and deadlines for the Issuer's remaining investment.

The Group cannot offer any guarantees that the management of liquidity risk will be efficient and that possible liquidity risk will have no significant impact on the Group's operating activities and financial position.

4.3 Industry risks

One of the risks that occur in food industry is the fact that consumer eating habits and consumers' awareness of the impact the food has on our health have changed greatly in the last 20 years. Such trends make it necessary for manufacturers to expand the existing assortment of products and to further improve the quality of existing products, both in flour milling and in milk processing (Zdenka).

4.3.1 Flour production

Negative impacts on the production of flour can be caused by extraordinary events such as fire, explosion, and malfunction of the processing equipment, prolonged or emergency maintenance, road construction or closing of main traffic routes, floods, storms, or other extremely unfavourable weather conditions. Even though the Issuer uses insurance against damages to such facilities, such insurance may be limited in regard to the maximum amount of damages and may not be sufficient to cover all expenses. Likewise, the Issuer may be susceptible to costs not covered by insurance.

4.3.2 Dairy production

In its purchase of raw milk for the needs of dairy production, Zdenka relies on a large number of subcontractors, which exposes it to the risk of purchasing raw material of an unsatisfactory quality for the production of top quality products, risks of late delivery and insufficient amounts of raw material.

The risk of raw material quality is minimized through laboratories that continually perform microbiological testing of raw milk. In case of market disruption, either due to raw material shortage or because of a price increase, the Group is able to, in a relatively short period of time, redirect the milk produced on Zdenačka farma for the needs of Zdenka and in that way partly reduce the mentioned risks. Shortage of milk on the domestic market can be compensated by milk imports. However, Zdenka cannot fully protect itself from the potential increase in the market price of milk nor can it guarantee that the price increase of raw material will be successfully compensated by the price increase of the final product, considering the strong competition.

In addition to raw milk, Zdenka buys raw materials for the production of processed cheese from several EU manufacturers that meet high-quality standards. The risks of raw material shortage or contract cancellation by one of the suppliers are not significant at the moment, considering that at present the supply of such products is bigger than the manufacturers' demand, and that in case of significant disruptions on the market, Zdenka can start its own production.

A significant risk in the process of production is the risk of spoilage, considering that dairy products belong to the category of products with high tendencies of spoilage. Zdenka attempts to reduce the risk of product spoilage through strict quality control of the raw materials, processing in technologically advanced facilities, and maintaining high standards of hygiene in the production facilities.

A significant market risk is present in Zdenka's operating activities, primarily manifested through import of cheap cheeses from the EU. Therefore, with the goal of protecting its margins, Zdenka focuses on the production and distribution of brand products, which are also Zdenka's great value. Maintaining this reputation and brand-related values is essential for the success of Zdenka's operating activities. Negative publicity, legal actions or some other factors might lead to a considerable erosion of the brand value, which might reduce the customers' demand for the product and have a significant effect on the current and future operating activities and financial position of Zdenka.

4.3.3 Livestock farming

In the segment of milk production (Zdenačka farma and Žitar) and swine fattening (Žitar) are exposed to the risk of livestock disease and death. In order to prevent diseases and death, veterinary clinics were established on the farms, which take constant care of the livestock. In order to achieve high-quality milk production, optimal nutrition standards are followed and care is taken of hygienic conditions in relation to milking and storing raw milk. All livestock is insured against death.

There is also a risk that the produced milk and meat do not satisfy high-quality standards. However, those risks are greatly reduced by the implementation of high production standards, such as ISO and HACCP.

4.3.4 Crop production

Field crop production is exposed to unfavourable weather conditions (drought, flood, hail). Unfavourable weather conditions can result in smaller yield of field crops or their reduced quality, or both, and in certain circumstances, even complete ruin of crops. Unfavourable weather conditions affect the operating activities of the company Žitar, which deals with crop production among other, but also of the subcontractors that the Group credits with production material, which can reduce the ability of the subcontractors to settle their obligations under the merchandise credit. This issue is described in more detail in section 4.2.2. Credit risk.

The risks of unfavourable weather conditions are reduced by crop insurance; the state also has an important role in this issue by subsidizing 25% of the insurance costs.

The Issuer also protects itself from unfavourable weather conditions risks by geographical diversification.

Same as with livestock production, the risk of field crop diseases can have a significant negative influence on expected yield (sometimes greater than 30%). Because of that, preventive plant disease control is implemented in the production nowadays, as the cheapest and most effective way of maintaining the expected level of crop yield.

In addition to diseases, vast damages in the field crop industry have lately been caused by increasing numbers of rodents, and their suppression is made difficult by legal regulations (higher damages are expected in the future).

4.4. General risks

4.4.1 Business environment risks

The business environment risk includes political, legal and macroeconomic risks in the environment in which the Group operates, primarily the Croatian market where the Issuer makes 74% of its total revenues (data for 2013) and to a lesser extent, Bosnia and Herzegovina, Italy and Slovenia. The Group cannot offer any guarantees that the Croatian market where the Group makes most of its turnover will continue the successful implementation of political and economic reforms. Their postponement or failures in their implementation may affect the Group's operating activities. Austerity measures of the state budget and tax increases that are currently being implemented in Croatia may slow down economic growth or reduce available income, which may affect both the revenue and the profitability of the Group.

Former governments have conducted economic reforms with the goal of developing and stabilizing free market economy through privatization of state-owned companies, attracting foreign investments and implementing the necessary reforms to join the EU. Even though Croatia has made significant efforts to establish a market economy, it will take several more years and some additional investments to reach the level of Western European infrastructure. The Group cannot offer any guarantees that Croatia will accomplish the intended reforms or that the political climate will be favourable for reform implementation. The Issuer cannot offer any guarantees that the Government will not introduce new regulations, fiscal or monetary policies, including tax regulations or policies, environmental protection, public procurement, compensation for the owners of nationalized property or exchange rate policy.

Croatian legal framework is still developing, which can cause certain legal ambiguities. The Issuer may find itself in a situation where it is not able to successfully fulfil or protect some of its rights.

Croatia's open issues with its neighbours do not affect the country's political stability; instead, they present legitimate representation of strategic and economic interests of the country in international relations, same as with all other developed countries. Since the Issuer's operating activities are based on the Croatian market, the threat of neighbouring countries' influence is minimal.

The Group's operating activities are susceptible to the macroeconomic environment, economic circumstances and trends in economic activities. In the periods of unfavourable economic conditions, the Group may face difficulties in expanding its operations or settling its financial obligations. Furthermore, in such conditions, the Group may face difficulties in accessing financial markets, which can in turn make financing costs more difficult and more expensive, and can have a significant effect on operating activities and financial position. The continuation of the current economic situation may make access to the capital market more difficult for the Group as well as for its customers and suppliers, which may affect the existing level of revenues and profitability.

International trends also affect the Group, considering that wheat, which is the basic raw material in Granolio's production, is a traded commodity and therefore susceptible to the influence of possible political instabilities in countries that are major manufacturers of this grain (China, Russia, the USA). However, as stated previously, the Issuer can fully settle its demand for raw materials from domestic sources, and oscillations in the price are neutralized by an active approach to futures markets.

4.4.2 Risk of changes in the legal framework

As a producer of food products, the Group is susceptible to strict regulations concerning human nutrition, product safety, employee safety and working conditions, environment safety and protection (including those concerning wastewaters, air pollution, noise, waste management environment cleaning, etc.) product composition, packaging, labelling, marketing and competition. Food production results in waste and release of harmful substances into the atmosphere and water, and the Issuer must obtain various permits and abide by different regulations. Health, safety and environment protection regulations in Europe and other developed regions are becoming increasingly strict, and their implementation more persistent. The Issuer attempts to monitor and anticipate such changes, but any failure in such efforts may result in various penalties. The Issuer believes that at present it complies with existing rules and regulations and deadlines prescribed by different regulatory bodies. However, it cannot offer any guarantees that it will not face significant costs of settling possible violations or obligations to respond to any negative publicity based on those rules and regulations, or to adjust to changes in the existing regulations, which might have a significant effect on the Issuer’s operating activities and financial position. For example, the Issuer currently owns or leases a number of real estate properties and facilities, including production facilities and distribution centres, some of which were previously used for commercial or industrial purposes. Even though at present the Issuer is not aware of any facts that may lead to new obligations concerning the environmental state of those properties and facilities, discovery of contamination based on current or past operations and imposition of obligations to remove contamination might cause significant costs to the Issuer. Moreover, it is possible that additional rules are introduced in the future and that the current legislation changes (or its interpretation) which might affect the operating activities and Issuer’s products. The Issuer cannot offer any guarantees that in the future the cost of adhering to such initiatives will not have a significant impact on the Issuer’s operating activities and financial position.

5 INFORMATION ON THE ISSUER

5.1 Issuer's history and development

5.1.1 Issuer's history

The Issuer was founded as a limited liability company in December 1996. The company's headquarters are located in Zagreb and its business units are in: Gornji Draganec, Slavonski Brod, Velika Kopanica, Osijek, Vinkovci and Belje. The companies which constitute the Group operate in Veliki Zdenci, Grubišno Polje and Donji Miholjac. The Company currently employs 182 workers, and the Granolio Group employs 463 workers.

Today, the Group's business activities include the production of food products (mill products and dairy industry), cattle breeding, agricultural production, storage of agricultural products and trade in products for the bakery sector, in agricultural products and planting material for agricultural production.

MILLING BUSINESS

When it first started operating, the Company's management has assessed that it would not be possible to achieve the planned high growth rates with the existing resources and competences; therefore, they started strategically staffing the Company and cooperating in the business segments in which the existing resources or competences could not support the achievement of objectives. To that end, provision of the service of wheat milling and marketing of flour was contracted with Žitoproizvod d.o.o. from Karlovac as early as in 1997. Two years later, the production of the first brand in the mill products industry was contracted with one of the biggest chain stores of that time in Croatia.

Granolio launched its own flour production in 2001 when it purchased a mill in bankruptcy (part of the former Žito-Čazma combine) in Gornji Draganec (today's Farina mill). In the same year, the first line for packing flour in small 1 kg and 2 kg packs was purchased, and as early as in 2002, the mill's capacities were increased from 60 tonnes per day to 150 tonnes per day.

After that, the Issuer purchased a mill of the capacity of 140 tonnes in Velika Kopanica from Žito d.o.o., a new line for packing small 1 kg flour packs and carried out another increase of both mills' capacities.

The Issuer is the first producer in the mill products industry in Croatia who implemented the HACCP and ISO standards in its operations back in 2004 and the first producer of mill products in Croatia who certified part of its production process according to the IFS standard.

The Issuer continues to carry out improvements and modernization of mills, and in 2014, it took over the mill products business of the companies Belje and PIK-Vinkovci, members of the Agrokor Group, which is described in more detail in section 5.2.4 of this Prospectus. Having taken over the milling business, the Issuer now avails of 5 mills of a maximum production capacity of approximately 288,750 tonnes of wheat milling per year, and with more than 100,000 tonnes of own milling of wheat and an additional 90,000 tonnes of wheat milling which are planned through the acquisition of the milling business of the companies Belje and PIK-Vinkovci, the Issuer plans to become the biggest producer of mill products in Croatia and the region.

DAIRY INDUSTRY

With the purchase of Zdenka in 2008, in cooperation with Cautio d.o.o. Našice, the production of dairy products, along with the milling business, became another food industry sector in which the Group conducts its business activity. Milk production logically cues from farming and cattle breeding and enables the closure of the production cycle through production and sale of final products with the most added value and the highest level of processing.

In the dairy products production sector and in agricultural production, the Issuer realizes a large part of its business through a strategic alliance with Cautio d.o.o. from Našice. More than 30,000 litres of milk are processed in the dairy industry every day, and, in primary agricultural production, more than 1,100 ha of arable land are cultivated. Moreover, the Group additionally cultivates approximately 140 ha of arable land in Veliki Zdenci where it produces feed for the farm.

CATTLE BREEDING

The Issuer has been present in cattle breeding since the very beginning through the provision of the service of bullock fattening. In 2007, the Issuer entered the milk production sector by acquiring the company Zdenačka farma from Veliki Zdenci and constructing a lactating cow farm, a farm for bullock fattening and a farm for swine fattening within the framework of Žitar's business operations.

CROP PRODUCTION

Crop production complements the milling business and cattle breeding and it presents a logical development of the Group. Except within Zdenačka farma, the Issuer started intensely dealing with crop production in 2007, when it purchased a share in the company Kapelna d.o.o. from Kapelna near Donji Miholjac. The acquisition was realized in cooperation with its strategic partner, Cautio d.o.o. from Našice. The strategic cooperation with Cautio d.o.o. was expanded in 2009 through the acquisition of Novi Žitar d.o.o. from Donji Miholjac and the merging of Novi Žitar and Kapelna into the current company Žitar d.o.o.

STORAGE OF GRAINS AND OIL CROPS

Storage of grains and oil crops is an integral part of the crop production and the basis for trade in field crops. The Bjeliš silo, part of the Granolio Group since 2006, is the only independent large-capacity silo in the Brod-Posavina county. It is strategically well located. It is located by the river Sava, by the future port in Slavonski Brod, and, within the area of the silo there is a railway track which makes the procedure of reception and dispatch of cereals simpler and more efficient. This is a stable basis for growth and development in crop production and in trade in farming products. The silo in Bjeliš continues onto the silos within the Kopanica and Farina mills and the silos of the companies Prerada žitarica and Žitar from Donji Miholjac of the total capacity of 158,000 tonnes.

PRODUCTION OF FEED

Production of feed, seed, field crops and agricultural cooperation take place through the operations of the Žitar company from Donji Miholjac. The expansion of the sales range has improved its competitive capacity and the Issuer has positioned itself on the market as a stable and reliable supplier and an inevitable source of supply of agricultural products to the customers in the region.

TRADE IN GRAINS, OIL CROPS AND PLANTING MATERIAL

The trade activity relates to retail and wholesale trade in products for the bakery sector and in cereals, oil crops, mineral manure, seed, plant protection agents and other material used in agricultural production.

5.1.2 Issuer's company name

Full company name:

Granolio joint-stock company for production, trade and services (Granolio d.d. za proizvodnju, trgovinu i usluge)

Abbreviated company name:

Granolio d.d.

5.1.3 Place of registration of the Issuer, court registration number (MB), registration number (MBS) and personal identification number (PIN- Croatia: OIB)

Commercial court of registration:

Commercial Court in Zagreb

Registration number:

1244272

Court registration number (MBS):

080111595

Personal identification number (PIN):

59064993527

5.1.4 Date of Issuer's establishment and the term for which it is established

Date of Issuer's establishment:

31 December 1996

The company is established for an indefinite period.

5.1.5 Issuer's registered seat and legal form, legislature on the basis of which the Issuer operates, country of establishment, address and phone number of the registered seat

Issuer's registered seat:

Zagreb, Budmanijeva 5

Issuer's legal form:

Joint stock company

Legislature on the basis of which the Issuer operates:

Legislature of the Republic of Croatia

Country of establishment:

Republic of Croatia

Address and phone number:

Zagreb, Budmanijeva 5, phone +385 1 6320 200

5.1.6 Key events in the Issuer's business development

Year	Key events
1996	● Establishment - Granolio's initial activity was trade in grains, oil crops, feed components, livestock and meat
1997	● Conclusion of the first agreement on the provision of wheat milling services
1998	● Beginning of provision of bullock fattening services
1999	● Conclusion of the first contract on the production of branded flour ● Beginning of sale of flour to small bakers
2001	● Purchase of a mill from the Žito company from Čazma, today's mill Farina
2002	● Contract on brand products for one more customer ● Increase of the capacity of the Farina mill from 60 t to 150 t
2003	● Purchase of the Kopanica mill in Velika Kopanica
2004	● Implementation of ISO and HACCP standards ● Investment in the new line for packing of small flour packs ● Relocation of the Company's headquarters into new premises in Budmanijeva ulica in Zagreb
2005	● Contract on brand products for one more customer
2006	● Purchase of the Bjeliš silo in Slavonski Brod ● Contracts on the production of flour brands for 4 more customers ● Increase in the capacity of the Farina mill from 150 tonnes to 300 tonnes of flour per day
2007	● Purchase of the Zdenačka farma company and a share in Kapelna d.o.o. ● Increase in the capacity of the Kopanica mill from 140 tonnes to 240 tonnes of flour per day
2008	● Purchase of the company Prerada žitarica from Grubišno Polje ● Purchase of a share in the company Zdenka - mliječni proizvodi from Veliki Zdenci ● Contract on product brands for 3 more customers ● Establishment of a business unit in Osijek
2009	● Opening of the agricultural cooperative in Beravci ● Contract on the production of the flour brand for one more customer ● Acquisition of the company Novi Žitar d.o.o. from Donji Miholjac ● Zdenka – funds from the SAPARD programme approved and received ● Zdenka – contracts on the production of brands of semi-hard cheese, processed cheese and cottage cheese for two customers
2010	● Merging of the company Novi Žitar d.o.o. with Kapelna d.o.o. and change of name to Žitar d.o.o. ● Zdenka - mliječni proizvodi - contract on funds from the IPARD programme ● Contract on product brands for three more customers ● Zdenka – IPARD was approved and large investments were started (boiler room, reception, pasteurization and processing of milk, waste water treatment plant, sewage and drainage, and plant cooling and air-conditioning) ● Zdenka – certification of the plant and permit for export of processed cheese into the EU and third countries ● Zdenka – contracts on brand products for semi-hard cheese, processed cheese and cottage cheese for one more customer
2011	● Company transformation from a limited liability company into a joint stock company, ● Commissioning of the new line for packaging flour into 5 kg packs and certification according to the IFS standard in the Farina mill ● Expansion of agricultural production through cooperant relations with producers of agricultural products onto the territory of Baranja and East Slavonia.

	● Launch of organic agricultural production in the Žitar company on a surface area of approximately 97.16 ha ● Marketing of own organic flour brand under the name of Ekoklas ● Commissioning of new stable facilities in the Zdenačka farma company ● Commissioning of new plants in the Zdenka company, classification of the plant as a 1st class facility whereby conditions were achieved for export into EU and third countries and use of funds from the IPARD pre-accession fund ● Commissioning of the farm for lactating cows and the plant for production of feed in the Žitar company ● The majority shareholder sold a package of 22,500 shares to a part of the Company's employees ● Zdenka - contract on the production of brands for 6 more customers ● Zdenka - certification of the plant and permit for export of products from the plant for the processing of milk into the EU and third countries
2012	● Introduction of the function of controlling, redefining of business processes and setting the foundations for monitoring Company operations by segment ● Intensification of the rationalisation and increase of business efficiency for the purpose of alleviating the negative effects of a difficult economic situation, both on the local and global market. ● Launch of cooperation and commissioning of stations for collection of agricultural products in Bijelo Brdo, Čeminec and Suza ● Commissioning of a new cheese pressing plant in Zdenka ● The majority shareholder sold a package of 22,500 shares to a number of the Company's employees
2013	● Commissioning of 3 stations for the collection of grains and oil crops in Bogdanovci, Viškovci and Potnjani ● Žitar purchased a transportable system for the irrigation of arable land
2014	● Acquisition of the milling business from the companies Belje and PIK-Vinkovci from the Agrokor Group ● Commissioning of 2 stations for the collection of grains and oil crops in Budimci, Beli Manastir ● Zdenka – purchase of a machine for the production of sliced semi-hard and hard cheese ● Zdenka - contract on the production of cheese brands for one more customer ● Zdenka - contract with a major chain store from Lebanon for the production of the customer's brand and export of processed cheese ● Zdenka – IFS standard was introduce ● Public offering of New Shares in total amount of HRK 94.02 million conducted

5.1.7 Mission, vision, long-term objectives and business strategy of Granolio/the Group

Mission

Granolio's mission is the comprehensive meeting of the customers' needs through the production of excellent products and provision of uncompromisingly good services.

Vision

Granolio's vision is to become the leading producer of flour and the inevitable source of supply for the customers of agricultural and food products in the region.

Long-term goals

- keep the position of the biggest producer of flour in Croatia and the region and continuously increase its market share
- widen the offer of mill products and products for the bakery industry,
- keep the position of the biggest producer of processed cheese in Croatia and the region and continuously increase its market share
- increase the share of income from export in all business segments
- become the leading repurchaser of crop products in Croatia,
- become the leading supplier of raw material for crop production.

Business strategy

Issuer's business growth and development so far have been based on the strategic cooperation with business partners in the supply, production, sale and acquisitions. In the last few years, the Issuer has significantly expanded its business, either by launching new business activities such as cooperation, trade in planting material for agricultural production and trade in products for the bakery industry, or by investing into new production capacities and purchasing of companies or ownership shares in the companies from the domain of dairy and mill products production.

The basic determinants of the Issuer's growth and development in the next period will be:

- intense activities on business restructuring for the purpose of consolidation and increasing the efficiency of each business segment and further use of synergy effects of new business activities and investments,
- divesting of Issuer's business segments which do not achieve target business efficiency rates,
- mergers and acquisitions, with an accent on vertical business integration,
- further risk diversification through the maximum possible supply of goods and services from end producers up to the capillary distribution of goods and direct cooperation with the customers who are, at the same time, the end consumers of the Issuer's products,
- further use of cooperative strategies in all the segments for the purpose of diversification of business operations and strengthening the Issuer's competitive capacities.

5.2 Investments

5.2.1 Overview of the Group's realized investments per years in the period from 1 January 2011 until 30 June 2014

Table 14 Overview of Granolio Group's key investments per years in the period from 1 January 2011 to 30 June 2014

in HRK

GRANOLIO GROUP Overview of significant investments Company / Type of investment	2011	2012	2013	1-6 2014	Total
Granolio d.d.	**2,307,462**	**6,075,950**	**617,155**	**193,540,072**	**202,540,639**
The stations for reception and repurchase of grains and oil crops in Bijelo Brdo and Čeminec		4,658,601			4,658,601
Automatic flour packer, 5 kg	1,747,976				1,747,976
Two semolina machines Buhler	269,069				269,069
"Combinator" machine			43,946		43,946
Road weighbridges in Čeminec and Bijelo Brdo		337,189			337,189
Plane sieve			144,992		144,992
Wheat reception plateau		275,743			275,743
Means of transport		623,630			623,630
Acquisition of the milling business of the Agrokor Group*				193,540,072	193,540,072
Roller mill			428,217		428,217
Bijelo Brdo land	290,417				290,417
Čeminac land		180,787			180,787

*The total investment into the acquisition of the milling business is described in detail in section 5.2.4 of this Prospectus

Continuation I, Table 14 Overview of Granolio Group's key investments per years in the period from 1 January 2011 to 30 June 2014

Company / Type of investment	**2011**	**2012**	**2013**	**1-6 2014**	**Total**
Zdenačka farma d.o.o.	**13,891,970**	**1,129,038**	**701,253**	**174,866**	**15,897,127**
Biological assets	3,927,147	911,092			4,838,240
CMP system for ventilation and humidification of air in the stables			191,724	174,866	366,590
Road weighbridge			150,157		150,157
Cow monitoring neckband			91,234		91,234
Meadows and arable land		217,946			217,946
Mobile AGI pump with mixer	81,056				81,056
Cow stables	7,446,786				7,446,786
Stable equipment	1,389,730				1,389,730
Cow monitoring system			222,418		222,418
Trench silos	668,016				668,016
Ultrasound device			45,720		45,720
Water filtering device	287,294				287,294
Mounted straw blowers	91,941				91,941

Continuation II, Table 14 Overview of Granolio Group's key investments per years in the period from 1 January 2011 to 30 June 2014

Company / Type of investment	2011	2012	2013	1-6 2014	Total
Zdenka - mliječni proizvodi d.o.o.	**50,712,308**	**12,706,599**	**291,456**	**841,492**	**64,551,855**
CIP for washing cheese dairy and whey		186,211			186,211
VPS cheese press		3,662,689			3,662,689
Cheese smoking chamber	307,759				307,759
Kettle and burner, type HDK 10000	3,104,129				3,104,129
Kettle and burner, type HDK 5000	1,943,676				1,943,676
Boiler room II	4,142,267				4,142,267
Plant for biological treatment of waste waters	2,214,806				2,214,806
Plant for mechanical treatment of waste waters	1,491,220				1,491,220
Plant for reception and pasteurization of milk, Milk Project	7,888,117				7,888,117
Brining and microfiltration plant	4,274,978				4,274,978
New CIP system for washing and cleaning, Milk Project	4,745,072				4,745,072
Brining racks		247,842			247,842
Ultrafiltration plant		5,119,683			5,119,683
Trappist cheese presses	536,116				536,116
Means of transport			291,456		291,456
MULTIVAC packaging machine	561,750				561,750
Weber cheese slicing machine				731,492	731,492
Cheese vacuumizing machine				110,000	110,000
Air-conditioning system and air-conditioning chambers		3,490,174			3,490,174
Waste water treatment plant building	1,077,183				1,077,183
Cheese dairy building	16,444,486				16,444,486
Warehouses and workshops building	338,015				338,015
Building of the drying plant with warehouse II	1,642,734				1,642,734

Continuation III, Table 14 Overview of Granolio Group's key investments per years in the period from 1 January 2011 to 30 June 2014

Company / Type of investment	2011	2012	2013	1-6 2014	Total
Žitar d.o.o.	**13,746,593**	**-**	**1,247,692**	**350,863**	**15,345,148**
Milking parlour	1,319,108				1,319,108
Canopy I	453,502				453,502
Canopy II	453,502				453,502
Milking parlour equipment	881,100				881,100
Milk cooling equipment	458,352				458,352
Straw plateau	638,348				638,348
Business building				350,863	350,863
Transportable system for irrigation of arable surfaces			699,087		699,087
Roads	2,096,130				2,096,130
Manitou self-propelled stacker	423,296				423,296
Lactating cows station	3,712,523				3,712,523
Dry period station	2,089,593				2,089,593
Silage packaging machine			548,605		548,605
John Deere 6330 tractor	361,125				361,125
John Deere 6330 STD tractor	401,462				401,462
Trench silos	458,552				458,552
TOTAL	**80,658,333**	**19,911,587**	**2,857,556**	**194,907,293**	**298,334,769**

Source: Granolio

5.2.2 Overview of Granolio Group's ongoing investments as on 30 June 2014

Table 15 Overview of the investments of the Granolio Group as on 30 June 2014

GRANOLIO GROUP Overview of ongoing investments as on 30.06.2014			
Description of the investment	**Planned amount in HRK**	**Location**	**Planned financing mode**
Flour silos, the system for transporting flour to the silo with the control sieve and entoleter, filters for the flour transport lines and packer	2,650,000	Farina mill	Leasing
Replacement of roller mills for safety improvement of the mill's function and increasing its capacity	1,400,000	Farina mill	Own funds
Construction of a reinforced concrete warehouse of 800 m2 for finished products	2,000,000	Farina mill	Own funds
Costs of relocation of packaging machines to G. Draganec, servicing of machines, alignment with the IFS standard, purchase of metal detectors	950,000	Farina mill	Own funds
Biogas plant designing services	364,000	Zdenačka farma	Own funds
Total	**7,364,000**		

Source: Granolio

5.2.3 Information on the Group's planned investments in the period from July 2014 until December 2019

On 2 September 2014, the Issuer's Supervisory Board adopted a decision whereby approval was given to the Management Board to increase the share capital of the company Zdenačka farma during 2015 by the amount of HRK 16 mil., by introducing a part of the receivables based on the given loan.

There are no other Issuer's planned investments the managing bodies had obliged to as on the date of this Prospectus.

5.2.4 Description of the investment in the purchase of Agrokor's milling business

On 6 May 2014, the Issuer purchased the milling business of the companies Belje and PIK-Vinkovci d.d., from the Agrokor Group, including:

- lease of mills in Vinkovci and Belje;
- workers included in the mill production process (28 workers total);
- equipment necessary for the production of mill products;
- stocks established at the moment of joint inventory taking
- brands (trademarks) of Mlineta and Brašno and the rights from the applications for the registration trademarks (Belje smooth wheat flour, Belje coarse wheat flour, Belje half-white wheat flour);
- the rights and obligations from the contracts concluded with third parties related to the milling business, especially contracts with customers, including Konzum d.d.

The value of the realized transaction of taking over of the milling business from Agrokor Group amounts to HRK 204 mil. (excl. VAT), of which HRK 193.54 mil. relate to the acquisition of fixed assets, while the remaining amount relates to current assets in the total amount of HRK 10.46 mil. The stated amount does not include the sale and purchase of mills (real estate) used by Granolio during the first year based on the lease agreement.

On 30.06.2014. the investments In business books are recorded in the following amounts of individual items by the balance (excl. VAT):

a) Non-current assets;
   - Trademarks, concessions and licenses HRK 120 mil.
   - Goodwill HRK 60,379 thousand
   - Value of the contract with Konzum HRK 9,861 thousand
   - Equipment HRK 3,300 thousand
b) Current assets;
   - Mill rental HRK 2 mil.
   - Flour stock HRK 5,014 thousand
   - Wheat stock HRK 1,112 thousand
   - Stock of other supplies HRK 2,341 thousand

Part of the transaction in the amount of HRK 153 mil. is financed by a current bridge loan provided by Zagrebačka banka, HRK 28 mil. for VAT were settled by compensation with the state and members of the Agrokor Group (Belje, Vinkovci, Konzum), while the remaining part of up to the gross amount of the transaction with VAT (HRK 255 mil.) will be paid within 180 days as of the transfer of the milling business. As on 30 June, this liability amounted to HRK 74 mil. in the business books, and on 30 September, to HRK 50 mil. (incl. VAT). This liability is also planned to be settled through loan borrowing. Agrokor d.d. issued a guarantee for insuring the fulfilment of all Issuer's liabilities under the mentioned loan. The guarantee shall cease if the loan is refinanced under another long- term loan or another form of financing.

The key reasons for Granolio's acquisition of the milling business from the Agrokor Group are:

- strong market position of the Mlineta, Brašno and Belje brašno brands - Granolio took over the milling business with a strong position on Croatia's market, especially in the bakery and confectionery industry and in Konzum's retail and wholesale network. It is important to stress that up to the moment of the acquisition of the milling business from the membership of the Agrokor Group, Granolio's share in the sale of flour in Konzum through the Farina brand was almost insignificant. By making the acquisition and taking over the existing contracts, that is, by concluding new contracts, the Issuer acquired the ability of selling its products through Konzum's retail and wholesale network in the scope which correlates with the Issuer's market share as well as of selling of corn meal to the members of the Agrokor Group
- synergy effects - by merging the overtaken production into the customer's existing portfolio and by optimizing the production capacities - the share of fixed costs per unit of measurement of the product decreases and makes production more competitive
- strong and stable money flow - based on sustainable profit margins derived from an efficient cost structure and selling prices compliant with the competition
- potential for growth - possibility of additional market consolidation and export
- cooperation with the Agrokor Group - in the area of procurement of raw material, warehousing, sales, logistics and distribution
- tradition of quality of the purchased brands of Mlineta, Brašno and Belje brašno

Since, before the acquisition, Granolio produced app. 100 thousand tonnes of flour per year, it is expected that the taking over of the milling business from Agrokor's companies will make the production increase to approximately 190 thousand tonnes per year (90 thousand tonnes is the annual production realized in 2012 and 2013 by PIK-Vinkovci and Belje). Granolio is planning an optimization of the production capacities which could result in the concentration of production in certain production plants so that the share of fixed costs per unit of measurement of the product would decrease and so that production would become more competitive.

Table 16 Mill capacities

MILL	MAXIMUM CAPACITY t/year	PRODUCTION t/year	INCREASE OF CAPACITIES t/year	MAXIMUM CAPACITY t/year	PLANNED PRODUCTION t/year
	31.12.2013	2013	31.12.2014	31.12.2014	
Farina	99,000	70,021	9,900	108,900	
Kopanica	79,200	30,709	-	79,200	
Žitar	28,050	-	-	28,050	
Vinkovci*	-	-	33,000	33,000	
Beli Manastir*	-	-	39,600	39,600	
Total Granolio Group	**206,250**	**100,730**	**82,500**	**288,750**	**app. 190,000**

** mills under lease*

Source: Granolio

6 OVERVIEW OF BUSINESS OPERATIONS

6.1 Main activities

6.1.1 The scope of business activities, description of main activities and Issuer's actual activities, list of important products sold and services provided by the Issuer

Based on the registration in the court register the Company's scope of activities includes:

* representation of foreign companies
63.12 storage of goods
* public road transport of passengers and cargo in domestic and international road traffic
* purchase and sale of goods
* commercial agency on domestic and international market
* agriculture, hunting and related activities
* production of food and beverages
* packaging activity
* transfer and storage of cargo
* real estate business
* rental of machinery and equipment, without handler and goods for personal or household use
* packaging, sealing and labelling of seed material
* marketing of seed material
* import of seed material
* trade in plant protection products
* packaging, sealing and labelling of seeds
* marketing of seeds
* trade in fertilizers and soil enhancements
* trade in ecological products, unprocessed plants and animal products, and products which are completely or partly composed of such products
* production of agricultural and food products - ecological production
* processing in ecological production
* storage of plant protection products
* production of seeds
* processing of seeds
* production of seed material
* import of seed material
* distribution of gas
* production of biofuels
* trade, agency and representation on the energy market
* trade in gas
* storage of gas
* production of ethanol

Issuer's main activities are the production and trade in agricultural products and livestock. As part of its business system, on 31 December 2013 the Issuer had 5 business units, of which two, Farina and Kopanica mills, are production centres designated for the production, packing, storage and dispatch of mill products. The Bjeliš business unit is a silo used for cereal storage. The Osijek business unit is used for storage, sale and dispatch of planting material, sale of grains and oil crops and management of the operations of selling stations. The Granolio business unit located in Zagreb is in charge of providing logistics, management, accounting and IT support to the Company's business operations.

By taking over of a part of the milling business in 2014 from Agrokor's companies (which is described in more detail in section 5.2.4), conditions were achieved for an expansion of the business, and, on the basis of the decision of the Issuer's Management Board of 6 May 2014, new business units were set up: Belje Mill and Vinkovci Mill.

The Granolio Group includes the business operations of the Granolio d.d. company and four subsidiary companies:

- Zdenačka farma d.o.o., Veliki Zdenci
- Prerada žitarica d.o.o., Grubišno polje
- Zdenka-mliječni proizvodi d.o.o., Veliki Zdenci
- Žitar d.o.o., Donji Miholjac

Granolio Group's main activity is the production of wheat flour, production of milk, production of pork and beef, production of dairy products, production of feed, storage of oil crops and grains, trade in oil crops, grains and raw material for agricultural production as well as organization of agricultural production through collaborative relations with the producers of agricultural products.

The Group operates in eight various business segments, and the basic classification is as follows:

FOOD INDUSTRY

- Milling
- Dairy industry

AGRICULTURE

- Crop production
- Cattle breeding
- Storage of grains and oil crops
- Production of feed

TRADE

- Trade in grains and oil crops
- Trade in planting material for agricultural production

MILL PRODUCTS INDUSTRY

The Issuer avails of 5 mills of a total nominal capacity of approximately 288,750 tonnes per year (mills' capacities are presented in detail in item 5.2.4).

The Issuer markets its own brands of flour (Farina, Mlin Kopanica, Ekoklas, Mlineta and Belje) and a number of flour brands the Issuer produces for its customers.

The Issuer produces rye flour and the following types of wheat flour:

- Coarse white flour;
- Smooth white flour;
- Half-white flour;
- Brown flour;
- Whole-grain flour;
- Flour for pizza;

- Flour for leavened cakes,
- Flour for pastries;
- Semolina

Granolio markets flour in:

- retail packs of 1 kg, 2 kg, 5 kg and 10 kg, either under its own brands or under customers' brands
- industrial packs of 25 kg, 30 kg and 50 kg and
- bulk

The Farina Mill is certified under ISO 9001:2008, HACCP, IFS and KOSHER standards, and the Farina brand is the holder of the Croatian Quality and the Superbrands 2010 labels.

The Kopanica Mill is certified under the ISO and HACCP standard.

DAIRY INDUSTRY

The Issuer performs the activity of milk processing and cheese production as part of the business operations of the Zdenka company from Veliki Zdenci.

The company Zdenka dates back to 1897 when cheese was first produced in a steam dairy factory. The year of 1921 is taken as the year of the foundation of the modern factory. Zdenka was the first producer of processed cheeses in South-East Europe, and today, Zdenka cheese is a generic name for processed cheeses in the region.

All Zdenka's cheeses are produced from selected raw materials combined in such manner to achieve a first class product with a home-made taste. These meet high quality standards and the production process is certified under the HACCP and IFC standards and holds the Kosher and Hallal certificates. Zdenka processed cheeses have also been approved to carry the "Croatian Quality" label.

The annual production capacity of milk processing amounts to 47,500,000 litres of milk and 4,500 tonnes of processed cheese which ensures sufficient quantities of products for the customers' needs.

Zdenka's line of products includes:

- processed cheese
- soft cheese
- hard and semi-hard cheese
- smoked cheese
- sliced cheese
- melted spread
- cheese spread
- cottage cheese
- butter

Zdenka's well-known products

CROP AND VEGETABLE PRODUCTION

The Group's business related to crop production is mostly conducted through the Žitar company from Donji Miholjac. The application of the latest technology and the support of the profession makes it possible for the Group to achieve top results and yields in the area of agricultural production and seed production. The crops grown on approximately 1,100 ha of land are rapeseed, barley, wheat, potato, sugar beet, soy, sunflower and corn, and wheat, barley, soy and corn seeds.

Except in the Žitar company, the Group also deals in farming as part of the business operations of Zdenačka farma where farming represents an activity which complements the activities of milk production. Zdenačka farma cultivates approximately 140 ha of agricultural land exclusively for the purpose of production of feed for livestock on the farm.

CATTLE BREEDING

The Issuer breeds cattle as part of the business operations of the companies' Žitar, Zdenačka farma and through the provision of the service of the fattening of bullocks.

The cattle breeding activity includes the production of milk in the total capacity of 800 lactating cows, fattening of bullocks in the total capacity of 200 bullocks in own facilities and approximately 350 bullocks in collaborators' facilities, and swine fattening in the capacity of 2,800 swine per interval.

As part of its cattle breeding activity, Žitar deals in milk production, fattening of bullocks and swine fattening. Milk production is carried out on a farm with the capacity of 300 lactating cows. The fattening of bullocks is conducted on a farm with the capacity of 200 bullocks, and the fattening of swine is conducted on the farm for fattening of swine of the capacity of 2,800 swine.

The capacity of the lactating cows farm of the Zdenačka farma company amounts to 500 lactating cows.

The facilities for milk production, fattening of bullocks and fattening of swine were constructed in the last few years and these meet the highest standards related to production and keeping of animals, which results in excellent production results.

STORAGE OF GRAINS AND OIL CROPS

Storage of grains and oil crops consists of the reception and storage of grains and oil crops.

The vicinity of the reception location and the efficiency of the reception of goods in the harvest is a competitive advantage on the market. The closer the reception location is to the agricultural producer, the faster the weighing and unloading process will be and thus also the higher the number of agricultural producers as well as the quantity of the goods gravitating towards a particular silo or station.

Grains and oil crops can be received for storage at the stations or directly in the silos. The efficiency of the reception of grains and oil crops in the silos is conditioned by the capacity of the collection baskets, while the capacity of the reception at the stations depends only on the speed of weighing. Therefore, the capacity of receipt of goods per hour is much higher in the stations than in the silos. It is therefore important to provide agricultural producers with both options of handover of the goods for storage so that, during the harvest, which is of limited duration, they can receive the maximum possible quantity of goods.

The Issuer conducts the reception of grains and oil crops for storage at a total of 14 locations: at 8 of these locations the reception of grains and oil crops is conducted at repurchase stations, at 5 of them the reception and storage of goods is conducted in silos, and at one location the reception and storage is conducted as part of the facility under cooperation relations. After the goods have been received at the reception stations, they are transported by trucks to the silos owned by the Issuer.

The Issuer deals in the storage of grains and oil crops within the mills and in independent silos in Slavonski Brod and Grubišno Polje.

The Issuer's silo capacities located in the Bjeliš Silo in Slavonski Brod and the mills amount to approximately 81 thousand tonnes of grains and oil crops, and the capacity of the silo of the Prerada žitarica company in Grubišno Polje amounts to approximately 15 thousand tonnes more.

The subsidiary company Žitar avails of a silo capacity of approximately 68.5 thousand tonnes (38,500 t of silo capacities and 30,000 t of floor storages).

As already mentioned, the reception of goods, besides the silos, takes place at repurchase stations.

PRODUCTION OF FEED

The Issuer deals in the production of feed as part of the activity of the Žitar company which is equipped with a modern feed mixing plant certified under the HAACP standard, with the capacity of 30,000 t of feed per year for swine, cattle and poultry.

TRADE IN GRAINS AND OIL CROPS

The activity of trade in grains and oil crops complements the trade in planting material for agricultural production and the mill products industry, and it includes the wholesale trade in wheat and corn, as the most common crops, and the other crops such as barley, sunflower, soy, rape, etc.

The Company, as the biggest producer of mill products in the Republic of Croatia, trades on the market as a customer of wheat for own production needs and a customer of wheat for further sale. By consolidating its needs, the Issuer, through the economies of scale, achieves a cost efficient supply, and through its extensive network of repurchase points and a wide base of suppliers created through collaborations with producers, the Issuer is capable of collecting and dispatching large quantities of goods in short time frames. Since Croatia produces more wheat than it needs for its own consumption, a large part of the yield is exported.

TRADE IN PLANTING MATERIAL FOR AGRICULTURAL PRODUCTION

The trade in planting material takes place as part of the business operations of the Issuer's business unit in Osijek and as part of the business operations of the Žitar company.

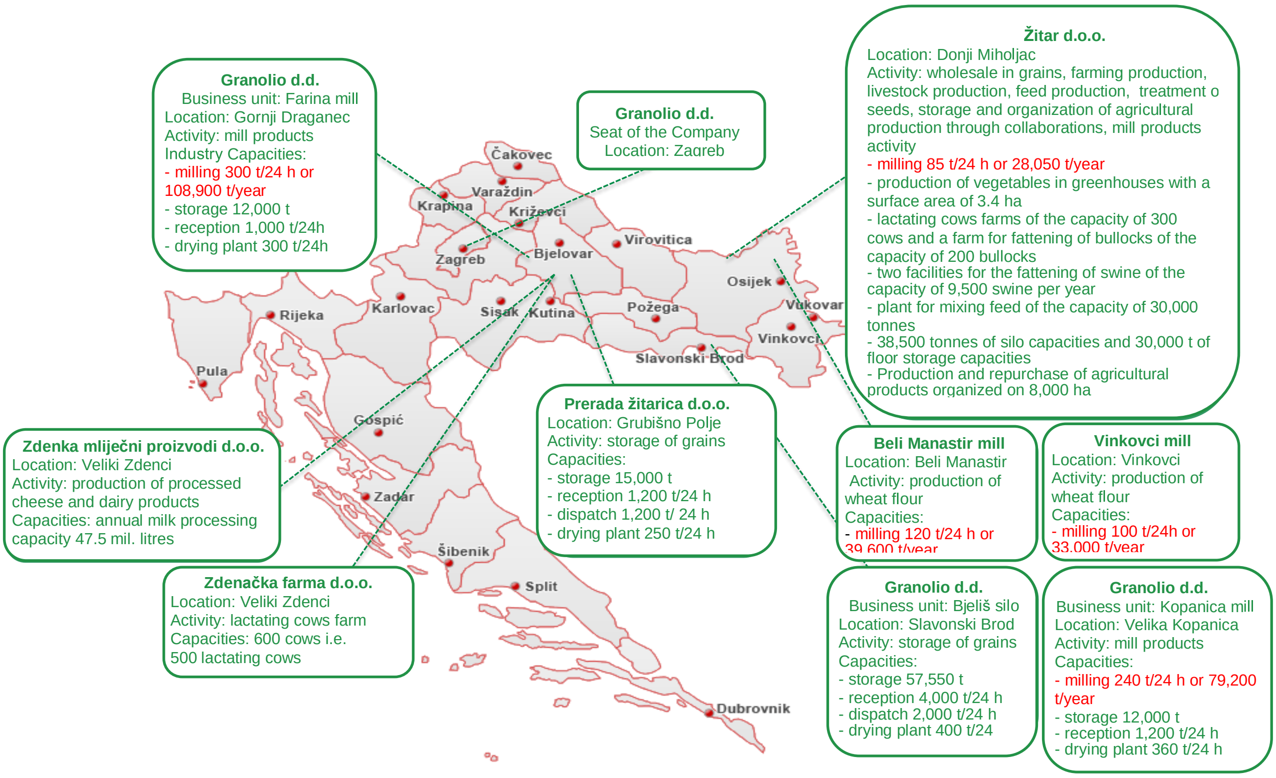
The trade in planting material for agricultural production consists of the procurement of planting material (seed, manure, protective agents) and other raw materials for agricultural production from renowned producers, organization of production through the establishment of collaborative relations with end producers or organizers of agricultural production (agricultural cooperative, farmers - end producers and agricultural companies) and the sale of planting material to agricultural producers with the provision of professional consultancy services.

By trading in planting material and organizing agricultural production through collaborative relations with the farmers, Issuer's agricultural production of grains and oil crops spreads on approximately 68,000 ha of which 60,000 ha are part of the Company's business in Osijek and 8,000 ha are part of Žitar's business.

TRADE IN PRODUCTS FOR THE BAKERY INDUSTRY

Trade in products for the bakery industry is a new activity in the Company's scope. It consists of the supply of products complementary to flour and used in bakery (mixtures for bread, fillings, creams, etc.) and of the distribution and sale of the above products to the existing customers of flour, with the provision of professional consultancy services. By selling products complementary to flour, additional use of the existing resources (sales staff, means of transport, customers) is achieved resulting in the effect of synergy with the mill production activity. The synergy effects are most prominent in the decrease of unit costs of sale and distribution and in the increased levels of the end customers who are provided the possibility to meet the largest part of their needs for raw materials for the production of bread in one place.

Chart 2 Geographic presentation of Granolio Group's business



Source: Granolio

Besides products for baking industry and eco-flour, which were enlisted in the assortment in 2011, all other Issuer's products and services were a part of the assortment before the period included in the historical financial data.

6.1.2 Issuer's new significant products and significant services and their development

In the last few years, the Issuer started competing on the market with two new Groups of products (products for the bakery industry and organic flour) and the service of reception of oil crops and grains at collection stations.

Products for the bakery industry

As the products for the bakery industry (finished mixtures, concentrates, additives, filings, toppings, sprinklings, creams, etc.) are complementary to mill products, the Issuer assessed that, by using the synergy effects with the mill products sector, the marketing of bakery products will, in the end, contribute to an increase in the business efficiency of the entire segment. Continued growth in the sale of products for the bakery industry indicates that the inclusion of the products for the bakery industry into the Issuer's selling range was justified. Products for the bakery industry were included in the Issuer's sales assortiment in 2011.

Organic flour

In 2011, having recognized the importance and the potential of organic production of food, the Issuer launched the production of organic mill products under the brand "Ekoklas". Ekoklas flours are produced from carefully selected premium sorts of wheat organically grown by Croatian producers. Ekoklas flour carries the label "Organic Product of Croatia" which guarantees that the product conforms to the basic requirements of organic production. Certified organic cultivation and production guarantee that the product is free from chemicals, artificial manure, pesticides and GMO. In organic farming, most attention is paid to natural nutrition of soil and plants, as well as to stimulating biodiversity, which results in a very favourable impact on environmental and human health. The Issuer's offer includes four types of Ekoklas flour:

- whole-grain,
- smooth, type 550,
- brown, type 1100,
- semolina - wheat grits

Stations for the reception of grains and oil crops

In 2012, when stations were constructed in Bijelo Brdo, Čeminec and Suza, the Issuer started introducing reception stations for grains and oil crops in its business operations for the purpose of intensifying the trade in grains and oil crops and improving its cooperation with agricultural producers. By bringing the location for delivery of the yield closer to the location of agricultural production, the end producers are provided the possibility to increase the harvest efficiency owing to a faster handover of the yield and lower costs of transport. Currently, the reception of grains and oil crops is conducted at 8 locations, of which two are owned by the Issuer, three are in lease and on three other the reception is conducted in cooperation with the owner of the facility.

Besides the stations, the Issuer also conducts the reception of grains and oil crops directly into own silos at a total of 5 locations and within the cooperation facility at 1 location in lease.

The Issuer plans to increase the number of stations for reception of grains and oil crops for the purpose of optimal coverage of the entire operative area.

6.2 Principal markets

Sale of products and services

Through its products and services, the Issuer is competitive on the market. The largest share of Issuer's income pertains to income from the sale of goods and services on the domestic market which, in the previous periods, accounted for approximately 70% to 90% of the total income, depending on the share of the trade in grains and oil crops in the total income of a particular year.

Table 17 Sale of the Group's goods and services per key markets

in thousands of HRK

Country	2011 restated	2012 restated	2013 restated	2014 (1-6)
Croatia	684,028	690,235	557,323	317,468
Italy	7,564	20,290	63,738	5,826
Switzerland	-	8,166	33,616	122
Bosnia and Herzegovina	31,666	37,556	22,664	7,290
The Netherlands	8,142	7,536	16,160	-
Serbia	3,541	17,757	15,627	1,371
Other countries	38,247	23,200	44,109	14,646
Total	**773,188**	**804,740**	**753,237**	**346,723**

Source: Granolio

The largest export markets on which the Group (according to 2013 data) places its goods and services are Italy, Switzerland and Bosnia and Herzegovina, where the Group in 2013 realized about 61% of its total income from sale on foreign markets. In 2013, a significant growth in income was recorded on the markets of Italy and Switzerland.

Table 18 Sale on the domestic market per Group's main product categories

in HRK

Product Group	2011	%	2012	%	2013	%	2013 (1-6)	%	2014 (1-6)	%
Flour and bakery products	221,835,725	36	190,315,042	30	207,280,894	41	100,765,143	38	100,211,617	33
Planting material for agr.prod.	163,231,183	26	207,110,909	32	156,802,580	31	96,564,250	37	140,527,159	47
Trade in grains and oil crops	139,257,774	22	127,357,470	20	28,650,408	6	10,483,584	4	7,683,335	3
Dairy products	98,687,570	16	114,600,686	18	118,993,770	23	56,096,330	21	52,182,815	17
Total	**623,012,252**	**100**	**639,384,107**	**100**	**511,727,652**	**100**	**263,909,307**	**100**	**300,604,926**	**100**
Market share	623,012,252	91	639,384,107	93	511,727,652	92	263,909,307	92	300,604,926	94
Other*	61,015,420	9	50,850,460	7	45,595,122	8	22,613,185	8	18,447,053	6
Domestic market total	**684,027,672**	**100**	**690,234,567**	**100**	**557,322,774**	**100**	**286,522,492**	**100**	**319,051,979**	**100**

**includes services*
Source: Granolio

Table 19 Sale on the foreign market per Group's main product categories

in HRK

Product Group	2011	%	2012	%	2013	%	2013 (1-6)	%	2014 (1-6)	%
Flour and bakery products	21,113,282	24	13,978,652	12	10,349,955	5	5,455,125	17	2,929,152	11
Planting material for agr.prod.	138,935	-	1,825,840	2	-	-	-	-	-	-
Trade in grains and oil crops	40,606,466	46	69,461,899	61	151,937,862	78	10,696,901	33	13,348,282	48
Dairy products	25,883,572	29	27,754,024	25	31,749,111	16	15,968,127	50	11,340,358	41
Total	**87,742,255**	**100**	**113,020,415**	**100**	**194,036,928**	**100**	**32,120,153**	**100**	**27,617,792**	**100**
Foreign market share	87,742,255	98	113,020,415	99	194,036,928	99	32,120,153	96	27,617,792	100
Other*	1,417,787	2	1,484,935	1	1,877,469	1	1,308,626	4	52834	-
Foreign market total	**89,160,042**	**100**	**114,505,350**	**100**	**195,914,397**	**100**	**33,428,779**	**100**	**27,670,626**	**100**

**includes services*
Source: Granolio

Below are Granolio Group's biggest domestic and foreign customers for the years 2011, 2012, 2013 and the first half of 2013 and 2014.

Table 20 Structure of domestic customers for 2011, 2012, 2013

in HRK

GRANOLIO GROUP 10 biggest customers						
No.	**Name of customer**	**Amount for 2011**	**Name of the customer**	**Amount for 2012**	**Name of the customer**	**Amount for 2013**
1	AGROKOR TRGOVINA d.d.	81,882,223.69	AGROKOR TRGOVINA d.d.	96,986,255.74	Krnjak d.o.o.	26,422,465.63
2	MERCATOR-H d.o.o.	28,442,559.36	Krnjak d.o.o.	30,947,856.26	KAUFLAND HRVATSKA k.d.	25,388,394.28
3	Krnjak d.o.o.	27,484,027.69	KONZUM d.d.	27,493,922.28	LIDL HRVATSKA d.o.o.k.d.	24,814,899.15
4	KAUFLAND HRVATSKA k.d.	26,255,700.07	KAUFLAND HRVATSKA k.d.	27,306,669.83	MERCATOR-H d.o.o.	23,201,681.86
5	KONZUM d.d.	25,222,573.14	MERCATOR-H d.o.o.	23,750,970.18	KONZUM d.d.	21,596,611.20
6	LIDL HRVATSKA d.o.o.k.d.	16,374,759.33	LIDL HRVATSKA d.o.o.k.d.	20,222,616.14	AGROKOR TRGOVINA d.d.	15,713,249.62
7	IPK Tvornica ulja Čepin d.o.o.	14,473,729.25	SPAR HRVATSKA d.o.o.	13,728,329.79	PLODINE	12,798,974.60
8	KUTJEVO d.d.	13,107,607.74	PAN - PEK d.o.o.	13,153,843.50	PAN - PEK d.o.o.	12,678,840.00
9	PAN - PEK d.o.o.	13,096,401.60	KUTJEVO d.d.	13,026,935.75	METRO CASH & CARRY d.o.o.	11,909,314.25
10	PLODINE	10,942,776.98	PLODINE	12,852,625.91	SPAR HRVATSKA d.o.o.	11,883,252.96

Source: Granolio

Table 21 Structure of domestic customers for the first half of 2013 and 2014

in HRK

GRANOLIO GROUP 10 biggest customers				
No.	**Name of customer**	**Amount for 1-6 2013**	**Name of customer**	**Amount for 1-6 2014**
1	KAUFLAND HRVATSKA k.d.	12,658,192.89	AGROKOR TRGOVINA d.d.	50,777,105.10
2	MERCATOR-H d.o.o.	12,356,265.85	KONZUM d.d.	33,193,509.10
3	PLODINE D.D.	11,558,597.75	MERCATOR-H d.o.o.	11,333,280.19
4	LIDL HRVATSKA d.o.o.k.d.	11,508,036.01	KAUFLAND HRVATSKA k.d.	9,695,529.11
5	Krnjak d.o.o.	10,392,380.62	BELJE D.D.	9,197,339.65
6	KONZUM d.d.	10,275,592.25	MEGGLE HRVATSKA d.o.o.	7,885,336.42
7	PAN - PEK d.o.o.	7,511,927.50	Krnjak d.o.o.	7,854,667.28
8	METRO CASH & CARRY d.o.o.	6,078,370.66	PLODINE	5,968,629.69
9	SPAR HRVATSKA d.o.o.	5,479,887.50	LIDL	5,400,595.20
10	MEGGLE HRVATSKA	5,422,206.43	AMARILIS d.o.o.	4,725,488.18

Source: Granolio

Table 22 Structure of foreign customers for 2011, 2012, 2013

in HRK

GRANOLIO GROUP 10 biggest customers						
No.	Name of customer	Amount for 2011	Name of the customer	Amount for 2012	Name of the customer	Amount for 2013
1	HERCEGOVINAVINO D.O.O.	10,040,822.37	NOBLE RESOURCES S.R.L.	15,035,959.14	ADM INTERNATIONAL SARL	37,896,896.25
2	NIDERA B.V.	8,141,822.40	HERCEGOVINAVINO	11,072,851.21	NIDERA B.V.	16,160,094.44
3	BAGENO RAIFFEISENBANK EG	7,903,416.37	BIMAL d.d. za proizvodnju ulja	9,686,716.18	LOUIS DREYFUS COMMODITIES	14,463,090.41
4	BENYTRADE	7,151,884.26	AMEROPA AG	8,165,864.31	HERCEGOVINAVINO	12,803,243.12
5	ALFRED C.TOEPFER INTERNATIONAL	6,212,991.24	NIDERA B.V.	7,536,306.75	CEREAL DOCKS S.P.A.	12,062,696.23
6	NIKIĆ J d.o.o.	5,616,203.75	VICTORIAOIL AD	6,659,098.06	GAVILON SRL	9,465,603.93
7	STUDEN & CO Ges.m.b.H	5,472,745.62	BAGENO RAIFFEISENBANK EG	6,033,108.14	BENYTRADE	7,159,906.45
8	COMP-ASTOR d.o.o.	5,114,010.57	BENYTRADE	5,755,754.47	ITAL GREEN OIL S.R.L.	6,296,448.42
9	LOUIS DREYFUS COMMODITIES	4,498,977.78	LOUIS DREYFUS COMMODITIES	5,254,429.71	ALFRED C.TOEPFER INTERNATIONAL	5,874,754.38
10	RAVAGRICOLA SRL	3,064,649.19	NIKIĆ J d.o.o.	3,813,541.22	SOUFFLET NEGOCE S.A.S.	5,722,395.62

Source: Granolio

Table 23 Structure of foreign customers for the first half of 2013 and 2014

in HRK

GRANOLIO GROUP 10 biggest customers				
No.	**Name of customer**	**Amount for 1-6 2013**	**Name of customer**	**Amount for 1-6 2014**
1	HERCEGOVINAVINO	5,602,146.03	SIMTRO ENERGIJA d.o.o.	4,994,088.91
2	BANKOM d.o.o.	4,857,613.89	HERCEGOVINAVINO	4,685,434.07
3	NIDERA B.V.	4,792,207.95	CEREAL DOCKS S.P.A.	4,218,897.43
4	BENYTRADE	3,350,674.37	BENYTRADE	3,202,562.86
5	HORIZONT	2,244,733.37	MONFER CEREALI S.R.L.	1,466,617.69
6	STADION	1,737,190.57	HORIZONT	1,025,498.61
7	COMP-ASTOR d.o.o.	1,652,060.39	COMP-ASTOR d.o.o.	990,014.57
8	SUAGRA d.o.o.	1,548,733.10	OBEGI CONSUMER PRODUCTS S.A	967,953.72
9	OMNICO DISTRIBUCIJA	1,481,206.73	OMNICO DISTRIBUCIJA	762,500.47
10	NIKIĆ J d.o.o.	1,348,608.68	NIKIĆ J d.o.o.	741,915.00

Source: Granolio

Table 24 Maturity structure of outstanding receivables from customers for 2011, 2012, 2013 and the first half of 2014

in thousands of HRK

	2011	**2012**	**2013**	**30.6.2014**
Not due	69,063	63,562	76,038	88,160
0 - 90 days	44,032	35,624	42,354	29,287
91- 180 days	6,931	4,757	3,409	4,276
181- 360 days	7,410	3,321	4,527	9,874
> 360 days	8,883	13,364	16,124	5,262
Total	**136,319**	**120,628**	**142,452**	**136,859**

Source: Restated consolidated financial statements for 2011, 2012 and 2013 and non-audited consolidated statements for the first half of 2014

The Issuer assesses that the overall amount of outstanding receivables is entirely collectable.

Financing agricultural production

Financing of agricultural production represents the usual model of operation based on the financing of the production of grains and oil crops and it is collected through the delivery of goods (that is, grains on 31 July; oil crops and corn on 30 October). The average production cycle amounts to 7 to 8 months. Granolio uses business banks' credit funds to purchase planting material (seed, manure, protective agents, etc.), which it sells under loans to its subcontractors and thus finances the planting. The loans given for the autumn planting are due on 31 July and are collected upon the delivery of rapeseed, barley and wheat, while the loans given for the spring planting are due on 30 October and are collected upon the delivery of soy and corn. In this manner, through the wholesale of planting material, in 2013 the Group achieved an income at the level of HRK 160 mil. The wholesale in planting material partly relates to the resale of planting material to Granolio's suppliers of wheat in the mill products segment. As the sale of planting material represents a crediting of the planting and is due after the expiry of the deadline for financing agricultural production, Granolio immediately states the above receivables as loans given to customers. The table below shows loans given on the last day of the reporting period.

Table 25 Loans given to subcontractors

in thousands of HRK

	2011 restated	2012 restated	2013 restated	30.6.2014
Loans for sowing	47,378	68,763	54,089	118,423

Source: Restated revised consolidated financial statements for 2011, 2012 and 2013 and audited consolidated statements for the first half of 2014

A significantly larger amount of loans given at the end of the first half of 2014 is a result of the cyclic character of production since end of half year is the period immediately preceding the harvest of wheat when the subcontractors' debt balance is the greatest; the subcontractors settle their debts in wheat after the harvest. On 30 June 2014, the total amount of given loans outstanding for more than 90 days amounts to HRK 7.9 mil and relates to outstanding loans from several subcontractors from the previous years which have been reprogrammed and are being gradually repaid. The Issuer estimates that the entire amount of the outstanding given loans will be collected in the end.

6.3 Analysis of the supply market

The Group's supply of goods and services mostly relates to the supply of wheat for the mill products segment. The Issuer purchases wheat on the domestic and foreign markets. With Croatia's accession to the European Union and the removal of import barriers, the Group's dependence on the domestic market was significantly decreased and the availability of the sources of wheat has increased.

The risk of shortage of raw material is always present in every industry whose production is based on market raw materials. In the mill products segment, the shortage of raw materials (wheat) can be caused by drought and other adverse weather conditions. Since Granolio has an established organizational unit (Commercial Goods Sales Department) which deals with the trade of grains and which procures wheat on the domestic market, either through the cooperation with agricultural producers or through direct purchase, and on international commodity markets, the Issuer was, in the previous period, capable of procuring a sufficient quantity of wheat for its production at the currently valid market price. Besides, Granolio settles a part of its need for wheat through its own production as part of the business operations of the Žitar company from Donji Miholjac. Croatia's accession into the EU resulted in the removal of customs duties on the import of wheat which contributed to the termination of the Group's dependence on the domestic market of wheat and the necessity to procure and store wheat for longer periods of time in order to ensure their availability for milling. Finally, depending on the situation on the market, this should result in lower costs of capital and storage for the procured wheat and better possibilities of purchase of high-quality wheat.

Besides the supply of wheat, the supply of planting material for agricultural production has a large share in the procurement segment. In that segment, the Company has been cooperating for years now with renowned domestic and foreign producers (Chromos Agro, Syngenta, Bayer, Pioneer, BC Institut, AgroChem-Max, etc.)

In the segment of milk production and processing, Zdenka mostly purchases its milk on the local market from longstanding collaborators, and it purchases the cheese for the production of processed (melted) cheese on the domestic and foreign markets. Considering the large number of producers, the procurement of raw material for the segment of production and processing of milk is not exposed to major risks.

The other Granolio Group's segments of supply of goods and services use domestic and foreign markets. Due to a large number of suppliers on the market, the competition is strong which facilitates the availability of goods and services.

Table 26 Structure of domestic suppliers for 2011, 2012, 2013

in HRK

GRANOLIO GROUP 10 biggest suppliers						
No.	**Name of supplier**	**Amount for 2011**	**Name of supplier**	**Amount for 2012**	**Name of supplier**	**Amount for 2013**
1	AGROKOR TRGOVINA d.d.	38,350,287.21	AGROKOR TRGOVINA d.d.	77,045,426.79	AGROKOR TRGOVINA d.d.	98,949,444.06
2	IPK Tvornica ulja Čepin d.o.o.	33,231,643.54	AGROBEKETINCI d.o.o.	31,052,311.25	NAPREDAK PZ	21,709,921.71
3	ADRIATICA DUNAV d.o.o.	32,525,371.88	NAPREDAK PZ	30,578,452.28	Krnjak d.o.o.	20,714,910.49
4	PTZ BEKETINCI	29,919,087.57	VLADEKS PROMET d.o.o.	23,410,511.39	AGRONOM d.o.o.	16,714,260.70
5	PETROKEMIJA D.D.	25,221,930.33	Krnjak d.o.o.	20,530,712.56	AGROBEKETINCI d.o.o.	16,046,927.74
6	NAPREDAK PZ	23,681,498.21	KUTJEVO D.D.	15,375,771.69	VLADEKS PROMET d.o.o.	13,817,402.36
7	KUTJEVO D.D.	21,003,208.35	FERMOPROMET d.o.o.	14,991,659.59	POLJ.PODUZEĆE ORAHOVICA d.d.	10,015,311.38
8	FERMOPROMET d.o.o.	18,377,191.20	PETROKEMIJA DD	14,269,449.96	Poljoprivredni centar d.o.o.	7,219,939.63
9	POLJ.PODUZEĆE ORAHOVICA d.d.	12,838,330.59	ADRIATICA DUNAV d.o.o.	11,663,640.65	PIK VINKOVCI D.D.	7,152,049.55
10	Krnjak d.o.o.	10,074,725.20	Poljoprivredni centar d.o.o.	11,531,308.33	ADRIATICA DUNAV d.o.o.	7,124,850.06

Source: Granolio

Table 27 Structure of domestic suppliers for the first half of 2013 and 2014

in HRK

GRANOLIO GROUP 10 biggest suppliers				
No.	**Name of supplier**	**Amount for 1-6 2013**	**Name of supplier**	**Amount for 1-6 2014**
1	AGROKOR TRGOVINA d.d.	52,519,424.18	BELJE D.D.	100,383,657.23
2	Krnjak d.o.o.	12,768,509.27	PIK VINKOVCI D.D.	95,424,334.98
3	POLJ.PODUZEĆE ORAHOVICA d.d.	7,083,521.76	AGROKOR TRGOVINA d.d.	88,532,981.60
4	AgroChem-Maks d.o.o.	5,957,439.58	AgroChem-Maks d.o.o.	11,213,268.16
5	MINISTRY OF ECONOMY	4,918,290.00	KONZUM d.d.	10,095,670.00
6	ADRIATICA DUNAV d.o.o.	4,215,135.00	MINISTRY OF ECONOMY	8,508,424.50
7	RWA RAIFFEISEN AGRO D.O.O.	3,195,491.23	KUTJEVO D.D.	6,364,404.89
8	ERSTE CARD CLUB ADRIATIC D.D.	2,651,391.16	ADRIATICA DUNAV d.o.o.	6,252,880.00
9	BC Institut d.d.	2,384,093.77	ŽITO D.O.O.	4,505,127.69
10	ORCHEM d.o.o.	2,203,559.82	Krnjak d.o.o.	4,460,658.98

Source: Granolio

Table 28 Structure of foreign suppliers for 2011, 2012, 2013

in HRK

GRANOLIO GROUP 10 biggest suppliers						
No.	**Name of supplier**	**Amount for 2011**	**Name of supplier**	**Amount for 2012**	**Name of supplier**	**Amount for 2013**
1	ICL FERTILIZERS	5,624,551.73	ICL FERTILIZERS	50,392,357.99	ICL FERTILIZERS DEUTSCHLAND	14,354,902.84
2	INTERFOOD VONK DAIRY PRODUCT B.V.	5,431,896.35	EURO BEVRACHTING	5,636,343.52	ICL FERTILIZERS	9,119,012.25
3	DUTCH INDUSTRIJAL CHEESE B.V.	5,016,030.27	INTERFOOD VONK DAIRY PRODUCT B.V.	5,560,225.92	INTERFOOD VONK DAIRY PRODUCT B.V.	7,965,198.78
4	Bovi Denmark A/S DK-6630	4,134,689.93	DUTCH INDUSTRIJAL CHEESE B.V.	4,415,784.49	DANUTRADE GMBH	7,701,256.12
5	VPS ENGINEERING a.s.	3,403,144.34	REDA Spa.ISOLA VICENTINA	3,714,728.28	DUTCH INDUSTRIJAL CHEESE B.V.	5,775,564.88
6	HALLER AG	2,717,826.42	ICL FERTILIZERS DEUTSCHLAND	2,598,509.06	LAKTOS a.s. PRAG	4,615,314.33
7	CHEESEPARTNERS HOLLAND v.o.f.	2,592,045.70	BENYTRADE D.O.O.	2,530,989.59	AMEROPA AG	3,314,374.09
8	ZOTT GmbH Co KG	1,770,843.34	AL INVEST Bridlična a.s.	1,603,171.47	BENYTRADE D.O.O.	2,753,182.00
9	DuPont Nutrition Biosciences	1,491,615.80	SC AGROLUSERNA SRL	1,540,205.22	EURO BEVRACHTING	2,431,017.96
10	AL INVEST Bridlična a.s.	1,402,986.63	FUDE+SERRAHN MILCHPRODUKTE Gmbf Co.KG	1,491,163.18	INTERFOOD POLSKA Sp.z.o.o.	2,251,800.37

Source: Granolio

Table 29 Structure of foreign suppliers for the first half of 2013 and 2014

in HRK

GRANOLIO GROUP 10 biggest suppliers				
No.	**Name of supplier**	**Amount for 1-6 2013**	**Name of supplier**	**Amount for 1-6 2014**
1	DANUTRADE GMBH	7,701,256.12	DUTCH INDUSTRIJAL CHEESE B.V.	8,541,286.43
2	ICL FERTILIZERS	4,998,960.02	INTERFOOD VONK DAIRY PRODUCT B.V.	4,933,790.99
3	LAKTOS a.s. PRAG	3,069,348.34	AGRO-LORINC KFT	2,939,226.68
4	INTERFOOD VONK DAIRY PRODUCT B.V.	2,077,988.32	AGRIMPEX TERM. KFT	2,896,681.84
5	DUTCH INDUSTRIJAL CHEESE B.V.	2,025,538.51	NUMIDIA BV ROERMOND	2,140,552.65
6	BENYTRADE D.O.O.	1,929,995.93	DANUTRADE GMBH	1,728,339.25
7	FUDE+SERRAHN MILCHPRODUKTE Gmbf Co.KG	956,808.95	FERTGAS HANDELS GmbH	1,624,432.22
8	METALIMEX a.s. PRAG	846,360.02	INTERFOOD POLSKA Sp.z.o.o.	1,071,798.66
9	HERCEGOVINAVINO D.O.O.	556,082.31	AMEROPA AG	767,284.29
10	EURO BEVRACHTING	534,258.35	MARANI SRL	626,658.64

Source: Granolio

Table 30 Maturity structure of trade payables as on 30.06.2014

in thousands of HRK

	30.6.2014
Not due	142,835
0- 90 days	46,400
91- 180 days	2,276
181- 360 days	3,221
> 360 days	880
Total	**195,612**

Source: Audited consolidated financial statement for the first half of 2014

6.4 Influence of extraordinary events

Possible influence of extraordinary events is described in Part II of the Prospectus in section 4 “Risk factors specific to the Issuer" and section 12 “Information on trends".

6.5 Information on patents, licences, significant contracts or new production processes

The Issuer and its affiliates are not dependent on any types of patents, licences or new production processes, nor are they bound by agreements related to patents, licences or new production processes which would have a significant impact on the profitability of their operations. In its business operations, the Issuer uses its own trademarks (Granolio, Farina, Kopanica Mill, Ekoklas, Brašneko), trademarks to which it obtained the right in the transfer of the milling operations of companies in the Agrokor Group (Mlineta, Brašno), and those to which the right was acquired from a trademark application (Belje half-white wheat flour, Belje wheat white coarse flour, Belje wheat white smooth flour).

On 15 December 2011, the Issuer, together with Cautio d.o.o., Našice (the holder of the remaining shares in the Zdenka and Žitar companies), concluded an agreement to acquire a controlling influence in the mentioned companies.

On 2 May 2014, the Issuer, together with Konzum d.d., entered into a co-operation agreement for a period of three years, by means of which the contracted share of flour from the Company assortment in the Konzum retail and wholesale network is in accordance with its market share. All relevant requirements relating to the sale or purchase of products from the flour production programme of the Issuer (type, quantity, price, delivery dates, etc.) will be established by the contracting parties based on individual annual purchase contracts.

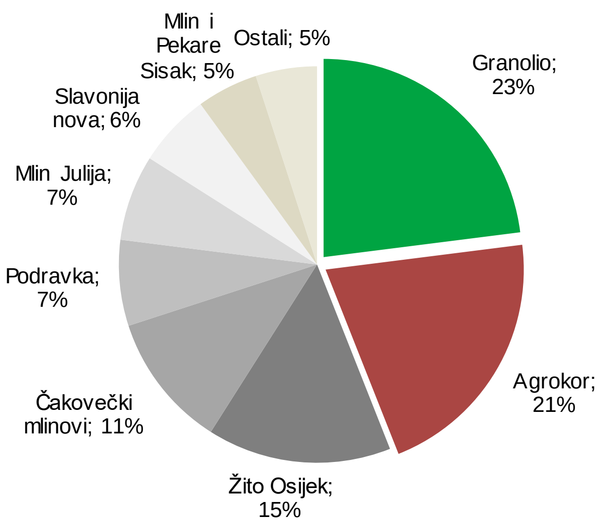
On 2 May 2014, the Issuer entered into a co-operation agreement with Belje concerning the sale of wheat feed flour from the product assortment of the Issuer. The contract was concluded for a period of three years, and the scope of delivery depends on the needs of the customer.

6.6 Market position

FLOUR MILLING

Based on the data on flour production quantities from the end of 2013, the market share of the Issuer in this operating segment amounts to about 23% (presented in more detail in the figure below).

Chart 3 Market shares of wheat flour producers in 2013



Source: Issuer’s estimate

The above figure shows that the expected growth in the market share of the Issuer on the basis of the assumed milling operations of the companies in the Agrokor Group amounts to between 23% and 44%, based on the data for the year 2013. The consolidated revenues for the year 2013 of all the participants involved in the acquisition of the milling operations (Granolio Group, the milling operations of the Belje Darda d.d. and PIK-Vinkovci d.d.) together did not reach HRK one billion. Consequently, the condition referred to in Article 17 Paragraph 1 Item 1 of the Competition Act has not been fulfilled and there is no obligation to report an intention of concentration to the Croatian Competition Agency.

The flour market in Croatia, the region and European Union countries seeks to increase the concentration of flour manufacturers or decrease their total number either through mergers and acquisitions or the closure of inefficient mills. For example, in Germany the three largest milling companies (VK-Mühlen-AG GoodmillsGroup, BüttingBindewald-Wehrhahn Group and Roland Mills United) account for 80% of the market, while the rest of the market is divided among small mills.

Granolio strives to maintain its leadership position in the region by restructuring and optimising operations and further developing strategic alliances with customers and suppliers, which by increasing cost effectiveness and the competitive advantage of the Company contribute to the increase of its market share and ensure stable growth and development in this milling segment.

Flour and bread manufacturers constitute the largest Group within the food and beverage industry.

According to Ministry of Agriculture data from June 2013 (Draft Law on amendments to the law on special conditions for placing flour on the market with the final draft of the Law - Prijedlog Zakona o izmjenama zakona o posebnim uvjetima za stavljanje brašna na tržište s konačnim prijedlogom Zakona; https://vlada.gov.hr/UserDocsImages//Sjednice/Arhiva//99.%20-%208.pdf), 193 millers, 11 producers of ready-made mixtures and concentrates, 47 flour importers, 35 mixture and concentrate importers, and 7 legal entities engaged in repacking flour are entered in the registers of millers, flour importers and manufacturers of ready-made mixtures and concentrates (registry stamp users). According to the records of the Ministry of Agriculture, the 10 largest millers produce 70% of all domestic flour (approx. 430,000 tonnes), and the 5 largest importers import 73% of all imported flour (approx. 2,200 tonnes). Some millers, including Granolio, have come together in the Žitozajednica d.o.o. company out of common interest. According to the statistics of FINA (Financial Agency), there are 55 active mills in Croatia at the moment, which place approximately 430,000 tonnes of milled wheat and meslin products (434,174 tonnes in 2013) on the market annually.

According to the Statistical Yearbook of the Croatian Bureau of Statistics for 2013 (http://www.dzs.hr), an average of 21.38 kg of flour, 75.36 kg of bread, pastries and other bakery products, 2.76 kg of cakes and biscuits and 9.2 kg of pasta were consumed per household member from 2007 to 2011. These amounts apply only to household consumption. The total calculation for the 4,284,889 inhabitants of Croatia as of 31/12/2012 indicates that total annual consumption amounts to about 430,000 tonnes of bread and flour meal.

Milling production fully meets Croatia's needs for milled products. According to the records of the Ministry of Agriculture, about 2,200 tonnes are imported annually, which represents only about 0.4% of total consumption. (Draft Law on amendments to the law on special conditions for placing flour on the market with the final draft of the Law - Prijedlog Zakona o izmjenama zakona o posebnim uvjetima za stavljanje brašna na tržište s konačnim prijedlogom Zakona; https://vlada.gov.hr/UserDocsImages//Sjednice/Arhiva//99.%20-%208.pdf).

In addition to products from milled wheat and meslin, milled maize products and products from other milled grains are also represented in the milling production. According to the statistics of Croatian Chamber of Economy (Hrvatska gospodarska komora) (Žitozajednica, 3 September 2014), a total of 61,527 tonnes of various products from milled maize and the milling of other grains were produced in 2013.

STORAGE OF GRAINS AND OILSEEDS

Agricultural products need to be properly and safely stored after being harvested. Therefore, the availability and size of storage capacities play an extremely important role in the farming sector. Farming products can be stored in silos and floor warehouses. According to the Croatian Agriculture and Rural Development Plan from 2007 to 2013 (http://www.mps.hr/ipard/UserDocsImages/dokumenti/IPARD/IPARD%202014/Plan%20za%20poljoprivredu%20i%20ruralni%20razvoj%20-%20IPARD%20program%202007.-%202013.%20-%207.%20izmjene.pdf), Croatia lacks storage capacity. The total available storage capacity for farming products amounts to only 1,840,556 tonnes, of which 1,582,826 tonnes is in silos, and

257,730 tonnes in floor warehouses, all in 76 registered warehouse locations. The situation unfortunately did not change sufficiently in the period before the adoption of the Croatian Agriculture and Rural Development Plan for the following period. According to the Croatian Rural Development Programme for the period 2014 to 2020 (http://www.eu-projekti.info/eu/wp-content/uploads/2014/10/HR-Program-ruralnog-razvoja-RH-i- indikativna-tablica6.pdf) the problem of insufficient storage and logistics capacity continues to be a segment in which it is necessary to invest.

Even areas with significant grain production lack storage capacity. For example, in Brod-Posavina County, there is only one registered independent silo with a large capacity of about 57,500 tonnes, which is owned by Granolio (the Bjeliš silo).

The Issuer's total grain and oilseed storage capacity amounts to approximately 165,000 tonnes, which represents approximately 9% of the total storage capacity of grains and oilseeds in the Republic of Croatia.

MILK PROCESSING AND CHEESE PRODUCTION

Milk processing and cheese production market includes production of long-life (UHT) and fresh milk, fermented products, semi-hard and fresh cheeses, processed cheese, and butter. The Group competes on the market through the operations of Zdenka with processed cheese, semi-hard and fresh cheeses, and butter. Large retail chains constitute the largest distribution channel, and distribution is carried out partly via the central storage of the customers and partly via capillaries to retail outlets or, in the cottage cheese segment, to the final consumer.

In the semi-hard cheese segment, the Group holds approximately 10-15% of the market share (based on the estimate of the Issuer). The market share varies greatly, given that the semi-hard cheese market in Croatia has been largely undermined by imports of cheap cheeses from the EU. Despite these imports, the Group manages to retain its market share thanks to its product quality and the loyalty of its customers. In addition, in this segment the Group also places part of its goods on the market by establishing co-operative relations with customers through the production of semi-hard cheeses under the brand name of the customer. These are mostly large retail chains.

In the processed cheese segment, the Group has for many years been the leader in the Croatian market, and its own Zdenka brand, according to the estimate of the Issuer, holds approximately 65% of the market. Together with its production of processed cheese under the brands of supermarket chains, its market share, according to the estimate of the Issuer, has risen to over 75%. The Group manages to maintain such a high market share due to its continuous high-quality of the products which has led to strong customer loyalty. Furthermore, the Zdenka trademark has become a generic name for processed cheese triangles on the processed cheese market over the years. Such products are unofficially called Zdenka cheese.

Butter represents a relatively small portion of total sales in the milk processing and cheese production segment, and the quantities available depend exclusively on the total volume of cheese production. The entire butter production is therefore placed on the Croatian market without any difficulty. The Group estimates that it currently holds about 5% of the market share in this segment.

The Group places products from the fresh cheese segment on the Croatian market through retail channels and by selling fresh cheese to the baking industry, where it is used in making bakery products. Most sales are realised through retail, where the fresh cheese brands of supermarket chains dominate. The Zdenka brand represents a smaller share of fresh cheese sales because of the policy of some retail chains of having a range of exclusive products or mostly cheese of their own brand. The assessment of the Group is that with the Zdenka fresh cheese brand and customer brands it holds about 25% of the market share in Croatia.

Most of the exports in the milk processing and cheese production segment come from the export of processed cheese. The Group is able to compete with this in foreign markets. Cheese export represents approximately 20% of total sales of Zdenka – mliječni proizvodi d.o.o., and approximately 4% of the total sales of the Group. The Group currently only exports cheese under its own Zdenka brand, and estimates that it holds 50% of the cheese market in Slovenia, 50% in Bosnia and Herzegovina, 40% in Montenegro, 40% in Macedonia, 5% in Serbia, and 5% in Kosovo. The reason for the small market shares in Serbia and Kosovo is primarily an almost 20-year long absence from these markets and high tariff barriers. The Group exports its remaining cheese assortments to these markets sporadically because the quotas are small and the tariffs and levies high, so that the quotas that distributors manage to obtain are used primarily for processed cheeses.

The Issuer estimates that cheese placements in overseas markets in the forthcoming period will grow strongly. A contract has recently been signed on the production of melted cheese brands for distribution in the markets of Lebanon, Syria and Iraq. Under the same brand, besides processed cheese, the strategic partner distributes frozen and canned fruits and vegetables, cured meat products, hard and semi-hard cheeses, candies, sauces and pasta, not only to the markets of Lebanon, Syria and Iraq, but also to ethnic shops in the markets of the EU and USA. The annual income of the strategic partners amounts to over 1.3 billion USD. The Group estimates that in the following period, it will expand co-operation to include rind cheese and the placement of these products under the Zdenka brand.

By July 2015 the Group expects to conclude contracts to produce brand cheese for another partner for the United Arab Emirates market. A recently signed contract with a supermarket chain in Slovenia for the production of fresh cheese for the Slovenian market and the admission of its fresh cheese to the international list of suppliers of an international supermarket chain has justified the expectations of the Issuer that in the following period the placement of cheeses on overseas markets will strongly contribute to the growth and development of the milk processing and cheese production segment.

Raw materials make up the largest share in the cost of cheese production. The raw material for the production of processed cheese is mostly procured from abroad, and the raw material for other types of cheese is procured on the domestic market. The high purchase prices of milk on the domestic market currently diminish the competitiveness of other types of cheese in foreign markets.

CROP PRODUCTION

Due to the diversity of soil, climate and terrain, a large variety of agricultural products, from field and industrial crops, to continental fruits and vegetables and grapes grow in a relatively limited area in Croatia. The agricultural resources of Croatia are distributed across three different geographical and climate zones: the Pannonian region, the Adriatic region and the Highlands region. The Pannonian region is an area in the east and north-west of Croatia and is influenced by a continental climate. The Highlands region is located in central Croatia and is mostly mountainous. The Adriatic region is separated from the Highlands region by high mountain ranges and is influenced by a Mediterranean climate. Low levels of contamination of the environment, which is conducive to the development of organic farming, should be added to the favourable agro-climatic conditions.

The total utilised agricultural area in Croatia in 2012 amounted to 1,330,973 hectares, of which 903,508 ha were occupied by arable land and gardens, 2,933 ha by vegetable gardens, 345,561 ha by permanent grassland (meadows and pastures), 30,846 ha by orchards, 29,237 ha by vineyards, 18,100 by olive trees, 248 ha by workers, and 540 ha by basket willows and Christmas trees. However, only arable land and garden areas are experiencing growth.

Crop production is one of the most important branches of agriculture. Farming produce represents the basic food for people and animals and is grown on arable land, gardens, meadows and pastures. The main farming products include grains, industrial crops (oilseeds, tobacco, hops, etc.) and green fodder. These account for more than 93.6% of the total sown area of arable land and gardens.

Grains represent the most abundant farming product with 67.6% of the total sown areas of arable land and gardens. With a value of HRK 1.854 billion, they represented 19.3% of the total value of purchased and sold agriculture, forestry and fishery products in 2012. Their share in the total value of sown areas has been about the same for many years.

Corn and wheat are the most represented types of grains. In the period from 2005 to 2012, average annual corn production amounted to 1.919 million tonnes on an average of 302,000 ha of agricultural land. Wheat production was lower, which is understandable given there is less demand for it. The annual average wheat production amounted to 809,537 tonnes on an average of 167,875 ha. The estimated annual demand for wheat amounts to approximately 580,000 tonnes.

Table 31 Area and production of wheat and corn in Croatia

	WHEAT			CORN		
Year	Harvested area thousand ha	Yield per ha,t	Production, t	Harvested area thousand ha	Yield per ha, t	Production, t
2005	146	4.11	601,748	319	6.92	2,206,729
2006	179	4.58	804,601	296	6.53	1,934,517
2007	175	4.64	812,347	288	4.94	1,424,599
2008	157	5.50	858,333	315	8.00	2,504,940
2009	180	5.20	936,076	297	7.40	2,182,521
2010	169	4.00	681,017	297	7.00	2,067,815
2011	150	5.20	782,499	305	5.70	1,733,664
2012	187	5.30	999,681	299	4.30	1,297,590

Source: CBS (Croatian Bureau of Statistics), Statistical Yearbook of Croatia 2008 and 2013

Self-sufficiency, i.e. the export-import ratio, in the grain sector in average years has been at a level of approximately 110%, mainly due to wheat production being higher than total demand. Nevertheless, the situation in agricultural production in terms of foreign trade is the same as in the agricultural sector, meaning that Croatia is also a net importer of food when it comes to agricultural production.

The Group is engaged in farming on approximately 1,240 ha of arable land. It provides raw materials for agricultural production from its own business, and places crops either directly into its mills or into its trade business in grains, oilseeds and co-operation activities.

LIVESTOCK FARMING (cattle farming and milk production, pig farming)

Livestock farming is an agricultural branch which is present throughout Croatia, and which involves many producers. Livestock farming includes cattle farming, sheep farming, pig farming, goat farming, poultry farming and beekeeping. According to data from Croatian Bureau of Statistics on the value of purchased and sold agriculture, forestry and fishery products from 2008 to 2012 (http://www.dzs.hr), livestock farming accounted for 42% of total agricultural production, which represented an increase of 1% compared to the previous five-year period.

Beef cattle production is the most important branch of livestock farming and one of the most important branches of agriculture. Cattle production through the breeding of dairy cows and heifers and the fattening of cattle and calves provides important nutritional products such as milk and meat, and complements crop production, as most crop products are used as food for cattle, which in turn contribute significantly to the natural maintenance and increase of soil fertility. Furthermore, there is an increase in the use of animal waste in the production of bio-gas and electricity, which results in an increase in the competitiveness of cattle production and contributes to the energy self-sufficiency of the country. By the 1990s, cattle farming had become the most important branch of agriculture. More than half of production was exported to the EU market, and the Croatian baby-beef brand was highly esteemed, especially in Mediterranean markets. In the mid-1990s, the number of cattle had declined by half. For example, the number of cattle in 1990 was 829,000, but by 1995 this figure was only 494,000. The trend continued to fall until 2002, when the number of cattle amounted to 417,000. After 2002, the number of cattle began to grow, and in 2006, according to data from the 2013 Statistical Yearbook, it reached 483,000 units (http://www.dzs.hr), which is still significantly below the number in 1990. The number of dairy cows in Croatia has followed the trend in cattle farming, and in the period from 2008 to 2012 dropped from 226,000 to 195,000 cows, which is more than 13% (http://www.dzs.hr) in this short period of time. The Simmental beef/milk breed is the most common breed (about 78%). It is followed by the Holstein milk breed (approximately 18%), and the Brown beef/milk breed (approximately 3.5%). Other breeds are negligible in terms of numbers (Croatian Agricultural, Agency -Hrvatska poljoprivredna agencija, Annual report for 2012, Beef cattle farming,http://www.hpa.hr/wp-content/uploads/2014/06/govedarstvo_020520131.pdf).

Breeding dairy cows is considered the most important branch of cattle production. Milk production forms the basis for breeding dairy cows, and also meat production. According to CBS data for the period from 2008 to 2012 (http://www.dzs.hr), the production of raw cow's milk on average comprised about 35% of the total value of purchased and sold livestock products, which represented a decline of almost 15% when compared to the previous five-year period when it amounted to 41%. It also accounted for 14.95% of the total value of agriculture, forestry and fishery, which in turn represented a decline of slightly more than 15% compared to the previous five-year period when it amounted to 16.82%.

According to the 2003 Census of Agriculture (http://www.dzs.hr), a total of 77,279 farms were engaged in breeding dairy cows, of which 77,039 were private family farms with 255,569 heads of cattle and240 business entities with 13,032 heads. The size structure of individual farms was extremely unfavourable. 69,129 farms (89.7%) were engaged in breeding only up to 5 cows per farm, and the average annual milk production per cow amounted to only 2,600 litres (Ministry of Agriculture, Operational Programme for Development of Cattle Production in the Republic of Croatia, July, 2014 - Ministarstvo poljoprivrede, šumarstva i vodnog gospodarstva RH, Operativni program razvitka govedarske proizvodnje u Republici Hrvatskoj, srpanj 2004., http://www.google.hr/url?sa=t&rct=j&q=&esrc=s&source=web&cd=1&ved=0CBsQFjAA&url=http%3A%2F%2Fwww.agroklub.com%2Fupload%2Fdokumenti%2Foperativni_program_razvitka_govedarstva.pdf&ei=6KXTVN7lI8XTygP91YLQCg&usg=AFQjCNEO-D7baqlleXpbuXSrAcygw7Kx1g). Such a structure cannot provide competitiveness (price and quality) in milk production, and as a result of its position in the pre-accession negotiations for EU membership, Croatia has been in an extremely unfavourable position. Namely, milk production, together with the production of wine, olives and sugar, is limited in the EU by quotas, and the quotas for new members are determined on the basis of previous data on the quantity of production.

In recent years, various economic measures, most notably the launch of the Operational Programme for the Development of Cattle in Croatia, have been undertaken in an attempt to raise the competitiveness of milk production in the Republic of Croatia. The introduced measures originally yielded significant results by increasing the number of cows per farm, increasing the number of large manufacturers and increasing the milk yield per cow. The average quantity of milk per farm has been rising steadily since 2003, when it amounted to 540.7 million kilograms until 2009, when it reached 675 million litres. After 2009, due to the severe economic crisis and the reduction in the purchase price of milk, milk production began to fall, and in 2013 it dropped to 503.8 million kilograms, which is less than in 2003. According to the data of the Central Laboratory for Milk Quality Control of the Croatian Agricultural Agency, in the period from 2002 to 2013 the number of milk producers dropped from 58,815 to 12,639 producers (Croatian Agricultural Agency, Central Laboratory for Milk Quality Control, Report for the years 2008 and 2013 - Hrvatska poljoprivredna agencija, Središnji laboratorij za kontrolu kvalitete mlijeka, Izvješće za 2008. godinu - http://www.hpa.hr/wp-content/uploads/2014/06/10%20SLKM%202008_1 .pdf - i Izvješće za 2013. godinu - http://www.hpa.hr/wp-content/uploads/2014/06/Ispitivanje2013.pdf).

The measures taken in order to increase the competitiveness of the dairy industry have significantly influenced the increase in the average quality of delivered milk. For example, in the period from 2009 to 2013, the share of milk and class of manufacturers who supply less than 20,000 kg of milk per year has increased from 45.3% to 80.5%, while for producers who supply more than 20,000 kg of milk per year this share has increased from 87.4% to 97%. (Croatian Agricultural Agency, Central Laboratory for Milk Quality Control, Report for 2013 - Hrvatska poljoprivredna agencija, Središnji laboratorij za kontrolu kvalitete mlijeka, Izvješće za 2013. godinu - http://www.hpa.hr/wp-content/uploads/2014/06/Ispitivanje2013.pdf).

Table 32 Purchase of cow's milk by dairies

		Purchase of cow's milk by dairies (amounts in kg)						
Code	**Name of dairy**	**2009**	**2010**	**2011**	**2012**	**2013**	**Share (%) in qty 2013**	**Index of production 2013/2012**
1	DUKAT d.d.	272,675,987	247,995,615	242,143,781	221,796,384	183,067,836	36.33	82.5
4	VINDIJA d.d.	177,712,995	166,830,431	174,589,475	169,035,794	138,655,132	27.52	82
25	BELJE d.d.	29,719,974	31,431,453	44,071,937	45,740,574	55,078,570	10.93	120.4
6	MEGGLE CROATIA d.o.o.	42,547,528	38,480,958	38,758,461	41,413,613	32,172,767	6.39	77.7
40	ZDENKA-mliječni proizvodi d.o.o.	21,724,488	20,405,511	19,561,975	21,909,522	11,967,812	2.38	54.6
5	BELJE 2	36,703,101	31,288,633	27,136,571	25,173,648	11,110,417	2.21	44.1
7	KIM MLJEKARA KARLOVAC	17,813,690	16,427,333	15,315,155	14,073,317	10,749,606	2.13	76.4
9	PIK RIJEKA	11,668,443	11,112,040	11,318,192	12,572,890	10,027,482	1.99	79.8
44	MINI MLJEKARA VERONIKA d.o.o.	5,921,061	6,489,173	6,838,725	7,369,907	8,369,995	1.66	113.6
10	LUDBREŠKA MLJEKARA	7,160,776	7,723,614	9,435,169	8,876,808	7,151,269	1.42	80.6
	The remaining 45 dairies	51,641,010	45,687,908	37,237,667	34,394,276	35,500,958	7.05	1.03
	TOTAL	**675,289,053**	**623,872,669**	**626,407,108**	**602,356,733**	**503,851,844**	**100**	**83.6**

Source: HPA (Croatian Agricultural Agency), Central Laboratory for Milk Quality Control, 2013 annual report

http://www.hpa.hr/wp-content/uploads/2014/06/Ispitivanje2013.pdf

NOTE: Calculated on the basis of the settled average of the producer according to the Regulations on the Quality of Raw Milk

Croatia is still a net importer of milk. According to Croatian herders, the economic interest association of cattle breeders, in 2013, using the equivalent of a kilogramme of milk (1 litres = 1.03 kg milk), 337,558,000 kg were imported, and a total of 63,261,000 kg of milk was exported.

The Group owns two farms for milk production with a total number of 800 lactating cows. The results of milk production on the farms of the Group are above average, and given the supply of more than 20,000 litres of milk a day, the Group is considered a preferred supplier in the dairy industry because it offers the possibility of continuous delivery of large amounts of high quality milk. The shortage of milk on the market further contributes to the stable market position of the Group in this segment.

Pig farming has a long tradition in Croatia. According to CBS data for the period from 2008 to 2012 (http://www.dzs.hr), pig farming on average covers approximately 24% of the total value of purchased and sold livestock products, and approximately 10% of the total value of agricultural, forestry and fishery products. Pig farming has a long tradition in Croatia. According to CBS data for the period from 2008 to 2012, pig farming on average covers approximately 24% of the total value of purchased and sold livestock products, and approximately 10% of the total value of agricultural, forestry and fishery products. Pig farming is characteristic of all Croatian regions, but especially the Pannonia region, since it is closely related to corn. According to the 2003 Census of Agriculture (Croatian Bureau of Statistics -Državni zavod za statistiku, http://www.dzs.hr), a total of 215,240 farms were engaged in pig farming: 214,814 private family farms with 1,726,895 pigs, and 426 business entities with 197,777 pigs. In most cases, the pigs are kept in inadequate facilities and in a traditional way which prevents the organisation of efficient and profitable production with high standards. The existing production systems on farms, with the exception of large farms, do not meet the requirements of open market competitiveness and are often questionable regarding environmental and animal welfare conditions. Such non-competitive production results in a continuous decrease in the number of pigs, the number of which in 2012, according to the CBS (http://www.dzs.hr), fell to only 1.182 million. A high level of fragmentation, the generally poor conditions of pig production, and the unbalanced supply and demand for pork on the market cause fluctuations in the number of farm pigs, even greater than 20% on an annual basis. Self-sufficiency amounts to approximately 80%, (Ministry of Agriculture, Annual report on the state in agriculture in 2012, October 2013, - Ministarstvo poljoprivrede Republike Hrvatske, Godišnje izvješće o stanju poljoprivrede u 2012 godini, listopad, 2013., http://www.google.hr/url?sa=t&rct=j&q=&esrc=s&source=web&cd=2&ved=0CCIQFjAB&url=http%3A%2F%2Fwww.mps.hr%2FUserDocsImages%2Fpublikacije%2F2014%2FZeleno%2520izvjesce%252013.doc&ei=XqvTVIC_NcWiygP3w4CoAg&usg=AFQjCNEKtJq3nCTZQRnl9maArmYGYMsFLw), and insufficient production is offset by imports.

ANIMAL FEED PRODUCTION

The Group has been engaged in the production of animal feed as part of the management of the Žitar company from 2010. Most animal feed production is placed on the domestic market, and used for the needs of the Group’s own dairy cow farm, beef cattle and pigs, and for the needs of Zdenačka farma and other customers. The Group places animal feed on the market through a network of subcontractors by negotiating the agricultural production and sale of raw materials for production.

Due to relatively low entry barriers, the market for production of animal feed has a lot of animal feed producers, i.e. animal feed mixer plants. E.g. in 2005 there were app. 120 animal feed producers (http.//www.hah.hr/arhiva_vijesti.php?id=109). The main competitors of the Group are: Žito d.o.o. Osijek, Belje, Valpovo d.d., Valpovo, Fanon d.o.o., Petrijanec, Tvornica stočne hrane d.d. Čakovec, Valipile d.o.o., Sesvete and Kušić promet d.o.o., Sveti Ivan Zelina.

In its assortment, the Group has animal feed for dairy cows, piglets, pigs, cows, calves, laying hens, chickens and lambs.

GRAIN AND OILSEED TRADE

The Issuer has for many years been one of the leading entities in the wholesale trade of grains and oilseeds in the Republic of Croatia. It exercises the leading role, not only on the domestic market as the leading end-user of wheat, but also in the export of grains and oilseeds, mainly to EU markets.

With the placement of raw materials for agricultural production, the Issuer ensures the purchase base for grains and oilseeds. In addition to the collection of its receivables, the Issuer, with its sales capacity with subcontractors and other agricultural producers, also acts as a repurchaser of the entire crop and an entity that is capable, through its extensive infrastructure of silos, warehouses, purchase facilities and dryers, to take over, store, prepare for sale and ultimately sell and place surpluses of grain and oilseed on both domestic and foreign markets.

Upon accession to the EU trade with export markets has been facilitated and accelerated. The main markets where surpluses of agricultural products from Croatia end up are primarily neighbouring countries and other countries in the region (Italy, Austria, Bosnia and Herzegovina, Germany and Hungary.

TRADE IN RAW MATERIALS FOR AGRICULTURAL PRODUCTION

The Issuer, based on its own assessment of the total sales of raw materials for agricultural production in Croatia, accounts for approximately 12% to 15% of their value. The Issuer carries out the activity of trading in raw materials for agricultural production with the help of silos and purchase facilities on the territory of Slavonia and central and western Croatia. The main competitors of the Issuer in the sales field of raw materials for agricultural production are Agrokor trade d.d., Group d.o.o. and Žito d.o.o.

According to CBS data (www.dzs.hr) Croatia has about 900,000 ha of arable land (farming, fruit-growing and viticulture) that can commercially fall within the scope of work of the Issuer.

The largest scope of the Issuer’s activities in the trade in raw materials for agricultural production is in the area of Osijek-Baranja County, which also has the largest amount of arable land in the Republic of Croatia with a share of approximately 23% or more than 212,000 ha. During the spring harvest, approximately 112,000 ha of the above amount are sown, while during the autumn planting this figure is approximately 100,000 ha.

In total, the Issuer places raw materials for agricultural production on approximately 60,000 hectares of arable land.

The sale of raw materials in the Republic of Croatia by type of raw material is approximately as follows:

- mineral fertilisers – HRK 1 billion,
- seed supplies – HRK 500 billion,
- plant protection products – HRK 620 million.

TRADE IN PRODUCTS FOR THE BAKING INDUSTRY

The Issuer mostly places products for the baking industry on the Croatian market. The product market for the baking industry is highly competitive. All major world manufacturers are present on the market, and the largest share is held by the domestic manufacturer IREKS AROMA. The Issuer in this segment shows continuous growth and expects continued growth and expansion of its assortment due to complementarity and numerous synergy effects with mill products, in which the Issuer holds a leading market position. The Issuer estimates that the total consumption of baking industry products in Croatia amounts to about HRK 100 million, and expects to realise at least 10% of the market share in the next 3 year.

7 ORGANISATIONAL STRUCTURE

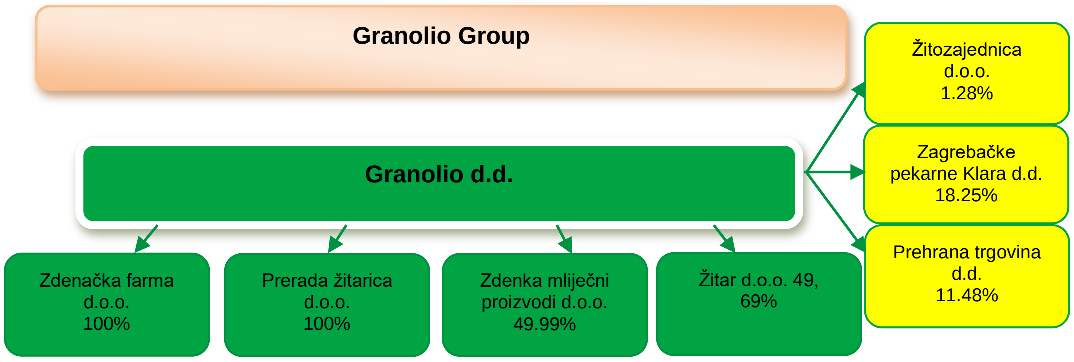
7.1 Description of the Group and Issuer's Position in the Group

Granolio Group is represented by: the holding company Granolio d.d. Zagreb and dependent companies:

- Zdenačka farma d.o.o. Veliki Zdenci,
- Prerada žitarica d.o.o. Grubišno Polje,
- Zdenka-mliječni proizvodi d.o.o. Veliki Zdenci and
- Žitar d.o.o. Donji Miholjac

The Issuer is the company Granolio d.d. which also holds a leading position in relation to the dependent companies.

Chart 4 Granolio Group Organisational Structure

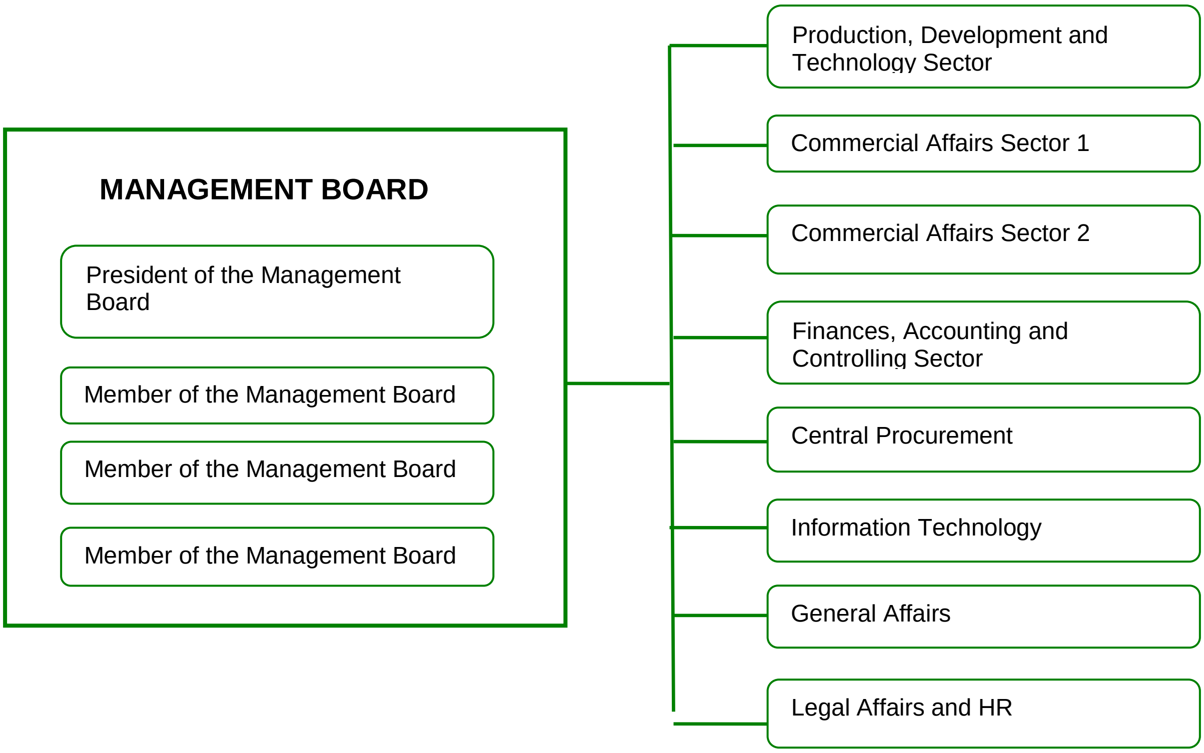


Source: Granolio

The Issuer holds 100% shares in the companies Zdenačka farma d.o.o. and Prerada Žitaricad.o.o. It has a controlling influence in decision-making in the companies Zdenka mliječni proizvodi d.o.o. and Žitar d.o.o. These companies have been consolidated into Granolio Group since 2011.

The Issuer also holds a participating interest in the companies Žitozajednica d.o.o., Zagrebačke prekarne Klara d.o.o. and Prehrana trgovina d.d.

Figure 5 Granolio Organisational structure



Source: Granolio

Production, Development and Technology Sector

The Sector has five (5) units and one (1) department: Mlin Farina Unit, Mlin Kopanica Unit, Silos Bjeliš Unit, Mlin Vinkovci Unit, Mlin Belje Unit and Ecological Farming Department.

Commercial Affairs Sector 1

Ten (10) departments are organised within the Sector: Logistics and Management Department, Flour Sales Support Department, Raw Materials and Goods Support Department, Invoicing Department; Sales - Key Clients Department; Sales - Cattle Breeding; Sales - Other Clients Department - Western and South Croatia; Sales - Other Clients Department - Slavonia; Sales - Other Clients Department - Central Croatia.

Commercial Affairs Sector 2

The Sector consists of one (1) unit and 14 departments; Production and Cooperation Units and the following departments: Back Office, Sales of Plant Protection Products Department, Sales of Seeds Goods Department, Sales of Mineral Fertilisers Department, Trade Goods Department, Warehouse and Shipping of Raw Materials Department, Cooperation Beravci, Cooperation Bijelo Brdo, Cooperation Čeminac, Cooperation Suza, Cooperation Osijek-Čepin, Cooperation Grubišno Polje, Cooperation Western Croatia.

Finances, Accounting and Controlling Sector

There are no units organised within the finances, accounting and controlling sector.

Support functions

Support functions are divided into the following units:

- General Affairs
- Legal Affairs and HR
- Central Procurement
- Information Technology

7.2 List of the Issuer's dependent companies

An overview of dependent companies owned by the Issuer is given below:

Prerada žitarica, limited liability company for the production of milled products and animal feed

Company seat: Grubišno Polje (Town of Grubišno Polje), Braće Radića 45

Share capital: HRK 23,120,600.00

Court registration number (MBS) 010061800

Personal identification number (PIN): 03408544016

Area of activity: grain storage

Storage capacity: 15,000 t, reception capacity 1,200 t/24h, dispatch capacity 1,200 t/24h, drying capacity 250 t/ 24h

Nominal value of company shares: HRK 23,120,600.00

Percentage in share capital: 100%

Share value on 30 June 2014: HRK 5,205,982.51

Zdenačka farma, limited liability company for milk production, cattle breeding and farm production

Company seat: Veliki Zdenci (Town of Grubišno Polje), Mate Lovraka 118/b

Share capital: HRK 13,520,000.00

Court registration number (MBS) 010061795

Personal identification number (PIN): 35460243768

Area of activity: dairy farming

Capacity: 600 cows or 500 lactating cows

Nominal value of company shares: HRK 13,520,000.00

Percentage in share capital: 100%

Share value on 30 June 2014: HRK 11,661,064.44

Zdenka-mliječni proizvodi, limited liability company for the production of dairy products, trade and services

Company seat: Veliki Zdenci (Town of Grubišno Polje), Trg Kralja Tomislava 15

Share capital: HRK 83,354,400.00

Court registration number (MBS) 010048425

Personal identification number (PIN): 45651553790

Area of activity: production of soft cheeses and dairy products

Capacity: annual capacity of milk processing amounts to 47.5 million litres, installed capacities for soft cheese amount to 4,500 t per year.

Nominal value of company shares: HRK 41,668,864.00

Percentage in share capital: 49.99%

Share value on 30 June 2014: HRK 42,753,697.61

Business share of the Issuer is burdened by a lien in favour of the Croatian Bank for Reconstruction and Development and Privredna banka d.o.o., Zagreb, to ensure receivables in the principal amount of HRK 45,000,000.00.

Žitar, limited liability company for the production of farm production, trade and services

Company seat: Donji Miholjac (Town of Donji Miholjac), Kralja Držislava 1

Share capital: HRK 60,961,500.00

Court Registration Number (MBS): 030064710

Personal identification number (PIN): 66951972250

Area of activity: wholesale of grain, farm production, cattle breeding, animal feed production, seed improvement, storage and organisation of agricultural production through cooperation, milling

Capacity: dairy cows farm with the capacity of 300 cows and cattle fattening farm with the capacity of 200 steers, two facilities for pig fattening with the capacity of 9,500 pigs per year, fodder mixing facility with the capacity of 30,000 tonnes,

Silo with the capacity of 38,500 tonnes and 30,000 tonnes of floor storage, production and purchase of farm products on 8,000 ha of land, mill with capacity of 85 t/ 24 h or 28,050 t per year

Nominal value of company shares: HRK 30,291,769.00

Percentage in share capital: 49.69 %

Share value on 30 June 2014: HRK 39,065,220.74

Business share of the Issuer is burdened by a lien in favour of the Croatian Bank for Reconstruction and Development and Privredna banka d.o.o., Zagreb, to ensure receivables in the principal amount of HRK 45,000,000.00. It is also burdened by a lien in favour of Hypo Alpe-Adria Bank d.d. to ensure receivables in the principal amount of EUR 5,980,000.00.

8 PROPERTY, PLANT, EQUIPMENT AND RESERVES

8.1 Information about existing or planned non-current tangible assets and reserves

Information about existing tangible assets

The Group's non-current tangible assets, with accounting value of HRK 394.9 million on 30/06/2014 include land (7.11%), facilities (62.91%), plant and equipment (21.78%), biological assets (2.79%), advance payments and tangible assets in preparation (5.19%). Granolio's value of property in kind was in 2009 estimated by the independent company Kvadrat d.o.o., Požega after which revaluation of non-current assets took place.

In the period between 1 January 2014 and 30 June 2014 HRK 7.8 million was invested into non-current tangible assets. Property owned by Granolio Group is burdened with a mortgage, as insurance per credit and loan agreements. On 30 June 2014 accounting value of the mortgaged property amounted to HRK 311.1 mil.

Details on liened property and plant on the date of 30 June 2014 are listed below.

Beside the property owned, the Issuer has been using two significant facilities in the production process since 6 May 2014 including a mill in Vinkovci and another one in Belje, based on an agreement on a 1-year lease concluded in the process of milling business acquisition between companies PIK-Vinkovci and Belje, as described in Section 4.2.4. of the Prospectus. The Issuer has acquired ownership rights over the plant and equipment in the named mills, as well as over the stock pertaining to the milling business by PIK-Vinkovci and Belje.

Table 33 Data on liened property on 30 June 2014

No.	LOCATION	NAME OF PROPERTY	PURCHASE VALUE HRK	VALUE ADJUSTMENT HRK	CURRENT VALUE HRK	MORTGAGE TOTAL	CREDITOR
1.	GORNJI DRAGANEC	FARINA MILL	107,521,494.40	39,430,826.98	68,090,667.42	1,700,000 EUR	ERSTE BANKA
						100,000,000 KN	PRIVREDNA BANKA ZAGREB
						45,000,000 KN	PRIVREDNA BANKA ZAGREB
						45,000,000 KN	HBOR
2.	VELIKA KOPANICA	FARINA MILL	62,360,955.59	39,260,181.23	23,100,774.36	3,000,000 EUR	ADRIA BANK WIENNA
						100,000,000 KN	PRIVREDNA BANKA ZAGREB
						45,000,000 KN	PRIVREDNA BANKA ZAGREB
						45,000,000 KN	HBOR
3.	SLAVONSKI BROD	SILO BJELIŠ	56,200,586.05	14,488,025.62	41,712,560.43	100,000,000 KN	PRIVREDNA BANKA ZAGREB
4.	ZAGREB	MANAGEMENT AND LOGISTICS	13,191,532.67	6,834,517.67	6,357,015.00	4,350,000 EUR	ERSTE BANKA
5.	GRUBIŠNO POLJE	PRERADA ŽITARICA	37,194,071.56	2,273,248.18	34,920,823.38	100,000,000 KN	PRIVREDNA BANKA ZAGREB
6.	VELIKI ZDENCI	ZDENAČKA FARMA	41,659,338.21	5,864,033.00	35,795,305,21	4,350,000 EUR	ERSTE BANKA
						12,000,000 KN	ERSTE BANKA
						8,000,000 KN	ERSTE BANKA
7.	VELIKI ZDENCI	ZDENKA-ML.PROIZV.	66,304,516.19	32,198,175.28	34,106,340.91	4,682,740 EUR	HBOR
						43,483,631 KN	HBOR
8.	DONJI MIHOLJAC	ŽITAR	81,982,660.34	14,930,922.24	67,051,738.10	12,170,000 EUR	HYPO ALPE ADRIA BANK
						5,521,000 EUR	ERSTE BANKA
TOTAL			**466,415,155.01**	**155,279,930.20**	**311,135,224.81**		

Source: Granolio

Table 34 Data on plants on 30 June 2014

in HRK

No.	LOCATION	NAME OF THE PLANT	PURCHASE VALUE	VALUE ADJUSTMENT	CURRENT VALUE	VALUE OF LIENED ASSETS
1.	GORNJI DRAGANEC*	PJ MILL FARINA	21,942,650.50	16,702,329.15	5,240,321.35	1,487,930.14
2.	VELIKA KOPANICA	PJ MILL KOPANICA	44,556,449.01	35,372,641.03	9,183,807.98	
3.	SLAVONSKI BROD	PJ SILO BJELIŠ	3,414,518.07	3,210,891.05	203,627.02	
4.	ČEMINAC	PURCHASE FACILITY ČEMINAC	247,022.81	37,544.01	209,478.80	
5.	BIJELO BRDO	PURCHASE FAC. BIJELO BRDO	165,967.03	29,044.26	136,922.77	
6.	VINKOVCI	PJ MILL VINKOVCI	735,138.00	6,126.28	729,011.72	
7.	BELJE	PJ MILL BELJE	2,435,199.62	20,294.01	2,414,905.61	
8.	VELIKI ZDENCI	DAIRY FARM	5,364,186.53	1,706,581.72	3,657,604.81	
9.	GRUBIŠNO POLJE	MILL AND SILO GRUB.POLJE	998,613.21	220,833.42	777,779.79	
10.	D.MIHOLJAC	PJ MILL	1,538,138.60	1,281,411.54	256,727.06	
11.	D.MIHOLJAC*	PJ SILO	6,777,557.08	4,849,648.23	1,927,908.85	0.00
12.	MAGADENOVAC	PJ GREENHOUSES	4,978,789.15	2,338,938.60	2,639,850.55	
13.	KAPELNA	PJ CROP PRODUCTION	10,453,025.17	6,074,345.84	4,378,679.33	
14.	D.MIHOLJAC	PJ SEED PRODUCTION	1,039,849.60	1,033,439.12	6,410.48	
15.	D.MIHOLJAC	PJ WORKSHOP	42,115.92	38,188.91	3,927.01	
16.	D.MIHOLJAC	PJ TSH	1,251,136.00	496,887.03	754,248.97	
17.	KAPELNA	PJ SILO AND DRYING FACILITY	338,847.05	334,882.17	3,964.88	
18.	KAPELNA	PJ CATTLE BREEDING	2,634,276.98	750,961.81	1,883,315.17	
19.	VELIKI ZDENCI*	DAIRY	81,346,971.69	32,693,516.74	48,653,454.95	38,992,999.43
	UKUPNO		**190,260,452.02**	**107,198,504.92**	**83,061,947.10**	**40,480,929.57**

** Liened plants*

Source: Granolio

Table 35 Overview of Granolio Group land per locations and types on 30June 2014

in HRK

COMPANY	LOCATION	PRESENT VALUE		
		Agricultural land	Construction land	TOTAL
GRANOLIO D.D.	Gornji Draganec	-	2,769,921	2,769,921
	Velika Kopanica	-	2,654,541	2,654,541
	Slavonski Brod	-	2,286,474	2,286,474
	Bijelo brdo	290,417	-	290,417
	Čeminac	-	180,787	180,787
Total		**290,417**	**7,891,723**	**8,182,140**
ŽITAR D.O.O.	Donji Miholjac	54,600	7,876,609	7,931,209
	Kapelna	3,896	110,846	114,742
	Magadenovac	200,791	777,370	978,161
	Viljevo	823,682	-	823,682
	Podgajci Podravski	7,769	125,318	133,086
	Našice	-	112,000	112,000
	Šljivoševci	-	72,306	72,306
	Radikovci	7,200	-	7,200
	Golinci	15,591	-	15,591
	Podravska Moslavina	7,016		7,016
	Kućanci	3,823	-	3,823
Total		**1,124,368**	**9,074,448**	**10,198,816**
PRERADA ŽITARICA D.O.O.	Grubišno Polje	**-**	**4,965,828**	**4,965,828**
ZDENAČKA FARMA D.O.O.	Veliki Zdenci	**1,529,954**	**2,387,322**	**3,917,275**
ZDENKA - MLIJEČNI PROIZVODI D.O.O.	Veliki Zdenci	**-**	**828,174**	**828,174**
TOTAL		**2,944,739**	**25,147,494**	**28,092,233**

Source: Granolio

Table 36 Overview of Granolio Group buildings per locations on 30 June 2014

			in HRK
NAME	**COMPANY**	**LOCATION**	**PRESENT VALUE**
Reinforced concrete silo	Granolio	Gornji Draganec	18,316,126
Bakery	Granolio	Gornji Draganec	13,177,103
Silo I	Granolio	Slavonski Brod	12,749,227
Silo III	Granolio	Slavonski Brod	10,611,882
Mill building	Granolio	Gornji Draganec	9,662,112
Silo II	Granolio	Slavonski Brod	8,854,168
Mill building	Granolio	Velika Kopanica	6,555,083
Business premises	Granolio	Zagreb	6,357,015
Reinforced concrete silo	Granolio	Gornji Draganec	4,069,951
Floor warehouse	Granolio	Gornji Draganec	3,973,235
Silo	Granolio	Gornji Draganec	3,863,920
Connections and projects	Granolio	Gornji Draganec	3,737,079
Silo - drying facility	Granolio	Velika Kopanica	2,868,625
Silo	Prerada žitarica	Grubišno Polje	6,282,846
Silo	Prerada žitarica	Grubišno Polje	4,953,200
Cow stable	Zdenačka farma	Veliki Zdenci	11,844,245
Stable for beef and dry period	Zdenačka farma	Veliki Zdenci	3,302,960
Stable for rearing of offspring	Zdenačka farma	Veliki Zdenci	2,827,099
Cheese production facility	Zdenka	Veliki Zdenci	15,293,599
Drying facility building	Zdenka	Veliki Zdenci	4,166,723
Boiler II	Zdenka	Veliki Zdenci	3,412,366
Zgrada topionice	Zdenka	Veliki Zdenci	2,955,407
Drying facility building with the warehouse II	Zdenka	Veliki Zdenci	2,762,461
Silo	Žitar	Donji Miholjac	7,536,991
Silo	Žitar	Donji Miholjac	6,940,243
Pig farm	Žitar	Kapelna	6,600,780
Floor warehouse	Žitar	Donji Miholjac	4,062,578
Dairy cows stable	Žitar	Kapelna	3,590,500
ACG floor warehouse	Žitar	Donji Miholjac	1,957,414
Stable for dry period	Žitar	Kapelna	1,987,159
other (individual PV <2m)			52,946,182
TOTAL			**248,218,278**

Source: Granolio

As the Group runs its property according to the revaluation model, land and buildings are being currently assessed, according to the requirement of IAS 16. Therefore, there is a possibility that the book value of capital assets already mentioned will be different after the assessment.

The Group currently has no concrete plans for future capital investments.

8.2 Description of issues related to environmental protection which could affect the use of non-current tangible assets

None of the Group plants have any obligation of obtaining environmental permits as required by the Regulation on the procedure for determining integrated environmental protection requirements (Official Gazette 114/08).

The most significant issues related to environmental protection encountered by the Group and the manner in which they are dealt with are described below:

Feed mixing plant

- has built-in conventional filters for exhaust gases and emissions
- no hazardous waste or by-products in the production process

Mills and silos

- prevention of emission of harmful substances into the environment has been achieved by installing an aspiration system and filters in the silo and mill, where all stages of wheat
- manipulation take place, from the receipt in the silo to the purification before grinding and the grinding process of aspirated wheat, so that all separated dirt and dust are collected into containers.
- waste waters are properly analysed annually in accredited laboratories (Vodovod Osijek)
- The Issuer does not have position units for monitoring air quality

Seed improvement

- plastic packaging of fungicides used for seed dusting are classified as hazardous packaging waste. The packaging is collected and delivered to authorized collectors of such waste
- electronic waste is collected separately and delivered to authorized collectors of such packaging

Crop production

- hazardous packaging waste of protective agents is stored and delivered to authorized waste collectors

Cattle breeding

- excess milk which is not sold for various reasons is spent on the farm and there is no waste in the environment
- odour problems on pig farms are solved by filters
- slurry and manure are disposed in the fields used by the Group in line with legal regulations.
- There is a plan to build a biogas plant which will further facilitate meeting all the requirements
- regarding environmental protection and CO_2 emissions
- All necessary permits have been granted with the acquisition of buildings (in obtaining occupancy permits)

Cheese production

- the problem of waste water (water permit) has been solved by the construction of mechanical-biological waste water treatment plant with sludge dehydration treatment
- bad milk is disposed of by an agreement with "Agroproteinka" as a category 3 by-product

9 OVERVIEW OF OPERATIONS AND FINANCES

The overview of operations and finances provides an analysis of the Issuer´s historical restated audited consolidated financial results as on 31 December 2011, 2012 and 2013, as well the audited consolidated financial results as on 30 June 2014 and does not substitute them in any respect. Potential investors should read the above document together with the audited consolidated financial statements for the period from 1 January to 30 June 2014 and restated consolidated financial statements for 2013, 2012 and 2011, as well as the Issuer´s original audited consolidated financial statements for 2013, 2012 and 2011, and together with the information laid down in part II of the Prospectus in Section 4 – "Risk factors specific to the Issuer" and in Section 6 "Overview of business operations". Some information in the overview contain forward-looking statements about risks and uncertainties. For an analysis of major factors that may significantly affect the difference between actual results and results described in the forward-looking statements which are part of the Prospectus, potential investors are referred to the "Forward-looking statements" in the introductory part of this Prospectus and to section 4 - "Risk factors specific to the Issuer" in Section II of this Prospectus.

NOTE

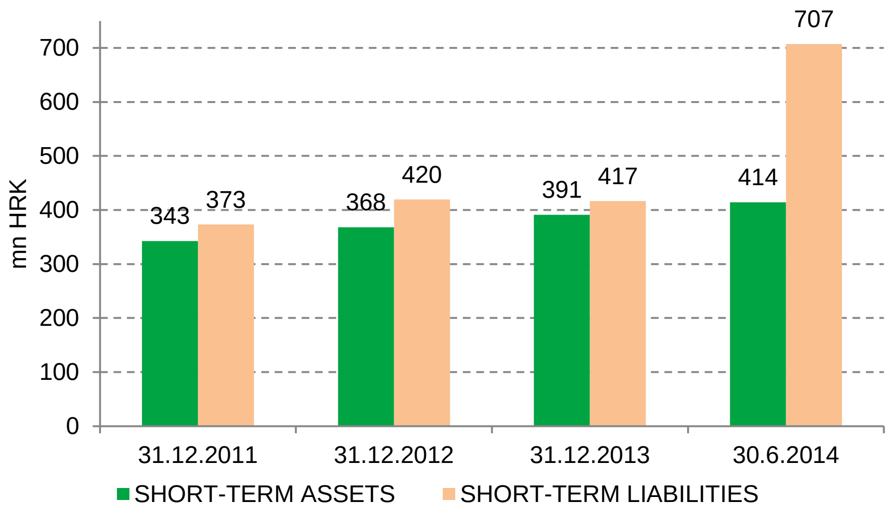
In order to issue a new series of shares on the capital market and publish a Prospectus, the Group has disclosed restated results from the previous years for the purpose of transparency, comparability and comprehensive overview of information in compliance with the International Accounting Standard (IAS) 8 as follows:

a) The 2013, 2012 and 2011 current and non-current liabilities against leasing companies were reclassified from „Liabilities for loans, deposits and similar" to „Liabilities to banks and other financial institutions".
b) The 2013, 2012 and 2011 receivables for commodity loans were reclassified from „Trade receivables" to „Current loans, deposits and similar".
c) In 2013, 2012 and 2011 deferred tax liabilities were extracted from revaluation surplus in accordance with IAS 12.
d) In 2012 and 2013 the value of inventories was corrected in line with IAS 2 by their revalued amount. The result for the period decreased by HRK 9,511 thousand in 2012 and by HRK 3,817 thousand in 2013, and in 2013 also increased by HRK 9,511 thousand due to the sale of inventories subject to revaluation in 2012. Furthermore, in 2013 the Group corrected the value of obsolete inventory from PZ Osatina in the amount of HRK 6,215 thousand recognized in the result for the period.
e) In 2013,"Prepayments and accrued income" and „Accrued expenses and deferred income" were corrected by the value of the dispute with PZ Osatina. The result for the current period thus decreased by HRK 3,018 thousand. Furthermore, „Accrued expenses and deferred income" were corrected in 2011, 2012 and 2013 for the amount of incentives recognized in previous years as income on a one-off cash basis. In 2013, "Prepayments and accrued income" decreased by HRK 4,238 thousand, whereas "Accrued expenses and deferred income" decreased by HRK 1,221 thousand, which was the value of the dispute with PZ Osatina, and increased by HRK 17,714 thousand for the incentives received. "Accrued expenses and deferred income" increased by HRK 19,704 thousand in 2012 and by HRK 18,278 thousand in 2011 relating to incentives received, which were incorrectly reported in the previous years as „Other income".
f) In 2013, the amount of HRK 7,373,000 relating to the Zdenka brand was corrected and recognized as loss of the current period in line with IAS 36. Furthermore, the result for the current period was allocated to the Group and to the minority interest which deceased accordingly.
g) The Group decreased its sales revenue and other costs, as well as trade receivables by rebates for 2013, 2012 and 2011 in line with IAS 18.
h) The Group corrected one-time recognition of incentives revenue in the previous years and deferred them to the lifetime of respective assets. Consequently, the 2011, 2012 and 2013 retained earnings decreased, and deferred income increased in line with IAS 20.

All corrections are detailed in Note 7 to the document attached under 20.1., Part II of the Prospectus.

9.1 Financial position in the period 2011 – 2013 and the first half year of 2014

Chart 6 Group´s current assets and current liabilities as on 31 December 2011, 31 December 2012, 31 December 2013 and 30 June 2014

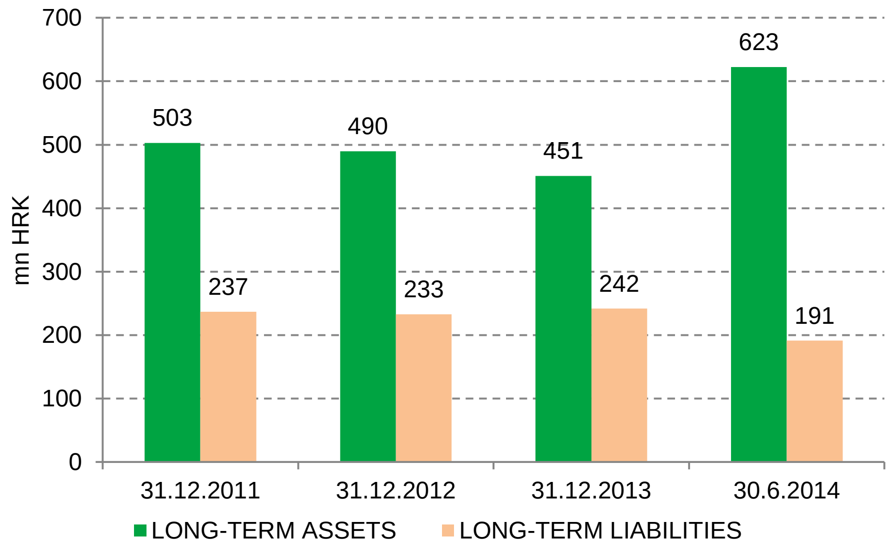


Source: Issuer´s restated audited consolidated financial statements for 2011, 2012 and 2013, and Issuer´s audited consolidated financial statements for the first half of 2014

The current asset / current liability ratio was mostly stable (slight maturity mismatch), except in the first half of 2014. The key current liability growth drivers in the first half of 2014 were the following:

- An increase in liabilities to financial institutions consisting fully of the withdrawn bridge loan used for the acquisition of the milling business in the amount of HRK 153 million. The Issuer has repaid a part of the credit obligation through recapitalization in the amount of 94.02 million HRK (in December 2014) the remaining amount of credit obligation of HRK 58.98 million is due on 31 March 2015.
- An increase in accounts payable in the amount of approximately HRK 70 million in comparison to the end of 2013 referring primarily to the liabilities in the amount of HRK 74 million (inclusive of VAT) for the acquisition of the milling business from a company within the Agrokor Group (the milling business acquisition transaction totalled HRK 204, excl. VAT). On 30 September 2014 the outstanding liability for the acquisition of the milling business amounted to HRK 50 million (inclusive of VAT), and the Issuer plans to finance it with non-current credit debt.
- Liabilities on issued securities, which increased by HRK 48.7 million in comparison to the end of 2013, refer to bills of exchange issued for the purchase of wheat, fertilizers and protective materials. The largest portion of the increase in the amount of HRK 42.6 million refers to the purchase of wheat due to increased need for this raw material following the acquisition of the production plants in Beli Manastir and Vinkovci. The issued bills of exchange are due at the end of the business year.
- An increase in liabilities for taxes, contributions and similar expenses in the amount of approximately HRK 10 million is a result of an increase in VAT liabilities in the amount of approx. HRK 5 million (a counter-item being an increase in VAT receivables in the amount of approx. HRK 6 million), and of an increase in corporate income tax liabilities of HRK 4.6 million arising out of increased retained earnings transferred from revaluation surplus. Loans granted for financing sowing make a substantial part of current assets, as described in more detail under 6.2 Principal markets. At the end of the first half of 2014, loans granted for financing sowing accounted for 28.6% in total current assets.

Chart 7 Group's long-term assets and long-term liabilities as on 31 December 2011, 31 December 2012, 31 December 2013 and 30 June 2014

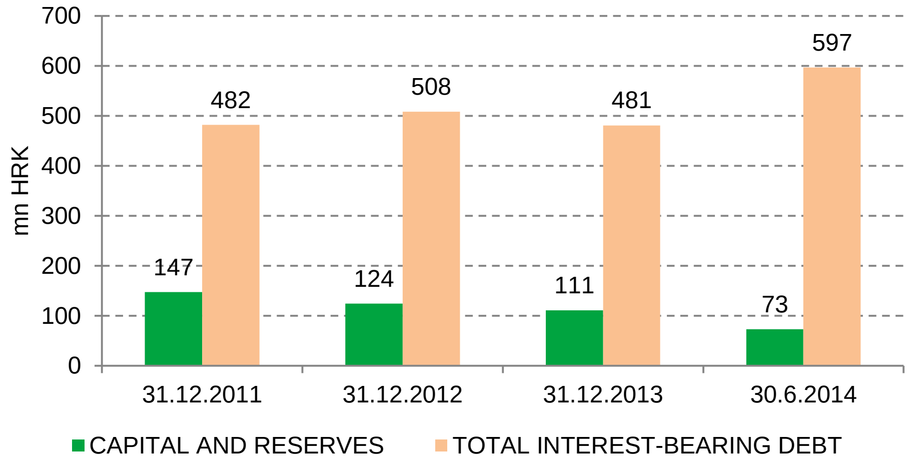


Source: Issuer´s restated audited consolidated financial statements for 2011, 2012 and 2013, and Issuer´s audited consolidated financial statements for the first half of 2014

An increase in non-current assets in the first half of 2014 is primarily due to the acquisition of the milling business from the Belje and PIK Vinkovci companies under the Agrokor Group (a total of HRK 193.54 million, out of which HRK 190.24 million was reported as intangible assets, and the remaining amount of HRK 3.3 million referred to the milling equipment).

On 30 June 2014, assets from associates accounted for HRK 39.1 million, i.e. 3% of the total assets.

Chart 8 The Group's total interest-bearing debt / capital and reserves ratio as at 31 December 2011, 31 December 2012, 31 December 2013 and 30 June 2014

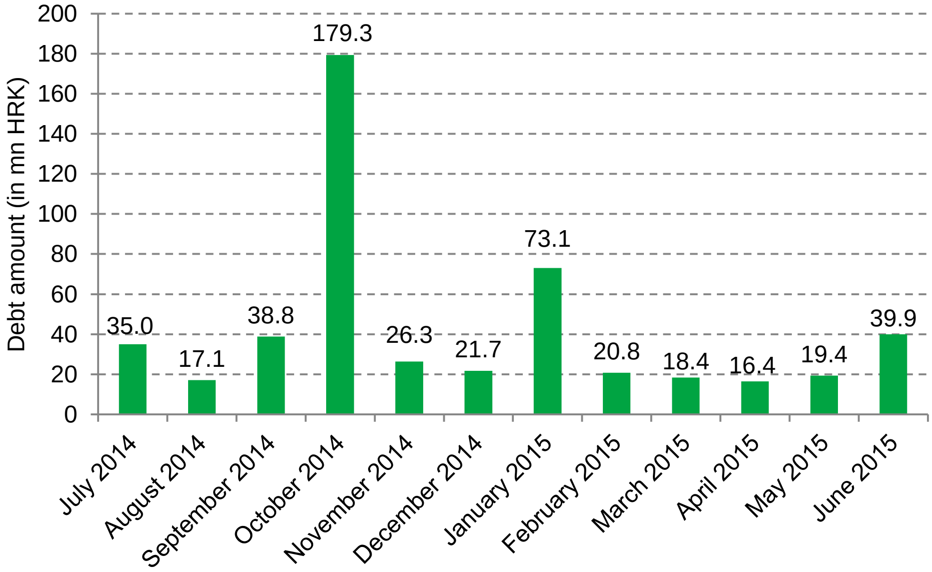


Source: Issuer´s restated audited consolidated financial statements for 2011, 2012 and 2013, and Issuer´s audited consolidated financial statements for the first half of 2014

NOTE: The interest-bearing debt does not include liabilities against issued bills of exchange, but it includes all liabilities to financial institutions, as well as short-term and long-term liabilities for loans, deposits and similar

A lower capital level in the funding structure is a consequence of the stricter precautionary principle, i.e. a change in accounting estimates (transfer of deferred tax liabilities from revaluation surplus), realized losses in the previous year and dividend payment to a lesser extent. An increase in interest-bearing debt in the first half of this year is a result of the bridge loan used for the acquisition of the milling business.

Chart 9 Maturity of the Group´s short-term debt (repayment of the principle and interests) from July 2014 to the end of June 2015, balance as at 30 June 2014

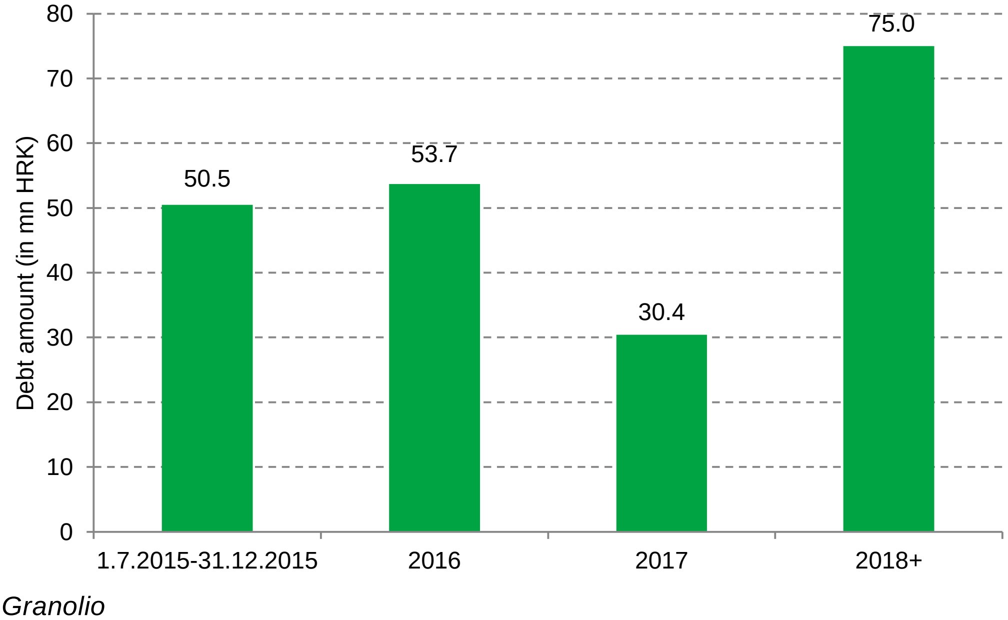


Source: Granolio

The loan due in October primarily refers to the bridge loan withdrawn from Zagrebačka banka in the amount of HRK 153 million used for financing the acquisition of the milling business under the Agrokor Group. Total funds collected through the IPO shall be used by the Issuer for the partial settlement of liabilities under the above loan.

The repayment shall also cover the loan used for financing wheat purchase in the amount of HRK 100 million that was obtained in June. However, the Issuer received the funds in July so that it was not reported in the semi-annual financial statements.

Chart 10 Maturity of the Group's long-term debt (repayment of the principle and interests) from July 2015 to 2018, balance as at 30 June 2014

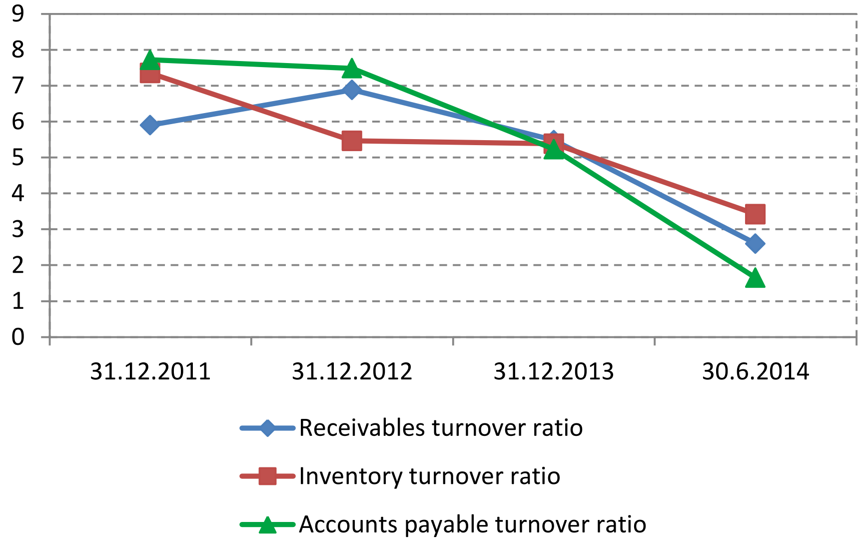


Source: Granolio

Balance sheet liquidity and maturity matching

In the context of the long-term economic crisis in the Republic of Croatia and consequential reluctance of commercial banks to finance business entities on a long-term basis, the Group had to take current loans in order to finance a part of its non-current assets. This led to an unbalanced balance sheet. This is shown in the above graphs. However, so far the Group has managed to settle all its liabilities and prolong the loan maturity. The balance as on 30 June 2014 reflects the facts that the Group obtained the bridge loan in order to finance the acquisition of the milling business. It will be partially repaid through the recapitalisation which is the subject of this offering.

Chart 11 Group's activity indicators for 2011, 2012 and 2013 and the first half of 2014



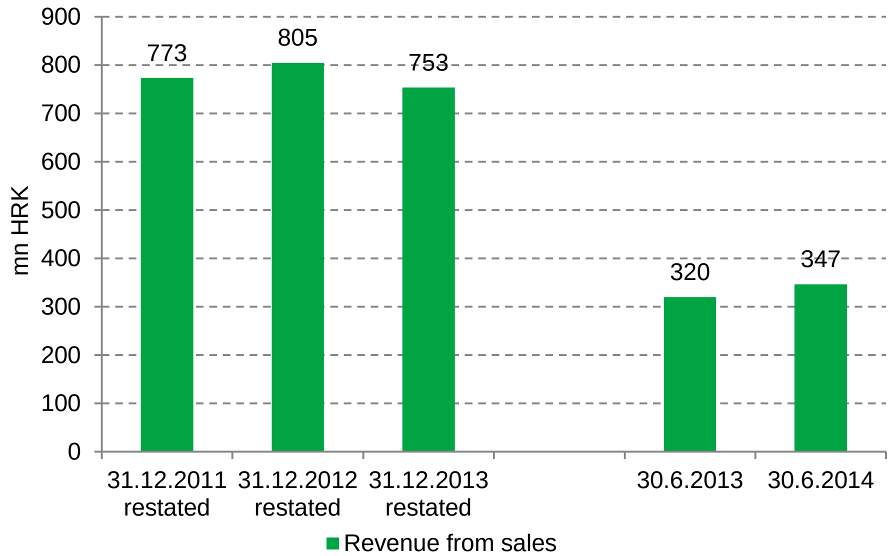
Source: Issuer´s restated audited consolidated financial statements for 2011, 2012 and 2013, and Issuer´s audited consolidated financial statements for the first half of 2014

Note: the calculation does not include trade receivables sold to factoring companies

The 2011-2013 activity indicators show a slight downward trend, whereas indicators for the first half of 2014 not comparable with the indicators at the end of the business year since revenues/material costs realized for the first six months are placed in proportion to the balance sheet items.

9.2 Operating results in the period 2011 – 2013 and the first half of 2014

Chart 12 Changes in the Group´s sales revenue in 2011, 2012 and 2013, and the first half of 2013 and 2014



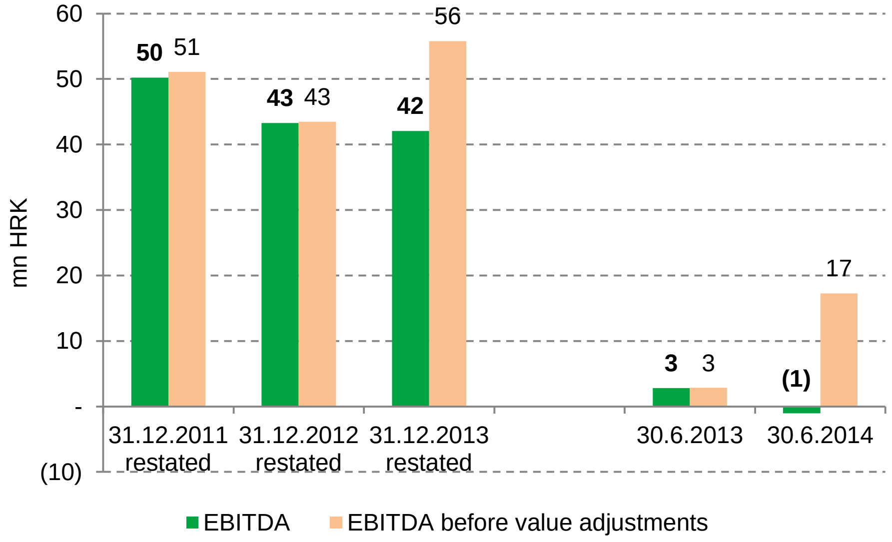
Source: Issuer´s restated audited consolidated financial statements for 2011, 2012 and 2013, and Issuer´s audited consolidated financial statements for the first half of 2014

The Group´s most significant business segment is the milling segment in the Granolio parent company. At the end of June 2014, the revenue from the milling business segment accounted for 29.7% of the total consolidated sales revenue. The Group´s revenue was relatively stable throughout the observed periods, amounting to HRK 780 million. It was primarily determined by the following:

- Changes in the selling/output price of flour in the milling segment (directly linked to the purchase/input price of wheat on the market), controlled by the Group only to a lesser extent;
- Realized quantities, prices and a mix of the Group´s wholesale crops and oilseeds (primarily depending on the harvest yield), and
- Wholesale of processed materials to subcontractors, depending on customer volatility, i.e. alternating procurement of processed materials among the Granolio, Žito Osijek and Group companies.

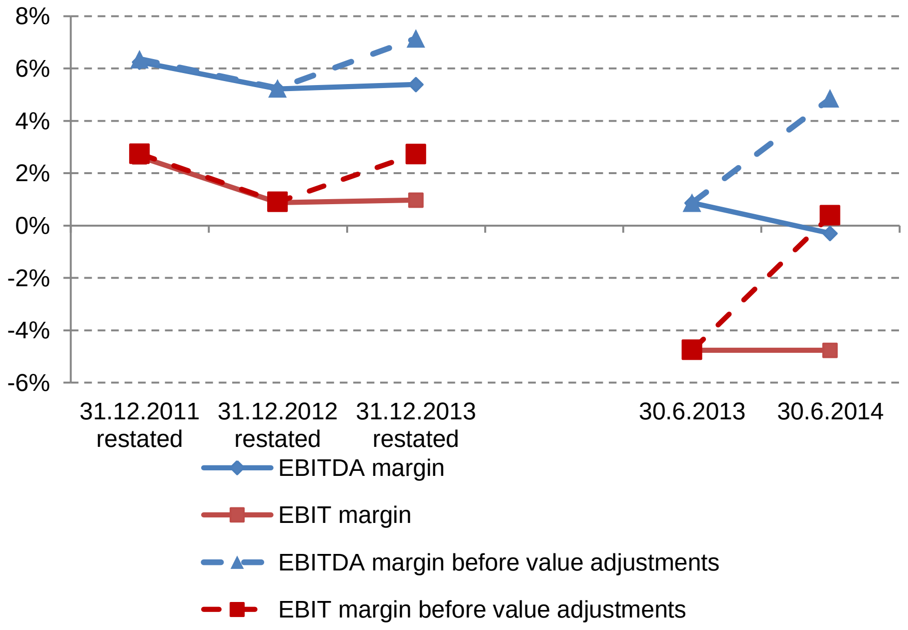
The milling segment is the Group´s key profitability driver primarily determined by the spread between the input wheat price and output flour price, as well as sold flour quantities. In 2013, the Group´s revenue dropped by approx. HRK 51.5 million in comparison to 2012. A decrease in revenue was primarily a result of a drop in the goods price. In 2013, the Group´s core business segment, milling, recorded an increase in the volume of sold flour (from 91,000 t to 101,000 t). In 2014, an increase in the sales revenue was primarily a result of domestic sales (an increase of HRK 30.9 million), whereas foreign sales revenue dropped by HRK 4.2 million.

Chart 13 Changes in the Group´s EBITDA in 2011, 2012 and 2013, and the first half of 2013 and 2014



Source: Issuer´s restated audited consolidated financial statements for 2011, 2012 and 2013, and Issuer´s audited consolidated financial statements for the first half of 2014

Chart 14 Changes in the Group´s profit margin in 2011, 2012 and 2013, and the first half of 2013 and 2014



Note: For the calculation method please see Tables 10 and 11 Key performance indicators of the Issuer for 2011, 2012 and 2013, and the first half of 2013 and 2014

Source: Issuer´s restated audited consolidated financial statements for 2011, 2012 and 2013, and Issuer´s audited consolidated financial statements for the first half of 2014

A decrease in the business operations profitability (EBITDA/EBIT) was largely determined by the following value adjustments:

In 2013, HRK 13.7 million, out of which:

- inventory adjustment in the amount of HRK 6.2 million
- non-current intangible asset adjustment in the amount of HRK 7.37 million
- other receivables adjustment in the amount of HRK 0.157 million,

and in the first half of 2014, HRK 18.3 million, out of which:

- trade receivables adjustment in the amount of HRK 13.8 million,
- other receivables adjustment in the amount of HRK 1.6 million,
- impairment cost of receivables from the government for agricultural incentives in the amount of HRK 2.2 million,
- inventory write-off in the amount of HRK 0.7 million.

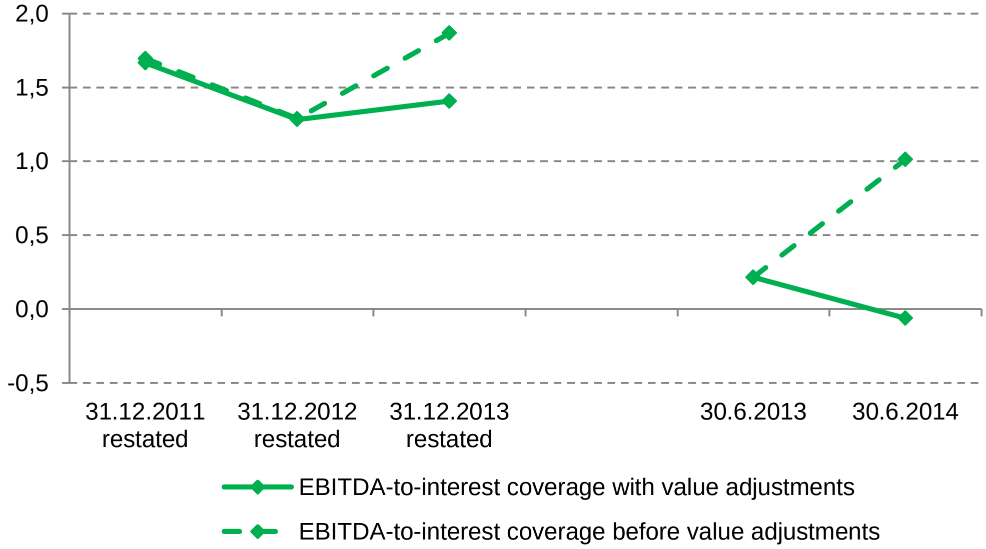
Due to the substantial impact of the above value adjustments on operating profitability at the end of 2013 and the first half of 2014, Chart 14 also shows EBITDA without value adjustments.

The Group conducted rationalization of its business operations (personnel costs fell by 9.6% in 2013, and by additional 17% in the first half of the current year in comparison to the same period last year) and decreased other operating costs. However, profitability was still significantly affected by the value adjustments.

In 2013, profitability was also additionally substantially affected by subsequently established operating costs in the amount of HRK 5.1 million, and a court ruling ordering the payment of approx. HRK 3 million.

It should be emphasized that due to the cyclic nature of its operations, in the first half of the business year the Group generates approx. 40% of its total annual operating revenue.

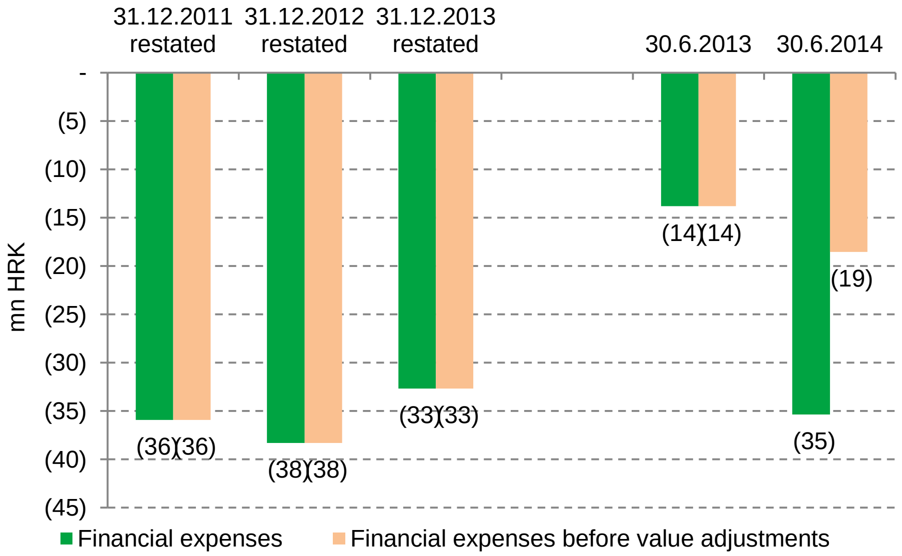
Chart 15 Overview of the Group´s EBITDA / interests costs ratio in 2011, 2012 and 2013, and the first half of 2014



Source: Issuer´s restated audited consolidated financial statements for 2011, 2012 and 2013, and Issuer´s audited consolidated financial statements for the first half of 2014

The chart showing the EBITDA margin/interest cost ratio suggests the seasonal nature of the Group´s business model (interest cost coverage is traditionally lower in the first six months in comparison to the entire business year level). This outline clearly shows the value adjustment effect at the end of 2013 and the first half of 2014. However, it should be noted that a positive change in the interest cost coverage in 2013 was also influenced by the fact that the Group managed to refinance its debt under favourable conditions and reduce financing costs by HRK 5.6 million (e.g. in January 2013 the Group refinanced a part of its liabilities to Privredna banka Zagreb d.d. through more favourable credit lines extended by the Croatian Bank for Reconstruction and Development (HBOR), thus directly decreasing annual interest costs by HRK 2 million). In turn, in the first half of 2014 interest costs increased by HRK 4.45 million in relation to the comparable period in 2013.

Chart 16 Changes in the Group´s financial expenditure level in 2011, 2012 and 2013, and the first half of 2013 and 2014



Source: Issuer´s restated audited consolidated financial statements for 2011, 2012 and 2013, and Issuer´s audited consolidated financial statements for the first half of 2014

In particular, it should be emphasized that the total financial expenditure level in the first half of 2014 significantly increased in comparison to the same period last year. In addition to the increase of interest cost of nearly HRK 4.5 million, in the first six months the Group conducted assets adjustment totalling HRK 16.8 million. Financial assets adjustment refers to the following:

- Impairment of loans granted to affiliates (HRK 2,609,000) and commodity loans intended for sowing (HRK 4,313,000)
- Impairment of investments in Ecofarm d.o.o. Bosnia and Herzegovina (HRK 2,940,000) and impairment in PZ Zabar (HRK 990,000)
- Impairment of investments in Zagrebačke pekarne Klara d.d. (HRK 3,204,900). Klara shares were reclassified to asset at fair value through profit and loss account under IAS 39. Consequently, following the continuous loss incurred by Zagrebačke pekarne Klara d.d., the surplus created through the change in share value in the previous years was reclassified to the current year´s result.
- Impairment of bills of exchange from commercial operations (HRK 2,000,000) and share portfolio (HRK 774,000)

Chart 16 therefore also includes an overview of financial expenses without financial assets adjustment, clearly showing that the data differ only for the first half of 2014.

Other information on the Granolio Group operating results for 2011, 2012, 2013 and the first half of 2014, including the causes of significant changes in financial information from one year to the next, to the extent necessary for understanding the Group´s operations as a whole, is also available in Part II of the Prospectus under section 20.1.

9.2.1 Information on significant facts, including new and extraordinary events in the Issuer's business operations affecting the Issuer's operating income

Possible influence of significant facts is described in Part II of the Prospectus Section 4 “Risk factors specific to the Issuer” and Section 12 “Information on trends”.

9.2.2 When financial reports issue significant changes in net sales and income, deliver the description of reasons for such changes

Total consolidated operating income of Granolio Group have not changed significantly in the last three years, i.e. there were no significant changes in sales and income.

9.2.3 Influence of government, economic, fiscal, monetary or political factors or policies on the Issuer's business operations

Before its accession to the EU, the Republic of Croatia protected its domestic wheat production by high duties. The amount of these duties had a particularly discouraging effect on imports and thus limited the Issuer´s leeway in procuring raw materials at the most favourable price. Upon accession to the EU these import barriers were lifted, allowing for wheat import not only from the EU, but also from Serbia. Such situation provides the Issuer with the opportunity to purchase wheat at the most favourable price. Postponements or failures to implement political and economic reforms may affect the Issuer´s business operations. Austerity measures and increased tax burden currently implemented may result in an economic slowdown or a decrease in available income. That could further affect both income and profitability. All governments to date have carried out economic reforms in order to develop and stabilize free market economies by privatizing state-owned companies, attracting foreign investments and implementing reforms necessary for the EU accession. Croatia has thus invested substantial efforts in establishing a market economy. This has had a positive, although non-measurable, impact on the Issuer´s business operations.

The Croatian legal framework has been aligned with EU legislation on a continuous basis, allowing for a more effective and transparent operation of the Group with regards to commercial contracts, collection of receivables, import duties, property, banking system, bankruptcy proceedings, competition, securities, labour market, taxes, legal disputes, etc.

Open issues between Croatia and its neighbouring countries do not affect the country´s political stability, but represent a legitimate pursuit of Croatia's strategic and economic interests in international relations, as is the case with all other developed countries. As the Group´s operations are focused on the Croatian market, the danger of it being affected by other countries is minimal.

The Group´s business operations are subject to the macroeconomic environment, economic circumstances and changes in the economic activity. In periods of adverse economic conditions there is a higher possibility that there will be difficulties in the settlement of financial obligations. Furthermore, in such conditions the Group may encounter difficulties in accessing financial markets. This could make funding significantly harder to obtain, increase its costs, and substantially impact the Group´s business operations and financial position. If the current economic situation continues, the Group, as well as its customers and suppliers, could face more difficulties in accessing the capital market. Consequently, this could affect existing income and profitability levels.

The Group is also affected by changes on the global market since wheat, as primary raw material for production, is also a commodity and can thus be subject to the impact of potential political instabilities in significant wheat-producing countries (China, Russia, and the USA).

10 FINANCIAL SOURCES

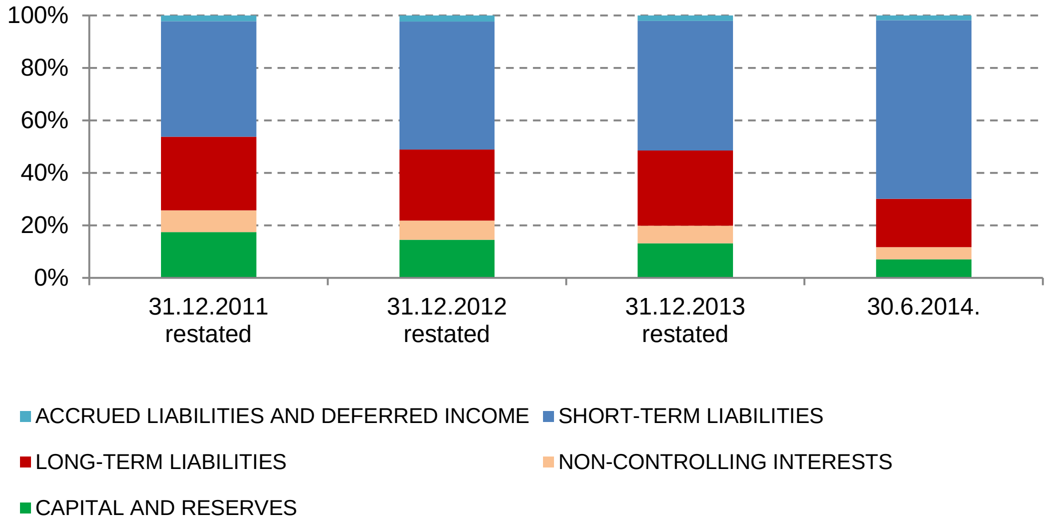
10.1 Information about the Issuer's short-term and long-term resources

Table 37 Overview of financing structure

Position	31.12.2011 restated	31.12.2012 restated	31.12.2013 restated	30.6.2014
Liabilities to suppliers and other liabilities	128,532	148,604	182,248	325,668
Short-term loan liabilities	272,553	296,156	256,950	399,277
Long-term loan liabilities	209,227	207,643	219,149	173,648
Capital and reserves (including non-controlling interest)	218,066	187,504	167,155	122,101

Source: Issuer´s restated audited consolidated financial statements for 2011, 2012 and 2013, and Issuer´s audited consolidated financial statements for the first half of 2014

Chart 17 Group liability structure on 31 December 2011, 31 December 2012, 31 December 2013 and 30 June 2014



Source: Issuer´s restated audited consolidated financial statements for 2011, 2012 and 2013, and Issuer´s audited consolidated financial statements for the first half of 2014

In the years preceding this one, the Issuer financed a part of its investments from business operations, as investment loans and capital were less available. During this period, on several occasions, a part of the current liabilities was substituted with non-current resources, but still not sufficiently enough to equilibrate the balance structure. In the first half of 2014 the Issuer's balance maturity structure additionally deteriorated as a result of adjustment of financial assets and adjustment receivables and inventory values in the total amount of HRK 35.1 million, which is described in detail in paragraph 3 Section II of this Prospectus. Additionally, acquisition of the milling business which was realised in the first half of 2014 was financed by current funds, i.e. in major part by a bridge loan from the bank, with which a part of the share capital in total funding sources was considerably reduced in the first half of 2014. In order to improve the structure of funding sources, the Issuer conducted an increase in share capital by issuing New Shares and obtained HRK 94 million which he used partial settlement of the bridge loan with which the milling business under the Agrokor Group was acquired. Issuer's plan is to extend the average maturity of the interest-bearing debt by substitution of current liabilities with non-current commercial banks loans, and therefore unburden the cash flow.

10.2 Explanation of sources and amounts and description of the Issuer's cash flows

Table 38 Cash flow report (direct method) for the Group for 2011, 2012, 2013 and the first half of 2013 and 2014

in thousands of HRK

Position	31.12.2011	31.12.2012	31.12.2013	30.6.2013	30.6.2014
Net operating cash flow	83,352	116,622	138,149	103,004	169,435
Net cash flow from investment activities	(247,328)	(137,493)	(112,202)	(81,764)	(282,937)
Net cash flow from financing activities	162,258	24,554	(23,993)	(24,681)	113,464
Cash and cash equivalents at the beginning of the period	6,046	4,328	8,011	8,011	9,965
Cash and cash equivalents at the end of the period	4,328	8,011	9,965	4,570	9,927

Source: Issuer´s restated audited consolidated financial statements for 2011, 2012 and 2013, Issuer´s audited consolidated financial statements for the first half of 2014, and Issuer's internal data for the first half of 2013

Due to long terms on the collection of receivables on the domestic market and liquidity problems of domestic customers, as well as the lack of its own working capital, during the course of its current activities, the Company has concluded factoring agreements and/or agreements on the discount of bills with factoring companies, and in this way financed in the current its operating cash flows. The collection risk stemming from its main debtors is ultimately borne by the Company. Up to the issue date of this Prospectus, apart from exceptional cases (Biljemerkant trgovina d.o.o.), there were no recourse requests lodged with the Company, i.e. receivables assigned to factoring companies were duly met by principal debtors. The Company keeps records about contingent liabilities to factoring companies in its off-balance records. In most cases, the whole factoring cost is borne by the customer, i.e. the drawee. As of the date of this Prospectus, the Issuer has contingent liabilities arising from recourse rights from factoring operations amounting to HRK143.85 million, out of which HRK139 million concern the bill of exchange obligations of the same drawee.

In addition to selling its receivables, the Company also pledges its receivables as security for its loan obligations in accordance with creditor's requests.

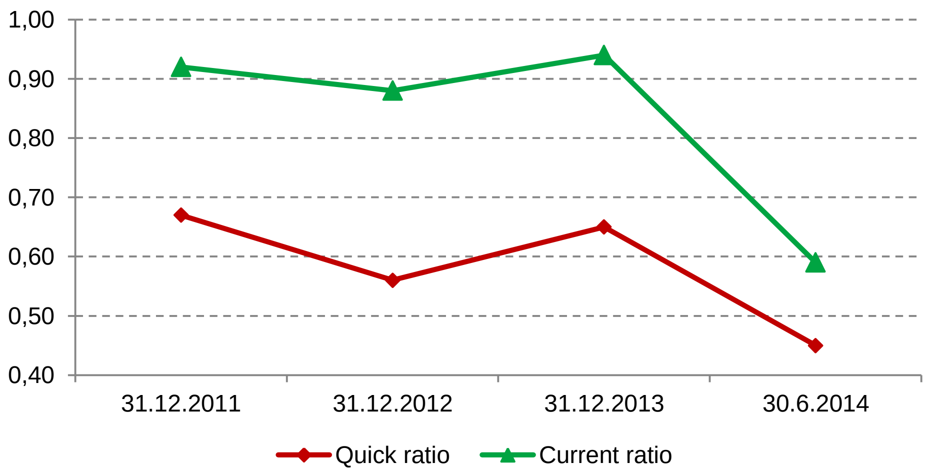
10.3 Information on financial needs and financing structure of the Issuer

Table 39 Liquidity indicators of the Group on 31 December 2011, 31 December 2012, 31 December 2013 and 30 June 2014

Position	31.12.2011	31.12.2012	31.12.2013	30.6.2014
Liquidity indicators				
Current liquidity ratio (cash and cash equivalents/current liabilities)	0.01	0.02	0.02	0.01
Quick ratio ((current assets – inventories)/current liabilities)	0.67	0.56	0.65	0.45
Current ratio (current asset/current liabilities)	0.92	0.88	0.94	0.59

Source: Issuer´s restated audited consolidated financial statements for 2011, 2012 and 2013, and Issuer´s audited consolidated financial statements for the first half of 2014

Chart 18 Liquidity indicators of the Group on 31 December 2011, 31 December 2012, 31 December 2013 and 30 June 2014



Source: Issuer´s restated audited consolidated financial statements for 2011, 2012 and 2013, Issuer´s audited consolidated financial statements for the first half of 2014

Issuer's financial needs in most part refer to needs for financing investments in non-current assets and working capital.

Issuer's Supervisory Board made a decision on 2 September 2014 with which it approves the Management to increase share capital of Zdenačka farma during the year 2015 by the amount of HRK 16 million, by subscribing a part of receivables on the basis of a given loan.

On the day of this Prospectus there are no other planned investments in non-current assets on which Issuer's managing bodies have subscribed to.

Future Issuer's investments are planned to be financed from own sources, partly from financial institutions or EU funds.

The Issuer expects growth in business activities after acquisition of the milling business from a company under the Agrokor Group, which will increase the need for working capital the Issuer is planning to finance, among other by credit debt.

The Issuer and other members of the Group are settling their current obligations towards creditors regularly.

Structure of the source of Issuer's financing and plans for its improvement are described in Section II - paragraph 10.1 of this Prospectus, which should improve liquidity ratio shown in the table and chart under this paragraph.

10.4 Information on any limitations on the use of funding sources that have significantly affected or may significantly affect, directly or indirectly, the Issuer's business operations

Bank loans prevail in the total structure of financing sources. Given the current levels of indebtedness and own financing sources, additional indebtedness potential has been exhausted to a great extent. One reason for this is current borrowing from a commercial bank with the aim of partly financing the acquisition of a flour milling operation.

With the Offer of New Shares, the Company's own capital would be fully used for the partial repayment of the loan from the commercial bank for the aforementioned acquisition, and the structure of financing sources will become significantly more balanced.

In the future, the Issuer plans to refinance a part of the current debt with non-current debt. However, due to unfavourable economic trends and the consequent reluctance of commercial banks to grant non-current loans to companies, as well as the fact that the Issuer does not have at its disposal significant unencumbered fixed assets which could be offered as collateral for long-term financing, it is possible that the Issuer may not be able to implement, fully or partially, the plan to convert its current debt into non-current debt.

10.5 Information about expected funding sources that have significantly affected or may significantly affect, directly or indirectly, the Issuer's business operations

The Group's future operations will depend on the level of successful integration of the acquired part of the milling business of the Agrokor Group into Granolio, as well as on recapitalisation results, which is the subject matter of this Prospectus. The Group plans to continue its successful operative restructuring and production optimisation in Zdenka-mliječni proizvodi, Zdenačka farma and Žitar.

It is the aim of the Group to finance through borrowing the unsettled obligation for the acquisition of milling operations from the companies within the Agrokor Group, which amounts to HRK 50 million (VAT included, as of 30 September).

The Issuer plans to finance future investments partly from its own sources and partly from financial institution sources or EU funds.

11 RESEARCH AND DEVELOPMENT, PATENTS AND LICENCES

The most important standards applied by the Group in its operations are as follows:

HACCP (Hazard Analysis and Critical Control Points)

HACCP represents a systematic technological process control procedure that allows all potential hazards in any part of the production, processing, preparation, transport or distribution of products to be identified.

Successful implementation of the HACCP system has resulted in advantages and benefits for the Issuer:

- existing and expected hazards and risks are identified and removed before the occurrence of an unhealthy defective product;
- confidence in the safety of products is increased;
- individual responsibility is defined;
- evidence of production process controls is documented;
- product safety is already ensured at the generation stage during all work processes;
- the system comprises production, transport, distribution, preparation and consumption of the product;
- proof of compliance with laws and regulations;
- it facilitates operations inside and outside the EU.

IFS (International Food Standard)

IFS is a customary food standard with a balanced evaluation system used for qualification and selection of suppliers. The standard assists traders in ensuring product safety and quality control of the food brands they are selling. It was initiated by German retail chains. IFS is applicable to all suppliers at all stages of food production. At least once a year, a re-certification audit is performed by the certification company TÜV Croatia d.o.o.

In 2011, Granolio, with its Farina mill, was the first company in the milling industry to be certified according to the IFS quality standard.

Today, big retail chains in Croatia insist on compliance with IFS requirements, which represents a competitive advantage for the Issuer in relation to competitors which do not possess such certification, and simultaneously qualifies the Issuer as a potential supplier to retail chains in other markets where such retail chains operate.

HALAL

HALAL is an Islamic religious community certificate certifying that a product and all of its ingredients comply with the requirements of Islamic dietary laws and thus enables the sale of products in countries with Muslim populations.

KOSHER

This is a Jewish religious community certificate certifying that a product and all of its ingredients comply with the requirements of Jewish dietary laws and thus enables the sale of products in countries with Jewish populations.

Since May 2007, the Issuer also holds the right to use the “Croatian quality” mark for its Farina product line.

12 INFORMATION ON TRENDS

12.1 The most significant trends in production, sales and inventory, costs and selling prices

The key flour milling operation trends in the first eight months of 2014 are the following:

- In the first eleven months, the Group processed 123,87 thousand tonnes of wheat, which is an increase of 25% in comparison to the first eleven months of the previous year
- The average wheat purchase price HRK1,381.92 per metric tonne, which is 8,3% less in comparison to the wheat purchase price in the first eleven months of 2013.
- In the first eleven months of 2014, the Group sold 123 thousand tonnes of flour, which is 25% more than in the same period of the preceding year.
- The average flour selling price in the first eleven months of 2014 was HRK 1.89 per kg, while in the same period last year the price was 11.64% higher.

Within the dairy business segment, the following trends were recorded:

- In the first eleven months, the Group sold 3,618.9 million kg of finished products what is 1.26% less compared to the same period in the previous year. Key reason for such a decrease in the sales results is an increase in imports of cheaper cheese, which had an adverse impact on the whole milk processing industry.
- The average selling price of finished products in the first eleven months of 2014, was HRK 33.60 per kg which is 2.15% less compared to the same period in the previous year.
- In the first eleven months of 2014, The Issuer bought 11.02 million litres of raw milk, which is 2.86% less compared to the same period in 2013. The average purchase price of raw milk in the first eleven months of 2014 was HRK 2.65 per litre, which is 6.64% more in comparison with the same period of the preceding year.

The other business segments did not record significant changes in trends in a manner which would have a significant impact on the whole Group.

12.2 Information on any known trends, uncertainties, demands, commitments or events that are likely to have a material impact on the expectations of the Issuer

From November 2014, the Group will start to deliver flour to a new customer on the EU market, with an expected volume of sales of 9,600 metric tonnes annually.

This year, Žitar expects less income from the production of autumn cultures.

The Issuer expects further concentration in the flour milling market in the form of the takeover of flour milling businesses owned by smaller producers by larger producers and/or the cessation of production in non-profitable flour milling plants. With membership in the EU, Croatia has become part of the Common Agricultural Policy and no sudden changes in legislation, such as new customs, levies, bans on imports/exports etc. are expected.

Seasonal oscillations in the prices of both flour and raw materials are present. By following trends in the market and using commodity exchanges, the Issuer seeks to maximise the positive trends and minimise the impact of adverse price movements.

With regard to the fertiliser market, which represents a significant input in farming production, the current prices of raw materials for the production of fertilisers are very low, at their lowest level in the last couple of years. One of the reasons is the decrease in fertiliser consumption in the region during the 2013 autumn sowing (50% less compared to the average) and also the 2014 spring sowing (30% less compared to the average).

The 2014 wheat harvest and the 2014 harvest of autumn cultures (sunflower, corn, soy beans) are the most important determinants of the consumption of mineral fertilisers in the upcoming autumn season because the sale of mineral fertilisers largely depends on how well agricultural producers are able to meet their debts to production organisers. The quantity, purchase market price and quality of grains/oilseeds are the parameters used to evaluate the harvest. The wheat harvest and autumn harvest in 2013 were unfavourable for producers and consequently resulted in decreased fertiliser consumption by more than 50% compared to the average. The 2014 wheat harvest was below average and was not favourable for producers. Should the 2014 autumn harvest, which is underway, be unfavourable, a decrease in the use of fertilisers can be expected. As far as legislation is concerned, no significant changes are expected.

13 PROFIT PROJECTIONS OR ESTIMATES

The Issuer has not included profit projections or estimates in this Prospectus.

14 MANAGEMENT AND SUPPERVISION BODIES

14.1 Information about the management Board and the Supervisory Board of the Issuer

Table 40 Members of the Management Board

Name and Surname	Position in the Management Bord	Business address
Hrvoje Filipović	President	Budmanijeva 5, Zagreb
Tomislav Kalafatić	Member, Finance	Budmanijeva 5, Zagreb
Vladimir Kalčić	Member, Legal Affairs and Human Resources	Budmanijeva 5, Zagreb
Drago Šurina	Member, Commercial Affairs Sector II	Budmanijeva 5, Zagreb

Source: Granolio

Table 41 Members of the Supervisory Board

Name and Surname	Position in the Supervisory Bord	Business address
Franjo Filipović	President	Budmanijeva 5, Zagreb
Jurij Detiček	Member	Budmanijeva 5, Zagreb
Braslav Jadrešić	Member	Budmanijeva 5, Zagreb
Davor Štefan	Member	Budmanijeva 5, Zagreb
Josip Lasić	Member	Budmanijeva 5, Zagreb

Source: Granolio

Management Board

President of the Management Board Hrvoje Filipović

Date of birth: 14 April 1971

Hrvoje Filipović graduated in 1994 from the Faculty of Economics in Zagreb. He founded Granolio in 1996. Prior to founding his own company, in the period from 1991 to 1995 he was an assistant in the accounting department of Fides d.o.o. and then worked for two years as an independent commodity trader in Agrokor. In addition to acting as Chairman of the Management Board of Granolio, Mr. Filipović was also President of the Supervisory Board in Pekar d.d. Makarska, Chairman of the Supervisory Board of Zagrebačke pekarne Klara d.d. and member of the Supervisory Board of Prehrana d.d. He currently holds the positions of a member of the Supervisory Board of HOK Osiguranje d.d. and Zagrebačke pekarne Klara d.d. He speaks English fluently and has a passive knowledge of German. He is married and a father of three children.

Business address: Granolio d.d., Zagreb, Budmanijeva 5

Member of the Management Board Drago Šurina

Date of birth: 22 February 1961

Drago Šurina graduated in 1986 from the Faculty of Economics in Zagreb. He has been employed in Granolio since 2008, and as Member of the Management Board he is responsible for managing the operations of the business unit Osijek, coordinating the operations of the business unit Osijek within Granolio, planning and execution of the sales plan, and the development and improvement of business relationships with key business partners. Before joining Granolio, he spent 10 years in Žito, first as director of the trade division (1997 - 2006), then in the period from 2006 to 2007 he held the position of a member of the Board responsible for managing all trade and other related activities in Žito. Prior to joining Žito, he co-founded and worked in Uniwelt d.o.o., one of the market leaders in the agricultural production of eastern Croatia. At the very beginning of his career he was a sales clerk in charge of grains in Poljotehnika d.d. Drago Šurina speaks English and German. He is married and a father of two children.

Business address: Granolio d.d., Zagreb, Budmanijeva 5

Member of the Management Board Vladimir Kalčić

Date of birth: 20 August 1970

Vladimir Kalčić graduated in 1995 from the Faculty of Economics in Zagreb. He has been employed in Granolio since 2008 and is responsible for legal affairs, human resources and IT. He came to Granolio from Pliva d.d., Zagreb, where he had worked since 1997, in the marketing department of its food division on the promotion and sales to foreign markets and in managerial positions in Pliva's support functions and technical operations. Before Pliva, he worked on commercial and managerial positions in companies Gramaltrade d.o.o., Sigal d.o.o. and Trgomont-Kolar d.o.o. He is a postgraduate student at the Faculty of Economics in Zagreb. He has attended a number of professional skills and key business competencies seminars in Croatia and abroad. Vladimir Kalčić fluently speaks English and Italian. He is married and a father of two children.

Business address: Granolio d.d., Zagreb, Budmanijeva 5

Member of the Management Board Tomislav Kalafatić

Date of birth: 10 September 1974

Tomislav Kalafatić graduated in 1998 from the Faculty of Economics in Zagreb, after completing his secondary education in XV Gimnazija (Comprehensive school), also in Zagreb. He has been employed in Granolio since 2009. He is responsible for the company's finance operations. Tomislav Kalafatić came to Granolio from Erste&Steiermärkische Bank d.d. where he had worked since 2004 as Head of Treasury. His professional career began in 1999 at Privredna banka Zagreb d.d., where he worked until 2004 in various positions within the Treasury. He attended a number of professional seminars in Croatia and abroad. He speaks English fluently. He is married and a father of one child.

Business address: Granolio d.d., Zagreb, Budmanijeva 5

Supervisory Board

President of the Supervisory Board Franjo Filipović

Franjo Filipović was born on 07/10/1940 in Posuški Gradac, Bosnia and Herzegovina. He graduated from the Faculty of Economics in Zagreb in 1965. Mr Filipović's first job was in Kreditna banka Zagreb, whose legal successor was Zagrebačka banka d.d. where he worked until 1998. Mr. Filipović began his career as a clerk and a head of sector services and progressed to Vice-President of the Board of Zagrebačka banka d.d. From 1998 to 2004 he was member of the Board of Privredna banka Zagreb d.d. In both banks Mr Filipović was in charge of corporate banking operations. He joined Granolio d.d. in 2004 to manage the Company's finances and retired in 2006. Mr. Filipović served as vice-president or president of the supervisory board in Riviera Poreč d.d., Tehnika d.d., Franck d.d., Geotehnika d.d., Pomorska banka Split d.d., Elka d.d. and Astra International d.d. Mr. Filipović is married, a father of two children and grandfather of five grandchildren.

Business address: Granolio d.d., Zagreb, Budmanijeva 5

Member of the Supervisory Board Jurij Detiček

Jurij Detiček was born on 09/06/1951. He graduated from the Faculty of Economics in Ljubljana in 1974. In September 1974 he started working in Ljubljanska banka d.d. in Ljubljana, where he worked until February 1999. He started his career at clerk jobs and progressed to Vice-President of the Board of Ljubljanska banka. From 1999 to 2010 he was President of the Board of Adria Bank AG in Vienna. Mr. Detiček held the positions of President of the Supervisory Board of NLB Leasing, Prvi Faktor, Splošna Banka Velenje, DZS from Ljubljana, KB 1909 from Gorizia - Italy; Vice-President of the Supervisory Board in Splošna Banka Kopar; and Member of the Supervisory Board in LBS Bank of New York and Adria Bank Aktiengesellschaft in Vienna, and currently holds the position of a member of the Supervisory Board in KB 1909 from Gorizia - Italy. He is married, a father of two children and grandfather of two grandchildren.

Business address: Granolio d.d., Zagreb, Budmanijeva 5

Member of the Supervisory Board Braslav Jadrešić

Braslav Jadrešić was born in Zagreb on 05/04/1977. He graduated from the Faculty of Forestry in Zagreb in 2002. He joined Granolio in December 2001. He started as a logistics clerk, then continued as head of logistics. He now holds the position of Assistant Executive Director. He is married and a father of two children.

Business address: Granolio d.d., Zagreb, Budmanijeva 5

Member of the Supervisory Board Davor Štefan

Davor Štefan was born in Zagreb on 29 September 1965. After graduating (in 1990) he attended the post-graduate studies (MBA; 1993 – 1995) at the Faculty of Economics and Business in Zagreb. Mr Štefan's first job was in Zagrebačka banka in Trading Directorate in Treasury Department. In 1999 he becomes the Director of Treasury Directorate and managed cash in the Treasury Sector, and in 2003 he become the Executive Director of the Treasury Sector in charge of the Business Area. From 2004-2006 he was the Director of Trading Risk Products Directorate, and after that proceeded to the Department of Markets and Investment Banking (MIB). In 2008 he joined Partner banka, where he worked until 2012 as Treasury and Trade Director from May until October 2012 he worked as a financial Director in Sermon d.o.o. He is married and a father of two children.

Business address: Granolio d.d., Zagreb, Budmanijeva 5

Member of the Supervisory Board Josip Lasić

Josip Lasić was born in Zagreb on 31 December 1982. He finished graduate (in 2006) and post-graduate studies (in 2008) at the Faculty of Economics and Business in Zagreb. Mr Lasić's first job was in Zagrebačka banka as Associate brokerage. In 2006 he transferred to PBZ CO d.d. to Mandatory pension fund management, where he first worked as an investment analyst and in 2009 he became the Fond manager. In April 2013 he became the Head of the Asset Management. Mr. Lasić passed the examination for broker, investment advisor and authorised manager of pension funds. In the period from 2010 until 2012 he passed all CFA exams which gained him the title of Chartered Financial Analyst.

Business address: Granolio d.d., Zagreb, Budmanijeva 5

Part II of this Prospectus in Section 17.2 "Information on the status of shareholders of the Issuer and share options on these shares for members of the Management Board and Supervisory Board of the Issuer" states the number of Granolio shares owned by members of the Management Board and the Supervisory Board on 30 June 2014.

In the past five years none of the Management Board or Supervisory Board members has been convicted of an offence involving fraud or participated in the proceedings of bankruptcy or liquidation with which they would be associated acting in the capacity of these functions.

As far as the Issuer is aware, there are no official charges or sanctions by judicial or regulatory authorities against these persons nor have they been disqualified by a court decision or prohibited from serving in such bodies during the past five years.

Hrvoje Filipović, President of the Board of the Issuer is the son of Franjo Filipović, President of the Supervisory Board of the Issuer. There are no family connections among the other mentioned persons.

The above-mentioned persons, as far as the Issuer is aware, are not engaged in external activities which may affect the Issuer.

14.2 Conflict of interest of management and supervision bodies of the Issuer

Among the persons mentioned in paragraph 14.1 in Part II of this Prospectus there is no conflict of interest with regard to their personal interests and their obligations and responsibilities towards the Issuer. As it is stated above, Mr. Hrvoje Filipović is currently a Member of the Supervisory Board of HOK Osiguranje d.d. and Zagrebačke pekarne Klara d.d.

None of the members of the Supervisory Board or Management Board have been chosen to their current position according to an agreement or a deal with majority shareholders, clients, suppliers or others.

There are no agreed restrictions regarding any of the members of the supervisory Board or the Management on concession of their share in Company's securities within specific time frame.

15 REMUNERATION AND BENEFITS

15.1 Remuneration and benefits in favour of the Management Board and Supervisory Board members in the last financial year

Remuneration to Management Board members for the year 2013 is related to the payment of salaries whose gross amount was HRK 2,872 thousand (net salaries, taxes and contributions on wages).

The gross amount of remuneration for Supervisory Board members for the year 2013 was HRK 142,600.62.

Supervisory Board members did not realize any non-cash benefits or services.

15.2 Payment amounts for the purpose of pension, pension rights and similar benefits

In 2013, the Company allocated the following amounts for the purpose of pensions and pension rights to the Management Board and the Supervisory Board:

- amount for Management Board members: HRK 417,063.03
- amount for Supervisory Board members: HRK 6,735.98

These amounts relate to statutory pension insurance contributions and there were no other payments.

16 PROCEDURES OF THE MANAGEMENT

16.1 End date of current term of Management Board and Supervisory Board members and term of office

Table 42 Date of appointment and end of current term for members of Granolio Management Board and Supervisory Board

Name and Surname	Position	Date of Appointment	End of Term
Management Board			
Hrvoje Filipović	President	21.2.2011	21.2.2016
Drago Šurina	Member	21.2.2011	21.2.2016
Vladimir Kalčić	Member	21.2.2011	21.2.2016
Tomislav Kalafatić	Member	19.4.2011	19.4.2016
Supervisory Board			
Franjo Filipović*	President	26.1.2011	26.1.2015
Jurij Detiček*	Member	26.1.2011	26.1.2015
Braslav Jaderšić*	Member	26.1.2011	26.1.2015
Davor Štefan	Member	16.1.2015	16.1.2019
Josip Lasić	Member	16.1.2015	16.1.2019

**Members of the Supervisory Board are chosen, i.e. appointed for the period of 4 years, but according to the Article 36 of the Articles of Association their mandate ends with the conclusion of the General Assembly which decides on giving clearance to members of the Supervisory Board for the last fiscal year of their mandate.*

Source: Granolio

16.2 Information on the contracts of members of the Management Board and the Supervisory Board that provide for benefits upon termination of employment

Employment contracts which members of the Board have concluded with the Issuer do not provide for benefits upon termination of employment, but the provisions of the Labour Act governing severance pay apply.

Braslav Jadrešić is the only member of the Supervisory Board employed by the Issuer and his employment contract does not provide for any benefits upon termination of employment, but the provisions of the Labour Act governing severance pay apply.

16.3 Information about the Audit Committee and Remuneration Committee of the Issuer

The Issuer has not established an Audit Committee nor a Remuneration Committee.

16.4 Issuer's statement on compliance with the standards of corporate governance

On the date of this Prospectus, the Issuer is not obliged to comply with the standards of corporate governance. Given the Issuer intends to request the listing of all Shares on the regulated market of the Zagreb Stock Exchange, the Issuer intends to comply with the standards of corporate governance in due time.

17 EMPLOYEES

17.1 Number of employees in the Company and distribution by main categories

Table 43 Qualifications of Group employees on 31 December 2011, 31 December 2012 and 31 December 2013

GRANOLIO GROUP						
Qualification	31.12.2011	%	31.12.2012	%	31.12.2013	%
SKILLED WORKER	14	2.77	14	2.92	12	2.70
SEMI-SKILLED WORKER	3	0.59	3	0.63	2	0.45
UNSKILLED WORKER	68	13.47	61	12.73	60	13.51
SECONDARY SCHOOL	187	37.03	178	37.16	177	39.86
HIGHLY SKILLED W.	129	25.54	122	25.47	103	23.20
UNIVERSITY (4 - 5 YEARS)	73	14.46	73	15.24	66	14.86
UNIVERSITY (2 YEARS)	31	6.14	28	5.85	24	5.41
Total	505	100	479	100	444	100

Source: Granolio

Table 44 Qualifications of Group employees on 30 June 2013 and 30 June 2014

GRANOLIO GROUP				
Qualification	30.6.2013	%	30.6.2014	%
SKILLED WORKER	34	7.14	15	3.24
SEMI-SKILLED WORKER	3	0.63	2	0.43
UNSKILLED WORKER	70	14.71	70	15.12
SECONDARY SCHOOL	273	57.35	181	39.09
HIGHLY SKILLED W.	0	0.00	102	22.03
UNIVERSITY (4 - 5 YEARS)	69	14.50	69	14.90
UNIVERSITY (2 YEARS)	27	5.67	24	5.18
Total	476	100	463	100

Source: Granolio

Table 45 Distribution of Group employees by contract type on 31 December 2011, 31 December 2012 and 31 December 2013

GRANOLIO GROUP						
By contract type	31.12.2011	%	31.12.2012	%	31.12.2013	%
Temporary	101	20.00	90	18.79	88	19.82
Permanent	404	80.00	389	81.21	356	80.18
Total	505	100	479	100	444	100

Source: Granolio

Table 46 Distribution of Group employees by contract type on 30 June 2013 and 30 June 2014

GRANOLIO GROUP				
By contract type	**30.6.2013**	**%**	**30.6.2014**	**%**
Temporary	**112**	23.53	**102**	22.03
Permanent	**364**	76.47	**361**	77.97
Total	**476**	**100**	**463**	**100**

Source. Granolio

17.2 Information on shareholdings and stock options for members of the Management Board and Supervisory Board

Table 47 Number of shares owned by members of the Management Board and the Supervisory Board and other employees in management positions in the Group on 30 June 2014

Shareholder data	Position in the Issuer	Organizational Unit	No. Shares
Čuljak Miro	Executive Director	Commercial Affairs Sector I	3.000
Filipović Hrvoje	President of the Management Board	-	1.155.000
Fistrić Ivan	Director	General Affairs	3.000
Jadrešić Braslav	Assistant Executive Director, Member of the Supervisory Board	Commercial Affairs Sector I	3.000
Kalafatić Tomislav	Member of the Management Board	Finance, Accounting and Controlling	3.000
Kalčić Vladimir	Member of the Management Board	Legal Affairs and Human Resources, IT	3.000
Kordić Vlatko	Senior Executive Director	Commercial Affairs Sector I	3.000
Leko Damir	Head of Department	Commercial Affairs Sector II	3.000
Lončarić Davor	Executive Director	Production, Development and Technology	3.000
Mitrović Davor	Assistant Executive Director	Production, Development and Technology	3.000
Nestorović Dušan	Head of Department	Commercial Affairs Sector II	3.000
Osmak Tihomir	Regional Head of Sales	Commercial Affairs Sector I	3.000
Šurina Drago	Member of the Management Board	Commercial Affairs Sector II	3.000
Šurina Željko	Executive Director	Commercial Affairs Sector II	3.000
Unger Zoran	Head of Department	Commercial Affairs Sector II	3.000

Source: Granolio

17.3 Description of any agreements for the participation of employees in the capital of the Issuer

There are no agreements for the participation of employees in the Issuer's capital.

18 MAJORITY SHAREHOLDERS

18.1 List of shareholders holding at least 5% of voting rights in the Issuer

List of shareholders holding at least 5% of voting rights in the Issuer prior to recapitalization is given in the table below.

Table 48 Information about shareholders holding at least 5% of voting rights in the Issuer

Shareholder dana	No. Shares	Class and Series	Nominal Amount (HRK)	Total Nominal Value	Total number of votes
FILIPOVIĆ HRVOJE, President of the Management Board	1,155,000	ordinary, registered	10,00	11,550,000.00	1,155,000
PBZ CROATIA OSIGURANJE OMF - B CATEGORY	150,000	ordinary, registered	10,00	1,500,000.00	150,000
ERSTE PLAVI OMF - B CATEGORY	149,250	ordinary, registered	10,00	1,492,500.00	149,250
PRIMA ULAGANJA d.o.o.	111,941	ordinary, registered	10,00	1,119,410.00	111,941

Source: Granolio

18.2 Shares with different voting rights

The Issuer has not issued any shares with different voting rights.

18.3 Description of the dominant position in the Issuer

The Issuer has one majority shareholder, Hrvoje Filipović, with a 60.74% (96.25% before recapitalization) share in the Issuer’s share capital. Internal control mechanisms are ensured through the dual nature of the Issuer's organizational structure, and the majority shareholder has as much influence as permitted by the Companies Act and the Issuer's Articles of Association, given the voting rights to which he is entitled. The Company's bodies, nominally and in practice, make those business decisions for which they are authorized by the Companies Act, the Company's Articles of Association and Company’s internal documents. General Assembly meetings are duly convened, the Supervisory Board continuously monitors the management of the Company. The Company's Management Board, accepting its freedom to carry out company operations as provided by the law, complies with the restrictions set out in the Company's internal documents.

18.4 Change in the dominant position in the Issuer

The Issuer has no knowledge of the existence of an agreement whose implementation could subsequently result in a change of control over the Issuer.

19 TRANSACTIONS WITH RELATED PARTIES

Transactions between related parties from 1 January 2011 to 31 December 2013 were realized in accordance with contracts concluded between the parent company Granolio and its subsidiaries, according to the existing market conditions, and business operations were conducted according to legal provisions which define transfer prices in the Republic of Croatia.

Table 49 Transactions with dependent companies in 2011, 2012 and 2013

in HRK

DESCRIPTION	31.12.2011	31.12.2012	31.12.2013
Receivables			
Zdenačka farma d.o.o.	28,804,000	32,814,000	35,429,000
Prerada žitarica d.o.o.	948,000	0	0
Žitar d.o.o.	6,448,000	1,174,000	1,477,000
Zdenka - mliječni proizvodi d.o.o.	1,370,000	176,000	0
TOTAL	**37,570,000**	**34,164,000**	**36,906,000**
Liabilities			
Zdenačka farma d.o.o.	0	0	0
Prerada žitarica d.o.o.	0	19,000	32,000
Žitar d.o.o.	23,480,000	19,090,000	16,618,000
Zdenka - mliječni proizvodi d.o.o.	0	0	0
TOTAL	**23,480,000**	**19,109,000**	**16,650,000**
Operating income			
Zdenačka farma d.o.o.	6,063,000	3,572,000	1,735,000
Prerada žitarica d.o.o.	39,000	34,000	30,000
Žitar d.o.o.	21,617,000	20,948,000	9,621,000
Zdenka - mliječni proizvodi d.o.o.	2,121,000	1,675,000	90
TOTAL	**29,840,000**	**26,229,000**	**11,386,090**
Financial income			
Zdenačka farma d.o.o.	1,458,000	1,898,000	2,304,000
Prerada žitarica d.o.o.	90,000	61,000	29,000
Žitar d.o.o.	0	0	0
Zdenka - mliječni proizvodi d.o.o.	0	0	0
TOTAL	**1,548,000**	**1,959,000**	**2,333,000**
Operating expenses			
Zdenačka farma d.o.o.	497,000	135,000	419,000
Prerada žitarica d.o.o.	1,071,000	725,000	907,000
Žitar d.o.o.	28,997,000	25,772,000	20,552,000
Zdenka - mliječni proizvodi d.o.o.	240,000	201,000	224,000
TOTAL	**30,805,000**	**26,833,000**	**22,102,000**
Financial expenses			
Zdenačka farma d.o.o.	0	0	0
Prerada žitarica d.o.o.	0	0	0
Žitar d.o.o.	234,000	0	0
Zdenka - mliječni proizvodi d.o.o.	0	0	0
TOTAL	**234,000**	**0**	**0**

Source: Granolio

Table 50 Transactions with dependent companies in the first half of 2013 and 2014

in HRK

DESCRIPTION	30.6.2013	30.6.2014
Receivables		
Zdenačka farma d.o.o.	32,209,000	31,332,000
Prerada žitarica d.o.o.	504,000	925,000
Žitar d.o.o.	9,510,000	14,870,000
Zdenka - mliječni proizvodi d.o.o.	0	14,000
TOTAL	**42,223,000**	**47,141,000**
Liabilities		
Zdenačka farma d.o.o.	0	23,000
Prerada žitarica d.o.o.	0	26,000
Žitar d.o.o.	19,696,000	16,893,000
Zdenka - mliječni proizvodi d.o.o.	34,000	0
TOTAL	**19,730,000**	**16,942,000**
Operating income		
Zdenačka farma d.o.o.	1,040,000	759,000
Prerada žitarica d.o.o.	0	14,000
Žitar d.o.o.	7,460,000	8,954,000
Zdenka - mliječni proizvodi d.o.o.	0	11,000
TOTAL	**8,500,000**	**9,738,000**
Financial income		
Zdenačka farma d.o.o.	1,111,000	1,087,000
Prerada žitarica d.o.o.	11,000	24,000
Žitar d.o.o.	0	0
Zdenka - mliječni proizvodi d.o.o.	0	0
TOTAL	**1,122,000**	**1,111,000**
Operating expenses		
Zdenačka farma d.o.o.	81,000	108,000
Prerada žitarica d.o.o.	253,000	177,000
Žitar d.o.o.	1,566,000	1,406,000
Zdenka - mliječni proizvodi d.o.o.	90	58,000
TOTAL	**1,900,090**	**1,749,000**
Financial expenses		
Zdenačka farma d.o.o.	0	0
Prerada žitarica d.o.o.	0	0
Žitar d.o.o.	0	0
Zdenka - mliječni proizvodi d.o.o.	3,700	0
TOTAL	**3,700**	**0**

Source: Granolio

Other transactions with related parties include transactions with F.I.V.E.S. d.o.o., Tepih galerija d.o.o., Zagreb and Stan Arka d.o.o., Zagreb, with which the Issuer's majority shareholder has family ties. Receivables from F.I.V.E.S. d.o.o. and Tepih galerija d.o.o. are based on loans approved to these companies by the Issuer, while the receivables from Stan Arka d.o.o. partly arise from a loan, and partly from the sales of real estate property in 2013. Receivables of the Issuer from the key management personnel (members of the board in Granolio Group companies) are based on approved loans. In addition to these transactions, transactions with related parties include transactions by Žitar from operations with PZ Zabara (Žitar holds a 13% share), with the company Žitar konto d.o.o., Donji Miholjac (Žitar holds a 100% share) and with Krnjak d.o.o., Donji Miholjac (founded by one of the members of Cautio d.o.o.), and transactions of Žitar with Cautio d.o.o. from regular operations and based on an approved loan.

The subsidiary of Zdenka with its registered seat in Belgrade (Zdenka mliječni proizvodi Beograd) was liquidated in 2013, and in June 2014 Žitar transferred all its shares in the company Ekofarma d.o.o., based in Bosnia and Herzegovina. These companies are no longer its related parties.

Table 51 Transactions with related parties

in thousands of HRK

	31.12.2011 restated		31.12.2012 restated		31.12.2013 restated		30.6.2014	
Company	**Assets**	**Liabilities**	**Assets**	**Liabilities**	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Fives	1,173	-	1,173	-	1,173	-	-	-
Tepih galerija d.o.o	1,437	-	1,508	-	1,514	-	-	-
Stanarka d.o.o.	6,856	-	9,553	-	14,991	-	15,105	-
Zdenka MP Beograd	68	26	53	59		-	-	-
Ekofarma d.o.o.	8,041	-	9,328	-	10,299	-	-	-
Cautio d.o.o.	23,494	834	18,305	-	15,972	-	14,935	-
PZ Zabara	3,481	379	1,297	-	1,200	18	166	18
Žitar konto d.o.o.	-	-	-	-	-	-	4	175
Krnjak d.o.o.	10,310	1,176	2,645	1,070	2,401	1,837	4,753	256
	-	-	-	-	-	-	-	-
Key management	**6,361**	-	**3,418**	-	**4,073**	-	**4,160**	-
Total	**61,221**	**2,415**	**47,280**	**1,129**	**51,623**	**1,855**	**39,123**	**449**

Source: Issuer´s restated audited consolidated financial statements for 2011, 2012 and 2013, Issuer´s audited consolidated financial statements for the first half of 2014

20 FINANCIAL DATA ON ASSETS, LIABILITIES, FINANCIAL POSITION AND THE ISSUER'S PROFIT AND LOSS

20.1 Restated audited consolidated financial statements of the Issuer for the years ending on 31 December 2011, 31 December 2012 and 31 December 2013 together with the audited financial statements of the Issuer for the first half of 2014

For the purpose of issuing new series of ordinary shares on the capital market and publishing the Prospectus the Group has shown restated previous years for transparency, comparability and overall presentation of information in accordance with the international Standards on Auditing (ISA) 8.

On the following pages of the Prospectus the Issuer's restated audited consolidated financial statements are shown for fiscal years 2011, 2012, and 2013, together with the Issuer's restated audited consolidated financial statements for the first half of 2014. Please note that each presented statement of the Issuer has its own numeration.

Granolio Group

Consolidated financial statement for the period
from 1 January to 30 June 2014 and the restated consolidated financial statements
for the years 2013, 2012 and 2011
together with the Independent Auditor's Report

Content

Statement of Management's Responsibility
for preparation and approval of consolidated financial statements for the interim period

Based on the effective Croatian Accounting Act, the Management Board is required to ensure that consolidated financial statements of Granolio Group (hereinafter the Group) for each financial year are prepared in accordance with the International Financial Reporting Standards (IFRS) adopted by the European Union which give a true and fair view of the financial position and the results of the Group's operations in the given period.

The Management Board reasonably expects the Group to have adequate resources to continue its operational existence in the foreseeable future. For that reason, the Management Board continues to adopt the going concern basis in preparing the consolidated financial statements.

When preparing consolidated financial statements the Management Board is responsible:

- for selecting and applying consistently suitable accounting policies;
- for making judgements and estimates that are reasonable and prudent;
- for applying applicable accounting standards, for publication and explanations of any deviation in consolidated financial statements; and
- for preparing consolidated financial statements on a going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Management Board is responsible for maintaining proper accounting records which give a true and fair view of the financial position of the Group at any time, as well as their compliance with the applicable Accounting Act. The Management Board is also responsible for safeguarding the assets of the Group and undertaking reasonable measures to prevent and detect fraud and other irregularities.

The consolidated financial statements were authorised for publication on 15 September 2014.

Hrvoje Filipović, M.Econ.
President of the Management Board

Hrvoje Filipović dipl.oec.
Predsjednik Uprave

Granolio
d.d., Budmanijeva 5
Zagreb
2

BAKER TILLY
DISCORDIA

Ulica grada Vukovara 269F
10000 Zagreb
Croatia

Report on Examination of Prospective Financial Information

To the Management Board and the shareholders of Granolio d.d.

We have examined the projected consolidated statement of profit or loss and other comprehensive income of Granolio d.d. ("the Company") and its subsidiaries ("the Group") for the period from 2014 till 2018 and the projected consolidated statement of financial position as at 31 December 2014 till 2018, as stated in Note 12.1. of the Information Memorandum issued as at 27 October 2014. The Management of the Company is solely responsible for the preparation and presentation of the projection, including the assumptions on which the projection is based, which are stated in the Note 12.1 of the Information Memorandum. Our examination has been undertaken to enable us to form a conclusion on the prospective financial information.

Examination Procedures

We have undertaken our examination in accordance with the International Standard on Assurance Engagements 3400 "*Examination of the prospective financial information*" applicable to the prospective financial information.

The projections have been prepared for the purpose of the Information Memorandum with the aim of listing ordinary shares of the Company. As the Company is in an initial phase of integration of the acquired milling business segment, the projection has been based on a set of assumptions that include hypothetical assumptions about future events and management's actions that are not necessarily expected to occur. Consequently, readers are cautioned that this projection may not be appropriate for purposes other than that described above.

Conclusion

Based on our examination of the evidence supporting the assumptions, nothing has come to our attention which causes us to believe that these assumptions do not provide a reasonable basis for the projection stated in the consolidated statement of profit or loss and other comprehensive income and in the consolidated statement of financial position for the period from 2014 till 2018. Further, in our opinion the projection is properly prepared on the basis of the assumptions and is presented in accordance with International Financial Reporting Standards as adopted by the European Union.

Even if the events anticipated under the hypothetical assumptions described above occur, actual results are still likely to be different from the projection since other anticipated events frequently do not occur as expected and the variation may be material.

Zagreb, 27 October 2014

Baker Tilly Discordia d.o.o.
Vukovarska 269F
10000 Zagreb
Hrvatska

On behalf of Baker Tilly Discordia d.o.o.:

BAKER TILLY DISCORDIA
Revizorska tvrtka d.o.o.
Ulica grada Vukovara 269F
10000 Zagreb

Bruna Discordia
Director, Certified auditor

Consolidated Statement of Comprehensive Income

for the period ended 30 June 2014

	Note	2011 restated	2012 restated	2013 restated	Jan-Jun 2013	in thousands of HRK Jan-Jun 2014
Revenue						
Revenue from sales	8	773,188	804,740	753,237	319,951	346,723
Other operating revenue	9	30,987	24,745	27,536	5,283	9,001
Total operating revenue		**804,175**	**829,485**	**780,773**	**325,234**	**355,724**
Inventories value adjustment		6,477	1,528	(3,190)	(6)	11,286
Material costs	10	(683,929)	(718,163)	(655,840)	(286,568)	(323,276)
Personnel costs	11	(46,676)	(47,178)	(42,654)	(21,677)	(17,955)
Depreciation	16	(29,091)	(35,974)	(34,444)	(18,277)	(15,880)
Other expenses	13	(13,417)	(12,484)	(9,284)	(5,617)	(4,447)
Value adjustment	12	(895)	(184)	(13,746)	(35)	(18,336)
Other operating expenses	14	(15,520)	(9,711)	(14,006)	(8,523)	(4,047)
Total operating expenses		**(783,051)**	**(822,166)**	**(773,164)**	**(340,703)**	**(372,655)**
Operating profit		**21,124**	**7,319**	**7,609**	**(15,469)**	**(16,931)**
EBITDA		***50,215***	***43,293***	***42,053***	***2,808***	***(1,051)***
Financial income	15	5,190	10,475	7,468	2,893	6,387
Financial expenses	15	(35,925)	(38,298)	(32,668)	(13,817)	(35,361)
Net finance result		**(30,735)**	**(27,823)**	**(25,200)**	**(10,924)**	**(28,974)**
Result before taxation		**(9,611)**	**(20,504)**	**(17,591)**	**(26,393)**	**(45,905)**
Corporate income tax		(1,968)	(1,908)	(1,646)	-	-
Profit (loss) after taxation		**(11,579)**	**(22,412)**	**(19,237)**	**(26,393)**	**(45,905)**
Other comprehensive profit						
Financial assets for sale, reclassification to profit or loss		-	-	(3,205)	-	3,205
Total comprehensive profit		**(11,579)**	**(22,412)**	**(22,442)**	**(26,393)**	**(42,700)**
Profit (loss) attributed to:						
Group		*(6,882)*	*(17,558)*	*(12,433)*	*(21,217)*	*(38,633)*
Non-controlling interests	24	*(4,697)*	*(4,854)*	*(6,804)*	*(5,176)*	*(7,272)*
Total comprehensive profit attributed to:						
Group		*(6,882)*	*(17,558)*	*(15,638)*	*(21,217)*	*(35,428)*
Non-controlling interests		*(4,697)*	*(4,854)*	*(6,804)*	*(5,176)*	*(7,272)*
Earning per share	23	(14)	(21)	(10)	(17)	(34)

Approved in the name of the Company on 15 September 2014 by

Hrvoje Filipović
President of the Management Board

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

Consolidated Statement of Financial Position

as on 30 June 2014

in thousands of HRK

	Note	31 December 2011 restated	31 December 2012 restated	31 December 2013 restated	30 June 2014
I LONG-TERM ASSETS					
Intangible assets					
1 Goodwill		-	-	-	60,379
2 Trade marks, concessions, licences		7,274	8,195	-	120,000
3 Clients list		-	-	-	9,861
4 Software and other intangible assets		1,559	1,413	1,258	1,081
	16	**8,833**	**9,608**	**1,258**	**191,321**
Fixed assets					
1 Land		26,509	27,065	27,980	28,092
2 Buildings		276,396	267,717	254,162	248,218
3 Plant and equipment		101,273	99,853	88,147	86,147
4 Biological assets		11,636	10,983	10,761	11,005
5 Advance payments for fixed assets		962	934	1,522	773
6 Other fixed assets		60	57	60	59
7 Fixed assets in preparation		23,875	18,901	18,767	19,827
8 Property investment		384	373	793	788
	16	**441,095**	**425,883**	**402,192**	**394,909**
Financial assets					
1 Participating interests (shares)	17a	28,712	36,219	33,011	22,935
2 Granted loans, deposits and alike	17b	24,145	17,752	14,436	13,332
		52,857	**53,971**	**47,447**	**36,267**
Long-term receivables		231	122	108	40
II SHORT-TERM ASSETS					
Inventories	18	93,027	131,604	121,966	94,576
Receivables					
1 Trade receivables	19a	136,319	120,628	142,452	136,859
2 Receivables from employees		66	50	19	35
3 Receivables from the government and other institutions	19b	9,297	8,119	24,536	26,294
4 Other receivables		3,289	2,309	8,468	4,698
		148,971	**131,106**	**175,475**	**167,886**
Financial assets					
1 Investment in securities	20a	6,481	4,184	4,121	1,071
2 Granted loans, deposits and alike	20b	89,935	93,143	79,525	140,751
		96,416	**97,327**	**83,646**	**141,822**
Cash and cash equivalents	21	4,328	8,011	9,965	9,927
III PREPAID EXPENSES AND ACCRUED INCOME		1,107	2,349	1,220	2,957
TOTAL ASSETS		**846,865**	**859,981**	**843,277**	**1,039,705**

Consolidated Statement of Financial Position

as on 30 June 2014 (continued)

in thousands of HRK

	Note	31 December 2011 restated	31 December 2012 restated	31 December 2013 restated	30 June 2014
I CAPITAL AND RESERVES					
1 Subscribed capital		12,000	12,000	12,000	12,000
2 Legal reserves		-	116	161	183
3 Revaluation reserves		92,528	89,620	83,504	68,840
4 Retained earnings		49,566	40,123	27,524	30,584
5 Result for the year		(6,883)	(17,558)	(12,433)	(38,633)
	22	**147,211**	**124,301**	**110,756**	**72,974**
Non-controlling interests	24	**70,855**	**63,203**	**56,399**	**49,127**
II LONG-TERM LIABILITIES					
1 Liabilities for loans, deposits and alike	26	-	-	-	13
2 Liabilities to banks and other financial institutions	27	209,227	207,643	219,149	173,648
3 Liabilities to suppliers		372	318	318	292
4 Deferred tax liabilities	25	27,474	24,853	22,232	17,487
		237,073	**232,814**	**241,699**	**191,440**
III SHORT-TERM LIABILITIES					
1 Liabilities for loans, deposits and alike	26	-	4,270	4,796	23,822
2 Liabilities to banks and other financial institutions	27	272,553	296,156	256,950	399,277
3 Liabilities for advances		573	2,866	3,798	1,287
4 Liabilities to suppliers	28	88,610	96,030	125,371	195,612
5 Liabilities for securities		2,400	6,908	18,044	66,800
6 Liabilities to employees		2,562	2,436	2,014	2,060
7 Liabilities for taxes, contributions and similar payments	29	4,168	7,411	3,545	13,697
8 Other short-term liabilities		2,373	3,512	2,130	4,598
		373,239	**419,589**	**416,648**	**707,153**
IV ACCRUED LIABILITIES AND DEFERRED INCOME		18,487	20,074	17,775	19,011
TOTAL CAPITAL AND RESERVES AND LIABILITIES		**846,865**	**859,981**	**843,277**	**1,039,705**

Approved in the name of the Company on 15 September 2014 by

Hrvoje Filipović
President of the Management Board

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

Consolidated Statement of Changes in Shareholders' Equity for the years 2011 and 2012

in thousands of HRK

	Subscribed capital	Legal reserves	Revaluation reserves	Retained earnings	Loss for the year	Total for the Group	Non-controlling interests	Total
As on 1 January 2011 (as previously published)	5,000	-	118,912	58,704	1,395	184,011	-	184,011
Reconciliation (see note 7)	-	-	(23,133)	(3,339)	-	(26,472)	3,341	(23,131)
As on 1 January 2011 (corrected)	**5,000**	**-**	**95,779**	**55,365**	**1,395**	**157,539**	**3,341**	**160,880**
Loss for the year 2011	-	-	-	-	*(237)*	*(237)*	*1,967*	*(1,730)*
Reconciliation (see note 7)	-	-	-	-	*(6,646)*	*(6,646)*	*(6,664)*	*(13,310)*
Other comprehensive profit, net of tax (revaluation depreciation)	-	-	*(3,251)*	*3,251*	-	-	-	-
Total comprehensive profit for the year	**-**	**-**	***(3,251)***	***3,251***	***(6,883)***	***(6,883)***	***(4,697)***	***(11,580)***
Recapitalization	7,000	-	-	(7,000)	-	-	-	-
Dividends payment	-	-	-	(18)	-	(18)	-	(18)
Consolidation reconciliation	-	-	-	(3,427)	-	(3,427)	-	(3,427)
Distribution of result 2010	-	-	-	1,395	(1,395)	-	-	-
Non-controlling interests	-	-	-	-	-	-	72,210	72,210
As on 31 December 2011 (restated)	**12,000**	**-**	**92,528**	**49,566**	**(6,883)**	**147,211**	**70,854**	**218,065**
Reconciliation during 2012 (see note 7)	-	-	-	-	*(11,906)*	*(11,906)*	*(2,414)*	*(14,320)*
Loss for the year 2012	-	-	-	-	*(5,652)*	*(5,652)*	*(2,440)*	*(8,092)*
Other comprehensive profit, net of tax (revaluation depreciation)	-	-	*(3,635)*	*3,635*	-	-	-	-
Total comprehensive profit for the year	**-**	**-**	***(3,635)***	***3,635***	***(17,558)***	***(17,558)***	***(4,854)***	***(22,412)***
Reconciliation for 2013 – deferred taxes	-	-	727	-	-	727	-	727
Dividend payment	-	-	-	(8,040)	-	(8,040)	-	(8,040)
Consolidation reconciliation	-	-	-	1,961	-	1,961	-	1,961
Distribution of result 2011	-	116	-	(6,999)	6,883	-	-	-
Dividend payment Žitar d.d.	-	-	-	-	-	-	(2,797)	(2,797)
As on 31 December 2012 (restated)	**12,000**	**116**	**89,620**	**40,123**	**(17,558)**	**124,301**	**63,203**	**187,504**

Consolidated Statement of Changes in Shareholders' Equity for 2013 and the first half of 2014

in thousands of HRK

	Subscribed capital	Legal reserves	Revaluation reserves	Retained earnings	Profit/ (Loss) for the year	Total for the Group	Non-controlling interests	Total
As on 1 January 2013 (restated)	**12,000**	**116**	**89,620**	**40,123**	**(17,558)**	**124,301**	**63,203**	**187,504**
Reconciliation for 2013 (see note 7)	-	-	-	-	*(5,119)*	*(5,119)*	*3,537*	*(1,582)*
Loss for the year 2013	-	-	-	-	*(7,314)*	*(7,314)*	*(10,341)*	*(17,655)*
Other comprehensive profit, net of tax (revaluation depreciation and unrealised loss per portfolio available for sale)	-	-	*(6,844)*	*3,639*	-	*(3,205)*	-	*(3,205)*
Total comprehensive profit for the year	**-**	**-**	***(6,844)***	***3,639***	***(12,433)***	***(15,638)***	***(6,804)***	***(22,442)***
Reconciliation for 2013 – deferred taxes	-	-	728	-	-	728	-	728
Consolidation reconciliation	-	-	-	1,365	-	1,365	-	1,365
Distribution of result 2012	-	45	-	(17,603)	17,558	-	-	-
As on 31 December 2013 (restated)	**12,000**	**161**	**83,504**	**27,524**	**(12,433)**	**110,756**	**56,399**	**167,155**
Loss for the period ended 30 June 2014	-	-	-	-	*(38,633)*	*(38,633)*	*(7,272)*	*(45,905)*
Other comprehensive profit, net of tax (revaluation depreciation and permanent impairment of portfolio available for sale)	-	-	*(14,664)*	*17,869*	-	*3,205*	-	*3,205*
Total comprehensive profit for the year	**-**	**-**	***(14,664)***	***17,869***	***(38,633)***	***(35,428)***	***(7,272)***	***(42,700)***
Dividend payment	-	-	-	(2,399)	-	(2,399)	-	(2,399)
Consolidation reconciliation	-	-	-	45	-	45	-	45
Distribution of results 2013	-	22	-	(12,455)	12,433	-	-	-
As on 30 June 2014	**12,000**	**183**	**68,840**	**30,584**	**(38,633)**	**72,974**	**49,127**	**122,101**

Approved in the name of the Company on 15 September 2014 by

Hrvoje Filipović
President of the Management Board

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

Consolidated Statement of Cash Flow

in thousands of HRK

	2011 restated	2012 restated	2013 restated	Jan.-June 2014.
Operating cash flow				
1 Loss/profit before taxation	(6,883)	(17,558)	(12,433)	(38,633)
2 Long-term fixed assets depreciation	27,466	34,865	33,298	15,565
3 Long-term intangible assets amortisation	1,625	1,109	1,146	315
4 Increase/decrease of prepaid expenses	(702)	(1,242)	1,128	(1,736)
5 Increase/decrease of accrued expenses	15,148	1,587	(2,299)	1,236
6 Long-term fixed assets write-off expense	(988)	911	8,154	1,521
7 Other cash flow increase/decrease	(6,033)	(10,067)	(4,632)	9,828
8 Increase/decrease of inventory	(10,118)	(38,577)	9,638	27,390
9 Increase/decrease of short-term liabilities	124,378	127,730	148,515	146,360
10 Increase/decrease of short-term receivables	(60,541)	17,864	(44,366)	7,589
A Net operating cash flow	**83,352**	**116,622**	**138,149**	**169,435**
Cash flow from investment activities				
1 Proceeds from sale of fixed assets	4,595	1,983	3,327	979
2 Increase of fixed and intangible assets	(117,134)	(24,430)	(13,885)	(140,781)
3 Goodwill acquisition	-	-	-	(60,379)
4 Expenditure from lendings	(161,821)	(224,040)	(366,649)	(363,633)
5 Proceeds from lendings	27,032	108,994	265,005	280,877
A Net cash flow from investment activities	**(247,328)**	**(137,493)**	**(112,202)**	**(282,937)**
Cash flow from financing activities				
1 Proceeds from principals, loans and other borrowings	494,814	783,541	812,478	493,012
2 Expenditure for loan principal repayment	(335,840)	(751,175)	(839,208)	(375,464)
3 Paid-out profit from previous years	(18)	(8,040)	-	(2,399)
4 Other cash proceeds/expenditures from financing activities	3,302	228	2,737	(1,685)
A Net cash flow from financing activities	**162,258**	**24,554**	**(23,993)**	**113,464**
Net cash and cash equivalents changes	**(1,718)**	**3,683**	**1,954**	**(38)**
Cash and cash equivalents at the beginning of the period	6,046	4,328	8,011	9,965
Cash and cash equivalents at the end of the period	**4,328**	**8,011**	**9,965**	**9,927**

Approved in the name of the Company on 15 September 2014 by

Hrvoje Filipović
President of the Management Board

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

Notes to the consolidated financial statements

1 GENERAL INFORMATION

Granolio d.d. was founded as a limited liability company in December 1996. The company seat is in Zagreb, and the Company's business units are located in Gornji Draganac, Slavonski Brod, Velika Kopanica, Osijek, Vinkovci and Belje.

The Group comprises of the following companies:

- Zdenka - mliječni proizvodi d.o.o., Veliki Zdenci,
- Žitar d.o.o., Donji Miholjac,
- Zdenačka farma d.o.o., Veliki Zdenci,
- Prerada žitarica d.o.o., Grubišno Polje.

The principal activities of Granolia d.d. and its subsidiaries include the production of food products, agricultural production, storage of agricultural products and trade in bakery products, agricultural products and production materials for agricultural production.

In mid 2007, 100,00% of shares in the company Zdenačka farma d.o.o., Veliki Zdenci were bought for the amount of HRK 2,820,000. The company produces high quality milk derived from dairy cows of excellent genetic potential.

In mid 2008, 100,00% of shares in the company Prerada žitarica d.o.o., Grubišno Polje, were bought for the amount of HRK 5,205,983. The company processes grains.

In 2011, Granolio d.d. acquired a controlling interest enabling it to monitor the decision-making process regarding business operations of its subsidiaries and to make decisions on financial and business policies, on appointing members of the Management Board or to ensure the majority of votes of the members of the Management Board in Zdenka mliječni proizvodi d.o.o. and Žitar d.o.o.

Zdenka-mliječni proizvodi d.o.o. was registered on 10 April 2002 into the Court Register of the Bjelovar Commercial Court by decision number Tt-02/396-2 as a limited liability company. Court Registration Number (MBS) is 010048425. Personal Identification Number (PIN) is 45651553790.

The members of the Management Board are Mr. Željko Gatjal M.Econ., and the President of the Supervisory Board is Mr. Hrvoje Filipović M.Econ.

Granolio d.d. owns 49.9875% of shares in Zdenka – mliječni proizvodi d.o.o.

The company IPK Kapelna d.o.o. was registered on 4 December 1998 in the Court Register as a limited liability company. With Osijek Commercial Court decision number Tt-99/586-4 dated 7 May 1999 the company was registered in the main book of the court register with the Court Registration Number - MBS: 030064710 On 1 January 2011, a merger of the company Novi žitar d.o.o. Donji Miholjac to the company Kapelna d.o.o. was carried out.

With Osijek Commercial Court decision number Tt-11/314-2 dated 8 February 2011 the company Kapelna d.o.o. changed its company name into ŽITAR društvo s ograničenom odgovornošću za poljoprivrednu proizvodnju, trgovinu i usluge (ŽITAR limited liability company for agricultural production, trade and services). The company Personal Identification Number (PIN) is 66951972250.

Mr. Željko Tadić, as a member of the Management Board and director, represents the company individually.

Granolio d.d. owns 49.690% of shares in Žitar d.o.o.

Granolio d.d.

On 30 June 2014 the members of the Management Board of the company Granolio d.o.o. were:

- Hrvoje Filipović - President,
- Vladimir Kalčić - Member,
- Drago Šurina - Member and
- Tomislav Kalafatić - Member

On 30 June 2014 members of the Supervisory Board of the company Granolio d.o.o. were:

- Franjo Filipović - President,
- Jurij Detiček - Member
- Braslav Jadrešić - Member

2 BASIS OF PREPARATION

(i) Statement of compliance

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union.
Financial statements are presented for the Group. The financial statements of the Group comprise consolidated financial statements of the company Granolio d.d. (hereinafter the Company) and its subsidiaries.
These financial statements were authorised by the Management Board on 15 September 2014.

(ii) Basis of measurement

The consolidated financial statements of the Group have been prepared on the historical cost basis, except for land and building sites expressed based on an estimate, financial assets and liabilities at fair value through profit or loss and derivatives measured at fair value.

(iii) Functional and presentation currency

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

Business events and transactions in foreign currency are translated into HRK according to the exchange rate applicable on the day of the business event or transaction. Assets and liabilities expressed in foreign currency are translated based on the exchange rate applicable on the date of statements. Profit or loss from exchange differences from the day of transaction to the date of financial statements are recognized in the comprehensive profit statement.

(iv) Use of estimates and judgements

The preparation of consolidated financial statements in conformity with IFRS requires the Management Board to make judgements, estimates and assumptions that affect the application of polices and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about estimates on the value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from those estimates.

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

Judgements made by the Management Board in the application of IFRS that have significant effect on the consolidated financial statements and estimates with a significant risk of material judgements in the next year are discussed in note 5.

3 SUMMARY OF BASIC ACCOUNTING POLICIES

The Group's principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. These accounting policies have been applied consistently by the Company and all subsidiaries for all the periods included in these consolidated financial statements.

3.1 Principles of consolidation

The Group's consolidated financial statements incorporate the financial statements of the Company and the entities controlled by the Company (subsidiaries) on the day and for the year ended on 31 December 2011, 31 December 2012, 31 December 2013 and 30 June 2014.

(i) Subsidiaries

Subsidiaries are all entities controlled by another entity. An investor controls an entity if, and only if it has power over this entity, is exposed or has the rights to variable returns from its involvement with this entity and has the ability to affect those returns through its power over the entity. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group has control over another business entity. Subsidiaries are fully consolidated from the date on which control has been transferred to the Group and are de-consolidated from the date when the control ceases.

The Group uses the purchase accounting method to account for business mergers. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred and the equity interest issued by the Parent Company. The consideration transferred includes the fair value of any asset or liability resulting from the contingent consideration agreement. Acquisition related costs are shown in the statement of comprehensive income as they arise. Identifiable assets acquired, liabilities and contingent liabilities assumed in a business combination are measured initially at their fair value at the acquisition date. The Group recognises any non-controlling interest in the acquired controlled entity at proportionate share of the non-controlling interest of the acquired controlled entity's net assets.

The excess of consideration transferred, the amount of any non-controlling interest in the acquired controlled entity and acquisition-date fair value of any previous equity interest in the acquired company over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the acquired controlled entity in case of bargain purchase, the difference is shown directly in the statement of comprehensive income.

(ii) Transactions eliminated on consolidation

Intra-Group balances and transactions and any unrealized gains arising from intra-Group transaction are eliminated in preparing the consolidated financial statements. Unrealized gains arising from transactions with associated and jointly controlled entities are eliminated to the extent of the Company's interest in these entities.

3.2 Revenue recognition

The revenue comprises the fair value of the consideration received or receivable for the sale of products, goods or services in the ordinary course of the Group's activities. The revenue is shown in the amounts which are decreased by value added tax, volume rebates and sale discounts.

The Group recognizes revenue when the amount of revenue can be reliably measured, it is probable that the future economic benefits will flow to the Group and specific criteria have been met for all the Group's activities as described below.

3 SUMMARY OF BASIC ACCOUNTING POLICIES (CONTINUED)

(i) Revenue from wholesale of products and merchandise

The Group manufactures and sells its own products and goods of third parties in the wholesale. Revenue from wholesale is recognized when the Group has delivered the products to the wholesaler, there is no continuing management involvement over the goods and there is no unfulfilled obligation that could affect the wholesaler's acceptance of the products.

The delivery is completed when the products have been shipped to the specified location, the risks of loss have been transferred to the wholesaler and either of the following has occurred: the wholesaler has accepted the products in accordance with the contract, or the acceptance provisions have lapsed or the Group has objective evidence that all criteria for acceptance have been satisfied.

Products are sold with volume discounts and customers have a right to return products in case of defect. Revenue from sale is recorded based on the price specified in the sale contract, decreased by estimated volume rebates and trade discounts and returns. Accumulated experience is used to estimate volume rebates and returns. Volume discounts are assessed based on anticipated annual purchase. The sale containing elements of financing, i.e. with a credit term longer that 60 days, is classified in short-term financial assets.

(ii) Revenue from retail sale of products and merchandise

Revenue from retail sale of products and merchandise is recognised when the Group sells a product or merchandise to the customer. Revenue from retail sale is realized in cash. The Group does not operate any customer loyalty programmes.

(iii) Revenue from services

Revenue from services is recognised in the accounting period in which the services are rendered, by reference to stage of completion, on the basis of actual service provided as a proportion of the total services to be provided.

(iv) Finance income

Finance 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 is established.

3.3 Leases

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

Leases where the significant portion of risks and rewards of ownership are not retained by the Group are classified as operating leases. Payments made under operating leases are shown in the statement of comprehensive income on a straight-line basis over the period of the lease.

3 SUMMARY OF BASIC ACCOUNTING POLICIES (CONTINUED)

Sale and leaseback transactions

A sale and leaseback transaction involves the sale of an asset and the leasing back of the same asset. The lease payment and the sale price are usually interdependent because they are negotiated as a package. The accounting treatment of a sale and leaseback transaction depends upon the type of lease involved.

If a sale and leaseback transaction results in a finance lease, any excess of sales proceeds over the carrying amount is not immediately recognised as income in a seller-lessee's financial statements. Instead, it is deferred and amortised over the lease term.

If a sale and leaseback transaction results in an operating lease, and it is clear that the transaction is established at fair value, any profit or loss is recognized immediately. If the sale price is below the fair value, any profit or loss is recognised immediately, except that, if the loss is compensated for by future lease payments, at below market price, it is deferred and amortised in proportion to the lease payments over the period for which the asset is expected to be used. If the sale price is above fair value, the excess over fair value is deferred and amortised over the period for which the asset is expected to be used.

3.4 Foreign currencies

(i) Transactions and balances in foreign currencies

Transactions in foreign currencies are expressed in functional currency at the foreign exchange rate valid at the date of transaction. Monetary assets and liabilities denominated in a foreign currency at the reporting date are translated into the functional currency at the foreign exchange rate valid at the date of transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the transaction of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss.

Non-monetary assets and items that are measured in terms of historical cost of a foreign currency are not retranslated.

Non-monetary assets and liabilities denominated in a foreign currency, which are stated at historical cost are translated into functional currency at the foreign exchange rate valid at the date of transaction.

As of 30 June 20014, the official exchange rate for 1 EUR was 7.571371 HRK, on 31 December 2013 for 1 EUR it was 7.637643 HRK (on 31 December 2012: 7.545624 HRK for 1 EUR, and on 31 December 2011: 7.530420 HRK for 1 EUR).

(ii) Group companies

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

3.5 Borrowings and borrowing costs

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised costs; any difference between the proceeds (net of transaction costs) and redemption value is recognised in the consolidated statement on comprehensive income over the period of the borrowing, using the effective interest method.

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are charged to the statement of profit or loss in the period incurred.

Borrowings are classified as short-term liabilities, unless the Group has an unconditional right to defer settlement of the liability at least 12 months after the reporting date.

3 SUMMARY OF BASIC ACCOUNTING POLICIES (CONTINUED)

3.6 Government grants

Government grants are not recognized until there is reasonable assurance that the Group will comply with the conditions associated with them and that the grants will be received. Government grants are recognized in profit or loss on a systematic basis over the period in which the Group recognizes 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 long-term 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 loss 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.

3.7 Dividends

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

3.8 Segment reporting

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

At the consolidated level, the Company internally monitors and reports the following segments:

- milling
- dairy production
- 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 (which was identified as being the Management Board of the Company) in order to allocate resources to the segments and to assess their performance. Details on the operating segments are disclosed in note 8 to the consolidated financial statements. Comparative information is presented using the comparability principle.

3.9 Taxation

(i) Corporate income tax

Corporate income tax expense comprises current and deferred tax. Corporate income tax is recognised in profit or loss except to the extent that it relates to items recognised directly in equity in which case it is recognised in other comprehensible income.

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

(ii) Deferred tax assets and liabilities

Deferred tax is recognized 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 recognized for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit and the differences pertaining to investments into subsidiaries and jointly controlled entities where it is probable that the 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 in force on the reporting date.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilised. A deferred tax asset is reduced to the extent that it is no longer probable that the related tax benefit will be realized.

3 SUMMARY OF BASIC ACCOUNTING POLICIES (CONTINUED)

3.9 Taxation (continued)

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and 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 their tax assets and liabilities will be realised 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 judgements regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period in which such a decision is made.

(iv) Value added tax (VAT)

The Tax Administration requires the settlement of VAT on a net basis. VAT related to sales and purchases is recognised and disclosed in the consolidated statement of financial position on a net basis. Where a provision has been made for impairment of receivables, impairment loss is recorded for the gross amount receivable, including VAT.

3.10 Intangible assets

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

(i) Brands and customer agreements

Customer agreements have a finite useful life and are carried at cost less accumulated amortisation and accumulated impairment losses, if any. Amortisation is calculated using the straight-line method over their estimated useful life of 6 years.

Rights to acquired trademarks are carried at cost and have an indefinite useful life since, because based on an analysis of all the relevant factors at the reporting date, there is no foreseeable limit to the period of time over which identified rights are expected to generate net cash flows. Intangible assets with indefinite useful lives are tested annually for impairment and are stated at cost less accumulated impairment loss.

(ii) Computer software

Software licences are capitalised on the basis of costs incurred to acquire and bring the software to use. These costs are amortised over their estimated useful life of 5 years.

(iii) Goodwill

Goodwill and excess of fair value of acquired assets over the acquisition cost represent the difference of acquisition cost and acquirer share in the total fair value of assets and liabilities on the day of acquisition.

Goodwill is subject to the impairment test on any reporting date of statement, as defined in the note *Intangible assets impairment test.* The excess of fair value of acquired net assets over cost is recorded as income through the profit and loss account in the acquisition year.

3 SUMMARY OF BASIC ACCOUNTING POLICIES (CONTINUED)

3.11 Impairment of property, plant and equipment intangibles

At each reporting date, the Group reviews the carrying amounts of its property, plant, equipment and intangibles 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. Where 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. Where 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 definite useful lives and intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that the asset may be impaired.

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

Where impairment loss subsequently reverses, the carrying amount of the asset (or the 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 the cash-generating unit) in prior years. A reversal of an impairment loss is credited immediately to income, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase in accordance with the relevant Standard containing requirements for revaluation of the underlying asset.

3.12 Inventories

Inventories of raw material and spare parts are stated at the lower of acquisition cost and net realisable value. The cost is determined using the weighted average cost method. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

The cost of work-in-progress and finished goods comprises raw material, 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).

Low valued inventory and tools are expensed when put into use.

3.13 Biological assets

The Group recognises a biological asset or agricultural produce, such as livestock or crops, only when the entity controls the asset as a result of past events, it is probable that future economic benefits will flow to the entity, and the fair value or cost of the asset can be measured reliably.

Biological assets are measured on initial recognition and at subsequent reporting dates at fair value less estimated costs to sell, unless fair value cannot be reliably measured.

Agricultural produce is measured at fair value less estimated costs to sell at the point of harvest.

For biological assets measured at cost, depreciation is recorded as the period cost, and calculated using the linear method during the assets expected useful life.

3 SUMMARY OF BASIC ACCOUNTING POLICIES (CONTINUED)

3.14 Trade receivables

Trade receivables are recognised initially at cost which is equal to the fair value at the moment of recognition and subsequently measured at amortised cost using the effective interest method, if significant, if not , based on the face amount, less an allowance for impairment. An impairment allowance for trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default or delinquency in payments are considered indicators that the trade receivable may be impaired. The amount of the allowance is the difference between the asset's carrying amount and recoverable receivables account.

3.15 Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, deposits held at call with banks and other short-term highly liquid instruments with original maturities of three months or less. In the consolidated statement of financial position, bank overdrafts are included within current liabilities.

3.16 Share capital

Share capital consists of ordinary shares. Incremental costs directly attributable to the issue of New Shares or options are shown net of the proceeds of those transactions and corporate income tax. Any excess of the fair value of the consideration received over the fair value of the shares issued is recognised as capital gain.

3.17 Employee benefits

(i) Pension obligations and post-employee benefits

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

(ii) Termination benefits

The Group does not have a policy on either calculating or paying termination benefits.

(iii) Long-term employee benefits

The Group does not recognise the liability for long-term employee benefits (jubilee awards) due to the fact that jubilee award payment is neither included in the work contracts nor determined by other legal acts.

(iv) Short-term employee benefits

The Group recognizes a provision for employee bonuses where contractually obliged or where there is a past practice that has created a constructive obligation.

(v) Share-based payments

The Group does not operate a share-based compensation plan.

3.18 Financial assets

Financial assets are recognised and de-recognised on the trade date when the purchase or sale of a financial asset is under a contract whose terms require delivery of the investment within the time-frame established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through the statement on comprehensive income, which are initially measured at fair value.

Financial assets are classified into the following categories: "financial assets at fair value through profit or loss" (FVTPL), "available-for-sale financial assets" (AFS) and "loans and receivables". Classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

3 SUMMARY OF BASIC ACCOUNTING POLICIES (CONTINUED)

3.18 Financial assets (continued)

Financial assets at fair value through profit or loss

Financial assets are classified as at FVTPL where the financial asset is either held for trading or it is designated as at FVTPL.

Financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future, or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking, or
- it is a derivative that is not designated and effective as hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise, or
- the financial asset forms part of a Group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the Grouping is provided internally on that basis, or,
- it forms a part of a contract containing one or more embedded derivatives and IAS 39 "Financial instruments: Recognition and Measurement" permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at fair value through profit or loss (continued)

Financial assets at FVTPL are stated at fair value, with any resultant gain or loss recognized in a consolidated statement of comprehensive income. The net gain or loss recognised in the consolidated statement of comprehensive income incorporated any dividend or interest earned on the financial asset. Fair value is determined in the manner described in note 6.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated as available-for-sale financial assets or are classified as a) loans and receivables, b) held-to-maturity investments or c) financial assets at fair value through profit or loss.

Dividends on available-for-sale financial assets equity instruments are recognised in statement of comprehensive income when the Company's right to receive the dividends is established.

Fair value of available-for-sale financial assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate prevailing at the end of the reporting period. Change in fair value related to foreign exchange differences arising from changes in amortised cost of the asset is recognised in the consolidated statement of comprehensive income, and other changes are recognised in the principal

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Trade receivables, based on loans, and other receivables with fixed or determinable payments are measured at amortised cost using the effective interest method, less any cumulative impairment losses.

Income from interest is recognised by applying the effective interest rate except for short-term receivables where the recognition of interest is not material.

3 SUMMARY OF BASIC ACCOUNTING POLICIES (CONTINUED)

3.18 Financial assets (continued)

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset., the estimated future cash flows of the investment have been affected.

For securities classified as available for sale, significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include

- significant financial difficulty of the Group or a counterparty or
- breach of contract, such as a default or delinquency in interest or principal payments or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation or
- the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 360 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When the trade receivable is considered uncollectible, it is written off against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Impairment of financial assets (continued)

In respect of available-for-sale equity securities, impairment loss previously recognised in profit or loss are not reversed through profit or loss and any increase in fair value subsequent to an impairment loss is recognised as investment revaluation reserve. In respect of available-for-sale debt securities, impairment loss are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

3 SUMMARY OF BASIC ACCOUNTING POLICIES (CONTINUED)

3.18 Financial assets (continued)

De-recognition of financial assets

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

4 NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

On 12 December 2013, the International Accounting Standards Board (IASB) issued two cycles of annual improvements of IFRS, the cycle 2010 -2012 and the cycle 2011 -2013 containing 11 amendments in 9 standards: IFRS 1 First-time Adoption of IFRS, IFRS 2 Share-based Payment, IFRS 3 Business Combination, IFRS 8 Operating Segments, IFRS 13 Fair Value Measurement, IFRS 16 Property, Plant and Equipment, IFRS 24 Related Party Disclosures, IFRS 38 Intangible Assets and IFRS 40 Investment Property. The named amendments are effective as of or before 1 July 2014.

As of 1 January 2016, IFRS14 - Regulatory Deferral Accounts will be applicable, as of 1 January 2017 IFRS 15 - Revenue Recognition will be applicable and as of 1 January 2018 IFRS 9 - Financial Instruments. The Group is currently assessing the impact of these amendments on consolidated financial statements. The Group intends to adopt these amendments on their effective date.

The Group has not previously applied any International Financial Reporting Standard whose application was not mandatory on the reporting date. Where the standards' transitional provisions allow for the choice between the prospective or retrospective application, the Group has chosen the prospective application as of effective date.

5 KEY ACCOUNTING JUDGEMENTS AND ESTIMATES

Key judgements in applying accounting policies

The preparation of financial statements in conformity with IFRS requires the Management Board to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. 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 and in any future periods affected.

(i) Deferred tax assets recognition

The net deferred tax asset represents income taxes recoverable through future deductions from taxable profits and is recorded in the statement of financial position. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. In determining future taxable profits and the amount of tax benefits that are probable in the future, the Management Board makes judgements and applies estimation based on previous years taxable profits and expectations of future income that are believed to be reasonable under the existing circumstances.

(ii) Consequences of certain court proceedings

Individual companies within the Group are parties in disputes and proceedings which have arisen from the regular course of their operations. The Management Board makes estimates of probable outcomes of the legal actions and the provisions for the Group's obligations arising from these legal actions are recognised on a consistent basis.

(iii) Recoverability of trade and other receivables

The recoverable amount of trade and other receivables is estimated at present value of future cash flows discounted at the market interest rate at the measurement date. Short-term receivables with no stated interest rate are measured by the amount of original invoice if the effect of discounting is not significant.

(iv) Impairment of intangible assets, including goodwill

The Group tests goodwill, brands and rights for impairment on an annual basis. They have been allocated to cash generating units within reportable segments at their carrying amount at the reporting date as follows:

	Milling	**Dairy production**	**30 June 2014 Total**
Trademarks	120,000	-	120,000
Goodwill	60,379	-	60,379
Client list	9,861	-	9,861
Software and other intangible assets	-	1,081	1,081
	190,240	**1,081**	**191,321**

The recoverable amount of cash generating units is determined based on value-in-use calculation based on cash flow projections from financial budgets approved by the Management Board and cover a period of five years.

Intangible assets were created as a result of an acquisition in the milling segment. Since the acquisition took place at the beginning of May 2014, the short period from the acquisition to the date of the statement presents a limiting factor in conducting the impairment test.

6 CONTINGENT LIABILITIES

Currently, a dispute is in progress with the company Osatina grupa d.o.o. where Granolio d.d. is the defendant regarding the collection of the amount of HRK 5,020.264 together with penalty interest. The Management Board considers that based on the existing facts and legal grounds it can be concluded that the claim is not grounded and it is expected that the claim is rejected so no reservation for the dispute has been provided on potential liabilities

7 PARALLEL DATA AND OPENING BALANCE ADJUSTMENT

in thousands of HRK

		31 December 2011 published	Correction	31 December 2011 restated	31 December 2012 published	Correction	31 December 2012 restated
I FIXED ASSETS							
Trademarks, concessions, licences	(f)	7,274	-	7,274	8,195	-	8,195
Other fixed assets		495,742	-	495,742	481,389	-	481,389
II SHORT-TERM ASSETS							
Inventories	(d)	93,027	-	93,027	141,115	(9,511)	131,604
Trade receivables	(b)(g)	141,619	(5,300)	136,319	129,604	(8,976)	120,628
Granted loans, deposits and similar	(b)	86,345	3,590	89,935	89,260	3,883	93,143
Other short-term assets		23,461	-	23,461	22,673	-	22,673
Prepaid expenses and accrued income	(e)	1,107	-	1,107	2,349	-	2,349
TOTAL ASSETS		**848,575**	**(1,710)**	**846,865**	**874,585**	**(14,604)**	**859,981**
I CAPITAL AND RESERVES			-			-	
1 Subscribed capital		12,000	-	12,000	12,000	-	12,000
2 Legal reserves			-	-	116	-	116
3 Revaluation reserves	(c)	115,661	(23,133)	92,528	112,023	(22,403)	89,620
4 Retained earnings		52,905	(3,339)	49,566	50,108	(9,985)	40,123
5 Result for the year	(d)	(237)	(6,646)	(6,883)	(5,652)	(11,906)	(17,558)
Non-controlling interests		80,858	(10,003)	70,855	75,622	(12,419)	63,203
II LONG-TERM LIABILITIES			-			-	
1. Liabilities for loans, deposits and similar	(a)	8,666	(8,666)	-	8,488	(8,488)	-
2. Liabilities towards banks and other financial institutions	(a)	200,561	8,666	209,227	199,155	8,488	207,643
3. Liabilities to suppliers		372	-	372	318	-	318
4. Deferred tax liabilities	(c)	4,341	23,133	27,474	2,450	22,403	24,853
III SHORT TERM LIABILITIES			-			-	
1. Liabilities for loans, deposits and similar	(a)	7,388	(7,388)	-	23,919	(19,649)	4,270
2. Liabilities towards banks and other financial institutions	(a)	265,165	7,388	272,553	276,507	19,649	296,156
3. Other liabilities		100,686	-	100,686	119,163	-	119,163
Accrued liabilities and deferred income	(e)	209	18,278	18,487	368	19,706	20,074
TOTAL CAPITAL AND RESERVES AND LIABILITIES		**848,575**	**(1,710)**	**846,865**	**874,585**	**(14,604)**	**859,981**

7 PARALLEL DATA AND OPENING BALANCE ADJUSTMENT (CONTINUED)

		31 December 2013 published	Correction	in thousands of HRK 31 December 2013 restated
I FIXED ASSETS				
Trademarks, concessions, licences	(f)	7,373	(7,373)	-
Other long-term assets		451,005		451,005
II SHORT-TERM ASSETS			-	
Inventories	(d)	131,997	(10,031)	121,966
Trade receivables	(b)(g)	149,079	(6,627)	142,452
Granted loans, deposits and similar	(b)	75,757	3,768	79,525
Other short-term assets		47,109	-	47,109
Prepaid expenses and accrued income	(e)	5,459	(4,239)	1,220
TOTAL ASSETS		**867,779**	**(24,502)**	**843,277**
I CAPITAL AND RESERVES			-	
1. Subscribed capital		12,000	-	12,000
2. Legal reserves		161	-	161
3. Revaluation reserves	(c)	105,181	(21,677)	83,504
4. Retained earnings		49,414	(21,890)	27,524
5. Result for the year	(d)	(7,314)	(5,119)	(12,433)
Non-controlling interests		70,392	(13,993)	56,399
II LONG-TERM LIABILITIES			-	
1. Liabilities for loans, deposits and similar	(a)	6,940	(6,940)	-
2. Liabilities towards banks and other financial institutions	(a)	212,209	6,940	219,149
3. Liabilities to suppliers		318	-	318
4. Deferred tax liabilities	(c)	555	21,677	22,232
III SHORT TERM LIABILITIES			-	
1. Liabilities for loans, deposits and similar	(a)	19,460	(14,664)	4,796
2. Liabilities towards banks and other financial institutions	(a)	242,286	14,664	256,950
Other liabilities		154,902	-	154,902
Accrued liabilities and deferred income	(e)(h)	1,275	16,500	17,775
TOTAL CAPITAL AND RESERVES AND LIABILITIES		**867,779**	**(24,502)**	**843,277**

7 PARALLEL DATA AND OPENING BALANCE ADJUSTMENT (CONTINUED)

	Note	**2011 published**	**Corrected**	**2011 restated**	**2012 published**	**Corrected**	**2012 restated**	**2013 published**	**Corrected**	**2013 restated**
Revenue from sales	(g)	774,898	(1,710)	773,188	809,833	(5,093)	804,740	756,096	(2,859)	753,237
Other operational income	(d)(h)	42,586	(11,599)	30,987	35,682	(10,937)	24,745	29,362	(1,826)	27,536
Total operating income		**817,484**	**(13,309)**	**804,175**	**845,515**	**(16,030)**	**829,485**	**785,458**	**(4,685)**	**780,773**
Material costs	(d)	(683,929)	-	(683,929)	(718,163)	-	(718,163)	(665,351)	9,511	(655,840)
Other expenses	(e)	(13,417)	-	(13,417)	(12,484)	-	(12,484)	(6,267)	(3,017)	(9,284)
Value adjustment	(f)	(895)	-	(895)	(184)	-	(184)	(157)	(13,589)	(13,746)
Other	(g)	(84,810)	-	(84,810)	(93,045)	1,710	(91,335)	(99,380)	5,086	(94,294)
Total operating income		**(783,051)**	**-**	**(783,051)**	**(823,876)**	**1,710**	**(822,166)**	**(771,155)**	**(2,009)**	**(773,164)**
Net finance result		**(30,735)**	**-**	**(30,735)**	**(27,823)**	**-**	**(27,823)**	**(25,200)**		**(25,200)**
Result before taxation		**3,698**	**(13,309)**	**(9,611)**	**(6,184)**	**(14,320)**	**(20,504)**	**(10,897)**	**(6,694)**	**(17,591)**
Corporate income tax		(1,968)	-	(1,968)	(1,908)	-	(1,908)	(1,646)		(1,646)
Profit / (loss) after taxation		**1,730**	**(13,309)**	**(11,579)**	**(8,092)**	**(14,320)**	**(22,412)**	**(12,543)**	**(6,694)**	**(19,237)**
Pertains to the Group		*(237)*	-	*(6,882)*	*(5,652)*	-	*(17,558)*	*(7,314)*		*(12,433)*
Non-controlling interests		*1,967*	-	*(4,697)*	*(2,440)*	-	*(4,854)*	*(5,229)*		*(6,804)*

7 PARALLEL DATA AND OPENING BALANCE ADJUSTMENT (CONTINUED)

In order to issue a new series of shares on the capital market and publish a Prospectus, the Group has disclosed restated results from the previous years for the purpose of transparency, comparability and comprehensive overview of information in compliance with the International Accounting Standard (IAS) 8 as follows:

(a) The 2013, 2012 and 2011 current and non-current liabilities against leasing companies were reclassified from ”Liabilities for loans, deposits and similar" to ”Liabilities to banks and other financial institutions”.

(b) The 2013, 2012 and 2011 receivables for commodity loans were reclassified from ”Trade receivables” to ”Short-term loans, deposits and similar”.

(c) The 2013, 2012 and 2011 deferred tax liabilities were transferred from revaluation surplus in accordance with IAS 12.

(d) The 2012 and 2013 inventories were corrected in line with IAS 2 by their revalued amount. The result for the period decreased by HRK 9,511,000 in 2012 and by HRK 3,817,000 in 2013, and increased by HRK 9,511,000 due to the sale of inventories subject to revaluation. Furthermore, in 2013 the Group adjusted non-current inventory from PZ Osatina in the amount of HRK 6,215,000 that debited the result for the period.

(e) In 2013 "Prepaid expenses and accrued income" and "Accrued liabilities and deferred income" were adjusted by the value of the dispute PZ Osatina and the current period result was decreased by HRK 3,018,000.
Furthermore, "Accrued liabilities and deferred income" were adjusted in the years 2011, 2012 and 2013 by the amount of received incentives recognized in previous periods on a one-time basis in income.
In 2013 "Prepaid expenses and accrued income" was decreased by HRK 4,238,000 while "Accrued liabilities and deferred income" was decreased by HRK 1,221,000, i.e. the amount from the court proceedings with PZ Osatina and increased by HRK 17,714,000 from received incentives.
The position "Accrued liabilities and deferred income" was increased by HRK 19,704,000 in 2012 and HRK 18,278,000 in 2011 for received incentives that had been incorrectly recorded in previous periods in the position "Other income".

(f) In 2013 the amount of HRK 7,373,000 referring to the brand Zdenka was adjusted and the current period loss was recognised in accordance with IAS 36. Furthermore, the current period result was distributed to the Group and the non-controlling interest which was decreased in the same period.

(g) The Group decreased its revenue from sales and other costs and decreased trade receivables by rebate for 2013, 2012 and 2011 in accordance with IAS 18.

(h) The Group adjusted one-time basis revenue from incentives in previous periods and accrued it during the related assets useful life. Consequently, the profit is retained in 2011, 2012 and 2013 and future period income is increased in accordance with IAS 20.

8 REVENUE FROM SALES

in thousands of HRK

	2011	2012	2013	1-6 2013	1-6 2014
Domestic sales revenue	684,028	690,235	557,323	286,522	317,468
Revenue from sales abroad	89,160	114,505	195,914	33,429	29,255
	773,188	**804,740**	**753,237**	**319,951**	**346,723**

Reporting segments form an integral part of internal financial statements. Internal financial statements are regularly reviewed by the Management Board of the Company which also makes all the most important business decisions and which then evaluates the business operations effectiveness and makes its business decisions accordingly.

The Group follows its business activities through the following segments:

- Milling
- Dairy production
- Wholesale
- Other

Analysis of revenues by type of activity

Set out below is an analysis of the Group's revenue and results by its reportable segments presented in accordance with IFRS 8 and a reconciliation of segment profits to profit or loss before tax as presented in the consolidated statement of comprehensive income.

The presented revenue relates to revenue from sales and other revenues realized from third-party sales. Inter-segment revenues are eliminated on consolidation.

in thousands of HRK

	Milling	Dairy production	Wholesale	Other	Unclassified	TOTAL 1-6 2014
Revenue from sales	103,141	63,523	161,559	18,500	-	**346,723**
Other operating income	166	3,943	2,020	2,872	-	**9,001**

Territorial analysis of revenue from sales

in thousands of HRK

Country	**2011**	**2012**	**2013**	**2014 1-6**
Croatia	684,028	690,235	557,323	317,468
Italy	7,564	20,290	63,738	5,826
Switzerland	-	8,166	33,616	122
Bosnia and Herzegovina	31,666	37,556	22,664	7,290
The Netherlands	8,142	7,536	16,160	-
Serbia	3,541	17,757	15,627	1,371
Other countries	38,247	23,200	44,109	14,646
	773,188	**804,740**	**753,237**	**346,723**

9 OTHER OPERATING REVENUE

in thousands of HRK

	2011	2012	2013	1-6 2013	1-6 2014
Revenue from incentives	9,381	6,927	9,665	288	1,771
Revenue from claims collection	654	1,902	2,438	1,543	1,702
Revenue on the account of the increase in livestock unit	1,772	2,460	3,051	1,364	1,406
Subsequent approvals from suppliers	4,441	5,600	4,397	789	956
Inventory surplus	1,268	2,329	858	84	191
Revenue from sale of long-term assets	382	48	3,351	39	151
Subsequently determined revenue	604	952	142	37	108
Revenue from sale of raw material	7,751	905	-	-	-
Other	4,734	3,622	3,634	1,139	2,716
	30,987	**24,745**	**27,536**	**5,283**	**9,001**

The item "other" mostly includes the costs of recharging the cost of fuel to transporters in Granolio in the amount of HRK 1.3 million and revenue on the account of the use of own products and services for long-term assets in Žitar in the amount of HRK 1 million.

10 MATERIAL COSTS

The structure of material costs is as follows:

in thousands of HRK

Raw material and material costs	2011	2012	2013	1-6 2013	1-6 2014
Raw material and material costs	249,738	243,970	272,416	142,163	136,034
Consumed energy	16,953	17,928	19,031	8,576	8,592
Ullage, spillage, breakage and inventory defect	2,842	2,604	2,641	1,649	1,622
Inventory cost of sold livestock	3,613	4,726	4,598	2,082	976
Other	688	608	1,069	117	61
	273,834	**269,836**	**299,755**	**154,587**	**147,285**
Costs of goods sold	**365,780**	**405,929**	**308,899**	**114,693**	**158,504**
Other external costs					
Telephone, postal and transport services	17,189	16,215	18,697	7,207	8,858
Maintenance and security services	4,082	5,092	5,343	2,839	2,424
Rent services	5,336	5,178	4,534	2,274	2,041
Other external costs	9,453	10,830	13,382	2,437	1,766
Intellectual services	2,703	2,358	2,185	1,227	1,745
Marketing and sponsorship services	4,794	2,656	2,984	1,304	653
Vehicle registration services	758	69	61	-	-
	44,315	**42,398**	**47,186**	**17,288**	**17,487**
	683,929	**718,163**	**655,840**	**286,568**	**323,276**

11 PERSONNEL COSTS

in thousands of HRK

	2011	2012	2013	1-6 2013	1-6 2014
Net salaries	27,777	28,575	26,118	13,218	11,307
Expenses for taxes and contributions from salaries	12,117	12,195	10,930	5,616	4,045
Contributions on salaries	6,782	6,408	5,606	2,843	2,603
	46,676	**47,178**	**42,654**	**21,677**	**17,955**

12 VALUE ADJUSTMENT

in thousands of HRK

	2011	2012	2013	1-6 2013	1-6 2014
Trade receivables	496	-	-	-	13,779
Receivables for incentives	-	-	-	-	2,198
Inventory	399	-	6,215	-	749
Long-term intangible assets	-	-	7,374	-	-
Other receivables	-	184	157	35	1,610
	895	**184**	**13,746**	**35**	**18,336**

13 OTHER EXPENSES

in thousands of HRK

	2011	2012	2013	1-6 2013	1-6 2014
Bank charges and costs of payment operations	3,625	3,219	2,372	637	1,395
Employee reimbursements, gifts, help	2,846	3,533	2,734	2,218	1,283
Insurance premiums	1,115	1,505	1,383	1,719	810
Contributions, membership fees and other fees	1,619	983	741	388	281
Per diem for business trips	1,596	1,238	640	159	139
Other expenses	2,616	2,006	1,414	496	539
	13,417	**12,484**	**9,284**	**5,617**	**4,447**

14 OTHER OPERATING EXPENSES

in thousands of HRK

	2011	2012	2013	1-6 2013	1-6 2014
Subsequently approved cassa sconto	7,112	2,332	1,663	3,778	2,069
Additionally found operating expenses	-	1,844	5,136	2,632	573
Non-depreciated value of retired fixed assets	1,394	758	399	301	317
Fines, penalties, indemnification	203	446	1,239	1,206	305
Entertainment expenses and gifts	1,435	983	510	193	280
Indemnification based on court decisions	-	-	3,017	-	-
Write-offs of uncollected claims	-	1,395	711	1	9
Other business expenses	5,376	1,953	1,331	412	494
	15,520	**9,711**	**14,006**	**8,523**	**4,047**

15 FINANCIAL REVENUES AND EXPENSES

Finance income

in thousands of HRK

	2011	2012	2013	1-6 2013	1-6 2014
Positive foreign exchange differences	1,797	3,299	1,119	267	1,076
Granted loans interest	1,344	4,848	1,621	370	902
Penalty interest	2,034	2,316	3,335	2,136	573
Other financial income	15	12	1,393	120	3,836
	5,190	**10,475**	**7,468**	**2,893**	**6,387**

Financial expenses

in thousands of HRK

	2011	2012	2013	1-6 2013	1-6 2014
Loss from financial asset reconciliation	-	-	-	-	16,831
Interest on credit and loans	28,922	28,306	23,676	12,182	16,634
Negative foreign exchange differences	5,769	4,179	1,078	556	437
Penalty interest	1,028	721	4,170	932	423
Bill of exchange discount interest	194	4,711	2,021	-	-
Other financial expenses	12	381	1,723	147	1,036
	35,925	**38,298**	**32,668**	**13,817**	**35,361**

Loss from financial asset adjustment for the period ending on 30 June 2014 represents an expense of financial assets value adjustment and refers to the following:

		in thousands of HRK
Granted loans	(a)	6,922
Investment in participating interest	(b)	3,930
Reclassification from revaluation reserve	(c)	3,205
Investment in securities	(d)	2,774
		16,831

(a) Impairment of granted loans to related parties (HRK 2,609.000) and commodity loans for sowing (HRK 4,313,000)
(b) Impairment of investment in Ecofarm d.o.o. BiH (HRK 2,940 k) and impairment in PZ Zabara (HRK 990,000)
(c) Impairment of investment in the company Zagrebačke pekarne Klara d.d. Shares of the company Klara are reclassified to the assets classified at fair value through profit or loss based on IAS 39, whereas the reserve formed by application of value of shares in previous years and due to constant loss being realised by the company Klara zagrebačke pekarne d.d. debited the current year result.
(d) Decrease of bill of exchange value in commercial operations (HRK 2,000,000) and portfolio (HRK 774,000).

16 INTANGIBLE AND FIXED ASSETS

Movements in fixed and intangible assets in the first six months of 2014

in thousands of HRK

Purchase value	**Land**	**Buildings**	**Plant, equipment and tools**	**Biological assets**	**Property investment**	**Other fixed assets**	**Current investment**	**Total fixed assets**	**Intangible investment**	**TOTAL**
As on 01/01/2014	27,980	337,312	193,176	15,889	827	154	18,767	594,105	3,230	597,335
Direct increase over the year	-	60	689	2,606	-	-	6,785	10,140	190,378	200,518
Transfer of investments	112	703	4,910	-	-	-	(5,725)	-	-	-
Reclassification	-	(16)	16	-	-	-	-	-	-	-
Sale	-	-	(920)	(1,438)	-	-	-	(2,358)	-	(2,358)
Expenses	-	-	-	(475)	-	-	-	(475)	-	(475)
Increase	-	-	-	1,390	-	-	-	1,390	-	1,390
Death, forced slaughter, shortage, rendering	-	-	-	(1,135)	-	-	-	(1,135)	-	(1,135)
As on 30/06/2014	**28,092**	**338,059**	**197,871**	**16,837**	**827**	**154**	**19,827**	**601,667**	**193,608**	**795,275**
Value adjustment										
As on 01/01/2014	-	83,150	105,029	5,128	34	94	-	193,435	1,972	195,407
Amortisation until 30/6/2014	-	5,608	6,872	1,259	5	1	-	13,745	315	14,060
Sale	-	-	(914)	(468)	-	-	-	(1,382)	-	(1,382)
Expenses and deficits	-	-	-	(87)	-	-	-	(87)	-	(87)
Revaluation depreciation	-	1,083	737	-	-	-	-	1,820	-	1,820
As on 30/06/2014	**-**	**89,841**	**111,724**	**5,832**	**39**	**95**	**-**	**207,531**	**2,287**	**209,818**
Current value 01/01/2014	**27,980**	**254,162**	**88,147**	**10,761**	**793**	**60**	**18,767**	**400,670**	**1,258**	**401,928**
Current value 30/06/2014	**28,092**	**248,218**	**86,147**	**11,005**	**788**	**59**	**19,827**	**394,136**	**191,321**	**585,457**

Advances for fixed assets amount to HRK 773,000 and relate to the advance for the purchase of land (HRK 737,000) and equipment (HRK 36,000).

16 INTANGIBLE AND FIXED ASSETS (CONTINUED)

Movements in fixed and intangible assets during 2013

in thousands of HRK

Purchase value	Land	Buildings	Plant, equipment and tools	Biological assets	Property investment	Other tangible assets	Current investment	Total fixed assets	Intangible investment	TOTAL
As on 01/01/2013	27,065	337,365	188,097	14,929	395	143	18,901	586,895	17,981	604,876
Direct increase over the year	-	103	2,124	183	1,793	11	4,574	8,788	170	8,958
Transfer from investments	-	822	3,886	-	-	-	(4,708)	-	-	-
Reclassification	978	(978)	-	-	-	-	-	-	-	-
Sale	-	-	(910)	(2,516)	(1,361)	-	-	(4,787)	-	(4,787)
Expenses	(63)	-	(21)	(1,046)	-	-	-	(1,130)	(14,921)	(16,051)
Increase	-	-		4,339	-	-	-	4,339	-	4,339
As on 31 December 2013	27,980	337,312	193,176	15,889	827	154	18,767	594,105	3,230	597,335
Value adjustment										
As on 01/01/2013	-	69,648	88,244	3,946	22	86	-	161,946	8,373	170,319
Amortisation for 2013	-	11,337	15,951	2,351	12	8	-	29,659	1,146	30,805
Sale	-	-	(637)	(823)	-	-	-	(1,460)	-	(1,460)
Expenses and deficits	-	-	(3)	(346)	-	-	-	(349)	(7,547)	(7,897)
Revaluation depreciation for 2013	-	2,165	1,474	-	-	-	-	3,639	-	3,639
As on 31 December 2013	-	83,150	105,029	5,128	34	94	-	193,435	1,972	195,407
Current value 01/01/2013	**27,065**	**267,717**	**99,853**	**10,983**	**373**	**57**	**18,901**	**424,949**	**9,608**	**434,557**
Current value 31 December 2013	**27,980**	**254,162**	**88,147**	**10,761**	**793**	**60**	**18,767**	**400,670**	**1,258**	**401,928**

Advances for fixed assets amount to HRK 1,522,000 and relate to the advance for the purchase of land (HRK 737,000) and equipment (HRK 9000) in Žitar and the acquisition of a machine (packing machine) in the amount of HRK 776,000 in Zdenka.

16 INTANGIBLE AND FIXED ASSETS (CONTINUED)

Movements in fixed and intangible assets during 2012

in thousands of HRK

Purchase value	Land	Buildings	Plant, equipment and tools	Biological assets	Property investment	Other fixed assets	Current investment	Total fixed assets	Intangible investment	TOTAL
As on 01/01/2012	26,509	332,326	173,833	13,047	395	132	23,875	570,117	16,104	586,221
Direct increase over the year	556	724	1,742	1,947	-	11	16,902	21,882	189	22,071
Transfer from investments	-	4,315	15,841		-	-	(21,851)	(1,695)	1,695	-
Sale	-	-	(2,117)	(1,756)	-	-	-	(3,873)	-	(3,873)
Expenses	-	-	(1,202)	(721)	-	-	-	(1,923)	(7)	(1,930)
Increase	-	-	-	2,459	-	-	-	2,459	-	2,459
Other	-	-	-	(47)	-	-	(25)	(72)	-	(72)
As on 31 December 2012	**27,065**	**337,365**	**188,097**	**14,929**	**395**	**143**	**18,901**	**586,895**	**17,981**	**604,876**
Value adjustment										
As on 01/01/2012	-	55,930	72,560	1,411	11	72	-	129,984	7,271	137,255
Amortisation for 2012	-	11,554	16,814	2,837	11	14	-	31,230	1,109	32,339
Sale	-	-	(1,749)	(141)	-	-	-	(1,890)	-	(1,890)
Expenses and deficits	-	(1)	(851)	(161)	-	-	-	(1,013)	(7)	(1,020)
Revaluation depreciation for 2012	-	2,165	1,470	-	-	-	-	3,635	-	3,635
As on 31 December 2012	**-**	**69,648**	**88,244**	**3,946**	**22**	**86**	**-**	**161,946**	**8,373**	**170,319**
Current value 01/01/2012	**26,509**	**276,396**	**101,273**	**11,636**	**384**	**60**	**23,875**	**440,133**	**8,833**	**448,966**
Current value 31 December 2012	**27,065**	**267,717**	**99,853**	**10,983**	**373**	**57**	**18,901**	**424,949**	**9,608**	**434,557**

Advances for fixed assets amount to HRK 934,000 and relate to the advance for the purchase of land (HRK 737,000) and equipment (HRK 197,000).

16 INTANGIBLE AND FIXED ASSETS (CONTINUED)

Movements in fixed and intangible assets during 2011

in thousands of HRK

	Land	**Buildings**	**Plant, equipment and tools**	**Biological assets**	**Property investment**	**Other fixed assets**	**Current investment**	**Total fixed assets**	**Intangible investment**	**TOTAL**
Purchase value										
As on 01/01/2011	16,326	191,741	79,410	4,836	-	102	20,285	312,700	943	313,643
Increase in consolidation	1,513	54,521	55,243	-	-	-	37,449	148,726	15,005	163,731
Direct increase over the year	8,469	38,937	7,797	8,086	395	30	49,329	113,043	112	113,155
Transfer of investments	201	47,127	35,860	-	-	-	(83,188)	-	44	44
Sale	-	-	(3,187)	(2,204)	-	-	-	(5,391)	-	(5,391)
Expenses	-	-	(1,290)	(646)	-	-	-	(1,936)	-	(1,936)
Increase	-	-	-	2,975	-	-	-	2,975	-	2,975
As on 31 December 2011	**26,509**	**332,326**	**173,833**	**13,047**	**395**	**132**	**23,875**	**570,117**	**16,104**	**586,221**
Value adjustment										
As on 01/01/2011	-	31,359	43,847	644	-	58	-	75,908	819	76,727
Increase in consolidation	-	14,137	16,191	-	-	-	-	30,328	4,827	35,155
Amortisation for 2011	-	8,656	14,227	1,307	11	14	-	24,215	1,625	25,840
Sale	-	-	(428)	(367)	-	-	-	(795)	-	(795)
Expenses and deficits	-	-	(2,750)	(173)	-	-	-	(2,923)	-	(2,923)
Revaluation depreciation	-	1,778	1,473	-	-	-	-	3,251	-	3,251
As on 31 December 2011	**-**	**55,930**	**72,560**	**1,411**	**11**	**72**	**-**	**129,984**	**7,271**	**137,255**
Current value 01/01/2011	**16,326**	**160,382**	**35,563**	**4,192**	**-**	**44**	**20,285**	**236,792**	**124**	**236,916**
Current value 31 December 2011	**26,509**	**276,396**	**101,273**	**11,636**	**384**	**60**	**23,875**	**440,133**	**8,833**	**448,966**

Advances for fixed assets amount to HRK 962,000 and relate to the advance for the purchase of land (HRK 737,000), advance for project documentation (HRK 159,000), calf sheds (HRK 38,000) and purchase of equipment (HRK 28,000).

17 LONG-TERM FINANCIAL ASSETS

(a) Investment

in thousands of HRK

	31 December 2011	31 December 2012	31 December 2013	30 June 2014
Zagrebačke pekarne Klara d.d.	24,182	24,182	20,977	20,977
Prehrana trgovina d.d.	1,927	1,927	1,927	1,927
Žitar konto d.o.o.	-	-	-	20
PZ Zabara	1,403	1,000	1,000	10
Žitozajednica d.o.o.	1	1	1	1
Zdenka m.p. Beograd	4	4	-	-
Ekofarma d.o.o., BiH	1,195	9,105	9,106	-
	28,712	**36,219**	**33,011**	**22,935**

All investments recorded on long-term financial assets are classified as Financial assets available for sale.

Participation in ownership structure

	31 December 2011	31 December 2012	31 December 2013	30 June 2014
Zagrebačke pekarne Klara d.d.	18.25%	18.25%	18.25%	18.25%
Prehrana trgovina d.d.	11.48%	11.48%	11.48%	11.48%
Žitar konto d.o.o.	-	-	-	100%
PZ Zabara	75%	12.50%	12.50%	12.50%
Žitozajednica d.o.o.	1.28%	1.28%	1.28%	1.28%
Zdenka m.p. Beograd	100%	100%	-	-
Ekofarma d.o.o., BiH	100%	100%	100%	-

(b) Granted long-term loans

in thousands of HRK

	31 December 2011	31 December 2012	31 December 2013	30 June 2014
Loans to legal entities	20,916	15,719	13,365	12,093
Loans to individuals	289	268	300	406
Deposits	2,940	1,765	771	833
	24,145	**17,752**	**14,436**	**13,332**

Long-term loans maturity date

in thousands of HRK

	As on 30/06/2014	1/7/2014-30/06/2015	1/7/2015-31/12/2015	2016	2017	2018	2019+
Loans to legal entities-related parties	14,825	2,732	1,273	2,546	2,546	2,546	3,182
Loans to individuals	406	96	49	71	48	44	98
	15,231	**2,828**	**1,322**	**2,617**	**2,594**	**2,590**	**3,280**

During 2012 the Group liquidated the company Zdenka-mliječni proizvodi Beograd.
In 2014 the share in the company Ekofarma d.o.o. registered in Bosnia and Herzegovina was sold. The sale resulted in loss of HRK 2,898,000.
The investment into the agricultural cooperative Zabara was decreased to its fair value proportional to the Group's share in the cooperative.
The loss from sale of shares in Ekofarma and the impairment of investment into PZ Zabara are recorded in the Comprehensive profit statement for the first six months of 2014.

18 INVENTORIES

in thousands of HRK

	31 December 2011	31 December 2012	31 December 2013	30 June 2014
Commodities	17,526	21,698	70,195	34,102
Raw material	52,215	84,811	32,790	33,297
Work in progress	8,374	10,466	9,207	14,719
Finished goods	14,912	14,555	9,773	12,432
Available-for-sale assets	-	-	-	21
Advance payments for inventories	-	74	1	5
	93,027	**131,604**	**121,966**	**94,576**

19 TRADE RECEIVABLES AND RECEIVABLES FROM THE GOVERNMENT AND OTHER INSTITUTIONS

a) Trade receivables

in thousands of HRK

	31 December 2011	31 December 2012	31 December 2013	30 June 2014
Domestic customers	133,553	118,374	127,206	150,164
Foreign customers	12,279	11,002	23,857	9,043
Value adjustment of customers	(9,513)	(8,748)	(8,611)	(22,348)
	136,319	**120,628**	**142,452**	**136,859**

Value adjustment of trade receivables

	31 December 2011	31 December 2012	31 December 2013	30 June 2014
As on 1/1	9,478	9,513	8,748	8,611
Increase	496	-	-	13,779
Write-off of adjusted claims	-	(81)	(54)	-
Collection of adjusted claims	(461)	(684)	(83)	(42)
Closing balance	**9,513**	**8,748**	**8,611**	**22,348**

Historical analysis of due trade receivables for which value adjustment has not been performed has been shown in the following table:

in thousands of HRK

	31 December 2011	31 December 2012	31 December 2013	30 June 2014
Not due	69,063	63,562	76,038	88,160
0-90 days	44,032	35,624	42,354	29,287
91- 180 days	6,931	4,757	3,409	4,276
181- 360 days	7,410	3,321	4,527	9,874
> 360 days	8,883	13,364	16,124	5,262
	136,319	**120,628**	**142,452**	**136,859**

b) Receivables from the government and other institutions

in thousands of HRK

	31 December 2011	31 December 2012	31 December 2013	30 June 2014
Receivables for VAT	2,168	702	14,528	20,967
Receivables for incentives	6,432	5,924	9,721	3,086
Other receivables from the government and other institutions	697	1,493	287	2,241
	9,297	**8,119**	**24,536**	**26,294**

20 SHORT-TERM FINANCIAL ASSETS

a) Investment in securities

in thousands of HRK

	31 December 2011	31 December 2012	31 December 2013	30 June 2014
Investment in other securities	5,181	2,884	2,821	577
Investment in stocks	1,300	1,300	1,300	494
	6,481	**4,184**	**4,121**	**1,071**

b) Granted loans, deposits and similar

in thousands of HRK

	31 December 2011	31 December 2012	31 December 2013	30 June 2014
Loans for sowing	47,378	68,763	54,089	118,423
Granted short-term loans	34,017	24,355	24,843	22,086
Granted deposits	8,540	25	593	242
	89,935	**93,143**	**79,525**	**140,751**

Credit financing age of loans for sowing

in thousands of HRK

	30 June 2014
Not due	110,307
0- 90 days	222
91- 180 days	62
181- 360 days	7,145
> 360 days	687
	118,423

Granted short-term loans

in thousands of HRK

	31 December 2011	31 December 2012	31 December 2013	30 June 2014
Stanarka d.o.o.	6,856	9,553	10,604	10,718
Cautio d.o.o.	2,510	2,515	2,546	2,732
F.I.V.E.S. d.o.o.	1,173	1,173	1,173	-
Tepih galerija d.o.o.	1,149	1,149	1,149	-
Ecofarm d.o.o.	6,847	118	738	-
PZ Zabara	1,878	-	75	-
Loans to key management	5,624	2,681	3,336	3,423
Loans to individuals	1,907	1,045	4,067	4,704
Loans to others	6,073	6,121	1,155	509
	34,017	**24,355**	**24,843**	**22,086**

During 2014 the granted loans value adjustment was performed based on the recoverability assessment (note 15)

21 CASH AND CASH EQUIVALENTS

				in thousands of HRK
	31 December 2011	**31 December 2012**	**31 December 2013**	**30 June 2014**
Bank accounts - in HRK	3,420	7,813	4,229	4,803
Bank accounts - in foreign currencies	903	197	5,734	5,116
Petty cash	5	1	2	8
	4,328	**8,011**	**9,965**	**9,927**

22 CAPITAL AND RESERVES

Capital represents own permanent working capital. It includes basic shareholder's equity, including legal reserves, revaluation reserves, retained earnings and the current year loss.

Based on the decision of the General Assembly, Granolio d.o.o. was in 2012 conversed into a joint-stock company by issuance of ordinary shares. The share capital in the amount of HRK 5,000,000 was divided into 500,000 common shares of the series "A", with the nominal value of HRK 10 per share.

The company conversion was inscribed in the registry of the Commercial Court in Zagreb on 20 February 2012.

Based on the General Assembly decision the Company's share capital was increased by conversion of retained earnings from the amount of HRK 5,000,000 by the amount of HRK 7,000,000 to the amount of HRK 12,000,000. The share capital was increased by issuing ordinary shares of the nominal value of HRK 10 each, which are taken over by shareholders proportional to their share in the Company's share capital up to that moment. The share capital increase was inscribed in the registry of the Commercial Court in Zagreb on 28 September 2011.

The subscribed capital in the court registry amounts to HRK 12,000,000. The total number of shares in 1,200,000. The nominal value of one share is HRK 10.

The share capital ownership structure on 30 June 2014 was as follows:

	In thousands of HRK Nominal value	% of ownership
Hrvoje Filipović	11,550	96.25%
Individuals and others	450	3.75%
	12,000	**100%**

Individuals holding 3.50% of share capital are directors and key employees of Granolio d.d.

23 EARNING PER SHARE

				in thousands of HRK
	31 December 2011	**31 December 2012**	**31 December 2013**	**30 June 2014**
Loss attributed to the Group	(6,882)	(17,558)	(12,433)	(38,633)
Dividends paid	(18)	(8,040)	-	(2,399)
Loss attributed to shareholders	(6,900)	(25,598)	(12,433)	(41,032)
Number of shares	500,000	1,200,000	1,200,000	1,200,000
Earning per share	**(14)**	**(21)**	**(10)**	**(34)**

24 NON-CONTROLLING INTERESTS

in thousands of HRK

Non-controlling interests	31 December 2011	31 December 2012	31 December 2013	30 June 2014
Subscribed capital	72,357	72,357	72,357	72,357
Retained earnings	411	(4,300)	(9,154)	(15,958)
Profit/(loss) of the period	(4,697)	(4,854)	(6,804)	(7,272)
Liabilities due to share in results	2,784	-	-	-
	70,855	**63,203**	**56,399**	**49,127**

25 DEFERRED TAX LIABILITIES

in thousands of HRK

	31 December 2011	31 December 2012	31 December 2013	30 June 2014
As on 1 January 2014	4,341	27,474	24,853	22,232
Increase	23,133	-	-	-
Decrease	-	(2,621)	(2,621)	(4,745)
	27,474	**24,853**	**22,232**	**17,487**

26 LIABILITIES FOR LOANS, DEPOSITS AND SIMILAR

in thousands of HRK

	31 December 2011	31 December 2012	31 December 2013	30 June 2014
Long term loans	**-**	**-**	**-**	**13**
Short-term loans				
Loans from related parties	-	1,070	1,803	-
Loans from companies	-	3,200	2,993	15,314
Commodity loan	-	-	-	8,508
	-	**4,270**	**4,796**	**23,822**

27 LIABILITIES TOWARD FINANCIAL INSTITUTIONS

in thousands of HRK

	31 December 2011	31 December 2012	31 December 2013	30 June 2014
<u>Long-term liabilities</u>				
Bank loans	200,551	199,155	212,209	170,001
Financial lease	8,676	8,488	6,940	3,647
	209,227	**207,643**	**219,149**	**173,648**
<u>Short-term liabilities</u>				
Bank loans	267,714	278,560	242,969	396,165
Financial lease	1,906	1,781	1,777	3,112
Factoring liabilities	2,933	15,815	12,204	-
	272,553	**296,156**	**256,950**	**399,277**
	481,780	**503,799**	**476,099**	**572,925**

Long-term loans are granted in euros and Croatian kuna and are intended for financing the purchase of shares and permanent working capital. Long-term liabilities to lending institutions refer to commercial banks' loans and loans from programmes IPARD, SAPA and the economy development model "Model razvoja gospodarstva" (MOD RG).

The amount of long-term loans (including financial lease) due on 30 June 2015 is HRK 41,885,000 and it is recorded in the position of short-term liabilities.

Remaining liabilities in the balance are due in the period from the first half of 2015 to the end of 2023.

Interest rates on long-term loans are related to EURIBOR and LIBOR and, increased by the margin, range from 1.8% to 6.5% per annum.

Received short-term loans are intended for financing liquidity, export credit financing, financing spring sowing and wheat purchase and bridge financing up to closing the acquisition financial arrangement. Liabilities in the balance are due within a year and have fixed interest rates and floating interest rates based on EURIBOR and ZIBOR and treasury bills of the Ministry of Finance of the Republic of Croatia and they range from 2.8% to 9.0% per annum.

Fixed assets value under mortgage for borrowings from banks on 30 June 2014 amounted to HRK 311,135,000 (on 31 December 2013): HRK 315,760,000).

Bank loans are insured by shares in subsidiaries Žitar d.o.o. and Zdenka - mliječni proizvodi d.o.o.

Loan balance in currency (EUR) is presented in the following table:

	31 December 2013	30 June 2014
Granolio d.d.	12,296	10,445
Žitar d.o.o.	11,131	10,301
Zdenka-mliječni proizvodi d.o.o.	5,044	4,909
	28,471	**25,655**

Due dates of bank loans and financial leases are as follows:

in thousands of HRK

	As on 30 June 2014	1/7/2014-30/6/2015	1/7/2015-31/12/2015	2016	2017	2018	2019+
Domestic banks	566,106	396,105	35,776	42,225	22,882	18,719	50,399
Financial lease	6,759	3,112	1,330	1,701	335	211	70
Diners Erste card	60	60	-	-	-	-	-
	572,925	**399,277**	**37,106**	**43,926**	**23,217**	**18,930**	**50,469**

28 LIABILITIES TOWARDS SUPPLIERS

in thousands of HRK

	31 December 2011	31 December 2012	31 December 2013	30 June 2014
Domestic suppliers	77,519	76,932	118,745	186,412
Foreign suppliers	10,973	19,098	6,245	5,801
Liabilities for non-invoiced goods	118	-	381	3,399
	88,610	**96,030**	**125,371**	**195,612**

Liabilities to suppliers financing age on 30 June 2014:

in thousands of HRK

	30 June 2014
Not due	142,835
0- 90 days	46,400
91- 180 days	2,276
181- 360 days	3,221
> 360 days	880
	195,612

29 LIABILITIES FOR TAXES, CONTRIBUTIONS AND SIMILAR PAYMENTS

in thousands of HRK

	31 December 2011	31 December 2012	31 December 2013	30 June 2014
Liabilities for VAT	876	5,001	2,292	7,162
Liabilities for corporate income tax	1,145	574	-	4,575
Employee/employer burden contributions and taxes	1,599	1,432	1,088	1,155
Other liabilities for taxes and contributions	548	404	165	805
	4,168	**7,411**	**3,545**	**13,697**

30 ASSUMED LIABILITIES

On 30 June 2014 the Group has liabilities arising from agreements on operating lease for long-term fixed assets acquisition in the total amount of HRK 5,820,000, that have not yet been realised and are not recorded in the consolidated financial position statement.

The contracted payment of liabilities for operating lease for transportation means and production equipment use is as follows:

in thousands of HRK

	30/06/2014	1/7/2014-31/12/2014	2015	2016	2017	2018	2019+
Operating lease	5,820	1,400	1,829	1,263	769	504	55

31 TRANSACTIONS WITH RELATED PARTIES

in thousands of HRK

	31 December 2011		31 December 2012		31 December 2013		30 June 2014	
	Assets	**Liabilities**	**Assets**	**Liabilities**	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Fives d.o.o.	1,173	-	1,173	-	1,173	-	-	-
Tepih galerija d.o.o.	1,437	-	1,508	-	1,514	-	-	-
Stanarka d.o.o.	6,856	-	9,553	-	14,991	-	15,105	-
Zdenka MP Beograd	68	26	53	59	-	-	-	-
Ekofarma d.o.o.	8,041	-	9,328	-	10,299	-	-	-
Cautio d.o.o.	23,494	834	18,305	-	15,972	-	14,935	-
PZ Zabara	3,481	379	1,297	-	1,200	18	166	18
Žitar konto d.o.o.	-	-	-	-	-	-	4	175
Krnjak d.o.o.	10,310	1,176	2,645	1,070	2,401	1,837	4,753	256
Key management	6,361	-	3,418	-	4,073	-	4,160	-
Total	61,221	2,415	47,280	1,129	51,623	1,855	39,123	449

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

Remuneration paid to the key management in the first six months of 2014 amounts to HRK 924,000 (in 2013: HRK 2,872,000).

During the first six months HRK 50,000 of remuneration to the members of the Supervisory Board was paid (in 2013: HRK 143,000).

32 RISK MANAGEMENT

32.1. Risks connected with regular operating activities

Market risk

The demand for food productss is relatively inelastic in relation to product prices. The key factors influencing food products demand are demographic factors (increase in population), economic factors (increase in the number of tourists and consumption of food in the catering industry; increase of production in confectionery and bakery industry), social factors (changes in the living standard and eating habits of the population) and political factors (EU membership that allows unobstructed export into the countries of the European Union, but also increases competition on the domestic market with the arrival of producers from other member states). The proximity of the border with the Republic of Hungary can influence the raw material market for the needs of Žitar's production process.

Risk connected with purchase of raw materials and product delivery

The production of wheat, as the most important raw material for the production of flour, and wheat price trends on the domestic and foreign markets have a significant influence on the production and trends of the price of flour. In the last six years, the average annual production of wheat in the Republic of Croatia amounted to over 809 thousand tonnes, which not only meets Croatia's need for wheat, but also allows Croatia to export this grain.

An important local source of raw materials is a wide base of subcontractors with whom Granolio cooperates by providing them with the necessary seed and other production materials for sowing, which it settles through offsetting with the purchase price of the produced wheat/grain.

The risk of obtaining raw materials is also reduced by the fact that Granolio has an organizational trade unit present on the international commodities exchanges and can at present, at all moments, purchase sufficient amounts of wheat at the current market price. With the accession to the European Union, all administrative obstacles for the purchase of raw materials from the European Union have disappeared.

The risk of product non-delivery exists because of a possible production halt following a malfunction at the milling plant or a possibility of contract cancellation by the flour transporter.

The Group tries to reduce the risk of a production halt by hiring workers at mills who are adequately trained to handle malfunctions within a reasonable timeframe. Since larger orders of finished products are expected due to the expansion of the milling business, warehousing capacities are currently being expanded with the goal of creating product stock in order to fill orders on time.

The Group tries to reduce the risk of non-delivery of goods due to cancellation of the contract with the flour transporter through its large base of transporters and the fact that it is not dependent on any transporter in proportion to the volume of their services.

In the dairy production segment, the risk of shortage of raw materials for the production of processed cheese is within reasonable limits, considering that there is a sufficient number of providers on the market, and that, in case one supplier cannot deliver, it is possible to acquire the raw materials from another supplier in a relatively short time period. In addition, Zdenka has its own production facility for the production of raw materials for processed cheese and is able, if the need arises, to produce the necessary amount of raw materials.

Competition risk

The Group mostly sells its products and goods on the domestic market. Croatia's accession to the European Union eased its entry onto the markets of other member states in terms of administration, but it has also brought foreign competition onto the domestic market.

The flour market shows tendencies towards greater concentration, that is a reduction in the total number of flour producers (through enlargement or closing down of small mills) in order to minimise production costs per unit of product through economies of scale and to strengthen the competitive position on the market in turn. With that aim, in May 2010, Granolio carried out an acquisition, which shall be discussed in more detail further in the text, of the milling operations of the companies Belje d.d. Darda and PIK Vinkovci d.d. from Agrokor Group, whose market share was around 21%.

The Group estimates that the potential arrival of new competitors on the domestic market of processed cheeses following Croatia's accession to the European Union does not pose a significant risk for business results, considering consumer habits and Zdenka's long-term presence on the domestic market on which it is competitive both in price and in quality.

32. RISK MANAGEMENT (CONTINUED)

32.1 Risks connected with regular operating activities (continued)

Zdenka's exports are currently more focused on the Middle East market which shows bigger potential than the European market.

By investing into the modernization of cheese production facilities (Zdenka) and by increasing the productivity of the dairy cowherd (Zdenačka farma and Žitar), the per unit production costs are reduced, and it is expected that, at the present levels of market prices, this will have a positive effect on the Groups' profitability.

Risk of exposure to biggest customers and suppliers

The Group's biggest customers are chain retail stores on the Croatian market and ADM International (one of the world's major grain traders). According to the figures for 2013, the share of the Group's five biggest customers is 20%, which means that the Group is not significantly exposed to its biggest customers. The cooperation agreement with Konzum d.d. concluded on 2 May 2014 for a period of three years defined the presence in Konzum's retail sale and wholesale network with flour from the Company's assortment, in accordance with its market share. Therefore, in the future the Group expects to be mostly exposed to Konzum as the biggest individual customer, and thus to the potential risk of change of commercial relations after the expiry of the three-year agreement.

The Group's biggest suppliers are the suppliers of raw materials and production materials for sowing. According to the figures for 2013, the share of the five biggest suppliers is around 25%. In addition, when purchasing key raw materials, the Group attempts to cooperate with a larger number of suppliers in order to reduce the risks of effects on business activities in case of termination of cooperation with one of the biggest suppliers. Despite that, the Group cannot offer any guarantees that a termination of cooperation with one of the biggest suppliers shall not have a significant effect on the Group's operating activities and financial position.

Change of ownership risk

The Company's majority shareholder is Hrvoje Filipović with 96.25% of shares. Even after the execution of the Offer of New Shares, Mr. Filipović intends to remain the Company's majority shareholder. It is therefore not expected that a change in the ownership structure will have a negative effect on the Company's future operating activities.

The possibility of the major shareholder's influence on interests that may differ from the Group's interests.

The majority shareholder, Hrvoje Filipović, has the controlling influence in the Company's General Assembly by way of rights and authority to which he is entitled in his capacity of the Company's shareholder. Mr. Filipović's share in the Company ownership at the date of the report is 96.25%.

The majority share in the ownership of the Company gives Mr. Filipović the right to influence all decisions in the Company's General Assembly.

It is not possible to provide any guarantees that the influence of Mr. Filipović's, as the major sharekholder, will not have a significant effect on the Group's operating activities and financial position.

Risk of acquisitions

The Group's strategy includes an expansion of business, both organically and through acquisitions. The continuation of implementation of this strategy will be contingent on, among other things, identifying acquisition opportunities and their successful execution. Future acquisitions may require an evaluation of concentration by the Croatian Competition Agency (AZTN), that is, there is a risk that they will be evaluated as disallowed or allowed with the condition of fulfilling certain measures and conditions.

The ability of the Group to efficiently integrate and manage the acquired business or economic subject and to successfully deal with future growth depends on a number of factors; a possible failure could have a negative impact on the Group's operating activities and financial position. In the future, it is possible to execute acquisitions of larger scale as well as acquisitions outside the Group's operating market. The Group has no experience with the execution of acquisitions outside its operating market, which can affect the successfulness of the acquisition as well as increase the expenses of the acquisition and integration. Larger scale acquisition may be considerably more difficult for the process of integration and may call for considerably higher financial means than in the past. Acquisitions outside the Group's operating market may present challenges in terms of cultural or language obstacles but also in terms of integration and management of a business that is geographically considerably further away than the Group's current operating market.

32. RISK MANAGEMENT (CONTINUED)

32.1 Risks connected with regular operating activities (continued)

The Group cannot offer any guarantees that it will be able to address adequately all the risks in executing future acquisitions or their integration. Acquisitions may increase the Group's indebtedness, both through the indebtedness for financing the acquisition and through the obligations of the acquired business or economic operator, which may considerably limit the Group's future borrowing. Any significant borrowing in relation with the acquisition may have an important effect on the Group's operating activities.

In future acquisitions, as part of the process of acquisition evaluation, the Group will have to assume expected savings in costs synergies. Such evaluations are uncertain and subject to an array of significant business, economic and competition risks, which might have considerable influence on the deviation of actual results from those initially estimated. The Group risks a failure to accomplish a part or all of the savings and synergies, which were estimated at the time of the acquisition.

Furthermore, while carrying out acquisitions, the Group usually takes over all the liabilities and assets of the business or economic operator that is the subject of the acquisition. Even though the Group conducts a due diligence and other analyses of the company at the time of the acquisition, and tries to obtain adequate commitments and guarantees about assets and liabilities, the Group cannot provide any guarantees that it will be able to identify all actual and potential liabilities prior to the execution of the acquisition. In case the acquisition results in taking over of some unexpected liabilities, and in case the Group did not receive adequate insurance, this might have a significant influence on the Group's operating activities and financial position.

Risk connected with working capital management

Successful working capital management is an important segment of the Group's operating activities. The Group may be susceptible to strong pressure, both from the competition and from key suppliers in terms of shortening the payment terms, while at the same time it might be under pressure from customers in terms of prolonging payments.

The Group has made significant investments into the improvement of logistics with the goal of increasing stock turnover and overall operational efficiency. Although the Group has so far managed the working capital successfully, it is not possible to give any guarantees that this will continue in the future, which might have a significant impact on the Group's operating activities and financial position.

Risk connected with fluctuation of major raw material prices

Business results are strongly influenced by the price of wheat, which is a traded commodity, as the most important raw material in Granolio's production. The volatility of the price of wheat can be the result of unfavourable weather conditions, plant diseases, political instability and other extreme factors. General economic conditions, unexpected demand, problems in production and distribution, plant diseases, weather conditions during the period of crop growth and harvesting can have a negative effect on the price of wheat. Regardless of the fact that the Group can satisfy all its needs for wheat on the domestic market, the price trends on the domestic market are under the influence of wheat price trends on the international commodity exchanges. Based on past dealings of the Group, it has been established that purchase price trends for wheat were positively correlated with the price trends for flour. However, it is important to point out that it takes a certain amount of time in order for the price of flour to adjust to the changes in the price of wheat, which in certain shorter periods has a negative effect on the Group's margin in case of an increase in the price of wheat. Regardless of the past indicators that exhibit a correlation between the prices of flour and wheat, the Group cannot guarantee that it will be able to compensate fully for a future possible increase in the price of wheat by an increase in the price of flour in a way to keep the past margins.

Granolio attempts to reduce the risk of change in the price of wheat by an active approach to futures markets.

Granolio actively manages the risks and purchase prices of raw materials applying, as needed, different techniques of trading with futures contracts on world commodity exchanges, where the Group has no prominent open positions.

In the segment of dairy production, the change in the price of raw milk can have a crucial effect on Zdenka's business results. In case of a considerable increase in the price of raw milk, it is possible to redirect the production of Zdenačka farma d.d. (Zdenačka farma currently does not supply Zdenka with milk strictly for commercial reasons, because it receives a better selling price for milk from another customer) and Žitara d.d. for the supply of Zdenka, if it is estimated that this is in the interest of the entire Granolio Group.

32. RISK MANAGEMENT (CONTINUED)

32.1 Operating risks (continued)

Dependence on management and key personnel

The Group greatly relies on its employees as one of its main competitive advantages. The Group must thus strive to keep the best personnel on all levels in order to maintain its position of a market leader. The Group cannot offer any guarantees that it will manage to keep its current management and other key personnel or that it will be able to attract other valuable employees in the future. The loss of key personnel and the inability to attract new ones may have a significant impact on the Group's operating activities.

Risk of IT system malfunction

The Group relies on a number of IT systems that allow it to efficiently manage the distribution capacities, communicate with customers and suppliers, manage and evaluate employees and gather all the necessary information that the management may rely on for decision-making. The Group's operating activities are becoming increasingly more dependent on the use of such systems and any malfunctions in the operation of IT systems through computer viruses, hacker attacks, malfunction in the operation of IT equipment and programs, or some other reasons, might have a strong impact on the Group's operating activities and financial position.

Risk connected with infringement of competition rules

One part of the overall Group strategy is to become a leading manufacturer of flour on the Croatian market and supplier to the customers in the region; as a result, its position can be described as dominant, in terms of the regulations governing competition. The regulations of the Republic of Croatia that govern competition and that are harmonized with the European Union regulations forbid any abuse of the dominant position, and especially of the direct and indirect imposing of unfair buying or selling prices, i.e. other unfair market conditions, limiting of the production, market or technological development at the expense of the consumer, application of unequal conditions to identical dealings with other entrepreneurs, which brings them into a less favorable position with regards to the competition, as well as making other contractual parties agree to additional obligations as a condition for concluding contracts, and which, by their nature or trade customs, are not in a direct connection with the subject-matter of those contracts.

Furthermore, these regulations also prohibit all agreements, decisions by associations of undertakings and concerted practices, which have as their object or effect the distortion of competition in the relevant market.

Even though the Group is not aware of any violation of regulations that govern competition, nor has the Croatian Competition Agency initiated any proceedings against it, the Group cannot guarantee that there will be no such proceedings. Any violation of competition regulations results in the possibility of significant administrative fines and penalties. For example, the penalty for concluding illegal agreements and abusing the dominant position makes up to 10% of the total annual revenue of the company in the last year for which financial statements have been concluded. Therefore, a possible imposition of fines might have an unfavorable effect on the Group's operating activities and financial position.

In order to reduce this risk, the Group intends to further train its employees on positive regulations regarding competition protection, and to set up procedures for concluding contracts and performing other activities that might result in violation of competition regulations and ensure their consistent application.

Furthermore, before any future acquisition, the Group may have to ask for an evaluation of concentration by the Croatian Competition Agency. The Group cannot offer any guarantees that in any such case the concentration will be appraised as approved, or that it will not be approved solely after implementing certain measures and meeting certain conditions, such as sale of certain assets or taking other actions that might affect the revenue, profit or Group's cash flow. Moreover, the concentration evaluation procedure might affect the duration of the acquisition.

Risk connected with judicial proceedings against the Group

The Group, just as any other economic operator, is susceptible to the risk of proceedings before courts, regulatory or other supervisory bodies, within its regular operational activities. Such actions primarily concern proceedings with debtors or suppliers. The risk of potential lawsuits from the Group's customers as a result of damages occurred by product consumption cannot be excluded in the future. The Group cannot offer any guarantees that the results of future legal and regulatory actions or measures will have no significant effect on the Group's operating activities and financial position.

32. RISK MANAGEMENT (CONTINUED)

32.1 Operating risks (continued)

Risk connected with liabilities or loss not covered by insurance

The level of insurance coverage is at the level typical for industries in which the Group operates. Contracted insurance policies are primarily related to workplace injuries, machine malfunction, damage of property and other tangible assets, insurance of livestock and insurance of crops. However, it is impossible to ensure all potential liabilities and losses and therefore, the Group cannot offer any guarantees that it will not be exposed to situations that are not covered by insurance and that such situations will have no significant effect on the Group's operating activities and financial position.

32.2. Financial risks

Exchange rate risk

The Group is exposed to the exchange rate risk. The exchange rate risk is related to the fact that a significant part of the Group's loan liabilities is dependent on exchange rate fluctuations of HRK in relation to EUR. Strong fluctuations in the exchange rate EUR/HRK might affect the borrowing of the Group in foreign currency. Furthermore, according to the figures for 2013, the Group generates approximately 25% of total revenue on foreign markets in EUR, so fluctuations in the exchange rate EUR/HRK may affect Group's operational activities on this basis as well.

In the future, the Group may be exposed to derivative contracts with financial institutions such as currency hedging, with the aim of hedging certain financial risks.

Changes in fair values of such derivative contracts might affect the Group's profitability in the future.

Currently, the Group does not use financial instruments of protection against unfavorable exchange rate movements.

Credit risk

The Group is exposed to the risk of inability to collect a part of its customers' obligations. As a rule, the Group primarily does business with chain retail stores that present the most important customers and with whom it has maintained business cooperation for a number of years. In doing so, the Group's credit risk is primarily reflected in possible problems in the retail sector. The Group attempts to reduce its exposure to credit risk by monitoring the customers' financial position, through strict measures of collection control and through different insurance instruments, such as promissory notes and bills of exchange.

In addition to the credit risk related to customers, the Group is exposed to credit risk related to subcontractors in the production of grain and oil crops, considering that, at the time of sowing, it provides them with merchandise credit in the form of necessary production materials. Subcontractors usually settle their obligations with regards to production materials through the delivery of oil crops and grains, providing the parties are in consent regarding the price of the product at harvest time. It is possible, and it happens in practice, that some subcontractors do not produce sufficient amounts of grains and oil crops, due to various reasons, to settle the merchandise credit. The Group is protected from such situations by additional insurance instruments, such as personal guarantees from the farm owner, personal guarantees of the family members, collateral of farming equipment and real estate, fiduciary for the crops or crop reserves, co-ownership of crop and similar. It is important to emphasize that insurance instruments are arranged with each subcontractor individually, depending on the previous arrangements. So far, in its operational activities, the Group has kept the level of merchandise credit with problems in amortization at an acceptable level. At this moment, the state of merchandise credits outstanding for more than 60 days as of 30 June 2014 is HRK 7.9 million.

In situations when the subcontractor is not able to repay the merchandise credit due to unfavorable weather conditions and/or unfavorable market price of grain/oil crops, they typically get a postponement of repayment with the payment of contractual interest; the debt repayment is contracted for the next sowing season, or repayment is contracted in some other field crop that was not affected by weather conditions (e.g. rain at the time of wheat harvest can decrease its quality and at the same time have a positive effect on crops being harvested in autumn). Subcontractors usually sow several different crops with the goal of reducing the risks of unfavorable weather conditions for a certain crop, but in that way also protect themselves against unfavorable market price trends for a certain crop (risk dispersion).

The Group cannot offer any guarantees that monitoring of the customers' financial position, measures of collection control or insurance instruments will be effective and that possible credit risk will have no significant impact on the Group's operating activities and financial position, nor that the amount of merchandise credit with repayment problems will not increase.

32. RISK MANAGEMENT (CONTINUED)

32.2. Financial risks (continued)

Interest rate risk

Considering the level of received loans from financial institutions which have been mostly concluded with a variable interest rate based on the usual benchmark interest rates (EURIBOR, LIBOR, ZIBOR and interest rates for treasury bills), the Group is exposed to the risk related to increase in interest rates. At this moment, the Group does not use financial instruments of protection against unfavourable interest rates.

In the future, the Group may be exposed to derivative contracts with financial institutions such as currency or interest rate hedging, with the goal of hedging certain financial risks.

Changes in the fair value of such derivative contracts might affect the Group's profitability in the future.

Liquidity risk

There is a risk that the Group will not be able to settle its obligations in accordance with their maturity, which can be the result of an inadequate collection of customers' debts, unfavourable time-frame for debt maturity or inability to ensure credit financing from financial institutions. In order to reduce the liquidity risk, the Group continuously implements measures of active debt collection from customers and monitors their liquidity; it attempts to optimize the structure of debt maturity and ensure free credit lines with financial institutions in order to be able to settle its obligations even in unexpected circumstances. Additionally, the Group strives to finance its long-term investments from long-term sources and to turn short-term loans, which were previously used to finance long-term investments, into long-term ones.

In order to finance the acquisition of the milling business from Belje d.d. Darda and PIK Vinkovci d.d. from Agrokor Group, the Group took a short-term loan in the amount of HRK 153 million in Zagrebačka banka, which is due on 15 October 2014. The Group will fully use the funds raised from the issuing of New Shares that are the subject-matter of this Offer for the partial settlement of the principal of that loan. Furthermore, the Group estimates to reduce the level of total credit debt in the mid-term and in doing so, it will additionally reduce its liquidity risk.

However, the Group cannot offer any guarantees that the management of liquidity risk will be efficient and that possible liquidity risk will have no significant impact on the Group's operating activities and financial position.

Industry risks

One of the risks that occur in food industry is the fact that consumer eating habits and consumers' awareness of the impact the food has on our health have changed greatly in the last 20 years. Such trends make it necessary for manufacturers to expand the existing assortment of products and to further improve the quality of existing products, both in flour milling and in milk processing (Zdenka).

Flour production

Negative impacts on the production of flour can be caused by extraordinary events such as fire, explosion, malfunction of the processing equipment, prolonged or emergency maintenance, road construction or closing of main traffic routes, floods, storms, or other extremely unfavourable weather conditions. Even though the Group uses insurance against damages to such facilities, such insurance may be limited in regard to the maximum amount of damages and may not be sufficient to cover all expenses. Likewise, the Group may be susceptible to costs not covered by insurance.

Dairy production

In its purchase of raw milk for the needs of dairy production, Zdenka relies on a large number of subcontractors, which exposes it to the risk of purchasing raw material of an unsatisfactory quality for the production of top quality products, risks of late delivery and insufficient amounts of raw material. The risk of raw material quality is minimized through laboratories that continually perform microbiological testing of raw milk. In case of market disruption, either due to raw material shortage or because of a price increase, the Group is able to, in a relatively short period of time, redirect the milk produced on Zdenačka farma for the needs of Zdenka and in that way partly reduce the mentioned risks. Shortage of milk on the domestic market can be compensated by milk imports. However, Zdenka cannot fully protect itself from the potential increase in the market price of milk nor can it guarantee that the price increase of raw material will be successfully compensated by the price increase of the final product, considering the strong competition.

32. RISK MANAGEMENT (CONTINUED)

32.2. Financial risks (continued)

In addition to raw milk, Zdenka buys raw materials for the production of processed cheese from several EU manufacturers that meet high-quality standards. The risks of raw material shortage or contract cancellation by one of the suppliers are not significant at the moment, considering that at present the supply of such products is bigger than the manufacturers' demand, and that in case of significant disruptions on the market, Zdenka can start its own production.

A significant risk in the process of production is the risk of spoilage, considering that dairy products belong to the category of products with high tendencies of spoilage. Zdenka attempts to reduce the risk of product spoilage through strict quality control of the raw materials, processing in technologically advanced facilities, and maintaining high standards of hygiene in the production facilities.

A significant market risk is present in Zdenka's operating activities, primarily manifested through import of cheap cheeses from the EU. Therefore, with the goal of protecting its margins, Zdenka focuses on the production and distribution of brand products, which are also Zdenka's great value. Maintaining this reputation and brand-related values is essential for the success of Zdenka's operating activities. Negative publicity, legal actions or some other factors might lead to a considerable erosion of the brand value, which might reduce the customers' demand for the product and have a significant effect on the current and future operating activities and financial position of Zdenka.

Livestock farming

Milk production (Zdenačka farma and Žitar) and swine fattening (Žitar) are exposed to the risk of livestock disease and death. In order to prevent diseases and death, veterinary clinics were established on the farms, which take constant care of the livestock. In order to achieve high-quality milk production, optimal nutrition standards are followed and care is taken of hygienic conditions in relation to milking and storing raw milk. All livestock is insured against death.

There is also a risk that the produced milk and meat do not satisfy high-quality standards. However, those risks are greatly reduced by the implementation of high production standards, such as ISO and HACCP.

Crop production

Field crop production is exposed to unfavourable weather conditions (drought, flood, hail). Unfavourable weather conditions can result in smaller yield of field crops or reduced quality, or both, and in certain circumstances, even complete ruin of crops. Unfavourable weather conditions affect the operating activities of the company Žitar, which deals with crop production among other, but also the subcontractors that the Group credits with production material, which can reduce the ability of the subcontractors to settle their obligations under the merchandise credit. This issue is described in more detail in section 3.2.2. Credit risk.

The risks of unfavourable weather conditions are reduced by crop insurance; the state also has an important role in this issue by subsidizing 25% of the insurance costs.

The Group also protects itself from unfavourable weather conditions risks by geographical diversification.

Same as with livestock production, the risk of field crop diseases can have a significant negative influence on expected yield (sometimes greater than 30%). Because of that, preventive plant disease control is implemented in the production nowadays, as the cheapest and most effective way of maintaining the expected level of crop yield.

In addition to diseases, vast damages in the field crop industry have lately been caused by increasing numbers of rodents, and their suppression is made difficult by legal regulations (higher damages are expected in the future).

32.3. General risks

Business environment risks

The business environment risk includes political, legal and macroeconomic risks in the environment in which the Group operates, primarily the Croatian market where the Group makes 75% of its total revenues (data for 2013) and to a lesser extent, Bosnia and Herzegovina, Italy and Slovenia. The Group cannot offer any guarantees that the Croatian market where the Group makes most of its turnover will continue the successful implementation of political and economic reforms. Their postponement or failures in their implementation may affect the Group's operating activities. Austerity measures of the state budget and tax increases that are currently being implemented in Croatia may slow down economic growth or reduce available income, which may affect both the revenue and the profitability of the Group.

32. RISK MANAGEMENT (CONTINUED)

32.3. General risks (continued)

Business environment risks (continued)

Past governments have conducted economic reforms with the goal of developing and stabilizing free market economy through privatization of state-owned companies, attracting foreign investments and implementing the necessary reforms to join the EU. Even though Croatia has made significant efforts to establish a market economy, it will take several more years and some additional investments to reach the level of Western European infrastructure. The Group cannot offer any guarantees that Croatia will accomplish the intended reforms or that the political climate will be favourable for reform implementation. The Group cannot offer any guarantees that the Government will not introduce new regulations, fiscal or monetary policies, including tax regulations or policies, environmental protection, public procurement, compensation for the owners of nationalized property or exchange rate policy.

Croatian legal framework is still developing, which can cause certain legal ambiguities. The Group may find itself in a situation where it is not able to successfully fulfil or protect some of its rights.

Croatia’s open issues with its neighbours do not affect the country’s political stability; instead, they present legitimate representation of strategic and economic interests of the country in international relations, same as with all other developed countries. Since the Group’s operating activities are based on the Croatian market, the threat of neighbouring countries’ influence is minimal.

The Group’s operating activities are susceptible to the macroeconomic environment, economic circumstances and trends in economic activities. In the periods of unfavourable economic conditions, the Group may face difficulties in expanding its operations or settling its financial obligations. Furthermore, in such conditions, the Group may face difficulties in accessing financial markets, which can in turn make financing costs more difficult and more expensive, and can have a significant effect on operating activities and financial position. The continuation of the current economic situation may make access to the capital market more difficult for the Group, as well as for its customers and suppliers, which may affect the existing level of revenues and profitability.

International trends also affect the Group, considering that wheat, which is the basic raw material in Granolio’s production, is a traded commodity and therefore susceptible to the influence of possible political instabilities in countries that are major manufacturers of this grain (China, Russia, the USA). However, as stated previously, the Group can fully settle its demand for raw materials from domestic sources, and oscillations in the price are neutralized by an active approach to futures markets.

Risk of changes in the legal framework

As a producer of food products, the Group is susceptible to strict regulations concerning human nutrition, product safety, employee safety and working conditions, environment safety and protection (including those concerning wastewaters, air pollution, noise, waste management, environment cleaning, etc.), product composition, packaging, labelling, marketing and competition. Food production results in waste and release of harmful substances into the atmosphere and water, and the Group must obtain various permits and abide by different regulations. Health, safety and environment protection regulations in Europe and other developed regions are becoming increasingly strict, and their implementation more persistent. The Group attempts to monitor and anticipate such changes, but any failure in such efforts may result in various penalties. The Group believes that at present it complies with existing rules and regulations and deadlines prescribed by different regulatory bodies. However, it cannot offer any guarantees that it will not face significant costs of settling possible violations or obligations to respond to any negative publicity based on those rules and regulations, or to adjust to changes in the existing regulations, which might have a significant effect on the Group’s operating activities and financial position. For example, the Group currently owns or leases a number of real estate properties and facilities, including production facilities and distribution centres, some of which were previously used for commercial or industrial purposes. Even though at present the Group is not aware of any facts that may lead to new obligations concerning the environmental state of those properties and facilities, discovery of contamination based on current or past operations and imposition of obligations to remove contamination might cause significant costs to the Group. Moreover, it is possible that additional rules are introduced in the future and that the current legislation changes (or its interpretation) which might affect the operating activities and Group’s products. The Group cannot offer any guarantees that in the future the cost of adhering to such initiatives will not have a significant impact on the Group’s operating activities and financial position.

20.2 Pro forma financial information

The Issuer has not prepared pro forma financial information.

20.3 Financial statements

The following financial statements are listed under item 20.1:

- The Issuer´s restated audited consolidated financial statements for the years that ended on 31 December 2011, 31 December 2012 and 31 December 2013.
- The Issuer´s audited consolidated financial statements for the first half of 2014.

20.4 Audit of financial statements comprising historical data overview

20.4.1 Audit of financial statements

Baker Tilly Discordia d.o.o., with its registered seat in Zagreb, Ulica grada Vukovara 269F, entered in the court register of the Commercial Court in Zagreb under company registration number (MBS): 080022264, PIN: 71665824084, and in the Register of Audit Companies kept by the Croatian Audit Chamber, under registration number 100000500 audited the following financial statements of the Issuer which are included in the Prospectus:

- The Issuer´s restated audited consolidated financial statements for the years that ended on 31 December 2011, 31 December 2012 and 31 December 2013.
- The Issuer´s audited consolidated financial statements for the first half of 2014

The auditors´ reports on consolidated financial statements were executed by Olivio Discodia, managing director and certified auditor.

The Baker Tilly Discordia d.o.o. auditor issued a qualified opinion on the Company´s original consolidated financial statements for years which ended on 31 December 2011, 31 December 2012 and 31 December 2013 and the first half of 2014. The basis for the qualified opinion is indicated in the Independent Auditor´s Report as part of the Company´s audited consolidated financial statements for 2012, 2013 and the first half of 2014 set out in sections 20.1, Part II of the Prospectus, and is also quoted below as follows: "Basis for qualified opinion with reserve":

a) "We were engaged to audit the Group in September 2014, and for that reason we could not attend inventory counting on 30 June 2014. Due to the nature of the Group´s accounting records we were unable to apply other procedures in order to ascertain the reliability of inventory quantity as on 30 June 2014."

In order to issue a new series of shares on the capital market and publish the Prospectus, the Group has disclosed restated results from the previous years for the purpose of transparency, comparability and comprehensive overview of information in compliance with the International Accounting Standard (IAS) 8 as follows:

a) The 2013, 2012 and 2011 current and non-current liabilities against leasing companies were reclassified from "Liabilities for loans, deposits and similar" to" Liabilities to banks and other financial institutions".

b) The 2013, 2012 and 2011 receivables for commodity loans were reclassified from"Trade receivables" to"Current loans, deposits and similar".

c) The 2013, 2012 and 2011 deferred tax liabilities were transferred from revaluation surplus in accordance with IAS 12.

d) The 2012 and 2013 inventories were corrected in line with IAS 2 by their revalued amount. The result for the period decreased by HRK 9,511,000 in 2012 and by HRK 3,817,000 in

2013, and increased by HRK 9,511,000 due to the sale of inventories subject to revaluation. Furthermore, in 2013 the Group corrected non-current inventory from PZ Osatina in the amount of HRK 6,215,000 recognized in the result for the period.

e) In 2013,"Prepayments and accrued income" and"Accrued expenses and deferred income" were corrected by the value of the dispute with PZ Osatina. The result for the current period thus decreased by HRK 3,018,000.

Furthermore,"Accrued expenses and deferred income" were corrected in 2011, 2012 and 2013 by the amount of incentives recognized in previous years as income on a one-off basis. In 2013, "Prepayments and accrued income" decreased by HRK 4,238,000, whereas „Accrued expenses and deferred income" decreased by HRK 1,221,000, which was the value of the dispute with PZ Osatina, and increased by HRK 17,714,000 (incentives received). "Accrued expenses and deferred income" increased by HRK 19,704,000 in 2012 and by HRK 18,278,000 in 2011. The amounts referred to incentives received and incorrectly reported in the previous years as"Other income".

f) In 2013, the amount of HRK 7,373,000 relating to the Zdenka brand was corrected and recognized as loss of the current period in line with IAS 36. Furthermore, the result for the current period was allocated to the Group and to the non-controlling interest which decreased accordingly.

g) The Group decreased its sales revenue and other costs, as well as trade receivables by rebates for 2013, 2012 and 2011 in line with IAS 18.

h) The Group corrected one-time recognition of incentives revenue in the previous years and deferred them to the lifetime of respective assets. Consequently, the 2011, 2012 and 2013 retained earnings decreased, and deferred income increased in line with IAS 20.

20.4.2 Indication of other information in the Registration Document audited by auditors

Besides data whose source are auditor's reviews of the Issuer, auditors have not audited other information in the Registration Document.

20.5 Interim financial information

The Issuer's audited consolidated financial statements for the first half of 2014 are stated in item 20.1. The Issuer here additionally states comparative information for the first half of 2013 for statement of cash flow and statement on changes in capital since they are not included in audited consolidated statements within item 20.1

Comparative information, for the period of the first 6 months in 2013, do not include values of adjustments which were registered in reports for the whole 2013.

Table 52 Consolidated statement of cash flow of the Issuer (indirect method) for the first half of 2013 and 2014

in thousands of HRK

	Position	30.6.2013	30.6.2014
	Cash flow from operating activities		
1.	Loss/ profit after taxation	(21,217)	(38,633)
2.	Long-term fixed assets depreciation	17,755	15,565
3.	Long-term intangible assets amortisation	497	315
4.	Increase/decrease of prepaid expenses	(1,332)	(1,736)
5.	Increase/decrease of accrued expenses	118	1,236
6.	Long term fixed assets write-off expenses	-	1,521
7.	Other cash flow increase/decrease	(8,583)	9,828
8.	Increase/decrease of inventories	77,400	27,390
9.	Increase/decrease of short term liabilities	48,583	146,360
10.	Decrease/increase of short term receivables	(10,217)	7,589
A)	**Net operating cash flow**	**103,004**	**169,435**
	Cash flow from investment activities		
1.	Proceeds from sale of fixed assets	503	979
2.	Increase of fixed and intangible assets	(4,573)	(140,781)
3.	Goodwill acquisition	-	(60,379)
4.	Expenditure from acquisition/sales of ownership and debt financial instruments	(122,517)	(363,633)
6.	Proceeds from lendings	44,823	280,877
B)	**Net cash flow from investment activities**	**(81,764)**	**(282,937)**
	Cash flow from financing activities		
1.	Proceeds from principals, loans and other borrowings	365,013	493,012
2.	Expenditure for loan principal repayment	(389,707)	(375,464)
3.	Paid-out profit from previous years	-	(2,399)
5.	Other cash expenditures from financing activities	13	(1,685)
C)	**Net cash flow from financing activities**	**(24,681)**	**113,464**
	Net cash and cash equivalents changes	**(3,441)**	**(38)**
	Cash and cash equivalents at the beginning of the period	8,011	9,965
	Cash and cash equivalents at the end of the period	**4,570**	**9,927**

Source: Internal Issuer's data for the first half of 2013 and restated audited consolidated financial statement for the first half of 2014

Table 53 Consolidated statement on changes in Issuer's capital for the first half of 2013

in thousands of HRK

	Subscribed capital	Legal reserves	Revaluation reserves	Retained earnings	Profit/(Loss) for the year	Total for the Group	Non-controlling interests	TOTAL
As on 1 January 2013	**12,000**	**116**	**112,025**	**62,015**	**(17,558)**	**168,598**	**75,622**	**244,220**
Prior period adjustments	-	-	(22,405)	(21,892)	-	(44,297)	12,419	(31,878)
As on 1 January 2013 (restated)	**12,000**	**116**	**89,620**	**40,123**	**(17,558)**	**124,301**	**88,041**	**212,342**
Reconciliation for 2013 (see note 7)	-	-	-	-	-	-	-	-
Loss for 1-6 2013	-	-	-	-	(21,217)	(21,217)	(5,177)	(26,394)
Other comprehensive profit, net of tax (revaluation depreciation and permanent impairment of portfolio available for sale)	-	-	(1,820)	1,820	-	-	-	-
Total comprehensive profit for the year	**-**	**-**	**(1,820)**	**1,820**	**(21,217)**	**(21,217)**	**(5,177)**	**(26,394)**
Reconciliation for 2013 – deferred taxes	-	-	364	-	-	364	-	364
Consolidation reconciliation	-	-	-	-	-	-	-	-
Distribution of result 2012	-	45	-	(17,603)	17,558	-	-	-
As on 30 June 2013	**12,000**	**161**	**88,164**	**24,340**	**(21,217)**	**103,448**	**82,864**	**186,312**

Source: Internal Issuer's data

Table 54 Consolidated statement on changes in Issuer's capital for the first half of 2014

in thousands of HRK

	Subscribed capital	Legal reserves	Revaluation reserves	Retained earnings	Profit/(Loss) for the year	Total for the Group	Non-controlling interests	TOTAL
As on 31 December 2013 (restated)	**12,000**	**161**	**83,504**	**27,524**	**(12,433)**	**110,756**	**56,399**	**167,155**
Loss for the period ended 30 June 2014	-	-	-	-	(38,633)	(38,633)	(7,272)	(45,905)
Other comprehensive profit, net of tax (revaluation depreciation and permanent impairment of portfolio available for sale)	-	-	(14,664)	17,869		3,205		3,205
Total comprehensive profit for the year	**-**	**-**	**(14,664)**	**17,869**	**(38,633)**	**(35,428)**	**(7,272)**	**(42,700)**
Dividend payment	-	-	-	(2,399)	-	(2,399)	-	(2,399)
Consolidation reconciliation	-	-	-	44	-	44	-	44
Distribution of results 2013	**-**	**22**	**-**	**(12,455)**	**12,433**	-	**-**	-
As on 30 June 2014	**12,000**	**183**	**68,840**	**30,583**	**(38,633)**	**72,973**	**49,127**	**122,100**

Source: Audited consolidated financial statement of the Issuer for the first half of 2014

20.6 Dividend policy

The Issuer does not have a specific dividend policy. The use and distribution of profit are laid down in Articles 55, 56, 57 and 58 of the Issuer´s Articles of Association.

Pursuant to the above articles, the Company is obliged to use net income generated in a business year for the following purposes and in the following order of priority: to cover losses carried forward from previous years, contribute to the reserves for treasury shares if the Company has acquired them or intends to acquire them, contribute to other reserves, and to distribute it to shareholders as dividends and/or for other purposes permitted by law. The General Assembly, which decides on profit distribution, may decide to distribute profit to the shareholders in kind, e.g. in Company shares, as well as to use profit in order to distribute it to the shareholders for other purposes, such as payment to employees or Management Board members, or carry it forward to the following business year. Dividends are paid within 30 days of the date of the decision, unless otherwise decided by the General Assembly. Under Article 59 of the Articles of Association the Management Board, with the previous consent of the Supervisory Board and upon expiry of the business year, may decide to pay interim dividends from the portion of net income intended for distribution to shareholders. Only a half of profit may be paid as interim dividend, net of amounts to be contributed to the Company´s reserves in line with the law and Articles of Association. Interim dividend payment may not exceed 50% of the previous year´s profit.

20.6.1 Paid dividends

On 27 February 2012 the Company´s General Assembly adopted the Decision to pay retained earnings from the previous years in the total net amount of up to HRK 9,600,000.00, and up to HRK 8.00 per ordinary share. On 27 February 2013 profit distribution totalled HRK 8,040,000.00, i.e. HRK 6.70 per ordinary share.

On 16 December 2013 the Company´s General Assembly adopted the Decision to pay retained earnings from the previous years in the total net amount of up to HRK 720,000.00, and up to HRK 0.60 per ordinary share.

On 16 January 2014 profit was distributed in the amount of HRK 2,280,000.00, out of which HRK 1,560,000.00 was based on the General Assembly´s decision of 27 February 2012, the payment being non-taxable, whereas HRK 720,000.00 was based on the General Assembly´s decision of 16 December 2013. The tax and surtax on the latter amount were paid in the amount of HRK 118,664.93.

20.7 Court and arbitration proceedings

The Issuer hereby declares that all pending proceedings to which the Issuer is a party, whether individually or as a whole, shall not have a significant impact on the Issuer and/or Group´s financial position and profitability, except for the court proceedings initiated by Osatina grupa d.o.o., claiming from the Issuer, on account of principal, HRK 5,020,264.04, including interest and costs. In the 2013 restated audited financial statements the Group corrected its non-current inventory from PZ Osatina in the amount of HRK 6.2 million recognized in the result of the first half of 2014.

The Issuer hereby declares that it has no knowledge of any upcoming proceedings to which the Issuer may be a party, and which, whether individually or as a whole, would have a significant impact on the Group´s financial position and profitability.

20.8 Significant change in the Issuer's financial or market position of the Issuer

As described in Section 6.6 the Group expects that its market share in the milling segment will rise from 23% to 44%, based on the milling business acquired from a company under the Agrokor Group. The effects of this acquisition are not visible in the Group´s business reports for the first six months, but interested investors may have an insight into the change in the milling segment in Section 12.1 disclosing the key trends in the milling business operations in the first eight months of 2014.

On 10 October 2014 pre-bankruptcy proceedings were initiated against the Issuer´s debtor, TINA d.o.o. The claims from TINA d.o.o. total HRK 577,987.69. To date, a motion for settlement, i.e. a restructuring plan in the pre-bankruptcy proceedings is unknown.

On 7 January 2015 issued bills of exchange amounted to HRK 109.4 million. Bills were issued for payment of the processed materials for sowing and purchase of autumn crops and other obligations, and are due in the next six months. Last year the Company granted HRK 75 million on the basis of issued bills of exchange, which were sold by borrowers to financial institutions. The loan is repaid on the bill due dates in the amount of the bill of exchange, whereby all bill of exchange issued on that ground were due until the end of the previous year and were redeemed.

There have been no material changes in the Group´s market or financial position other than those indicated above.

21 ADDITIONAL INFORMATION

21.1 Share capital

21.1.1 Amount of share capital and number of shares

As of the date of this Prospectus, the Group's share capital amounts to HRK 19,016,430.00 and is divided into 1,901,643 non-materialised ordinary registered shares with a nominal amount of HRK 10.00 each.

The Group's share capital is paid in full.

21.1.2 Should there exist shares that are not representative of the share capital, the number and main characteristics of such shares should be described

There are no shares of the Issuer which do not represent capital.

21.1.3 Treasury shares

As of the date of this Prospectus, the Issuer does not have treasury shares. As of the date of this Prospectus, the Issuer's subsidiaries do not hold any Issuer's shares.

21.1.4 Convertible securities, securities with warrants

The Issuer has not issued any convertible securities, nor securities with warrants.

21.1.5 Information and conditions about any rights and/or obligations related to acquisition of authorized but unsubscribed capital or an obligation of capital increase.

There is no approved share capital or obligation of increase in the Issuer's share capital.

21.1.6 Derivatives

To the best of the Issuer's knowledge, there are no issued derivatives on the Company's shares.

21.1.7 Historical trends of share capital

The Issuer's share capital, as determined at incorporation by the Statement of Incorporation of 13 November 1996, amounted to HRK 35,600.00 and was paid in full in cash.

By a decision of a member of the Issuer dated 16 July 2001, the Issuer's share capital was increased from HRK 35,600.00 by the amount of HRK 964,400.00 to a new amount of HRK 1,000,000.00, by entering a property right and claim of the member of the Issuer towards the Issuer to an estimated value of HRK 964,000.00.

By a decision of a member of the Issuer dated 28 May 2003, the Issuer's share capital was increased from the amount of HRK 1,000,000.00 by the amount of HRK 4,000,000.00 to a new amount of HRK 5,000,000.00 by payment in cash.

By a resolution of the Assembly dated 25 August 2011, the Issuer's share capital was increased from the amount of HRK 5,000,000.00 by the amount of HRK 7,000,000.00 to a new amount of HRK 12,000,000.00 by conversion of retained profit into share capital.

By a resolution of the Assembly on increase of the share capital dated 2 September 2014, and after Public Offer of New Shares, the share capital of the Issuer increased from the amount of HRK 12,000,000.00 by the amount of HRK 7,016,430.00 to a new amount of HRK 19,016,430.00.

21.2 Company's Articles of Association

21.2.1 Scope of Issuer's Activities

The scope of Issuer's activities is provided under Article 8 of the Articles of Association, as follows:

* Production of food and beverages
* Agriculture, hunting and related services
* Production of agricultural and food products - ecological production
* Processing in ecological production
* Purchase and sale of goods
* Storage of goods
* Trade in fertilizers and soil enhancements
* Production of seeds
* Processing of seeds
* Production of seed material
* Import of seed material
* Packing, sealing and marking of seed material
* Marketing of seed material
* Packaging, sealing and marking of seeds
* Marketing of seeds
* Trade in plant protection products
* Storage of plant protection products
* Packaging activity
* Transfer and storage of cargo
* Trade in ecological products, unprocessed plants and animal products, and products which are completely or partially composed of such products
* Commercial agency on domestic and international market
* Representation of foreign companies
* Activity of public road transport of passengers and cargo in domestic and international traffic
* Real estate business
* Renting out of machinery and equipment, without handler, and goods for personal or household use
* Distribution of gas
* Production of biofuels
* Trade, agency and representation on the energy market
* Trade in gas
* Storage of gas
* Production of ethanol

21.2.2 Summary of provisions of the Articles of Association on the Company's Management Board and Supervisory Board

The provisions on the Company's Management Board are contained in Articles 26 to 32 of the Issuer's Articles of Association.

The Company's Management Board consists of at least three, and a maximum of seven members, where one is the President of the Management Board, which is decided on by the Supervisory Board.

The term of office for members of the Management Board is five years, with the possibility of reappointment. The members of the Management Board are appointed by the Supervisory Board.

The Supervisory Board may decide to revoke a member of Management Board when there is an important reason for this. The revocation of a member of the Management Board will not affect the rights of the member of the Management Board arising under the contract he made with the Company, unless the contract provides otherwise.

The Management Board manages the Company's business on the basis of a division of work between the members of the Management Board as determined by the Rules of Procedure for the Work of the Management Board. The Management Board's decisions are made by a majority of all members of the Management Board, with a casting vote of the President of Management Board in the event of a split vote.

The President of the Management Board represents the Company individually and independently, while a member of the Management Board represents the Company jointly with another member of the Management Board.

The Management Board is obliged to obtain the approval of the Supervisory Board for the following decision and transactions:

- For the decision on the amount of Company's maximum indebtedness in a business year
- For the decision on the Company's maximum exposure on the basis of guarantees, warranties and other security instruments issued for third legal persons and individuals
- For the decision on establishment and/or dissolution of directly affiliated companies, branches and business units
- For the decision on purchase and sale of business shares or shares of other companies at home or abroad
- For the decision on investments into essential assets whose value exceeds HRK 15,000,000
- For the acquisition and sale of real estate whose book value exceeds HRK 5,000,000
- For encumbering of real estate, unless the subject dispositions with real estate are undertaken within the course of regular operations
- For the conclusion of contracts whose value exceeds HRK 5,000,000, except for contracts for the sale or purchase of goods, energy sources, current indebtedness and services contracted within the course of regular operations
- In all other cases set out by the Supervisory Board or the Company's General Assembly.

If the Supervisory Board denies the approval for a decision of the Management Board, the Management Board cannot act upon this decision nor undertake the planned action, but it can request that the Company's General Assembly give the necessary approval.

The provisions on the Company's Supervisory Board are contained in the Articles 33 to 40 of the Issuer's Articles of Association.

According to Issuer's Articles of association, the Supervisory Board consists of three or five member, and the exact number is determined by the General Assembly's decision. At the Company's General Assembly held on 16 January 2015, it was determined that the Supervisory Board of the Issuer is comprised of five members, and two new members were elected, along with the current three.

For as long as such obligation is statutorily required, one member of the Supervisory Board shall be a representative of employees, and will be appointed and revoked in the manner provided under the Labour Act. One member of the supervisory Board shall be directly appointed and revoked by Hrvoje Filipović for as long as he holds shares representing at least 25% of aggregate issued ordinary shares of the Company. The remaining members of the Supervisory Board shall be elected and revoked by the Company's General Assembly, upon proposal of shareholders representing at least a twentieth part of Company's share capital, for a term of four years.

The appointed members of the Supervisory Board can be revoked at any time before the expiry of their term of office by the person/body which appoints them, and the General Assembly has the right to revoke a member of the Supervisory Board elected by it before the expiry of his term of office.

The newly elected Supervisory Board must be constituted within a period of eight days as of the day of the election. The constitutive meeting shall be convened and presided over by the Chair of the General Assembly, up until the election of the President of the Supervisory Board.

The work of the Supervisory Board shall be managed by the President of the Supervisory Board. The Supervisory Board may adopt decisions if at least half of the members of the Supervisory Board participate at the meeting of the Supervisory Board or in the decision-making process, specifically two members if the Supervisory Board has three members, or three members if the Supervisory Board has five members. The decisions of the Supervisory Board are adopted by a majority of votes of all members.

In addition to appointing and revoking the members of the Management Board and supervising the management of the Company's operations, the Supervisory Board shall in particular perform the following duties:

- Analysing and accepting annual financial reports
- Analysing annual reports on the status of the Company and the proposal of decision on use of profits
- Submitting annual and special reports to the Company's General Assembly
- Adopting the Rules of Procedure for the Work of the Management Board

- Convening the General Assembly when this is necessary for the wellbeing of the Company
- Giving consent to the decisions of the Management Board when this is provided under the law or the Company's Articles of Association,
- Performing all other duties in accordance with the law and provisions of the Company's Articles of Association.

21.2.3 Description of rights, special entitlements and limitations applicable to each class of already issued shares

The Issuer has issued ordinary shares. Each ordinary share carries the right of vote at the Company's General Assembly (one share - one vote) and other rights in accordance with Article 167(2) of the Companies Act. There are no other entitlements and limitations.

21.2.4 Description of activities required to change the rights of shareholders

Rights of shareholders can be changed by changes and amendments to the Articles of Association upon which the General Assembly of the Company decides. According to the article 53 of the Issuer's Articles of Association, the General Assembly have a legally valid decision if there is at least 50% (fifty percent) of the total number of vote giving shares present.

According to the Article 47 of the Issuer's Articles of Association, decisions at the General Assembly are made with majority vote, except when specially qualified majority necessary for making decisions is prescribed by law. According to the article 301 of Companies Act .(OG 111/1993, 34/1999, 121/1999, 52/2000, 118/2003, 107/, 146/2008, 137/2009, 111/2012, 125/2011, 68/2013), for decisions made by the General Assembly on change in Articles of Association there should be votes which represent at least three quarters of shares present at the General Assembly, unless the change in Articles of association would change current relationship between families of shares at the expense of one class of shares, when approval of shareholders holding the class of shares which would be damaged by the change in decision on changing Articles of Association is necessary. Approval of those shareholders is given at a special assembly of those shareholders or by separate vote at the General Assembly.

On the day of this Prospectus, the Company does not have different families of shares, but all share were issued as ordinary shares. Issuer's Articles of Association do not foresee bigger majority or demand fulfilment of additional assumptions for changing the rights of shareholders by changing the Articles of Association.

21.2.5 Description of the manner of convening the Annual General Assembly and Extraordinary Assembly of shareholders

The Issuer's General Assembly is convened in accordance with the provisions of the Companies Act and the Company's Articles of Association. The General Assembly is convened by the Company's Management Board, and it can also be convened by the Supervisory Board when this is necessary for the wellbeing of the Company. The General Assembly must be convened whenever this is requested by shareholders jointly holding at least 5% of the Company's share capital, with indication of the purpose and reason for convening the General Assembly.

The invitation to the General Assembly contains information on the time and location of the General Assembly meeting, and an indication of the location and time where and when the subsequent General Assembly shall be held if the one which is currently convened would have no quorum present or if it were not to be held for some other reason.

When the invitation to the General Assembly is published, the agenda for the General Assembly must be published as well. Participation at the General Assembly shall be open to those shareholders who applied for their participation at least 7 (seven) days prior to the day of the General Assembly meeting.

The Articles of Association do not contain particular provisions on convening an Extraordinary General Assembly, and the convening of such General Assembly shall be subject to the rules on convening the Issuer's Annual General Assembly.

21.2.6 Description of the provision of the Issuer's Articles of Association which may delay or prevent acquisition of the controlling block of shares in the Issuer

No such provisions are present in the Issuer's Articles of Association.

21.2.7 Indication of provisions of the Articles of Association or other Issuer's deed which determine the ownership threshold above which shareholding must be declared

No such provisions are present in the Issuer's Articles of Association.

21.2.8 Description of the terms of Articles of Association providing for the changes in the Issuer’s share capital

An increase in the Company's share capital is provided under Article 12 of the Articles of Association, which is fully in line with the provisions on share capital increase under the Companies Act.

A decrease in the Company's share capital is provided under Article 13 of the Articles of Association, which is fully in line with the provisions on share capital increase under the Companies Act.

22 MAJOR AGREEMENTS OUTSIDE ORDINARY OPERATIONS

As of the date of this Prospectus, neither the Issuer nor any other member of the Group has concluded material agreements outside their ordinary operations, except for the Agreement on the method of decision-making in subsidiary companies, concluded in 2011 between the Issuer and Cautio d.o.o. as the holder of business shares in Zdenka and Žitar, which was the basis for the consolidation of the mentioned companies with the Issuer, although the Issuer has no majority share in them. By means of the mentioned Agreement on the method of decision-making in the subsidiary companies, which was concluded for an indefinite period, the Issuer gained a controlling influence which allows it to choose and control decision-making in the operations of Zdenka and Žitar, and influence decision- making on financial and business policies of the mentioned companies and on the appointment of board members, while ensuring a majority of votes.

23 INFORMATION ORIGINATING WITH THIRD PARTIES AND EXPERT OPINIONS

23.1 Opinions or reports prepared by third parties which have the status of experts

The Prospectus includes the following third-party opinions

- The Report of Baker Tilly Discordia, independent auditor, as part of the restated audited consolidated financial statements of the Issuer for the years 2011, 2012 and 2013, and the audited consolidated financial statements as of 30 June 2014.

Other than these, the Prospectus does not include any other opinion or report by a third party with the status of an expert.

23.2 Information originating from third parties

In some parts of the Prospectus, the data of the Croatian Bureau of Statistics, HPA and Žitozajednica have been used to avoid the omission of facts, as this would have caused the transmitted information to be inaccurate or misleading.

24 DOCUMENTS ACCESSIBLE TO THE PUBLIC

Following documents will be available during the term of the Prospectus on the Issuer's website www.granolio.hr:

a) Issuer's articles of Association

b) Consolidated audited annual financial statements of the Issuer for the first half of 2014 together with restated audited statements for the years 2011, 2012, and 2013.

c) This Prospectus.

25 INFORMATION ON EQUITY HOLDINGS

25.1 Information on companies in which the Issuer has major equity holdings

Information on subsidiaries of the Issuer is given in Part II of the Prospectus in section 7.2 “List of the Issuer's dependent companies”.

III. INFORMATION ABOUT SECURITIES

1 PERSONS RESPONSIBLE

1.1 All persons responsible for information in the Prospectus

Persons responsible for information contained in this Prospectus are:

GRANOLIO, d.d. for production, trade and services with company seat in Zagreb, Budmanijeva 5, registered at the court register of the Commercial Court in Zagreb with the Court registration number (MBS): 080111595, Personal identification Number (PIN): 59064993527.

Members of the Management Board:

Hrvoje Filipović, President of the Management Board, represents the Company individually and independently

Vladimir Kalčić, Member of the Management Board, represents the Company together with the President of the Management Board or a Member of the Management Board

Drago Šurina, Member of the Management Board, represents the Company together with the President of the Management Board or a Member of the Management Board

Tomislav Kalafatić, Member of the Management Board, represents the Company together with the President of the Management Board or a Member of the Management Board

Members of the Supervisory Board:

Franjo Filipović, President of the Supervisory Board

Jurij Detiček, Member of the Supervisory Board

Braslav Jadrešić, Member of the Supervisory Board

Davor Štefan, Member of the Supervisory Board

Josip Lasić, Member of the Supervisory Board

1.2 Statement of persons responsible

By signing this Prospectus, persons stated in the previous section of this Prospectus, who are responsible for the information in the Prospectus state:

"By taking all necessary measures, we state that, according to our knowledge, information mentioned in the I Prospectus is in accordance with facts and that the information which could influence the significance of the Prospectus has not been omitted."

Signatories of the Statement:

Management Board Granolio d.d.

Hrvoje Filipović	Vladimir Kalčić	Drago Surina
President of the Management Board	Member of the Management Board	Member of the Management Board

Tomislav Kalafatić

Member of the Management Board

Granolio
d.d., Budmanijeva 5
Zagreb
4

Supervisory Board Granolio d.d.

Franio Filipović	Jurij Detiček	Braslav Jadrešić
President of the Supervisory Board	Member of the Supervisory Board	Member of the Supervisory Board
Davor Štefan	Josip Lasić	
Member of the Supervisory Board	Member of the Supervisory Board	

2 RISK FACTORS RELATED TO INVESTMENT IN SHARES

As they are the riskiest type of asset, the market value of shares may be of a highly volatile character, influenced by overall capital market volatility, macro-economic trends on the markets where the Issuer operates, gaps in the expectations of financial analysts in respect of the realised results, dividend policy volatility, mergers, acquisitions and the conclusion of strategic partnerships, the amount of industry cyclicality where the Issuer operates, potential problems with related parties (suppliers, clients, strategic partners, etc.), volatility of the Issuer's business model, and fluctuations in financial performance. Should these factors have a negative connotation, there exists a substantial risk that the market value of the shares will fall. Furthermore, each investor must be aware that there is a risk on the market that he might not be able to sell his shares at any time at a fair price.

2.1 Possible volatility of stock prices may have an adverse effect on the shareholders

The market price of shares is volatile and can become subject to sudden and substantial falls. As a result, shareholders may experience a significant decline in the market price of their shares, which may be due to several factors, including the difference between the results of the Issuer and the publication of analysts' forecasts, important agreements, mergers, acquisitions, strategic partnerships related to the Issuer, fluctuations in financial position and the results of operations, and the general volatility of prices on the Zagreb Stock Exchange. The pricing of shares on the capital market is influenced by the law of supply and demand, and therefore there is always a risk of a significant decline in the share price of the Issuer. In addition, the financial markets have in recent years undergone significant price fluctuations due to the economic crisis in developed countries, and are still extremely volatile.

2.2 Liquidity of the Issuer's Shares

Active trading of shares may at some point fail. In the event that active trading does not develop due to a lack of demand for shares, it will impede the sale of shares on a public market and could have a negative effect on the market price of the shares.

2.3 The pre-emption right allocated to the shareholders may be restricted and/or inaccessible to all shareholders

In the case of a future share capital increase, shareholders have the right to subscribe to New Shares in proportion to their respective interests in the existing share capital of the Company. However, the pre-emptive right to subscribe to New Shares may be limited or excluded by the General Assembly of the Issuer.

2.4 The ability of the Issuer to pay dividends in the future will depend on future earnings, financial conditions, the cash flow, needs for working capital, capital expenditures and other factors

The amount of future payments of dividends, if any, will depend on a number of factors, such as future income, financial position, cash flow needs for working capital and capital expenditures, and other factors. Therefore, the Issuer cannot make any guarantees that it will have the funds available for potential dividend payments in the future.

The Issuer has paid dividends in the period covered by the historical financial information in this Prospectus. More details on this can be found in Part II of the Prospectus, section 20.6.1 (Paid dividends).

2.5 Risk connected with the Croatian capital market

The capital market in the Republic of Croatia has the characteristics of a small market with limited liquidity, as can be seen through the:

- limited number of participants and limited number of institutional investors,
- small number of liquid financial instruments and disproportionate share of such financial instruments in total market capitalisation and turnover,
- small number of standardised derivative financial instruments and the consequent rather limited options for investment protection,
- large impact of several institutional investors on prices and the volume of trade,
- insufficient liquidity of the primary and secondary market,
- extremely high price volatility,
- low level of development of corporate governance and difficult access to capital through the capital markets, as well as a traditional commitment to financing through commercial loans from banks.

The domestic capital market has in recent years gone through significant price and turnover fluctuations. Such fluctuations in the future may pose an increased risk of adverse impact on the market price of the Issuer's ordinary shares.

Taking into account the above shortcomings, it can be concluded that the Croatian capital market, if compared to developed markets, presents a greater systemic risk for investors.

2.6 Liability risk after publishing Company's takeover bid due to acquisition of shares

The Issuer shall, after listing of ordinary shares on the Official Market of the Zagreb Stock Exchange, meet the definition of the target company from the Act on the Takeover of Joint-stock Companies (OG109/2007, 36/2009, 108/2012, 90/2013, 99/2013, 148/2013).

In accordance with the Act on the Takeover of the Joint-stock Companies, natural or legal person is obligated to publish the takeover bid directly or indirectly, independently or acting in concert, acquires shares with the right to vote in the target Company, so that, together with the already acquired shares, crosses the threshold of 25% of the voting shares of the target company (control threshold). Exceptions from obligation of publishing the bid are determined by the Act on the Takeover of the Joint-stock Companies.

2.7 Financing investments in shares with borrowed funds

If investing in stocks financed with borrowed funds, the investor needs to calculate the return on the investment or the loss if the market price of the shares drops significantly, taking into account the cost of servicing the loan or credit. The financing of investments in shares with loans or credit might significantly increase the investor's risk. Investors cannot assume that repayment will be serviced exclusively from the income they expect from the investment in shares. Instead, investors should assess their own financial position before investing in such a way to gain an insight into whether they would be able to pay the interest and repay the principal of the loan or credit in addition to suffering losses from investments in shares rather than making a profit.

2.8 Transaction costs/fees related to secondary trading in shares

In the course of secondary share trading, transaction costs can occur. These costs can significantly reduce or fully eliminate any potential profit from share trading. Transaction costs occur in most cases in the form of a fixed fee for low-value transactions or a variable fee (expressed as a percentage) for high-value transactions. Except for the costs directly connected with the conclusion of secondary trading transactions (direct costs), investors should also take into account certain costs which might occur even after closing the transaction (such as custodian costs for shares). Therefore, investors should, among other things, become acquainted with all the costs associated with the conclusion and settlement of transactions in shares before making investment decisions.

2.9 Risks associated with taxation of investments in shares

At the time of preparation of this Prospectus, the Income Tax Act is in force (Official Gazette No. 177/2004, 73/2008, 80/2010, 114/2011, 22/2012, 144/2012, 43/2013, 120/2013, 125/2013, 148/2013, 83/2014, 143/2014) according to which physical persons pay tax on capital income from dividends and shares in profit based on shares in capital.

Investment income is not determined on the basis of the mentioned proceeds, if those proceeds were realised as part of the ESOP programme, i.e. on the basis of workers' shareholdings and also if they were not used to increase Company's share capital.

Capital income tax is payable as a withholding tax at a rate of 12% with no personal allowance or deductions. 12%, without recognition of personal allowance. Income tax is not payable on the receipt of dividends and profit share if they are payable from the profits realised until 29 February 2012, except for dividends and share in profit based on the share capital which were realised in the period from 1 January 2001 until 31 December 2004, and are paid after 1 January 2015.

From 1 January 2015, the day when Article 11 of the Personal Income Tax Amendments enters into force (OG 143/2014) in part which applies to capital gain, capital gain is the difference between the contracted sale price, i.e. proceeds determined according to the market value of the financial property acquired after 1 January 2016 (among other shares) which is alienated and purchase value. Capital income on basis of capital gains is non-taxable if the alienation was performed among spouses and first-degree relatives and other members of immediate family from Article 36 paragraph 7 of the income Tax Act, among divorced spouses if the alienation is in a direct connection with the divorce, inheritance of financial property and if the financial property was alienated three years after the day of acquisition, i.e. procurement of the property.

The Issuer cannot guarantee that the future tax rate will not change and that there will be no future taxes connected to rights connected with and arising from the shares.

2.10 Legal restrictions on investments by certain investors

Investments by certain types of institutional investor are defined by regulations whose compliance is subject to the control of the regulator. When investing in stocks, every investor needs to check whether and to what extent the shares are legally permissible investments for him, whether they could be used as security for a loan and whether there are certain restrictions that govern their purchase and pledge. Financial institutions should consult with their legal advisors or regulators in order to determine the correct treatment of shares in terms of risk-weighted assets or other rules.

2.11 Trading on the regulated markets

The Issuer cannot guarantee that the shares will be actively traded after their planned listing on the official market of the Zagreb Stock Exchange. In addition, due to significant disturbances in market conditions, regulatory measures or technical and other problems, the secondary trading of the Issuer might be affected and there could be a temporary suspension of trading.

3 KEY INFORMATION

3.1 Statement about working capital

The working capital of the Issuer is currently not positive, which is largely due to the acquisition of part of a milling business (information about the acquisition can be found in item 5.2.4) in the second quarter of this year. This acquisition was partly financed by a current bridging loan from a commercial bank. The Issuer has undertaken the process of recapitalisation in order to collect funds for the partial repayment of the mentioned loan (current loan was repaid on 4 December 2014), which will have a positive impact on the state of working capital. In the next period there is a plan to raise adequate maturity structure funds from commercial banks, thereby bringing working capital into a positive framework.

3.2 Capitalisation and indebtedness

Table 55 Group's Capitalisation and indebtedness on 30 November 2014

in HRK

CAPITALIZATION AND DEBT	30.11.2014
TOTAL SHORT TERM DEBT - LOAN	**448,701,891**
Guaranteed (bills of exchange and debentures)	242,603,806
Insured (real estates or wheat)	206,098,085
Unguaranteed / Uninsured	-
TOTAL LONG TERM DEBT (excluding current maturity of long term debt)	**158,260,200**
Guaranteed (description of the type of guarantee)	1,843,002
Insured (real estates)	156,417,198
Unguaranteed / Uninsured	-
CAPITAL AND RESERVES	**68,448,903**
a. Subscribed capital	12,000,000
b. Legal reserves	183,483
c. Revaluation reserves	67,626,656
d. Retained earnings	31,798,000
e. Loss carried forward	-
f. Result for the year	-43,159,236
Non-controlling interests	**50,955,211**
NET DEBT	
A. Cash	15,028,683
B. Cash equivalents (a vista deposits for a period up to 1 month)	-
C. Securities held for sale	802,820
D.LIQUIDITY (A+B+C)	**15,831,503**
E. Short term financial receivables	179,464,072
F. Short term debt to bank	369,581,395
G. Short term portion of long term loan	79,120,496
H. Other current financial debt	254,560,110
I. SHORT TERM FINANCIAL DEBT (F+G+H)	**703,262,001**
J. SHORT TERM NET DEBT (I-E-D)	**507,966,426**
K. Long term bank loans	152,510,267
L. Bonds	-
M. Other long term loans	5,749,933
N. LONG TERM FINANCIAL DEBT (K+L+M)	**158,260,200**
O. NET FINANCIAL DEBT (J+N)	**666,226,627**
P. OFF BALANCE SHEET DEBT	-
a. Potential debt from the factoring's claim for reimbursement	136,000,000

**Unaudited data*

Source: Granolio

3.3 Interests of natural and legal persons involved in the Issue/Offer

ERSTE&STEIERMÄRKISCHE BANK d.d., with its registered seat in Rijeka at Jadranski trg 3/a, registered at the Commercial Court in Rijeka under the registration number (MBS) 040001037, personal identification number (PIN): 23057039320, and Privredna banka Zagreb d.d., with its registered seat in Zagreb at Radnička cesta 50, registered at the Commercial Court in Zagreb under the registration number (MBS) 080002817, personal identification number (PIN): 02535697732, are the Placement Agents in charge of providing the services of underwriting or selling the New Shares without a firm commitment basis. The total amount of the Agent’s remuneration for these services depends on the amount of funds that will be collected by the Issuer from the recapitalisation. The Placement Agents are at the same time lenders to the Issuer. The Placement Agents do not own shares in the Issuer.

BUTERIN & POSAVEC law firm, a public company headquartered in Zagreb at Draškovićeva 82, registered at the Commercial Court in Zagreb under registration number (MBS): 080752526, personal identification number (PIN): 88443826619 (hereinafter: “the Law Firm”), has in the process of preparing and implementing the Offer and issuance of the New Shares of the Issuer provided legal counselling services and services monitoring the recapitalisation process of the Company for a fixed fee, and drawn up legal due diligence.

Baker Tilly Discordia d.o.o., a limited liability company headquartered in Zagreb at Ulica grada Vukovara 269 F, registered at the Commercial Court in Zagreb under registration number (MBS): 080022264, personal identification number (PIN): 71665824084, audited the annual consolidated financial statements of the Issuer for the years 2011, 2012 and 2013, and the interim consolidated financial statement of the Issuer as on 30/6/2014. The Company has issued an opinion stating that the auditor’s opinion on the forecasts or estimates of profits was prepared on the basis of accounting practices used to forecast or estimate profits in accordance with the accounting policies of the Issuer for a fixed fee.

KPMG Croatia d.o.o., a limited liability company headquartered in Zagreb at Ivana Lučića 2a, registered at the Commercial Court in Zagreb under registration number (MBS) 080098593, personal identification number (PIN): 20963249418, has in the process of preparing and implementing the Offer provided financial and tax due diligence services and an analysis of the business plan for a fixed fee.

3.4 Reasons for the Offer and use of funds

The Company will fully utilise the funds raised on the capital market through the issuance of New Shares for the partial repayment of the principal of a current loan totalling HRK 153 million taken out with Zagrebačka banka for the purpose of paying obligations assumed with the takeover of the milling operations of Belje and PIK Vinkovci from the Agrokor Group.

4 INFORMATION ON THE SECURITIES THAT ARE THE SUBJECT OF THE OFFER

4.1 *Description of the type and class of securities which are the subject of the Offer*

The subject of listing on the Official market of the Zagreb Stock Exchange are all Issuer's ordinary shares, marked GRNL-R-A and ISIN (International securities Identification Number) HRGRNLRA0006 ("Shares").

4.2 Legislation under which the securities are issued

The securities are issued on the basis of the legislation of the Republic of Croatia.

4.3 Indication of whether the securities are registered in name or to a bearer and whether they are in the form of certificates or in a dematerialised form

Shares are issued as securities registered in name, in dematerialised form, i.e. as an electronic record in the computer system of the Central Depository & Clearing Company at Heinzelova 62a in Zagreb.

4.4 Security issue currency

The shares are denominated in Croatian kuna.

4.5 Description of the rights deriving from the New Shares, including any restrictions on these rights and procedures for the use of these rights

Pursuant to the provisions of the Companies Act (Article 167), the existing shares of the Issuer give the following rights:

1. voting rights at the General Assembly of the Company. In accordance with Article 47 of the Articles of Association of the Company, voting rights at the General Assembly are exercised pursuant to the nominal amount of the shares. Each share with a nominal value of HRK 10.00 entitles the holder to one vote. Article 46 of the Articles of Association stipulates that only those shareholders who have filed their intention to participate at the General Assembly meeting no later than 7 days before the meeting are entitled to participate at the Meeting. In its Articles of Association, the Company did not foresee the possibility under Article 274 of the Companies Act that shareholders may exercise all or some of their rights, including the right to vote, by electronic communication. The General Assembly can adopt a decision if it is supported by at least 50% of the total number of voting shares.

2. the right to a portion of the Company's profit (dividend). Profit-sharing is governed by Articles 55 to 59 of the Company's Articles of Association. The net profit for the financial year of the Company shall be used for the following purposes in the order in which they are listed: to cover losses carried forward from previous years, for transfer to legal reserves, reserves for the treasury shares that the Company has acquired or intends to acquire, for transfer to other reserves, and for distribution to shareholders as dividends and/or other purposes in accordance with the law. The General Assembly, which decides on the distribution of profits, may decide to pay profits to shareholders in kind, such as Company shares, as well as to use the profits for distribution to shareholders for other purposes, such as payments to employees or members of the management, as well as to carry them over to the next business year. The deadline for payment of dividends is 30 days from the date of the decision, unless the General Assembly decides otherwise. Article 59 of the Articles of Association provides for the possibility that the Management Board, with the prior approval of the Supervisory Board, upon the expiry of the fiscal year, may decide on the payment of an interim dividend from the forecast net income for distribution to shareholders. Such an advance may be paid up to the maximum of half of the amount of the profit, minus any amounts required by law and the Articles of Association to be entered into the Company's reserves. Advance payments of dividends may not exceed 50% of the preceding year's profit.

3. the right to a payment from the remainder of the liquidation or the bankruptcy estate of the Company. This issue is not specifically regulated by the Company's Articles of Association, and is resolved pursuant to the provisions of the Companies Act or a special law regulating bankruptcy proceedings.

4. pre-emption rights, the right of redemption and conversion issues are not regulated by the Company's Articles of Association. Such issues are resolved on a case-by-case basis in accordance with the regulations which govern them.

When it comes to dividends, company's Articles of Association or other acts do not regulate: (i) the deadline after which the right to a dividend expires and the indication of person on whose behalf the expiration of this term applies, (ii) limitations per dividend and procedures for non-resident owners, and (iii) the percentage of dividend and the method of its calculation, periodicity and cumulative and non-cumulative nature of payments, and therefore the current laws and regulations shall be applied, including general limitation period of 5 years from the day of maturity date for payment of dividend. According to the article 59 of the Issuer's Articles of Association, deadline for the payment of dividend is 30 days from the date of making the decision on payment, unless the General assembly decides otherwise.

4.6 Statement on solutions, authorisations and approvals on the basis of which the existing Shares and New Shares were subscribed

The existing shares were subscribed on the basis of the General Assembly's decision on reconstitution of the Issuer from the Limited liability company into the Joint-stock company from 26 January 2011 and General Assembly's decision on the increase in share capital from 25/08/2010, and after the registration of the aforementioned decisions in the court register of the Commercial Court in Zagreb.

The New Shares were subscribed on the basis of the General Assembly's decision on increasing share capital and issuing new ordinary registered shares by means of a Public Offer with payment in cash, with the complete exclusion of the pre-emption rights of existing shareholders to subscribe to the New Shares, together with a decision approving that acquirers may obtain shares with voting rights in the company without an obligation to publish a takeover bid, if as a result of the acquisition of such shares with voting rights an obligation arises for the acquirers to publish a takeover bid, in accordance with Article 14, Paragraph, 1 Item 3 of the Takeover of Joint-stock Companies Act of 2 September 2014 (Decision on Increased Share Capital). The Company's subscribed capital was increased on the date of the registration of such an increase in capital in the court registry of the Commercial Court in Zagreb.

4.7 Date of issue of the New Shares

Existing and New Shares are issued after the registration of the increase of the share capital of the Issuer in the court registry of the Commercial Court in Zagreb.

4.8 Description of all restrictions on the free transferability of the Shares

There are no restrictions on the transfer of the shares.

4.9 Indication on whether there are any mandatory takeover offers and/or rules on displacement and clearance sales in connection with the securities

After the Issuer's shares were listed on the regulated market the Takeover of the Joint-stock Companies Act applies to the Issuer's shareholders, which requires the person acting alone or with others who exceed the threshold of 25% of the voting shares, to issue an offer of purchase all outstanding shares.

Pursuant to the Decision on Increased Subscribed Capital, each holder of New Shares is entitled upon the increase in the Company's share capital against contributions in cash to acquire New Shares in the company with voting rights, without the obligation to publish a takeover bid, if an obligation for the acquirer to publish a bid arises which is in accordance with the provisions of Article 14, Paragraph 1, Item 3 of the Takeover Act.

4.10 Indication of public takeover bids for the Issuer's shares by a third party that occurred during the last financial year and in the current fiscal year

Since the beginning of 2013 until the date of this Prospectus, there have been no public takeover bids for the Issuer's shares.

4.11 Taxes and other charges in connection with the shares

The following summary of the tax treatment of share ownership is based on the current legislation of the Republic of Croatia at the time of the drawing-up of this Prospectus. Each shareholder is advised to consult his tax advisor regarding the tax consequences that may result from the ownership or disposal of shares, including the applicability and effect of domestic and foreign tax legislation or international tax treaties.

The laws and regulations governing the taxation of companies and individuals are the Corporate Income Tax Act (Official Gazette nos. 177/2004, 90/2005, 57/2006, 80/2010, 22/2012, 146/2008,148/2013) and the Ordinance on Corporate Income Tax (Official Gazette nos. 95/2005, 133/2007,156/2008, 146/2009, 123/2010, 137/2011, 61/2012, 146/2012, 160/2013, 12/2014, 143/2014) which govern the taxation of the income of domestic and foreign companies and individuals; and the Personal Income Tax Act (Official Gazette nos. 177/2004, 73/2008, 80/2010, 114/2011, 22/2012, 144/2012, 43/2013,120/2013, 125/2013, 148/2013, 83/2014, 143/2014) and the Ordinance on Personal Income Tax (Official Gazette nos. 95/2005, 96/2006, 68/2007, 146/2008, 2/2009, 9/2009, 146/2009, 123/2010, 137/2011, 61/2012,79/2013, 160/2013), which regulate the taxation of the personal income of domestic and foreign physical persons.

Taxation of dividends

On 1 January 2015 when the Act on Amendments of the Personal Income Tax Act enters into force (OG 143/2014), capital income reduces proceeds from dividends and shares in profit based on share capital, independent on the amount. Capital income is not assessed based on the aforementioned proceeds if such proceeds were realised as part of the ESOP programme, i.e. on the basis of workers' shareholdings as well as if they were used to increase the share capital of the Company. Income tax is not paid with payment from dividends and profit shares if they are paid from the profits received until 29 February 2012, except dividends and profit based on capital share received in the period from 1 January 2001 until 31 December 2004, and are paid after 01/01/2015.

In addition personal capital income tax, domestic physical persons are also obliged to pay a surtax on personal income tax if such an obligation is established by means of a decision of the competent bodies in local and regional self-government units in the place of residence or usual residence of such domestic physical persons at the rates prescribed in such decisions.

If the Republic of Croatia has signed an agreement on avoidance of double taxation with the state of residence of the foreign physical person, the tax on capital income is paid through a deduction at the rate stated in the agreement. In the Republic of Croatia, capital income tax as a withholding tax, on the basis of the gross amount of the dividend, is calculated, withheld and paid by the payer of the dividend.

According to legislation, the income of domestic legal entities arising from dividends and profit share is not subject to income tax.

Foreign persons who are not physical persons are obliged in the Republic of Croatia to pay income tax through a withholding tax (withholding tax) on income generated by dividends and profit shares at a rate of 12 unless an avoidance of double taxation agreement concluded by the Republic of Croatia with the state of residence of the foreign person for the purpose of paying income tax as a withholding tax, determines another tax rate.

The aforementioned withholding tax, according to the Act on Amendments of the Personal Income Tax Act (OG143/2014) which is applied in the procedure of the submission of tax return for profits earned for the year 2014 and following years, is not paid with the dividend and profit share if it is paid from profit earned by 29 February 2012. Withholding tax in the Republic of Croatia is based on the gross amount of the dividend at the rate prescribed in the Act or the rate stated in the contract, and is calculated, withheld and paid by the payer of the dividend.

Capital gains tax

Within the context of this Prospectus, capital gains represent income realised by the sale of shares, represented as a difference between the share sale price and the price at which the share was purchased.

Capital gains from the sale of shares earned by a domestic legal entity who is a taxpayer are taxable as profit tax. Profit tax is payable at a rate of 20%.

Until Article 11 of the Law on Amendments to the Law on Personal income Tax (OG 143/2014) enters into force in part which concerns capital gain, i.e. until 01/01/2016, income from selling shares acquired by physical persons in the Republic of Croatia is not considered as income, is not a tax base and is therefore non-taxable, unless it is tax payers business activity.

From 1 January 2015, the day when Article 11 of the Personal Income Tax Amendments enters into force (OG 143/2014) in part which applies to capital gain, capital gain is the difference between the contracted sale price, i.e. proceeds determined according to the market value of the financial property acquired after 1 January 2016 (among other shares) which is alienated and purchase value. Capital income on basis of capital gains is non-taxable if the alienation was performed among spouses and first-degree relatives and other members of immediate family from Article 36 paragraph 7 of the income Tax Act, among divorced spouses if the alienation is in a direct connection with the divorce, inheritance of financial property and if the financial property was alienated three years after the day of acquisition, i.e. procurement of the property

5 GENERAL CONDITIONS OF THE OFFER OF NEW SHARES

5.1 Terms, statistical data on the offer, estimated timetable and procedure required for the submission of the Offer of New Shares

5.1.1 Conditions of the Offer

Pursuant to the Resolution of the General Assembly to increase its share capital, the Company's share capital could have been increased from the amount of HRK 12,000,000.00 by the amount of up to a maximum of HRK 7,891,570.00 to the amount of up to HRK 19,891,570.00. The increase in share capital was processed by payment in cash by issuing a minimum of 671,642 and a maximum of 789,157 new ordinary registered shares with a nominal value of HRK 10.00 each.

The New Shares were offered at prices ranging from HRK 134.00 to HRK 166.00 per share („the Price Range"). Upon the completion of the tender procedure for the subscription to and payment for the shares in the offering procedure of the New Shares, the Board determined, with the consent of the Company's Supervisory Board, the Final Price of New Shares which was HRK 134.00 and this was published on 1 December 2014 on Company's website and Business Daily (Poslovni dnevnik). The Final Price of the New Shares was the same for all investors, i.e. for each single Subscription Form of each individual investor in the case of the multiple entries described in Section 5.2.3 of this Prospectus.

The decision to increase the Company's share capital pursuant to Article 308, Paragraph 4 of the Companies Act entirely excluded the existing Company's shareholders' pre-emption rights to subscribe to and pay for the New Shares issued during the procedure of increasing the share capital.

During the subscription period, which lasted from 25 November, 2014 at 8:30h until 27 November, 2014 at 16:30h ("the Subscription period"), all investors had the right to subscribe to the New Shares. In public offering for the subscription of the New Shares time and place for subscription for New Shares were specifically mentioned in Subscription Forms. Investors were obligated to pay for the subscribed New Shares by the end of the Subscription period.

The minimum number of New Shares that a single investor could subscribe to was 5,800.

There were no Subscription Forms with less than the prescribed minimum subscription, i.e. more than maximum number of offered New Shares, i.e. 789,157 New Shares. The total number of subscribed to and paid for New Shares was not greater than the maximum number of offered shares, therefore there was no need for allocation of New Shares in accordance with the allocation rules of New Shares adopted by the Management Board with the consent of Supervisory Board which was released in the public invitation to subscribe to the New Shares.

The New Shares were subscribed to and paid for in the manner specified in the invitation to subscribe to the New Shares. The Management Board of the Company was authorised to independently decide when to announce the invitation to subscribe to the New Shares. The invitation to subscribe to the New Shares was released on the Company's website and in the Business Daily (Poslovni dnevnik).

With the decision to increase the Company's share capital, the General Assembly of the Company granted an approval to acquirers to obtain New Shares without the obligation of publishing a takeover bid, in the event the acquisition of the New Shares obliges the acquirer to publish a takeover bid, which is in accordance with the provisions of Article 14, Paragraph 1, Item 3 of the Takeover Act.

Pursuant to Article 351, Paragraph 1, Item 3 of the Capital Market Act, the Company has utilised an exception to the publication of the prospectuses for public offerings and has not published a prospectus for the purposes of issuing New Shares. The Issuer has obliged, if the Offer of New Shares would be successfully implemented, to create a Listing Prospectus that would be submitted for approval to Croatian Financial Services Supervisory Agency (HANFA). If HANFA decided on approval of the Listing Prospectus, the Issuer would publish it in accordance with Article 374 of the Capital Market Act, and thereafter intend to include the Shares on the Official Market of the Zagreb Stock Exchange.

5.1.2 Total amount of the Issue/Offer and the description of the procedures and the time limits provided for public disclosure of the final amount of the Offer

Pursuant to the Decision on the Increase of Share Capital, the share capital of the Company could have been increased from the amount of HRK 12,000,000.00 by the amount of up to a maximum of HRK

7,891,570.00 to the amount of up to HRK 19,891,570.00. The share capital increase of the Company could have been carried out through payment in cash by issuing a minimum of 671,642 and a maximum of 789,157 New registered Shares with a nominal value of HRK 10.00 per share. The New Shares will be offered for sale in a Price Range from HRK 134.00 to HRK 166.00 per share.

In the procedure of increase of the share capital 701,643 of Issuer's New Shares were subscribed to and paid for at a unique Final Price of HRK 134.00 with which the Issuer collected HRK 94,020,162.00 from recapitalisation.

The Company's Management Board, with the consent of the Supervisory Board, on the meeting held on 28 November 2014 determined the success of the issuance, the exact amount of the share capital increase, and the exact number of New Shares.

On the second working day after the deadline for subscription to and payment for New Shares has ended, the Issuer has notified the public on the Final Price of New Shares, the success of the issuance, the exact amount of the Company's share capital increase and the exact number of New Shares in the Business Daily (Poslovni dnevnik) and on the Company's website.

Pursuant to the Company's General Assembly's Decision on the Increase of Share Capital, Company's Supervisory Board was authorised to amend the text of Articles of Association on the share capital level and number of shares in line with the changes that have occurred as a result of the share capital increase and issuance of New Shares.

5.1.3 The period, including any possible amendments, during which the Offer will be open and a description of the application process

The New Shares may be subscribed (subscription) to in the following places ("the place of subscription"):

ERSTE & STEIERMARKISCHE BANK d.d.

Sector of Financial Markets/ Capital Markets Department, Ivana Lučića 2, 10000 Zagreb

Tel: + 385 72 372 811 / 836 / 672, Fax: + 385 72 372 802, Email: brokeri@erstebank.com

and

Privredna banka Zagreb d.d.

Investment Banking Division / Capital Requirements Directive, Radnička cesta 50, 10 000 Zagreb

Tel: +385 1 6360 762 / 763, Fax: +385 1 6360 743, Email: capital.markets@pbz.hr

During the deadline for subscription (from 25 November 2014 at 08:30 h until 27 November 2014 at 16:30 h), while signed Subscription Form could be sent via registered mail to the above mentioned address of one of the Placement Agents not later than 16:30h on the last day of Subscription deadline with condition that a copy of the Subscription Form was sent not later than that deadline:

(i) Fax number + 385 72 372 802 or Telephone number +385 1 6360 743 or

(ii) In pdf form to the email address: brokeri@erstebank.com or capital.markets@pbz.hr.

5.1.4 Indication of the time and circumstances under which an Offer may be revoked or suspended or whether revocation may happen after trading begins

In the Decision on the Increase of Share Capital, the following circumstances were foreseen:

- If the subscription of the newly issued shares would not be successful, i.e. if at least a minimum of 671,642 New Shares were not subscribed to and paid for within the set deadlines for subscription and payment, the Company would within a period of up to 7 days upon the expiry of the deadline for the subscription to and payment for the New Shares, return the deposited funds to investors to the account number indicated by the investors on the Subscription Form. The Company would not in this case bear the cost of the payment system or any other expenses that the investor incurred upon the execution of the transaction, nor would investors be paid interest for the period of the deposit of funds in the Company's account for specific purposes referred to on the Subscription Form until the moment these funds return to the investor.

- If the share capital increase would not be entered in the Court Registry within 12 months of the Decision on the Increase of Share Capital, i.e. from 2 September 2014, the Subscription Form would cease to bind the subscriber, and the payment carried out should be returned to the investors without delay. In this case, it would be considered that the share capital increase and the issuance of the New Shares had not been successfully completed.

Furthermore, the Offer might be revoked, i.e. suspended in case of circumstances specified in the current legislature laws of the Republic of Croatia as circumstances which lead to the revocation, i.e. suspension of the offer.

5.1.5 Description of options for the reduction of the subscription and means of refunding overpayments to applicants

In case the total number of subscribed to and paid for New Shares would exceed the maximum number of shares offered, the Management Board adopted, with the consent of the Supervisory Board, Allocation Rules which were published in the public invitation for shareholders to subscribe to the New Shares.

Since in the Period of Subscription 88.91% of the New Shares from the maximum offered number of New Shares was subscribed and paid for, each investor was allocated with 100.00% from their subscribed and paid number of New Shares.

On the second working day of the expiry of the deadline for subscription to and payment for the New Shares, the Issuer returned any overpaid funds to the investors who paid for the New Shares at a higher price than the final one, to the account number that each individual investor specified on the Subscription Form, in the amount equal to the multiple number of subscribed to and paid for New Shares and the difference between the price under which the investor made the payment and the Final Price of single New Share.

5.1.6 Details on the minimum and/or maximum subscription

The minimum number of New Shares that an individual investor might subscribe to and pay for was obtained by dividing the HRK countervalue of EUR 100,000.00 by the lower limit of the Price Range of the issuance of the New Shares, and then rounding up this figure to the nearest 100. The final minimum number of shares that an individual investor could subscribe to and pay for, i.e. the minimum subscription was 5,800.

5.1.7 Indication of the period during which an application might be withdrawn, provided that investors were allowed to withdraw their acceptance of the Offer

The circumstances under which an investor may withdraw acceptance of the Offer have not been foreseen by the decision to increase the share capital of the Issuer.

5.1.8 Method and deadlines for payment and delivery of securities

Payment for the New Shares was carried out in the manner specified in the public invitation to subscribe to the New Shares. The Management Board was authorised to independently decide when to issue the invitation to subscribe to the New Shares.

Payment for the New Shares has been carried out on the Company's account for special purposes, which was opened for this purpose with ERSTE&STEIERMÄRKISCHE BANK and which was indicated on the Subscription Form.

Investors had to, together with the maximum number of the New Shares that they wished to acquire, indicate the maximum amount that they wished to pay per single New share (Offered Price and within a stated period of payment performed payments for New Shares in the amount same as the multiple of the maximum number of New Shares which they subscribed for and Offered Price, which they noted in the Invitation to subscribe.

After all the offers for subscription and payment of New Shares were collected, on 28 November 2014, the Management Board with approval of the Company's Supervisory Board has determined a unique Final Price of single New share in the amount of HRK 134.00. On the second working day of the expiry of the deadline for subscription to and payment for the New Shares, the Issuer returned any overpaid funds to the investors who paid for the New Shares at a higher price than the final one, in the amount equal to the multiple number of subscribed to and paid for New Shares and the difference between the price under which the investor made the payment and the Final Price of single New Share.

The New Shares were delivered to investors at the moment of their registration in the CDCC depository, which was conducted according to the rules of the CDCC after the subscription of the increase in the share capital has been entered into the Court Registry of the Commercial Court in Zagreb.

5.1.9 Full description of the manner and date when the results of the Offer are issued

On the second working day of the expiry of the deadline for subscription to and payment for the New Shares, in accordance with the decision made by the General Assembly on the increase in share capital, the Management Board of the Company, with the agreement of the Supervisory Board determined the following:

- Total of 701,643 New Shares was subscribed, out of which a total of 701,643 New Shares was paid.
- Out of total of 701,643 New Shares which were subscribed and paid for, 701,643 of shares were subscribed and paid for at a price equal or higher than the Final Price.
- Based on the received offers from the Subscription Forms, and within the Price Range, a unique Final Price of the New Shares was determined, as the optimal price of HRK 134.00 which enables recapitalisation of the Company. The aforementioned price enables optimisation of criteria for determining the Final Price stated in the Public Offer for subscription of New Shares.
- (i) the criterion for subscription to and payment for the minimum number of New Shares was fulfilled and (ii) the issuance of New Shares was successful regarding the number of subscribed to and paid for New Shares, which is higher than the minimum number of at least 671,642 of New Shares which had to be subscribed to and paid for at the Offered Price which is the same or higher than the Final Price.
- The exact number of new ordinary shares of the Company so that the share capital of the Company was increased by issuing 701,643 of new ordinary registered shares, of singular nominal value of HRK 10.00, at the price which agrees with the nominal amount of the Company's shares.
- The exact amount of the Company's share capital increase so that the share capital of the Company is increased from the amount of HRK 12,000,000.00 by the amount of HRK 7,016,430.00 to a new amount of HRK 19,016,430.00.
- After the executed increased of the Company's share capital, the share capital of the Company amounts to HRK 19,016,430.00 and is divided into 1,901,643 of ordinary shares in name, each of singular nominal value of HRK 10.00. The share capital of the Company has been paid in full.

On the day following the mentioned General Assembly of the management Board and Supervisory Board, the Issuer informed the public about the Final Price of the New Shares, successful issuing of the New Shares, the exact amount of the increase in the share capital of the Company and exact number of new ordinary shares in Business Daily (Poslovni dnevnik), and Issuer's website.

5.1.10 Procedure for the use of any pre-emption rights, transfer of subscription rights, and the handling of unused subscription rights

In line with the Decision of the Company's General Assembly on the increase of share capital, and pursuant to Article 308, Paragraph 4 of the Companies Act, the Company's existing shareholders were excluded from the right to pre-emption to subscribe to and pay for the New Shares to be issued in the share capital increase procedure.

Transfer of pre-emption rights and handling of unused rights do not apply to the Issuer.

5.2 Distribution and Allotment plan

5.2.1 Categories of potential investors who were offered securities

During the Period of Subscription all investors had the right to subscribe for New Shares. The minimum number of New Shares which an investor could subscribe to and pay for was calculated by dividing EUR 100,000.00 in HRK equivalent with the lower limit of the Price Range of New Shares issued and rounding up the amount to the nearest multiple of 100. The minimum number which could be subscribed to was 5,800 of New Shares.

5.2.2 To the knowledge of the Issuer, indication of whether the majority shareholders or members of management, supervisory or administrative bodies intend to subscribe for securities which are the subject matter of the Offer and whether they intend to subscribe for more than 5% of the Offer

Members of the Management Board and Supervisory Board did not subscribe for New Shares.

Mandatory pension funds took part in subscription of New Shares with 43%, investment firms with 28%, insurance companies with 6%, banks with 6% and other legal entities with 17%.

The list of all investors in the New Shares on the primary market is listed below.

Table 56 Investors in Granolio's New Shares

No.	Shareholder	Number of allocated New Shares	Share in the total number of New Shares
1	SZIF d.d.	30,000	4.28%
2	PBZ Invest for PBZ Equity fund	28,000	3.99%
3	PRIMA ULAGANJA d.o.o.	111,941	15.95%
4	OPT Invest for OTP Uravnoteženi fond	8,300	1.18%
5	OPT Invest for OTP Meridian 20 fund	6,700	0.95%
6	ZB Invest for ZB Global fund	22,500	3.21%
7	Primorska banka d.d.	42,725	6.09%
8	HOK-OSIGIRANJE d.d.	44,777	6.38%
9	HPB Invest for HPB Global fund	7,000	1.00%
10	HPB Invest for HPB Dionički fund	5,800	0.83%
11	Erste Invest for Erste Adriatic Equity fund	15,000	2.14%
12	Interkapital d.d.	7,462	1.06%
13	PBZ CROATIA OSIGURANJE OMF - B CATEGORY	150,000	21.38%
14	KD Investments for KD Victoria fund	7,000	1.00%
15	Locusta invest for Locusta Value I AIF	5,950	0.85%
16	Locusta invest for Locusta Value II AIF	7,000	1.00%
17	Agram Invest for Agram PRIVATE AIF	52,238	7.45%
18	Erste Plavi OMF - B CATEGORY	149,250	21.27%
	Total	**701,643**	**100.00%**

Source: Granolio

5.2.3 Information to be announced before allotment

In case that the total number of New Shares subscribed to and paid for had exceeded the maximum Offer of New Shares, i.e. 789,157, the New Shares Allocation Rules were disclosed in the public offering by the Company's Management Board, with the approval of the Supervisory Board.

Allocation of New Shares would be conducted among following Groups of investors:

a) Mandatory pension funds;

b) Voluntary pension funds;

c) Pension insurance companies;

d) UCITS funds;

e) Alternative investment funds;

f) Insurance companies;

g) Banks for their own account;

h) Banks in the name and for the account of portfolio;

i) Investment firms – for their own account;

j) Investment firms – in the name and for the account of portfolio;

k) Other companies;

l) Natural persons;

m) Others.

The Issuer should treat all investors within the same Group the same way. The Issuer could, during allotment between Groups of investors apply different mechanisms based on one or a combination of several below mentioned criteria. For allotment of New Shares between Groups of investors, the appropriate allotment mechanism could have been determined based on the following criteria of comparison of one specific Group of investors with another:

1. Investor's quality

a) Investor's investment horizon; and/or

b) The size of the Investor; and/or

c) Investor's activities on the primary market; and/or

d) Investor's activities on the secondary market;

and/or

2. Investor's business operations

e) Importance and/or size of the Investor within the industry the Issuer operates; and/or

f) Investor's strategy for current and future course of business with the Issuer,

and/or

3. Quality of Offer primarily related to:

g) Number of New Shares to which the Offer refers; and/or

h) Term of receiving investors' offer during the Subscription period, with preference of previously received Subscription Forms.

Since 88.9% of offered number of New Shares out of the maximum number of shares was duly subscribed to and paid for, each investor was allocated with 100.00% from their subscribed to and paid for number of New Shares, therefore, there was no need for allotment of New Shares.

5.2.4 Announcing information to subscribers on allotted amounts and indication of whether trading could begin before the information has been announced

Placement Agents have informed each investor about the number of allotted New Shares and about the possible amount of reimbursement funds on 1 December 2014. The information about successful issue of New Shares was announced on the same day.

5.2.5 Over-allotment and green shoe options

Provisions for subscribing for additional shares (over-allotment option) and providing security for subscribing for additional securities (green shoe option) were not foreseen.

5.3 Price formation

5.3.1 Indication of the offering price of New Shares. Indication of all costs and taxes specifically charged to the underwriter or purchaser

The Decision on share capital increase stipulated that the New Shares would be offered for sale within the Price Range from 134.00 HRK to 166.00 HRK per share.

After all the bids for subscription and payment for shares in the procedure of share offering to the Company’s shareholders have been received, the Management Board, with the Supervisory Board’s approval, determined within the mentioned Price Range the Final Price of the New Shares in the amount of HRK 134.00 and announced it on the Company’s website and Business Daily (Poslovni dnevnik). The Final Price of New Shares was unique for all investors, i.e. for each subscription made by individual investors in case of multiple subscriptions as laid out in section 5.2.3 of the Prospectus.

In the course of determining the Final Price under which the New Shares have been offered, the following was, inter alia, taken into account:

(i) Maximization of the company’s cash flow,

(ii) Achievement of minimum success threshold, i.e. subscription and payment of at least 671,642 New Shares,

(iii) Demand for New Shares during subscription,

while at the same time attempting to enable a stable development of the Company’s share prices on the secondary market.

In other words, the Final Price of the New Shares was determined based on received subscriptions by way of accepting all bids submitted by investors which are equal to or higher than the Final Price and which enable the optimisation of the above mentioned criteria (i) to (iii).

As regards the possible costs and taxes charged specifically to the subscriber or customer, these could include the costs of subscription and payment for New Shares in the form of money transfer costs, postal services costs, etc. Also, there were opportunity costs in the period from the moment of payment by individual investors to the moment when the New Shares were at their disposal, or the funds have been reimbursed to the investor’s account as specified in the subscription, inasmuch as the investors have not been able to realise interest in the mentioned period.

5.3.2 Announcing the Final Price in the Offer

The Final Price of New Shares has been announced on the Company’s website and in Poslovni dnevnik (Business daily) on 1 December 2014, which was the first working day after the date when the Decision of the Management Board and Supervisory Board on the Final Price of the New Shares has been adopted.

5.3.3 If the Issuer's shareholders have pre-emptive rights and if those rights have been restricted or abolished, indication of the grounds for setting the price of issuance provided that the issuance refers to payment in money, together with the reasons for restriction or abolishment and persons subject to it

In line with the provisions of article 308, paragraph 4 of the Companies Act, the Decision of the General Assembly on the increase of the Company's share capital stipulated that existing Company shareholders were excluded from pre-emptive rights to subscription and payment for New Shares, which were issued in the process of share capital increase.

A business evaluation of the Company has been performed using standard methodologies, which are customarily used in similar transactions. Based on its estimated value, the Company deems that the fair price per share ranges between HRK 134.00 and HRK 166.00. Subsequently, the Company has decided to offer New Shares for sale within the Price Range from HRK 134.00 to HRK 166.00 per share.

5.3.4 If there was a significant difference in Public Offer prices and prices at which the members of the Issuer's Management Board or Supervisory Board, or persons related to the Issuer, have acquired shares in the period of one year prior to the public offering, the comparison of these prices should be provided

Members of the Management Board and Supervisory Board have not acquired Granolio shares in the period of one year prior to the beginning of New Shares offer, and on the date of the Prospectus there were no agreements on possible acquisition of shares in the future at a price which is substantially different from the price in the public offering.

5.4 Placement and Sponsorship

5.4.1 **Name and address of the global and partial Offer coordinators and places in different countries where the Offer is taking place**

New Shares were offered on the domestic capital market and there were no global Offer coordinators.

5.4.2 **Name and address of all disbursing and depositary agents**

The disbursing and depositary agent for New Shares is Central Depository and Clearing Company, Heinzelova 62/a, Zagreb.

5.4.3 **Name and address of institutions providing underwriting of financial instruments and/or placing of financial instruments on a firm commitment basis (sponsorship) or placing of financial instruments without a firm commitment basis (placement) of New Shares**

The Offer/Sale of the New Shares without a firm commitment basis (placement) was provided jointly by Placement Agents ERSTE&STEIERMÄRKISCHE BANK d.d. with the registered seat in Rijeka, Jadranski Trg 3/a, PIN 23057039320, Reg. No. 040001037 and Privredna banka Zagreb d.d. with the registered seat in Zagreb, Radnička cesta 50, PIN 02535697732, Reg. No. 080002817. Placement Agents offer the Issuer services of preparation and implementation of offering the New Shares and listing them on the official market of the Zagreb Stock Exchange. The total amount of compensation of Agents for the aforementioned services depends on the amount of financial assets the Issuer acquired before the increase in capital by way of public offering of New stocks and are included in total expenses of Issue/Offer of New Shares mentioned in paragraph III, item 8.1 of this Prospectus The total net proceeds and an estimate of the total expenses of the issue/offer. Placement Agents have not made a sponsorship agreement with the Issuer, and were not obligated to fully nor partially redeem New Shares.

5.4.4 **Date of sponsorship contract**

The Issuer has not concluded a sponsorship contract with Placement Agents or other companies.

6 ADMISSION TO TRADING AND TRADING PROCEDURES

6.1 Indication of whether the New Shares are subject to a request for admission to trading with a view to their distribution in a regulated market or equivalent market with an indication of the market in question

If the Offer of New Shares would successfully be carried out, the Issuer highlighted its intention to issue a Listing Prospectus and submit it for approval to Croatian Financial Services Supervisory Agency (HANFA). If HANFA would approve the Listing Prospectus, the Issuer will publish it in accordance with Article 374 of the Capital Market Act, and thereafter list the shares on the regular market of the Zagreb Stock Exchange. The Issuer does not guarantee that HANFA would approve the Listing Prospectus or that if the Listing Prospectus would be approved, admission to trading will definitely be approved by the competent authority.

The Issuer assumes no responsibility for the possible rejection of the admission.

6.2 All regulated markets where the securities of the Issuer of the same class have already been admitted to trading

Shares of the Issuer are currently not listed on a regulated market, and after the approval of the Prospectus by Croatian Financial Services Supervisory Agency (HANFA), request for listing the shares on the Official Market of the Zagreb Stock Exchange will be submitted.

6.3 If, almost simultaneously with the issue of the securities for which listing is sought on the regulated market, securities of the same class are privately entered, or if securities of another class for private or public placement are prepared, details of the nature of such activities and the number and characteristics of the securities to which they relate should be provided

In addition to the New Shares of the Issuer which have been offered for admission, the Issuer has not simultaneously entered or placed shares of the same class privately, nor has it at the same time created shares of a different class for private or public placement.

6.4 Details on entities that have committed themselves to acting as intermediaries in secondary trading, providing liquidity by using offerings for buying and selling, and a description of the main terms of their commitment

There are no persons who have committed themselves to the Issuer to act as intermediaries in secondary trading for the New Shares and do not have a commitment for partial or global redemption of New Shares.

6.5 Stabilisation

The possibility of price stabilisation is not foreseen.

7 SELLING SHAREHOLDERS

There were no shareholders who would sell the ordinary shares of the Issuer in a public bid, and there were no binding agreements in relation to this.

8 EXPENSES RELATED TO THE ISSUE/OFFER

8.1 The total net proceeds and an estimate of the total expenses of the issue/offer

All costs related to the Issue/Offer of the New Shares, including but not limited to the costs of Placement Agents for providing a subscription service for the New Shares without a firm commitment basis, the costs of legal advisers, the costs of independent auditors, HANFA (Croatian Financial Services Supervisory Agency), CDCC, the Zagreb Stock Exchange and other material costs and alike amount to app. HRK 2 million.

Since the Offer of the New Shares amounted to HRK 94,020,162.00, the net amount of funds raised by the capital increase is around HRK 92 million.

9 DILUTION

9.1 Amount and percentage of immediate dilution resulting from the offer

The total number of ordinary shares of the Issuer prior to the increase in share capital amounted to 1,200,000. After the subscription of the increase in share capital in the Court Registry, the share capital of the Company was increased by releasing 701,643 of new ordinary shares and the total number of Issuer's ordinary shares is 1,901,643. Based on the above mentioned information, if an individual shareholder owned 1.00% of the shares of the Issuer before recapitalisation, and did not participate in the subscription of New Shares, his ownership share after the recapitalisation will be lowered to 0.631%.

9.2 In case of subscription offering to existing shareholders, disclose the amount and percentage of immediate dilution if they do not subscribe to the new offering

Stated in the previous section 9.1 “Amount and percentage of immediate dilution resulting from the offer."

10 ADDITIONAL INFORMATION

10.1 Advisors of the Issuer connected with the release and listing of New Shares

BUTERIN & POSAVEC, law firm, a public limited company, headquartered in Zagreb at Draškovićeva 82, and entered into the Commercial Court registry in Zagreb under the court registration number (MBS) 080752526 and tax number (PIN) 88443826619, is acting as a legal adviser in the preparation and implementation of the issuance and Offer of the New Shares.

10.2 Indication of other information in Part II of the Prospectus which the certified auditors have audited or reviewed and created a report on.

There were no additional information in the Notice of Security Issue which the certified auditors have audited or reviewed and created a report on.

10.3 Opinions or reports of experts included in the Notice of Security Issue

There is no opinion or report of a third party with the status of an expert included in the Notice of Security Issue.

10.4 Information from third parties included in the Notice of Security Issue

The Notice of Security Issue does not include information which are a source from a third party.

10.5 Representations and guarantees of the Issuer

The Issuer hereby represents and guarantees:

(i) that the New Shares provide holders with the same rights and obligations as the existing ordinary shares which are kept in the depository of the CDCC (Central Depository & Clearing Company Inc.), in accordance with the law and Company's Articles of Association, from the date of the registration of the increase in share capital in the court registry;

(ii) to assume and accept responsibility for the contents of the Prospectus and the authenticity and completeness of the information contained in the Prospectus;

(iii) that the Issuer has obtained all the necessary permits and approvals for the issue of the New Shares;

(iv) that the issue of the New Shares is not inconsistent with the laws and regulations of the Republic of Croatia, the Articles of Association and other general acts of the Issuer, and agreements to which the Issuer is a party;

(v) that it has not taken any measures to terminate the work of the Company or to terminate its registered activities;

(vi) that all financial statements attached to the Prospectus truthfully, completely and accurately reflect the operations and financial and material legal status of the Issuer;

(vii) to fulfil all obligations towards the Zagreb Stock Exchange related to maintaining shares on the Official Market of the Zagreb Stock Exchange;

(viii) to fulfil all obligations towards the CDCC related to membership of the CDCC and to the maintaining of New Shares in the depository and clearing and settlement system;

(ix) that neither the Placement Agents nor the Law firm have any liability towards the holders of the New Shares for the accuracy and content of the Prospectus, or the completeness of the information in the Prospectus

(x) to notify the Issuing Agents of any change in facts that could affect the abovementioned quarantees.

IV. ATTACHMENTS TO THE PROSPECTUS

1 ISSUER'S ARTICLES OF ASSOCIATION

The following is a complete (consolidated) text of the Articles of Association, valid from the date of this Prospectus.

Granolio d.d.
Supervisory Board

A R T I C L E S O F A S S O C I A T I O N OF JOINT STOCK COMPANY GRANOLIO d. d. - Consolidated Text-

Zagreb, September 2014

CONTENTS

On the basis of the Resolution of the General Assembly of Granolio d.d. dated 2 September 2014, the Supervisory Board establishes the consolidated text of the Articles of Association of Granolio d.d.

A R T I C L E S O F A S S O C I A T I O N
OF JOINT STOCK COMPANY
Granolio d.d.
Consolidated Text

I General Provisions

Article 1

These Articles of Association provide for and determine:
- Company's name and registered seat,
- Company's scope of activities,
- Company's share capital,
- Increase and decrease of the share capital,
- Nominal value of shares and number of shares in the Company,
- Company's bodies and their mode of operation,
- Representation of the Company,
- Manner and form of publication of Company's notices,
- Annual report and use of Company's profits,
- Duration and dissolution of the Company,
- Corporate changes,
- Company's deeds,
- And other provisions important for the Company's operations.

II Duration of the Company

Article 2

The Company is established for an indefinite period and may be dissolved only in the cases and in the way determined by the law or these Articles of Association.

The General Assembly decides on the dissolution of the Company by votes representing at least three fourths of share capital represented at the General Assembly at the time of adoption of the resolution.

III Name and Registered Seat

Article 3

The Company is doing business and conducting affairs under the name which reads:
Granolio d.d. za proizvodnju, trgovinu i usluge.

The abbreviated name reads: Granolio d. d.

Article 4

The Company's name and abbreviated name may be changed by a resolution of the Company's General Assembly.

Article 5

The Company's registered seat is in Zagreb at the business address determined by the Company's Management Board.

The Company's business address is specifically determined and changed by the Company's Management Board.

Article 6

In its business the Company uses the necessary number of corporate seals which contain the Company's name and registered seat.

The persons authorized to represent the Company may use the seal in the way determined by the Management Board.

IV Organization and Course of Business

Article 7

The internal organization of the Company shall be determined by the decision of the Management Board.

V Activities of the Company

Article 8

The Company shall be engaged in the following activities:

- Production of food and beverages
- Agriculture, hunting and related services
- Production of agricultural and food products - ecological production
- Processing in ecological production
- Purchase and sale of goods
- Storage of goods
- Trade in fertilizers and soil enhancements
- Production of seeds
- Processing of seeds
- Production of seed material
- Import of seed material
- Packing, sealing and labelling of seed material
- Marketing of seed material
- Packaging, sealing and labelling of seeds
- Marketing of seeds
- Trade in plant protection products
- Storage of plant protection products
- Packaging activity
- Transfer and storage of cargo
- Trade in ecological products, unprocessed plants and animal products, and products which are completely or partially composed of such products
- Commercial agency on domestic and international market
- Representation of foreign companies
- Activity of public road transport of passengers and cargo in domestic and international traffic
- Real estate business

- Renting out of machinery and equipment, without handler, and goods for personal or household use
- Distribution of gas
- Production of biofuels
- Trade, agency and representation on the energy market
- Trade in gas
- Storage of gas
- Production of ethanol

Article 9

Without registering with the commercial registry the Company shall also perform other activities in a lesser scope, which serve the activity registered with the commercial registry and which are usually performed in a lesser scope alongside the activity.

VI Publication of Information and Notices of the Company

Article 10

The "Official Gazette of the Republic of Croatia" shall be understood as representing the Company's gazette.

VII Share Capital of the Company

Article 11

The share capital of the Company amounts to HRK 12,000,000.00 (twelve million kuna).

The share capital is fully paid up.

Increase of the Company's Share Capital

Article 12

The Company's share capital may be increased by payment of contributions in money, in kind or in rights.

The Company's share capital may also be increased by converting capital profits, reserves and retained earnings.

The resolution on the increase of share capital shall be adopted by the General Assembly by votes representing three fourths of share capital represented at the General Assembly at the moment of adoption of the resolution.

Decrease of the Company's Share Capital

Article 13

The Company's share capital may be decreased by a resolution of the General Assembly on the regular decrease, simplified decrease, decrease by withdrawal of shares, as well as on the basis of another legally grounded decision.

VIII Shares

Article 14

The Company's share capital is divided into 1,200,000 (one million two hundred thousand) ordinary shares, each with a nominal value of HRK 10.00 (ten kuna).

All shares are registered shares which grant their holders equal rights and secure them with equal position in the Company.

Each issuance of shares shall have a special designation of the series, and each share shall have its own control number within the issuance.

Article 15

The Company's ordinary "A" series shares are issued in dematerialized form.

Article 16

Apart from ordinary shares, the Company may issue preferred shares, which will always be decided on by the Company's General Assembly.

In case the Company issues preferred shares, the General Assembly can grant their holders, by a special resolution, only those rights which are in accordance with the law and provisions of these Articles of Association, and these are notably the preferential right to fixed dividend, payment of dividend and settlement in the procedure of liquidation or bankruptcy of the Company.

The rights from the previous paragraph can be limited or increased in accordance with the laws in force on the day of adoption of the resolution of the General Assembly on the issuance of preferred shares.

The rights of holders of preferred shares shall be determined by a resolution of the General Assembly in proportion to their increased contribution in the Company, through grants or actions.

Article 17

Shares are indivisible.

If more people acquire one share, they shall exercise the rights from such a share as beneficiaries of an indivisible right, through a mutual proxy. The power of attorney must be in written form and certified by a notary public.

Quotation

Article 18

The shares of the Company may be enlisted into a stock market quotation by a decision of the Company's Management Board with prior consent of the Supervisory Board.

The shares enlisted into a stock market quotation shall not be subject to the provisions of the Articles of Association which are contrary to the laws regulating share quotation.

Transfer of Shares

Article 19

The shares may be transferred and inherited.

Article 20

The transfer of shares, as well as any other change in status, is recorded with the shareholder's account at CCDC, in accordance with the current laws and rules of CCDC.

Share Registry

Article 21

The share registry is held with the Central Depository and Clearing Company (CDCC) in accordance with the laws currently in force.

Treasury Shares

Article 22

With consent of the Supervisory Board, the Company's Management Board adopts the decision on acquisition of treasury shares in accordance with reasons and limitations provided under the law. No rights shall belong to the Company out of treasury shares.

The General Assembly may adopt a resolution authorizing the Company's Management Board to acquire treasury shares for the reasons and under the conditions provided under Article 233 of the Companies Act.

The General Assembly may authorize the Company's Management Board to withdraw the treasury shares, without necessity of a special resolution of the General Assembly.

Shareholders' Rights

Article 23

The shareholder has the right to participate in the work of the General Assembly in the capacity of a member, to participate in the Company's management in accordance with the provisions of the law and these Articles of Association and resolution of the General Assembly, to participate in the distribution of profits in accordance with the provisions of these Articles of Association and resolution of the General Assembly, the right to a proportionate part of the remainder of the Company's liquidation assets, the right to be informed about the Company's affairs and any information which is important for decision-making in the Company.

The shareholder shall also be entitled to other rights not expressly indicated under this provision, but provided under or arising from the law or these Articles of Association.

Article 24

Each share grants a voting right in the Company's General Assembly.

The shares of equal nominal value grant equal voting rights in the Company's General Assembly.

IX Bodies of the Company

Article 25

The bodies of the Company are:

- Management Board
- Supervisory Board
- General Assembly

1. Management Board

Composition

Article 26

The Company's Management Board shall consist of at least 3 (three) and a maximum of 7 (seven) members, where one of them will be the President of the Management Board, which is decided on by the Supervisory Board.

Appointment and Revocation

Article 27

The President and members of the Management Board shall be appointed by the Supervisory Board for a period of five (5) years with the possibility of reappointment.

Prior to appointment, the candidate for a member of the Management Board is obliged to give a statement that he/she is prepared to perform the duty of member of the Management Board and that no statutory obstacles exist for his/her appointment.

The Supervisory Board may decide to revoke a member of the Management Board, including the President of the Management Board, when there is an important reason for this. This will not affect the rights of the member of the Management Board and the President of the Management Board arising under the contract they made with the Company, unless the contract provides otherwise.

Conditions for Appointment

Article 28

Any person who has full legal capacity and fulfills the conditions determined by the law can be appointed as member of the Management Board.

The Supervisory Board may adopt a decision establishing additional conditions for the appointment.

The Management Board is obliged to keep the Company's business secrets confidential.

The duty from the previous paragraph will not cease even after termination of work with the Company.

Managing the business

Article 29

The Management Board is liable for managing the Company's business, by applying due care of an orderly and conscientious businessman.

The Company's business shall be managed by the President and members of the Management Board on the basis of a division of work between members of the Management Board in relation to particular areas of activity or a particular scope of business.
The mode of the Management Board's operation and the division of work between members of the Management Board in terms of the previous paragraph will be determined by the Rules of Procedure for the Work of Management Board, which shall be adopted by the Management Board with the consent of the Company's Supervisory Board.
The Management Board meetings will be convened and led by the President of Management Board, or, in the event of his absence, a member of the Management Board replacing him.
The decisions of the Management Board shall be adopted by a majority vote of all members of the Management Board.
If the votes are tied at making a decision, the President of the Management Board will have the casting vote.

Representation

Article 30

The President of the Management Board represents the Company individually and independently, while a member of the Management Board represents the Company jointly with another Management Board member.
The President of the Management Board is entitled to authorize another person to represent the Company.

Procura

Article 31

The Company shall be represented by the holder of procura within the limits set under the law. The procura is granted by a decision of the Management Board with prior consent of the Supervisory Board, and may be revoked at any time.

Rules of Procedure for the Work of the Management Board

Article 32

The detailed issues of the structure and organization of work of the Management Board, the maintenance of records on decisions adopted, and the authorizations for individual and joint management of business shall be set and determined by the Rules of Procedure for the Work of Management Board, which shall be adopted by the Management Board with consent of Supervisory Board.

2. Supervisory Board

Composition

Article 33

The Supervisory Board shall consist of 3 or 5 members. The exact number of Supervisory Board members shall be determined by a resolution of the Company's General Assembly.
For as long as such obligation is provided, one member of the Supervisory Board shall be a representative of employees, and he will be appointed and revoked in the manner provided under the Labour Act.
One member of the supervisory Board shall be directly appointed and revoked by Hrvoje Filipović for as long as he holds shares representing at least 25% of aggregate issued ordinary shares of the Company.
The remaining members of the Supervisory Board shall be elected and revoked by the Company's General Assembly.

Appointment and revocation

Article 34

The General Assembly shall elect the members of Supervisory Board on the basis of proposals of shareholders who individually or jointly represent at least a twentieth part of the Company's share capital at the time of election.

Constitution

Article 35

The newly elected Supervisory Board must be constituted within a period of 8 (eight) days from the day of election. The constitutive meeting shall be convened and presided over by the Chair of General Assembly, up until the moment of election of the President of Supervisory Board.

On the constitutive meeting members of the Supervisory Board shall elect the President and Vice President.

Term of Office

Article 36

Members of the Supervisory Board are elected for a period of 4 (four) years, where their term of office will be terminated on the closure of the General Assembly which decides on approving the work of the members of the Supervisory Board for the last year of their term.

Revocation

Article 37

Appointed members of the Supervisory Board can be revoked at any time before the expiry of their term of office by the body/person which has the right to appoint them.

The General Assembly has the right to revoke members of the Supervisory Board who are elected by the General Assembly, even before the expiry of the term of office for which they have been elected.

Management, decision-making and remuneration for services

Article 38

The work of the Supervisory Board shall be managed by the President of the Supervisory Board, who convenes the meetings of the Supervisory Board, presides over the meetings of the Supervisory Board, signs the minutes of the meeting and other decisions of the Supervisory Board, and signs on behalf of the Supervisory Board the contracts with Management Board members on the performance of management board duties.

The Supervisory Board may adopt decisions if at least half of the members of the Supervisory Board participate at the meeting of the Supervisory Board or at the process of decision-making. If the Supervisory Board has three members, it can render decisions if at least two members of Supervisory Board are present at the meeting. If the Supervisory Board has five members, it can render decisions if at least three members of Supervisory Board are present at the meeting. As a rule, the Supervisory Board shall also render decisions outside of meetings, in a circular manner, if no member of the Supervisory Board demands holding a meeting.

The Supervisory Board decisions are adopted by a majority vote of all members of the Supervisory Board.

Competences

Article 39

The Supervisory Board shall in particular perform the following duties:

- Appointing and approving the work of the Management Board,
- Supervising the management of Company's business,
- Analyzing annual financial reports, and accepting them together with the Company's Management Board,
- Analyzing annual reports on the status of the Company and the proposal of decision on the use of profits,
- Analyzing whether the Company's business is in accordance with the laws and the resolutions of the General Assembly,
- Convening the General Assembly when this is necessary for the wellbeing of the Company,
- Adopting the Rules of Procedure for the Work of the Management Board,
- Taking a position on the report of the Company's Auditor,
- Representing the Company towards the Management Board,
- Giving consent to the decisions of the Management Board when this is provided under the law or these Articles of Association,
- Adopting the Rules of Procedure for the Work of Supervisory Board,
- Performing all other duties for which it is competent under the provisions of these Articles of Association.

Rules of Procedure on the Work of Supervisory Board

Article 40

The Supervisory Board shall adopt the Rules of Procedure on the Work of the Supervisory Board setting and determining in detail the manner of Supervisory Board’s work, and especially: the time of holding a meeting, convening of a meeting, setting the agenda, the course of the meeting and the contents of the minutes from the meeting of Supervisory Board.

3. General Assembly

Composition

Article 41

The General Assembly consists of all shareholders holding a voting right.

The shareholders may authorize a particular person for representing them in the work of the General Assembly.
Members of the Management Board and Supervisory Board must participate in the work of the General Assembly.

Competences

Article 42

The General Assembly decides on the issues expressly provided under the law and these Articles of Association, and especially on:

- Adoption and changes and supplements to the Company's Articles of Association,
- Election and revocation of the members of Supervisory Board,
- Annual financial reports and use of profits,
- Approval of the work of the members of the Management Board and Supervisory Board.
- Appointment of the Company's Auditor,
- Increase and decrease of the Company's share capital,
- Dissolution of the Company,
- And on other matters determined under these Articles of Association and the law.

Convening

Article 43

The General Assembly is principally held at the location of the Company's registered seat.

The General Assembly shall be convened in cases provided under the law and these Articles of Association.

The General Assembly shall be convened by the Management Board.

The General Assembly may also be convened by the Supervisory Board, when this is necessary for the wellbeing of the Company.

The General Assembly must be convened whenever this is requested by shareholders jointly holding at least 5% (five percent) of the Company's share capital, and who indicated the purpose and reason for convening the General Assembly. The request for convening the General Assembly is sent to the Company's Management Board in written form.

Article 44

The General Assembly must be convened at least one month before the day when it is to be held.

The convening of the General Assembly shall be announced by the Company's Management Board on the Company's Internet site.

The invitation for holding the General Assembly contains information on the time and place of the General Assembly meeting, and the indication of place and time where and when the subsequent General Assembly shall be held if the one which is currently convened would have no quorum present or if it were not to be held for some other reason.

Article 45

When publishing the invitation for holding the General Assembly, the Management Board must also publish the agenda for the General Assembly.

The invitation convening the General Assembly shall also contain instructions to shareholders with regard to access to the materials which are the subject of debate at the General Assembly.

Shareholders may access the materials from previous paragraph at a time indicated in the instructions from the previous paragraph.

Application

Article 46

Participation in the General Assembly shall be open to those shareholders who applied with the Company for their participation in the General Assembly at least 7 (seven) days prior to the day of the General Assembly meeting.

Decision-making

Article 47

The decisions of the General Assembly shall be adopted by a majority vote (simple majority) unless the law sets a special qualified majority requirement for adopting particular decisions.

The voting right at the General Assembly shall be exercised in proportion to the nominal value of shares of each shareholder, which means that each share with a nominal value of HRK 10.00 (ten kuna) carries the right to one vote.

Voting at the General Assembly shall be exercised in the open, by lifting up voting tickets or completing and submitting voting tickets which contain a note on the number of votes belonging to a particular shareholder.

Participation

Article 48

Participation and exercise of voting rights at the General Assembly shall be open to shareholders who hold registered shares, or their proxies who are registered with the Central Depository and Clearing Company as holders of shares one month before the day of the General Assembly meeting.

Chair and Vice Chair of the General Assembly

Article 49

The General Assembly shall be chaired by the Chair of the General Assembly, or in his absence the Vice Chair of the General Assembly.

The Chair and Vice Chair of the General Assembly shall be elected by the General Assembly for a term of 4 (four) years, upon proposal by the Supervisory Board.

The Chair of the General Assembly shall:

- Chair the meetings of the General Assembly, and set out the order for discussion on particular items of the agenda, decide on the order of voting on particular proposals, and on all procedural issues not determined by the law or these Articles of Association,
- Sign the decisions of the General Assembly, the list of shareholders present at the General Assembly, the manner and results of voting at the General Assembly and other potentially needed records,
- Communicate on behalf of the General Assembly with other Company bodies and third persons when this is provided under the law or these Articles of Association,
- Perform any other duties for which it is competent under the law or these Articles of Association.

Prior to commencing with the planned agenda, the Chair of the General Assembly shall determine whether the proxies have valid authorizations in terms of these Articles of Association, and whether the General Assembly has a quorum present.

List of Shareholders Present

Article 50

A list must be produced of all shareholders present and represented at the General Assembly, and of their representatives, with indication of first names, last names and places of residence, and indication of the aggregate nominal value of shares.

The list is to be compiled on the basis of a trustworthy certificate issued by the CDCC, or on the basis of a written proxy for representing a shareholder in the General Assembly.

Discussion at the General Assembly

Article 51

The shareholder or his proxy who would like to speak out in relation to a particular item on the agenda must report this to the person designated in this respect by the Chair of the General Assembly before the General Assembly starts voting on this item.

The shareholders or their proxies will be allowed to speak out by the Chair of the General Assembly, in accordance with the order of requests.

Present shareholders and their proxies are obliged to conduct in such a way as to enable the holding of the General Assembly in accordance with the provisions of these Articles of Association and the law.

The Chair of the General Assembly shall keep the peace and order of the General Assembly, and to this end he is authorized to withdraw the right of speaking out, and to remove from the General Assembly a person who persistently disturbs the work of the General Assembly.

The shareholder's right to seek explanations, ask questions and enter into debate shall be limited in the way as orally set out by the Chair of the General Assembly after he establishes that the shareholders' proxies are validly authorized, and that the General Assembly has a quorum present, by taking into account the need for orderly work and appropriate duration of the General Assembly.

If this would be needed for orderly work, appropriate duration and efficiency of work of the General Assembly, the Chair of General Assembly may limit the total time of debate or asking questions and seeking explanations for a particular item of the agenda, as well as to set a maximum period in which every shareholder or proxy, who properly applied to speak, can ask questions, debate or seek explanations.

When setting out the limitations from previous paragraph, the Chair of the General Assembly shall take into account the total number of items on the agenda, the complexity of the matter that needs to be decided on, and the number of shareholders or their proxies who properly applied to speak.

Costs of the General Assembly

Article 52

The shareholders shall bear their own costs for participating in the work and meetings of the General Assembly. The costs of holding the meetings shall be borne by the Company.

Quorum and Voting

Article 53

The General Assembly may render legally valid decisions if at least 50% (fifty percent) of the aggregate number of voting shares are represented at the General Assembly.

After discussing particular items on the agenda in accordance with the previous article, the General Assembly shall render a decision on them by way of a vote.

The forms of voting tickets for purposes of the General Assembly shall be prepared by the Company.

Voting is exercised by completing the voting tickets, and voting may be done by expressing "for", "against" or "abstained" for each item on the agenda.

X Annual Report and Use of Profits

Annual Report

Article 54

The Company's business year is the calendar year.

Within the deadlines provided under the law, the Company's Management Board is obliged after the end of the business year to prepare annual financial reports and a report on the Company's business and status, and submit them to the Company's Auditor.

The Management Board shall deliver the Auditor's report to the Supervisory Board without delay, together with the annual financial report and the report on the Company's business and the proposal of the resolution of the General Assembly on the use of profits.

Annual financial reports, the report on the Company's business and status, the Auditor's report and the Management Board's proposal for the use of profits, and the Supervisory Board's report on the supervision of the Company's business, must be presented for access to the Company's shareholders at the Company's offices, or on the Company's Internet site as of the day of publication of invitation to the General Assembly.

Allocation of Net Profits

Article 55

The Company is obliged to use the net profits realized in the business year for the following purposes, in the order as set out below:
- For covering the losses carried over from earlier years,
- For contribution into statutory reserves,
- For contribution into reserves for treasury shares, if the Company acquired them or is intending to acquire them,
- For contribution into other reserves,
- For distribution to shareholders on account of dividends and/or for other purposes in accordance with the law.

Deciding on the Use of Profits

Article 56

The General Assembly decides on the use of net profits of the business year.

The General Assembly may adopt a decision that the net profits are distributed to shareholders and/or allocated to statutory reserves, other reserves and/or used for other purposes.

The General Assembly may adopt a decision that profits are to be paid to shareholders in kind, for example in Company's shares.

The General Assembly may adopt a decision that profits are allocated both for distribution to shareholders as well as for other purposes, for example for payment to employees or to members of the Management Board.

The General Assembly may decide that the Company's profits are not distributed to shareholders (profits carried forward).

Article 58

In the event of distribution of profits to shareholders, dividends shall be allocated to shareholders in proportion to the nominal values of shares.

Advance Payment of Dividends

Article 59

With prior consent of the Supervisory Board, upon expiry of the business year the Management Board is authorized to decide on advance payments to shareholders on account of dividends, out of the foreseeable part of net profits for distribution to shareholders on account of dividend.

The amount of advance payment on account of dividends cannot exceed one half of the amount of profits reduced by the amounts that must be allocated to the Company's reserves pursuant to the law and the Articles of Association.

The amount of advance payment on account of dividends cannot exceed 50% (fifty percent) of the profits for the previous year.

The deadline for payment of dividends is 30 (thirty) days as of the day of adoption of the decision on payment, unless the General Assembly decides otherwise.

XI General and Specific Deeds of the Company

Article 60

The Company's Management Board adopts all general deeds, for which the law or these Articles of Association do not provide adoption by another Company's body.

XII Final Provisions

Article 61

These Articles of Association shall enter into force on the day of registration of the Company with the court registry.

Article 62

In the event that the provisions of these Articles of Association are contrary to the laws or regulations, the provisions of the laws or regulations shall apply.

President of the Supervisory Board

Franjo Filipović

2 LIST OF DEFINITIONS AND ABBREVIATIONS

Art.- article

bn. - billion

CBS - Croatian Bureau of Statistics (Croatian *DZS - Državni zavod za statistiku*)

CDCC – Central depository and Clearing Company (Croatian: *SKDD - Središnje klirinško depozitarno društvo d.d.*)

College education (Croatian: *VŠS - viša stručna sprema*)

EBIT - earnings before interest and taxes

EBITDA - earnings before interest, taxes, depreciation and amortization

etc. – et cetera

EU – European Union

EUR - euro, official currency in the member countries of the European Monetary Union

EURIBOR - Euro Interbank Offered Rate

h - hours

ha - hectare

HACCP standard – (Hazard Analysis and Critical Control Points); - a system designed to prevent hazards and guarantee the health safety of food products

HANFA – Croatian Financial Services Supervisory Agency (Croatian: *Hrvatska agencija za nadzor financijskih usluga*)

HBOR – Croatian Bank for Reconstruction and Development (Croatian: *Hrvatska banka za obnovu i razvitak*)

Highly skilled Worker (Croatian: *VKV - visokokvalificirani radnik*)

HPA – Croatian Agricultural Agency (Croatian: *Hrvatska poljoprivredna agencija*)

I - item

i.e. – that is

IFS - International food standard

IPARD - Instrument for Pre-Accession Assistance for Rural Development (EU)

ISIN - International Securities Identification Number

ISO - International Organization for Standardization, the world's largest developer and publisher of international standards

ISO 9001:2000 – a quality management standard

j.t.d. – unlimited partnership (Croatian *javno trgovačko društvo*)

JSC -joint-stock company (Croatian: *d.d. - dioničko društvo*)

kg - kilogram

kn / HRK- kuna, official currency in the Republic of Croatia

LIBOR (London Interbank Offered Rate) - variable interest rate applied to interbank loans on the London capital market

Ltd. – Limited Company (Croatian *d.o.o. - društvo s ograničenom odgovornošću*)

m. - million

MBS – court registration number for Croatian companies (Croatian: *matični broj subjekta*)

No. - number

Para – paragraph

RH – Republic of Croatia (Croatian: *Republika Hrvatska*)

SAPARD - Special Accession Programme for Agriculture and Rural Development; EU pre-accession programme focused on rural development, agricultural progress and preparation of candidate countries for access to Common Agricultural Policy funds (CAP)

Semi-skilled worker UNS (Croatian: *PKV* - *polu-kvalificirani radnik*)

So called – (Croatian *tzv. - tako zvani*)

SSS – Medium expertise, high school diploma (Croatian: srednja stručna sprema)

SW – skilled worker

t - tonne

thou.- thousand

University degree (Croatian: *VSS - visoka stručna sprema*)

Unskilled worker UNS (Croatian: *NKV - nekvalificirani radnik*)

ZIBOR - Zagreb Interbank Offered Rate

ZTK – The Capital Market Act (Croatian: *Zakon o tržištu kapitala*)