Granolio group, Zagreb

Annual Management Board Report on the business performance and position of the Granolio group and consolidated financial statements for the year 2015,
Together with Independent Auditor's Report

Contents

Annual Management Board report on the business performance and position of the Group for the year 2015

General information about Granolio Group.

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

The Company has a shareholders' assembly, a supervisory board and management board.

The members of its Management Board are as follows:	Hrvoje Filipović, Chairman Tomislav Kalafatić, Member Drago Šurina, Member Vladimir Kalčić, Member.
Members of the Supervisory Board are as follows:	Franjo Filipović, President Jurij Detiček, Deputy President Braslav Jadrešić, Member Davor Štefan, Member Josip Lasić, Member

At 31 December 2015 the total share capital of the Company amounts to HRK 19,016,430 and is divided into 1,901,643 ordinary shares, with a nominal value of HRK 10.00 each. The shares are traded under the ticker GRNL and have been listed on the Official Market of the Zagreb Stock Exchange since 23 March 2015.

The majority shareholder of the Company is Mr Hrvoje Filipović, who holds 60.74 percent of the shareholders' equity.

Consolidated Financial statements of the Group for period from January 1st till December 31st 2015 represents financial statements from parent company and related parties. Related parties ("Group") own and manage manufacturing facilities and activities in food and agriculture industry and in retail industry.

In consilidated financila statemets are included financial statements of folowing related parties:

1. Granolo d.d. (Parent Company)
2. Zdenačka farma d.o.o.
3. Prerada žitarica d.o.o.
4. Zdenka-mliječni proizvodi d.o.o.
5. Žitar d.o.o.
6. Žitar konto d.o.o.

Core business of Granolio Group is production of wheat flour, milk, production of pork, beef meat, production of dairy products, production of animal feed, storage of grains and oilseeds , trade with cereals, oilseeds and raw materials for agricultural production and organization of agricultural production through subcontracting relationships with agricultural producers products

The Group could be classified into the following business segments :

1. Milling
2. Wholesale
3. Dairy and cheese production
4. Other - farming and animal husbandry ,production of animal feed, service industry (drying and storage of grains and oilseeds and receipt of goods to purchase and sale runway)

At the end of reporting period the Group disposes with:

- 3 active mill to produce wheat flour with total capacity of 645 tons per day
- Silos for storage of grains and oilseeds with a total capacity of about 160,000 tons ,
- 2 dairy farms with a total capacity of 880 cows in the milking ,
- pig farm with capacity of 10,000 pigs a year ,
- cattle fattening farm with 180 pieces of beef cattle ,
- 340 pieces of calves for fattening with subcontractors ,
- drive for fodder production capacity of 30,000 tons per year ,
- Approximately 1,100 hectares of agricultural land ,
- production capacity milk processing of 11,400 tons of finished products

Production capacity of mills of the Group as of December 31st 2015 are shown in the following table .

Production capacity of mills as of December 31 2015:

Mlin	Tons per 24 hours
Farina	320
Kopanica	230
Žitar	95
	645

Subsidiaries

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

It exercises the controlling influence in the decision-making process at Zdenka - mliječni proizvodi d.o.o. and Žitar d.o.o. These companies have been consolidated as part of the Granolio Group since 2011.

Žitar d.o.o., as the sole owner, has established another company, Žitar konto d.o.o., whose financial statements have been included in the 2015 consolidated financial statements.

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

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

Significant transactions in the current accounting period

Granolio d.d.

In February 2015 the Company increased the share capital of its subsidiary Zdenačka farma d.o.o. by exchanging the loan it provided to the subsidiary into its equity share in the total amount of HRK 16 million.

The shares of Granolio d.d. have been included in the Official Market of the Zagreb Stock Exchange since 23 March 2015.

To rationalise the production costs, leased mill operations were discontinued in March 2015, the production at mills owned by Belje d.d. and PIK Vinkovci d.d. ceased and was transferred to the Company's own production centres Farina and Kopanica as well as to Žitar d.o.o. This business decision resulted in a one-off employee termination benefit cost in the amount of HRK 2 million.

A legal action between the Company and Osatina grupa d.o.o. was finally concluded by a decision of the Commercial Court in Zagreb of 17 June 2015 establishing the claim as withdrawn.
Simultaneously, Agriculture Cooperative Osatina recovered its debt from Granolio d.o.o. arising from the warehouse fee and other storage costs in a public auction of wheat owned by Granolio d.d. on which the agricultural cooperative held under warehouse-keeper's lien.
The recognition of the transaction in the books of Granolio d.d. resulted in a net loss sightly below half a million kunas.

In August 2015 the Company received, as a club deal, a long-term kuna-denominated loan in the amount of HRK 300 million. The loan funds were utilised to refinance the existing loan debt.
The loan has been granted in two tranches. one tranche in the amount of HRK 47 million of the total nominal loan balance is due on 31 August 2017, and the repayment of the other tranche has been contractually scheduled to take place on a quarterly basis over a period of 10 years.

Financial highlights for 2015 for the company Granolio dd are shown in the following table:

In thousand HRK

	1-12 2015	1-12 2014	Changes	
Sales income	**698,452**	**605,142**	**93,310**	**15%**
EBITDA	**38,528**	**17,191**	**21,337**	**124%**
EBITDA margin %	6%	3%		
EBIT	**28,540**	**(10,478)**	**39,018**	**372%**
EBIT margin %	4%	-2%		
Net financial result	**(15,924)**	**(32,381)**	**16,457**	**51%**
Net result	**9,073**	**(42,859)**	**51,932**	**121%**
Net margin %	1%	-7%		

Zdenačka farma d.o.o.

Sales revenue is lower compared to the previous year due to lower selling prices of milk. Quantity of sold milk in 2015 is higher by 3 % of the amount sold in 2014. The Company has been operating since 2013 with the same key buyers of raw milk .

Financial Highlights for 2015 for the company Zdenačka Farm d.o.o. are shown in the following table.

in thousand HRK

	1-12 2015	1-12 2014	Changes	
Operating income	**20,121**	**21,851**	**(1,729)**	**-8%**
EBITDA	**1,969**	**5,266**	**(3,297)**	**-63%**
EBITDA margin %	10%	24%		
EBIT	**(913)**	**2,199**	**(3,112)**	**-142%**
EBIT margin %	-5%	10%		
Net financial result	**(1,207)**	**(2,117)**	**910**	**43%**
Net result	**(2,120)**	**82**	**(2,202)**	**-2,688%**
Net margin %	-11%	0%		

Zdenka – mliječni proizvodi d.o.o.

The total production capacity of Zdenka amounts 11.4 thousand tons of finished products (cheese). In 2015 The Company in has included in their selection the UHT milk that for Zdenka produces Natura-milk, Đurđevac.

The Zdenka-milječni proizvodi d.o.o. brand is "Zdenka", but the Company also produces a significant number of products under the brand names. Zdenka's portfolio currently includes 21 private label.

Sales growth is a result of higher sales volumes of products. The most significant increase was recorded in sales of fresh cheese, semi-hard cheese and butter.
The increase in sales was recorded on the domestic market, while the export is approximately on the same level as in the previous year.

Depreciation and amortization expense is lower due to the harmonization of depreciation rates for buildings with depreciation rates established at the level Granolio Group. Zdenka was using accelerated depreciation rate for buildings (10%) till first half of 2014, and in the second half of 2014 Zdenka applied rate of 5%.

The total debt of the Company as of December 31, 2015 amounts to 57 million (December 31, 2014: 73 million). The debt consists of 44 million long-term liabilities to financial institutions (December 31, 2014: 50 million) and 13 million in current liabilities to financial institutions which are due in 2016 (December 31, 2014: 24 million).

In 2015, the Company (based on hours worked) employed 172 workers, which is 8% more than in 2014 (2014: 159 workers).

Financial Highlights for 2015 for the company Zdenačka Farm d.o.o. are shown in the following table

in thousand HRK

	1-12 2015	1-12 2014	Changes	
Operating income	**151,230**	**129,571**	**21,659**	**17%**
EBITDA	**20,924**	**14,095**	**6,829**	**48%**
EBITDA margin %	14%	11%		
EBIT	**8,818**	**-1,434**	**10,252**	**715%**
EBIT margin %	6%	-1%		
Net financial result	**(2,166)**	**(2,738)**	**572**	**21%**
Net result	**6,651**	**-4,172**	**10,823**	**259%**
Net margin %	4%	-3%		

Prerada žitarica d.o.o.

During 2015 The Company has generated revenue of approximately HRK 1.5 million (in 2014, 2 million) by corn drying , storage of corn and wheat and operating leases. Revenue was almost entirely generated by companies within the Group Granolio.

Financial Highlights for 2015 for the company Prerada žitarica d.o.o. are shown in the following table .

In thousand HRK

	1-12 2015	1-12 2014	Changes	
Sales income	**1,535**	**2,533**	**(998)**	**-39%**
EBITDA	**30**	**131**	**(100)**	**-77%**
EBITDA margin %	2%	5%		
EBIT	**(389)**	**(286)**	**(103)**	**-36%**
EBIT margin %	-25%	-11%		
Net financial result	**(20)**	**(22)**	**2**	**9%**
Net result	**(408)**	**(308)**	**(101)**	**-33%**
Net margin %	-27%	-12%		

Žitar d.o.o.

Operating income of Žitar d.o.o. decreased in 2015 for 10% compared to 2014. Revenue generated with companies outside the group Granolio approximately is equal to the revenue from the previous year and amounts to about HRK 65 million, while revenue generated by companies within the group Granolio is lower by 35% compared to 2014 and amounts to HRK 11 million (2014 : HRK 17 million)

In 2015, the Company began to export merchandise and agricultural products in the Netherlands, Bosnia and Herzegovina, Germany, Austria and Slovenia which the total value of exports amounts to HRK 2 million (2014: HRK 0)

Revenue in the segment of the dairy increased by 1% compared to the revenue generated in previous year. The quantitative milk production was 23% higher than in 2014 due to a large number of dairy cows in 2015, but also because of better productivity per cow, while the selling price of milk is lower by aproximetly 20% compared to last year.

The total debt of the Company as of December 31, 2015 is 60 million (December 31 2014 .: 74 million). The debt consists of 40 million long-term liabilities to financial institutions and 20 million in current liabilities which are due by the end of 2016.

Financial Highlights for 2015 for the company Prerada žitarica d.o.o. are shown in the following table.

In thousand HRK

	1-12 2015	1-12 2014	Changes	
Operating income	**86,097**	**92,467**	**(6,369)**	**-7%**
EBITDA	**11,420**	**15,126**	**(3,706)**	**-24%**
EBITDA margin %	13%	16%		
EBIT	**5,594**	**6,115**	**(520)**	**-9%**
EBIT margin %	6%	7%		
Net financial result	**(2,390)**	**(7,293)**	**4,903**	**67%**
Net result	**3,166**	**-1,181**	**4,347**	**368%**
Net margin %	4%	-1%		

Granolio Group

Opertaing income of Granolio group has increased by 15 % compared to the previous year. A more detailed analysis of income is presented in this document .
Net debt of the Group is lower than the previous year by 72 million as a result of loan repayments by Granolio , Zdenka and Žitar.

Financial Highlights for 2015 for Granolio group are shown in the following table.

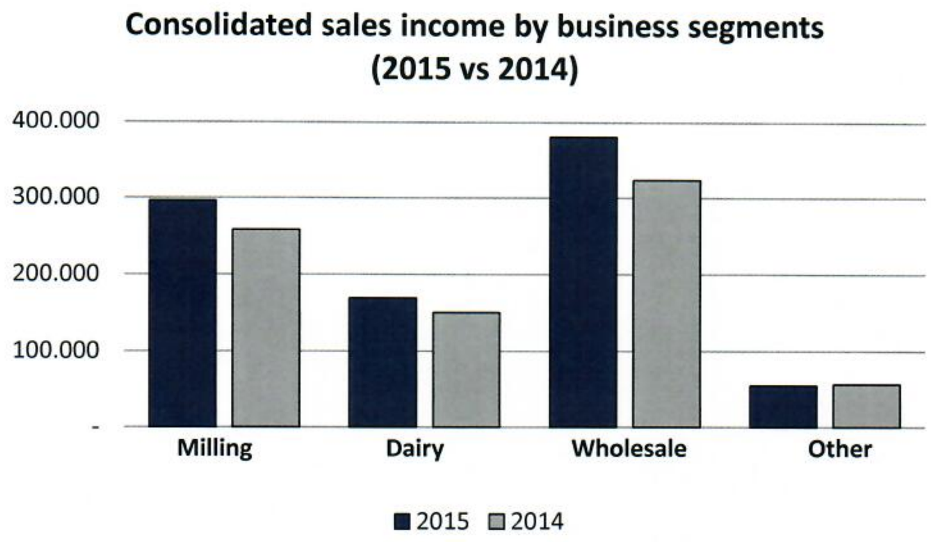
In thousand HRK

	1-12 2015	1-12 2014	Changes	
Operating income	938,218	815,400	122,818	15%
EBITDA	(896,860)	(819,795)	(77,065)	-9%
EBITDA margin %	41,358	(4,395)	45,753	1,041%
EBIT	*4%*	*-1%*		
EBIT margin %	72,578	51,549	21,029	41%
Net financial result	*8%*	*6%*		
Net result	(21,707)	(44,550)	22,843	51%
Net margin %	16,069	(48,945)	65,014	133%
Grupe result	11,150	(46,267)	57,417	124%
Minority interest	4,919	(2,680)	7,599	284%

Income analysis – Granolio Group

Sales income of Granolio Group in 2015 amounts HRK 900 million what is by 14% higher than sales income in previous year.

Sales income generated within the Group during 2015 amounts aproximetly HRK 19 million (2014: HRK 35 million) and it has been eliminated from total consilidated income.



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

In milling segment enters flour sale realised in Granolio, dairy segment includes dairy sale from Zdenačka farm, farm within Žitar and sales of dairy goods from Zdenka company.
Wholesale includes trade with cereals, oilseeds and raw materials realized in companies Granolio and Žitar. Segment Other includes services of drying and storage of grains and oilseeds that provide Granolio, Žitar and Prerada žitarica, sales of beef cattle in Granolio, sale of beef cattle and pigs in Žitar and income from own production of agricultural products and seed processing as part of the Žitar activities.

The increase in sales was recorded in the segment of milling (14%), dairy (12%) and wholesale (18%).

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

In February 2016 the Management Board of the Company adopted a decision to revise its strategy of investments in the biogas plant because of market changes that resulted in a lower project profitability expectations. Further activities on the 300-kW Biogas Plant Investment Project have been suspended, and a feasibility analysis of an investment in a biogas plant with a lower power rating will be developed for the plant to be used solely for Zdenačka farma and serve as a basis for assessing the potential sale of the project.

Plan for business development and investment

Granolio

The Company has no significant investment plans for 2016. The next year's focus will be on strengthening flour exports to the neighbouring countries to increase the volume of sales.

Zdenačka farma d.o.o.

The goals of Zdenačka farma are as follows

1. In the next three years to increase milk production to 9,450 kg / cow in standard lactation of 305 days (daily average per cow 31 kg)
2. Reducing the calving period to the present 490 days to 430 days over the next two years,
3. Reducing of age at first calving heifers from the current 28 months to 24 months during the next two years,
4. Because of the long-term cost reductions of feeding provide additional arable land, from the current 150 ha to 300-350 ha in the next two years.
5. In accordance with the increase in arable land during the next three-year period provide the necessary machinery for crop production and more efficient daily operation of farms

Zdenka - mliječni proizvodi d.o.o.

From privatization till today, Zdenka has invested significant funds in modernization of production facilities and continues to enter into new investments in order to be able to monitor the needs of consumers and market trends. The plan of capital investments during 2016, provides for investment in equipment in the total value of slightly less than 5 million, in the period from 2017 to 2019 the plan is to invest additional equipment 11 million. The financing plan investment is part of long-term loans, and partly from its own resources

Žitar d.o.o.

The company will in 2016 continue with the reconstruction started in previous years.

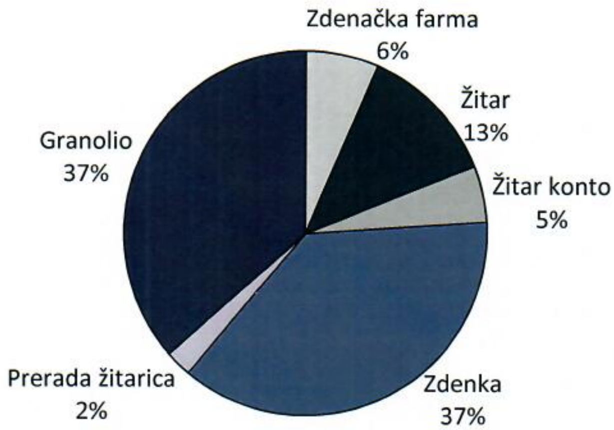
The main strategic objectives are:

1. Irrigation of agricultural land to 600 hectares in order to organize seed production and vegetable production. Currently, the irrigation system of 120 hectares, and by 2018 the plan is to put the remaining 480 ha in use. Planned sources of financing are EU funds and funds from bank loans
2. Extension of the segment of cooperative production from crop on livestock cooperation (pigs, calves), and cooperation with producers of alfalfa.
3. In the period 2016th-2017th to increase the number of dairy cows bz approximately 35% , or to reach the number of 420 cows in the milking in 2016. Forming the foundation stock is planned form the reproduction of the existing herd
4. Continue with the service milling flour for a known customer, the goal is to increase the grinding of 30%.
5. In the Tvornica stočne hrane is plan to introduce a new production line for pelleted feed for calves, poultry and piglets. Planned funding source of the project are EU funds.
6. Purchase of the necessary machinery for the dairy farm (mikserica and tractor), with funding from the EU funds.
7. Extension of the capacity of the farm, the source of financing funds are EU funds and funds from bank loans
8. Organisation of fattening calves for about 500 pieces per year.

Staff

In 2015, the Group based on working hours employed 463 employees (2014: 459).
Part of the employees from Žitar d.o.o. was transferred to the Žitar konto d.o.o., a company that provides accounting and other administrative and consulting services. The structure employed by a particular company from the group shown by the following graph.

Structure of employees based on working hours in 2015



Research and development

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

Purchase of own shares

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

Environmental protection

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

Risks

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

Responsibility for the consolidated financial statements

Pursuant to the Croatian Accounting Law, the Management Board of Granolio Group (the Group) is responsible for ensuring that unconsolidated financial statements are prepared for each financial year in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, which give a true and fair view of the state of affairs and results of the Group for that period.

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

In preparing those financial statements, the responsibilities of the Management Board include ensuring that:

- suitable accounting policies are selected and then applied consistently;
- judgements and estimates are reasonable and prudent;
- applicable accounting standards are followed, subject to any material departures disclosed and explained in the financial statements; and
- the unconsolidated financial statements are prepared on the going concern basis unless it is inappropriate to presume that the Group will continue in business

The Management Board is responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Group and must also ensure that the financial statements comply with the Croatian Accounting Law. The Management Board is also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Signed on behalf of the Management Board:

Hrvoje Filipović, dipl.oec.
President of the Management Board

Tomislav Kalafatić, dipl.oec.
Member of the Management Board

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Independent Auditor's Report

To the Shareholders of Granolio d.d. and its subsidiaries:

Report on the financial statements

We have audited the consolidated financial statements of Granolio d.d and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position at 31 December 2015, and the related consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in shareholders' equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and notes to the consolidated financial statements.

Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to an entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Independent Auditor's Report (continued)

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2015, its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards, as adopted by the European Union.

Report on other legal or regulatory requirements

In accordance with legal and regulatory requirements, Management has drawn up a report presented on pages 1 to 9. The management is also responsible for the preparation of the Annual Report in accordance with the requirements of the Croatian Accounting Law.

Our responsibility is to issue an opinion on the consistency of the Annual Report with the financial statements based on our audit, in accordance with Article 17 of the Croatian Accounting Law. In our opinion, the financial information presented in the Annual Report is consistent, in all material respects, with the aforementioned financial statements as of 31 December 2015.

Other matters

The consolidated financial statements of the Company for the year ended 31 December 2014 were audited by another auditor, whose report dated 20 April 2015 expressed an unmodified opinion on those financial statements.

Deloitte d.o.o.

Branislav Vrtačnik,
President of the Board

Vanja Vlak,
Certified Auditor

Zagreb, 28 April 2016

Consolidated statement of profit or loss and other comprehensive income
For the year ended 31 December 2015

	Notes	2015	2014 reclassified	2013
		in thousands of HRK		
Income				
Sales income	6	900,604	789,044	754,442
Other income	7	37,614	26,356	26,331
Total operating income		**938,218**	**815,400**	**780,773**
Changes in inventories		9,173	12,276	(3,190)
Material expenses	8	(802,715)	(717,274)	(654,937)
Staff expenses	9	(42,623)	(36,681)	(42,654)
Depreciation and amortisation	15,16	(30,253)	(31,364)	(34,444)
Other expenses	11	(11,826)	(10,105)	(9,189)
Value adjustment of expenses	10	(968)	(24,332)	(13,746)
Provisions		-	(250)	-
Other operating expenses	12	(17,648)	(12,066)	(15,004)
Total operating expenses		**(896,860)**	**(819,796)**	**(773,164)**
Profit / (loss) from operations		**41,358**	**(4,396)**	**7,609**
Financial income	13	10,219	6,496	7,468
Financial expenses	13	(31,926)	(51,047)	(32,668)
Net financial result		**(21,707)**	**(44,551)**	**(25,200)**
Result before taxation		**19,651**	**(48,945)**	**(17,591)**
Income tax	14	(3,582)	(2)	(1,646)
Profit / (loss) after taxation		**16,069**	**(48,947)**	**(19,237)**
Other comprehensive income				
Items that are subsequently reclassified to profit or loss:				
Financial assets held for sale, reclassification to profit or loss		-	3,205	(3,205)
Total comprehensive profit / (loss)		**16,069**	**(45,742)**	**(22,442)**
Profit / (loss) attributable to:				
To the owners		*11,150*	*(46,267)*	*(12,433)*
Minority interest	24	*4,919*	*(2,680)*	*(6,804)*
Earnings per share in HRK				
Basic and diluted earnigs per share (in Croatian kunas and lipas)	30	5.86	(37.34)	(10.03)

Approved on behalf of the Company on 28 April 2016

Hrvoje Filipović, dipl.oec.
President of Management Board

Tomislav Kalafatić, dipl.oec.
Member of Management Board

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

Consolidated statement of financial position

At 31 December 2015

	Notes	31 December 2015	31 December 2014	1 January 2014
				in thousands of HRK
I NON-CURRENT ASSETS			reclassified	reclassified
Intangible assets				
1. Goodwill		60,379	60,379	-
2. Trademarks, concessions, licenses		120,000	120,000	-
3. Customer list		7,362	9,029	-
4. Software and other intangible assets		1,134	1,019	1,258
	15	**188,875**	**190,427**	**1,258**
Property, plant and equipment				
1. Land		27,363	27,383	27,980
2. Buildings		234,108	243,598	254,162
3. Plant, equipment and tools		76,959	82,586	88,147
4. Biological assets		11,400	10,943	10,761
5. Advance payments for purchase of property, plant and equipment		326	770	1,522
6. Other tangible assets		85	90	60
7. Plant and equipment under construction		24,523	21,006	18,767
8. Investment property		2,852	2,929	793
	16	**377,616**	**389,305**	**402,192**
Financial assets				
1. Investments at fair value through profit or loss	17a	20,472	20,472	33,011
2. Given loans, deposits and similar	17b	9,428	12,004	14,460
		29,900	**32,476**	**47,471**
Long-term receivables		**15**	**15**	**84**
II CURRENT ASSETS				
Inventories	18	**108,938**	**143,416**	**121,966**
Receivables				
1. Receivables from related parties	29	508	4,655	5,489
2. Receivable from associated undertakings	29	522	173	580
3. Trade receivables	19a	172,974	198,172	190,472
4. Receivables from employees		34	25	19
5. Receivables from the State and other institutions	19b	13,536	10,727	24,536
6. Other receivables	19c	6,680	5,145	8,468
		194,254	**218,897**	**229,564**
Financial assets				
1. Loans to related parties	29	20,121	15,828	16,262
2. Given loans to the associated undertakings	29	-	-	813
2. Investments in securities	20a	696	871	4,121
3. Given loans, deposits and similar	20b	8,953	9,487	8,361
		29,770	**26,185**	**29,557**
Cash and cash equivalents	21	**22,426**	**3,350**	**9,965**
Prepaid exenses and accrued income	22	**5,307**	**1,525**	**1,220**
TOTAL ASSETS		**957,101**	**1,005,595**	**843,277**

Consolidated statement of financial position
At 31 December 2015 (continued)

	Notes	31 December 2015	31 December 2014	1 January 2014
			in thousands of HRK	
			reclassified	reclassified
I EQUITY				
1. Subscribed capital		19,016	19,016	12,000
2. Capital reserves		84,187	85,379	-
3. Revaluation reserves		64,473	67,384	83,504
4. Legal reserves		183	183	161
5. (Accumulated loss) / Retained earnings		(5,126)	37,479	27,524
6. Profit or loss for the year		11,150	(46,267)	(12,433)
	23	**173,883**	**163,174**	**110,756**
Minority interest	24	**58,630**	**53,729**	**56,399**
II Provisions		**250**	**250**	**-**
III LONG-TERM LIABILITIES				
1. Deferred tax liabilities	14	16,118	16,846	22,232
2. Leasing liabilities and liabilities for deposits received		11	11	-
3. Liabilities to banks and other financial institutions	25	366,924	158,430	219,149
4. Liabilities to related companies		239	292	318
		383,292	**175,579**	**241,699**
IV SHORT-TERM LIABILITIES				
1. Liabilities to associated undertakings	29	-	-	18
2. Received loans, deposits and similar liabilities		-	-	4,796
3. Liabilities to banks and other financial institutions	25	96,042	328,819	256,950
4. Advances received		2,883	2,783	3,798
5. Trade payables	26a	130,612	140,423	125,280
6. Liabilities for securities	26b	80,888	109,802	18,044
7. Liabilities towards employees		2,338	2,129	2,014
8. Taxes, contributions and similar duties payable	26c	10,775	7,336	3,545
9. Interests payable	26d	3,024	5,094	73
10. Accrued expenses and deferred income	27	14,354	15,757	17,775
11. Other short-term liabilities	26d	130	720	2,130
		326,692	**597,106**	**416,648**
TOTAL EQUITY AND LIABILITIES		**957,101**	**1,005,595**	**843,277**

Approved on behalf of the Company on 28 April 2016

Hrvoje Filipović, dipl.oec.
President of Management Board

Tomislav Kalafatić, dipl.oec.
Member of Management Board

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

Consolidated statement of changes in shareholders' equity

For the year ended 31 December 2015

In thousand of HRK

	Subscribed capital	Capital reserves	Legal reserves	Revaluation reserves	Retained earnings	Profit / (loss) for the year	Total for the Group	Minority interestt	Total
Balance at 31 December 2013	**12,000**	-	**161**	**83,504**	**27,524**	**(12,433)**	**110,756**	**56,399**	**167,155**
Loss for the year	-	-	-	-	-	(46,267)	(46,267)	(2,680)	(48,947)
Revaluation reserve – Farina d.o.o.	-	-	-	(16,414)	16,414	-	-	-	-
Reversal of fair value reserve on financial assets available for sale	-	-	-	3,205	-	-	**3,205**	-	**3,205**
Transfer of revaluation reserves to retained earnings	-	-	-	(2,911)	2,911	-	-	-	-
Total other comprehensive income for the	-	-	-	**(16,120)**	**19,325**	**(46,267)**	**(43,062)**	**(2,680)**	**(45,742)**
Income tax transfer	-	-	-	-	107	-	**107**	-	**107**
Premium on issue of shares	-	87,004	-	-	-	-	**87,004**	-	**87,004**
Reversal of deferred tax liabilities	-	-	-	-	5,386	-	**5,386**	-	**5,386**
Allocation of capital gains from the share issue	7,016	-	-	-	-	-	**7,016**	-	**7,016**
Dividends paid	-	-	-	-	(2,399)	-	**(2,399)**	-	**(2,399)**
Decrease in capital reserves by the costs of share capital increase	-	(1,625)	-	-	-	-	**(1,625)**	-	**(1,625)**
Allocation of the result for the year 2013	-	-	22	-	(12,455)	12,433	-	-	-
Change of shares in minority interest	-	-	-	-	(9)	-	**(9)**	10	1
Balance at 31 December 2014	**19,016**	**85,379**	**183**	**67,384**	**37,479**	**(46,267)**	**163,174**	**53,729**	**216,903**
Net profit for the year	-	-	-	-		11,150	**11,150**	4,919	16,069
Transfer of revaluation reserves to retained earnings	-	-	-	(2,911)	2,911	-	-	-	-
Total other comprehensive income for the	-	-	-	**(2,911)**	**2,911**	**11,150**	**11,150**	**4,919**	**16,069**
Reversal of deferred tax liabilities	-	-	-	-	728	-	**728**	-	**728**
Decrease in capital reserves by the costs of share capital increase	-	(1,192)	-	-	-	-	**(1,192)**	-	**(1,192)**
Allocation of the result for the year 2014	-	-	-	-	(46,267)	46,267	-	-	-
Change of shares in minority interest	-		-	-	23	-	**23**	(18)	**5**
Balance at 31 December 2015	**19,016**	**84,187**	**183**	**64,473**	**(5,126)**	**11,150**	**173,883**	**58,630**	**232,513**

Approved on behalf of the Company on 28 April 2016

Hrvoje Filipović, dipl.oec.
President of Management Board

Tomislav Kalafatić, dipl.oec.
Member of Management Board

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

Consolidated statement of cash flows

For the year ended 31 December 2015

in thousands of HRK

	2015	2014
Result before taxation	**19,651**	**(48,945)**
Adjusted by:		
Depreciation and amortisation	30,253	31,364
Other	-	109
Accrued income from grants	(3,908)	(3,807)
Increase in provisions	921	250
Natural increase in biological assets	(4,932)	(4,855)
Loss on the disposal and retirement of fixed assets, net	1,358	1,139
Value adjustment of trade receivables	968	23,533
Value adjustment of financial assets	-	13,558
Value adjustment of inventories	185	798
Inventory surplus	(3,153)	(1,715)
Net interest expense	24,848	27,676
Net losses of other financial activity	66	2,959
Net gain from investing	(772)	(251)
Liabilities write off	(676)	(73)
Increase / (Decrease) in accrued expenses and deferred income	329	(129)
Decrease in prepaid expenses and accrued income	672	1,616
Operating result before changes in working capital	**65,815**	**43,226**
Decrease/(increase) in inventories	37,603	(20,413)
Decrease/(increase) in short-term receivables	21,442	(12,964)
(Decrease)/increase in short-term liabilities	(9,749)	19,778
Prepaid expenses for bank charges	(2,868)	-
Advances received/(made)	(700)	1,947
Operating result after changes in working capital	**111,543**	**31,574**
Income tax paid	(540)	(1,533)
Cash generated from operations	**111,004**	**30,041**
Interest received	4,446	4,683
Payments for the acquisition of mill operations	-	(60,379)
Payments to acquire property, plant, equipment and intangibles	(15,087)	(145,464)
Proceeds from the sale of property, plant and equipment	99	201
Net cash paid to increase the equity investments in subsidiaries	-	6,171
Proceeds from stock market transactions	772	251
Deposits received/(paid)	291	(1,034)
Net proceeds from received bills of exchange	154	509
Payments for given loans	(27,680)	(552,324)
Repayments of given loans	30,584	551,789
Cash generated from investing activities	**(6,445)**	**(195,507)**

Consolidated statement of cash flows (continued)

For the year ended 31 December 2015

		in thousands of HRK	
		2015	**2015**
Repayment of borrowings		(454,234)	(1,021,868)
Proceeds from borrowings		434,050	1,029,074
Net (payments of)/proceeds from securities		(28,915)	91,758
Repayment of finance leases		(4,220)	(4,530)
Proceeds from finance lease		1,921	3,128
Interest paid		(31,101)	(29,192)
Proceeds from initial public offering		-	94,020
Payments for initial public offering		(1,192)	(1,625)
Dividends paid		-	(2,399)
Other net payments from financing activities		(1,793)	486
Net cash from financing activities		**(85,483)**	**158,851**
Net change in cash and cash equivalents		**19,076**	**(6,615)**
Cash at the beginning of the year		3,350	9,965
Cash at the end of the year	**21**	**22,426**	**3,350**

Approved on behalf of the Company on 28 April 2016

Hrvoje Filipović, dipl.oec.
President of the Management Board

Tomislav Kalafatić, dipl.oec.
Member of Management Board

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

Notes to the consolidated financial statements
For the year ended 31 December 2015

1. GENERAL INFORMATION

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

At 31 December 2015 the Management Board of Granolio d.d. consisted of the followinig members :
Hrvoje Filipović - President (since 23 February 2011),
Vladimir Kalčić - Member (since 23 February 2011),
Drago Šurina - Member (since 23 February 2011) i
Tomislav Kalafatić – Member (since 19 April 2011).

At 31 December 2015 the Supervisory Board of Granolio d.d. consisted of the following members:
Franjo Filipović – Chairman (since 23 February 2011),
Jurij Detiček – Member (since 23 February 2011),
Braslav Jadrešić – Member (since 23 February 2011),
Davor Štefan – Member (since 16 January 2015) i
Josip Lasić – Member (since 16 January 2015).

Subsidiaries

Basic information about significant subsidiaries at the end of the reporting period that make Granolio Group are as following:

Name of Subsidiaries	Main activity	City of establishment and operation	Share of the Group in ownership and in voting rights	
			2015	2014
Zdenka - mliječni proizvodi d.o.o.	dairy products production , trade and services	Veliki Zdenci	50%	49.99%
Žitar d.o.o.	agricultural production, trade and services	Donji Miholjac	49.69%	49.69%
Žitar konto d.o.o.	services and trade	Donji Miholjac	49.69%	49.69%
Zdenačka farma d.o.o.	milk production , livestock and agricultural production	Veliki Zdenci	100%	100%
Prerada žitarica d.o.o.	production of mill products and animal feed	Grubišno polje	100%	100%

1. GENERAL INFORMATION (CONTINUED)

Basic business activities Granolio d.d (the Company) and its subsidiaries are the production of food products, farming, dairy production, storage of agricultural products and trade in products for bakeries, agricultural products and raw materials for agricultural production.

During 2007, Granolio d.d. acquired a 100.00% stake in the company Zdenačka farma d.o.o., Veliki Zdenci, for HRK 2.82 million. The company produces high-quality milk form dairy superior genetic potential cows.

Based on decision of the Company dated March 16 2015, the share capital of the Company Zdenačka farma d.o.o. increased by issuing new shares in the amount of HRK13.52 million in the amount of 16,000,000 on the amount of HRK 29,520,000.

During 2008, the Company acquired a 100.00% stake in the company Prerada žitarica d.o.o., Grubišno Polje in the amount of HRK 5,205,983. Core business of Prerada žitarica d.o.o. is the storage and drying of grain.

In 2011 Granolio d.d. has gained a controlling influence, which monitors the decision-making in business subsidiaries, and decide on the financial and operating policies, and it is making decision about the appointment of board members and provides the majority of votes in the Management board in Zdenka-mliječni proizvodi d.o.o. and Žitar d.o.o..

The Company Zdenka-mliječni proizvodi d.o.o. registered on 10 April 2002 in the Commercial Court in Bjelovar number Tt-02 / 396-2 as a limited liability company. Statistic registration number (MBS) is 010048425 and OIB is 45651553790

Management bord consist of Mr. Zeljko Gatjal, dipl.oec., Chairman of the Supervisory Board is Mr. Hrvoje Filipović dipl.oec. Granolio d.d. participates in the ownership structure of Zdenka – mliječni proizvodi d.o.o. to 50%.

The Company IPK Kapelna d.o.o. registered on 4 December 1998 in the court register as a limited liability company. The Company is according to the Commercial Court in Osijek Tt-99 / 586-4 of 7 May 1999 recorded in the general ledger Court Registry under number MBS: 030064710th. On 01 January 2011, merged to Novi Žitar d.o.o. Donji Miholjac to a Company Kapelna d.o.o.

According to the decision of the Commercial Court in Osijek Tt-11 / 314-2 of 8 February 2011, the Company Kapelna d.o.o. changed the company name in ŽITAR društvo sa ograničenom odgovornošću for agricultural production, trade and services. Tax number of the Company is 66951972250. Mr. Zeljko Tadic, as a member of the Management Board and CEO, represents the company independently. Granolio dd has a 49,690% share in the company Žitar d.o.o.

2 ADOPTION OF NEW AND REVISED INERNATIONAL FINANCIAL REPORTING STANDARDS

2.1 Initial application of new amendments to the existing Standards and Interpretation effective for current financial period

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

Amendments to various standards "Improvements to IFRSs from the 2011–2013 Cycle" resulting from the annual improvement project of IFRS (IFRS 1, IFRS 3, IFRS 13 and IAS 40) primarily with a view to removing inconsistencies and clarifying wording - adopted by the EU on 18 December 2014 (applicable to annual periods beginning on or after 1 January 2015),

IFRIC 21 "Levies", adopted by the EU on 13 June 2014 (effective for annual periods beginning on or after 17 June 2014).

The adoption of these amendments to the existing standards and interpretations did not cause changes in accounting policies of the entity.

2.2 Standards and interpretations issued by IASB and adopted by the European Union, but not yet effective

At the date of authorization of these financial statements the following standards, amendments to the existing standards and interpretations issued by IASB and adopted by the EU were in issue but not yet effective:

Amendments to IFRS 11 "Joint Arrangements"
Accounting for Acquisitions of Interests in Joint Operations - adopted by the EU on 24 November 2015 (effective for annual periods beginning on or after 1 January 2016),

Amendments to IAS 1 "Presentation of Financial Statements"
Disclosure Initiative - adopted by the EU on 18 December 2015 (effective for annual periods beginning on or after 1 January 2016),

Amendments to IAS 16 "Property, Plant and Equipment" and IAS 38 "Intangible Assets"
Clarification of Acceptable Methods of Depreciation and Amortization - adopted by the EU on 2 December 2015 (effective for annual periods beginning on or after 1 January 2016),

Amendments to IAS 16 "Property, Plant and Equipment" and IAS 41 "Agriculture"
Agriculture: Bearer Plants - adopted by the EU on 23 November 2015 (effective for annual periods beginning on or after 1 January 2016),

Amendments to IAS 19 "Employee Benefits"
Defined Benefit Plans: Employee Contributions - adopted by the EU on 17 December 2014 (effective for annual periods beginning on or after 1 February 2015)

Amendments to IAS 27 "Presentation of Financial Statements"
Disclosure Initiative - adopted by the EU on 18 December 2015 (effective for annual periods beginning on or after 1 January 2016),

Amendments to various standards "Improvements to IFRSs from the 2010-2012 Cycle", resulting from the annual improvement project of IFRS (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24, and IAS 38) primarily with a view to removing inconsistencies and clarifying wording - adopted by the EU on 17 December 2014 (applicable to annual periods beginning on or after 1 February 2015)

Amendments to various standards "Improvements to IFRSs from the 2012-2014 Cycle", resulting from the annual improvement project of IFRS (IFRS 5, IFRS 7, IFRS 19 and IAS 34) primarily with a view to removing inconsistencies and clarifying wording - adopted by the EU on 15 December 2015 (applicable to annual periods beginning on or after 1 January 2016),

2 ADOPTION OF NEW AND REVISED INERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)

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

At present, IFRS as adopted by the EU do not significantly differ from regulations adopted by the International Accounting Standards Board ('IASB') except from the following standards, amendments to the existing standards and interpretations, which were not endorsed for use in EU as at the 28 April 2016 (the effective dates stated below is for IFRS in full):

IFRS 9 "Financial instruments" (effective for annual periods beginning on or after 1 January 2018)

IFRS 14 "Regulatory Deferral Accounts" (effective for annual periods beginning on or after 1 January 2016), – the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard,

IFRS 15 "Revenue from Contracts with Customers" and further amendments (effective for annual periods beginning on or after 1 January 2018),

Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosure of Interests in Other Entities" and IAS 28 "Investments in Associates and Joint Ventures" – Investment Entities: Applying the Consolidation Exception (effective for annual periods beginning on or after 1 January 2016),

Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures" – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date was deferred indefinitely until the research project on the equity method has been concluded).

The Group anticipates that their adoption will have an impact on its financial statements in the period of initial application, however, the impact is currently not quantifiable.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies of the Group adopted in the preparation of these consolidated financial statements are as follows. These policies have been consistently applied by the Group and all its subsidiaries for all periods included in these consolidated financial statements.

3.1 Statement of compliance

The financial statements are prepared in accordance with International Financial Reporting Standards, as adopted by European Union.

3.2 Basis of preparation

The financial statements of the Group have been prepared on the historical cost basis, except for certain properties and financial instruments which are carried at revalued amounts or at fair value, as disclosed in the corresponding accounting policies, and in accordance with International Financial Reporting Standards, as adopted by the European Union, and Croatian laws. The historical cost is generally based on the fair value of the consideration given in exchange for an asset.

The Group maintains its accounting records in the Croatian language, in Croatian Kuna and in accordance with Croatian laws and the accounting principles and practices observed by enterprises in Croatia.

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

3.3 Basis of consolidation

These consolidated financial statements include the financial statements of the Company and controlled entities, ie. its subsidiaries, including structured entities. Control is achieved if:

- The Company has power to dispose of the subject
- The Company is exposed, or has rights in relation to a variable yield on the basis of their participation in that entity
- The Company is able on the basis of ability to dispose to affecte on its yield

Company reassesses whether it has control if facts and circumstances indicate that there is a change of one or more of the three above-mentioned elements of control.

When the Company in a subject has less than the majority of the voting rights, it has majority in him if his voting rights are sufficient because in practice it allows them to unanimously direct important activities of the entity. The Company in assessing whether his voting rights in the subject are sufficient to have supremacy to considers about all relevant facts and circumstances, including:

- Share of voting rights in relation to the size and distribution of the voting rights of other persons entitled to vote
- Potential voting rights of investors, the other person's voting or other persons
- Rights from other contractual relations and
- Any additional facts and circumstances indicate that the Company has or does not have the current ability to keep relevant tasks in the time that is necessary to make such decisions, including how they voted on the previous shareholder meetings.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.3 Basis of consolidation (Continued)

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

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

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

3.4 Business combinations

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

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

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with IAS 12 Income Taxes and IAS 19 respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 at the acquisition date (see Note 3.16.2); and
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

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

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.4 Business combinations (continued)

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

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

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

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

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

3.5 Goodwill

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

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

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

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

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

3.6 Interests in associates and joint ventures

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.6 Interests in associates and joint ventures (Continued)

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

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

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

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

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

When the Group reduces its ownership interest in an associate or a joint venture but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

Gains and losses on transactions between a company which is a member of the Group and the associate or joint venture within the Group in the consolidated financial statements of the Group are recognized only to the extent of interests in the associate or joint venture that is not related to the Group.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.7 Interests in joint operations

A joint venture is a joint venture in which the parties that have joint control over the work they have rights to the net assets of the required work. Joint control is the agreed division of control over some work, which exists only when it is to decide on relevant matters require unanimous consent of the parties that share control.

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

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

3.8 Interests in joint management

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

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

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

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

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

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

3.9 Functional and presentation currency

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.10 Use of estimates and judgments

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

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

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

3.11 Revenue recognition

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

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

(i) Income from the wholesale of products and merchandise

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

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

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

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

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

(iii) Service income

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

(iv) Financial income

Financial income consists of interest earned on investments and foreign exchange gains. Interest income is recognised when it arises using the effective interest method. Dividend income is recognised when the right to receive payment has been established..

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.12 Leasing

The Group as lessor

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

The Group as lessee

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

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

3.13 Foreign currencies

(i) Foreign-currency transactions and balances

Transactions denominated in foreign currencies are converted to the functional currency using the exchange rate list in effect at the transaction dates. At the reporting date, monetary assets and liabilities denominated in foreign currencies are translated to the functional currency using the exchange rates in effect at that date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

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

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

At 31 December 2014 and 31 December 2015 the official exchange rate of the Croatian kuna against 1 euro (EUR) was HRK 7.661471 and HRK 7.635047, respectively.

(ii) Group members

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

3.14 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.15 Government grants

Government grants are not recognized until the fulfillment of conditions for obtaining state grants and the receipt of grants does not become real certain. Government grants are recognized in profit or loss systematically over the period in which the Group expenses that should be covered by grants are recognized as an expense. In particular, state grants where the basic condition is that the Group purchase, construct or otherwise acquire long-term assets are recognized in the consolidated statement of financial position as deferred income and transferred to profit or loss systematicl and rational basis over the useful life of the underlying assets. Receivables according to state grants from address compensation already incurred costs or losses or to provide immediate financial support to the Group with no future related costs are recognized in profit and loss in the period in which the liability is incurred by them.

3.16 Employee benefits

(i) Obligations in respect of retirement and other post-employment benefits

In the normal course of business the Company makes payments, through salary deductions, to mandatory pension funds on behalf of its employees as required by law. All contributions paid to the mandatory pension funds are recognised as salary expense when accrued. The Company has no obligation to provide any other post-employment benefits.

(ii) Long-term employee benefits

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

(iii) Short-term employee benefits

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

(iv) Share-based payments

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

3.17 Dividends

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

3.18 Operating segment reporting

A segment is a part of the Group that may be separated either as a part engaged in the production of a product or provision of a service (an operating segment), or as a part engaged in the production of a product or a provision of service within an economic environment (a geographic segment) which is subject to the risks and rewards different from those of other segments.

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

- Mill operations
- Dairy
- Wholesale
- Others (services, cattle growing, other activities)

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.19 Taxation

(i) Income tax

Income tax expense comprises current and deferred taxes. Income tax expense is recognised in profit or loss to the extent of the tax relating to items within equity when the expense is also recognised through other comprehensive profit. Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

Current tax represents tax expected to be paid on the basis of taxable profit for the year, using the tax rate enacted at the reporting date, adjusted by appropriate prior-period items.

(ii) Deferred tax assets and liabilities

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill, the initial recognition of assets and liabilities in a transaction (other than a business combination)that affects neither the taxable profit nor the accounting profit and if temporary differences relate to investments in subsidiaries and jointly controlled companies where the reversal is not probable in the near future. Deferred taxes are measured at the tax rates that are expected to apply in the period in which the temporary differences will reverse, based on tax laws effective at the reporting date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised through reversal of the temporary differences. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax assets and deferred tax liabilities are offset when there is a legal right to offset a current tax liability and a current tax asset and if they relate to taxes imposed by the same tax authority to the same taxable entity, or to various entities, but which intend to settle the current liabilities and assets on a net basis, or to recover or settle the carrying amount of the tax assets and liabilities simultaneously.

(iii) Tax exposure

In determining current and deferred taxes, the Group considers the impact of uncertain tax positions as well as potential additional taxes and interest. The consideration is based on estimates and assumptions and may involve a series of judgements about future events. New data may become available that may cause the Group to revise is judgement about the adequacy of the existing tax liabilities, and any changes in the tax liabilities will affect the tax expense in the period in which such a decision is made.

(iv) Value-added tax (VAT)

The Tax Authorities require that VAT is settled on a net basis. VAT on sale and purchase transactions is recognised in the separate statement of financial position on a net basis. If a trade debtor is impaired, the related impairment loss is included in the gross amount receivable from the debtor, which includes VAT.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.20 Property, plant and equipment

Land and buildings held for use in the production or supply of goods or services, or for administrative purposes, are stated in the consolidated statement of financial position at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amounts do not differ materially from those that would be determined using fair values at the end of each reporting period.

Any revaluation increase arising on the revaluation of such land and buildings is recognised in other comprehensive income and accumulated in equity, except to the extent that it reverses a revaluation decrease for the same asset previously recognised in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously expensed. A decrease in the carrying amount arising on the revaluation of such land and buildings is recognised in profit or loss to the extent that it exceeds the balance, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset.

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

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

Freehold land is not depreciated.

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

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

The useful lives applied for the purpose of determining the depreciation charge are as follows:

	2015	2014
Buildings	40 years	40 years
Plant and equipment	10 years	10 years
Office equipment and delivery vans	5 years	5 years
Telecommunication equipment	4 years	4 years
Vehicles	4 years	4 years

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.21 Intangible assets

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

(i) Brands and contracts with customers

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

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

(ii) Computer software

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

(iii) Goodwill

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

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

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

Goodwill was estimated assuming that the quantities sold will equal the history of the quantities sold obtained from Agrokor and that it will remain constant in the future. Another input into the calculation was the assumed constant spread (as the difference between the flour selling rice and the cost of purchase of the direct raw material). The discount rate was determined as the weighted average cost of capital based on the net debt-to-equity ratio of 68:32.

Goodwill is tested for impairment at each reporting date, as already disclosed in note *Impairment test of intangible assets. (Note 4. iv)*

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.22 Impairment of property, plant and equipment and intangible assets

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

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

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

When an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, 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.

3.23 Inventory

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

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

Merchandise is carried at the lower of cost and the selling price (net of taxes and margins).

Small inventory and tools are written off when put into use.

3.24 Biological assets

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

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

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

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.25 Trade receivables

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

3.26 Cash and cash equivalents

Cash and cash equivalents consists of balances on accounts with banks and cash in hand. Bank overdrafts are presented within current liabilities in the separate statement of financial position.

3.27 Equity

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

3.28 Financial instruments

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

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

3.29 Financial assets

Financial assets are recognised and derecognised on a trade-date basis where 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 of 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), financial assets available for sale (AFS) and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is (i) contingent consideration that may be paid by an acquirer as part of a business combination to which IFRS 3 applies, (ii) held for trading, or (iii) it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Company 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 a hedging instrument.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.29 Financial assets (Continued)

A financial asset other than a financial asset held for trading or contingent consideration that may be paid by an acquirer as part of a business combination 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 part of a contract containing one or more embedded derivatives, and IAS 39 permits the entire combined contract to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the 'other gains and losses' line item. Fair value is determined in the manner described in note 4.

Available-for-sale financial assets (AFS financial assets)

AFS financial assets are non-derivatives that are either designated as AFS or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss.

Dividends on AFS equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established.

The fair value of AFS monetary 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. The foreign exchange gains and losses that are recognised in profit or loss are determined based on the amortised cost of the monetary asset. Other foreign exchange gains and losses are recognised in other comprehensive income.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including trade and other receivables, bank balances and cash, and others) are measured at amortised cost using the effective interest method, less any impairment.

Interest income is recognised by applying the effective interest rate, except for short-term receivables when the effect of discounting is immaterial.

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 AFS equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.29 Financial assets (continued)

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty;
- breach of contract, such as a default or delinquency in interest or principal payments;
- 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 are assessed for impairment on a collective basis even if they were assessed not to be impaired individually. Objective evidence of impairment for a portfolio of receivables could include the Company's past experience in collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 60 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 loss recognised 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 that are carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a 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 a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

When an AFS 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.

In respect of AFS equity securities, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. In respect of AFS debt securities, impairment losses 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.

Derecognition of financial assets

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

Classification as debt or equity

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.29 Financial assets (continued)

Impairment of financial assets (continued)

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by a group entity are recognised at the proceeds received, net of direct issue costs.

Own equity instruments redeemed by the Group are recognised as a deduction directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments.

3.30 Financial liabilities

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'

Financial liabilities at fair value through the display changes in fair value in the profit and loss

Financial liabilities are classified as at FVTPL when the financial liability is (i) contingent consideration that may be paid by an acquirer as part of a business combination to which IFRS 3 applies, (ii) held for trading, or (iii) it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing it in the near term;
- on initial recognition it is part of a portfolio of identified financial instruments that the Company 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 a hedging instrument.

A financial liability other than a financial liability held for trading or contingent consideration that may be paid by an acquirer as part of a business combination 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;
- the financial liability 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 Company's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 permits the entire combined contract to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in the 'other gains and losses' line item. Fair value is determined in the manner described in Note 28.

Other financial liabilities

Other financial liabilities (including borrowings and trade and other payables) are subsequently measured at amortised cost using the effective interest method.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.30 Financial liabilities (continued)

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

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

Financial guarantee contracts issued by a group entity are initially measured at their fair values and, if not designated as at FVTPL, are subsequently measured at the higher of:

- the amount of the obligation under the contract, as determined in accordance with IAS 37; and
- the amount initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the revenue recognition policies.

Derecognition of financial liabilities

The Company derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

3.31 Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) arising as a result of a past event and it is probable (more likely than not) that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the obligation . Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. When the amount of the impairment is significant amount of provision is the present value of the expenditures expected to be required to settle the obligation, determined using the estimated risk free interest rate as the discount rate. When discounting is used, every year the effect of discounting is recorded as a financial expense and the carrying amount of the provision increases in each year to reflect the passage of time.

4 CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

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

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

Critical judgements in applying accounting policies

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

(i) Revenue recognition

In making their judgement, the Management applied the detailed criteria for the recognition of revenue from the sale of goods set out in IAS 18 Revenue and, in particular, whether the Group had transferred to the buyer the significant risks and rewards of ownership of the goods.

(ii) Consequences of certain legal actions

The Company's Group entities are involved in legal actions and proceedings, which have arisen from the regular course of the operations. The management uses estimates of the probable outcome of the legal actions and recognises provisions for contingent liabilities of the Group arising from those actions on a consistent basis.

(iii) Recoverable amount of trade and other receivables

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

(iv) Impairment test of intangible assets

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

	Milling	**Dairy**	**31 December 2015**
Trademarks	120,000	-	120,000
Goodwill	60,379	-	60,379
Customer list	7,362	-	7,362
Software and other intangible assets	401	733	1,134
	188,142	**733**	**188,875**

The recoverable amount of the cash-generating units was determined as the value in use obtained from cash flow projections based on five-year financial plans approved by the Management Board.

Goodwill is tested for impairment by assessing the value in use of the cash-generated units to which the goodwill is allocated. In determining the value in use, the Management Board is required to estimate the expected future cash inflows from a cash-generating unit as well as the discount rate to be used in calculating the present value. If the actual cash flow received is below the expected, this may indicate material losses as a result of impairment.

At 31 December 2015 the carrying amount of goodwill was HRK 60 million (31 December 2014: HRK 60 million).

4 CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (CONTINUED)

(iv) Impairment test of intangible assets (continued)

Goodwill impairment test

The Group tests annually whether goodwill has suffered any impairment, in accordance with its accounting policy. The recoverable amounts of cash-generating units are determined based on value-in-use. These calculations require the use of assumptions (Note 15).

If the discount and long-term growth rate were different than the management's estimates as at 31 December 2015 and 2014, the impact on recognition of impairment of goodwill would be as follows:

Discount rate – Future cash flows of cash-generating units are discounted using the discount rate of 12.94 %. Constant expected future cash flows were used as calculation inputs.

Intangible assets other than software and other intangible assets arose on the acquisition of the Mill Operations segment. At 31 December 2015 the Company performed impairment tests for goodwill and trademarks.

The tests did not show any indication of impairment of the intangible assets.

(v) Useful life of property, plant and equipment

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

(vi) Fair value of assets

Assets carried at fair value are remeasured based on periodic valuations of external independent valuation experts.

5 COMPARATIVE INFORMATION AND RECLASSIFICATION OF OPENING BALANCES

in thousands of HRK

	Notes	31 December 2014 published	reclassified	31 December 2014 reclassified
I NON-CURRENT ASSETS				
1. Intangible assets		190,427	-	190,427
2. Property, plant and equipment		389,305	-	389,305
3. Long-term financial assets	(a)	32,452	24	32,476
4. Long-term receivables	(a),(e)	1,388	(1,373)	15
II CURRENT ASSETS				
1. Inventories	(c)	143,416	-	143,416
2. Short-term receivables				
1. Receivables	(b),(d),(e)	154,827	48,173	203,000
2. Receivables from employees		25	-	25
3. Receivables from government and other institutions		10,727	-	10,727
4. Other receivables	(d)	5,408	(263)	5,145
3. Current financial assets	(b)	72,745	(46,560)	26,185
4. Cash and cash equivalents		3,350	-	3,350
Prepaid expenses and accrued income		**1,525**	-	**1,525**
TOTAL ASSETS		**1,005,595**	-	**1,005,595**
I EQUITY				
1. Subscribed capital		19,016	-	19,016
2. Share premium		85,379	-	85,379
3. Revaluation reserves		67,384	-	67,384
4. Legal reserves		183	-	183
5. Retained earnings		37,479	-	37,479
6. Loss for the year		(46,267)	-	(46,267)
NONCONTROLING INTEREST		**53,729**	-	**53,729**
PROVISIONS		**250**	-	**250**
II LONG-TERM LIABILITIES		175,579	-	175,579
III SHORT-TERM LIABILITIES				
1. Liabilities to banks and other financial institutions		328,819	-	328,819
2. Advances received	(f)	2,771	12	2,783
3. Trade payables	(g)	140,484	(61)	140,423
4. Liabilities for securities		109,802	-	109,802
5. Liabilities to employees		2,129	-	2,129
6. Taxes, contributions and similar duties payable	(f)	7,348	(12)	7,336
7. Interest-financial liabilities	(g),(h)	5,030	64	5,094
8. Other short-term liabilities	(h)	723	(3)	720
Accrued expenses and deferred income		**15,757**	-	15,757
TOTAL EQUITY AND LIABILITIES		**1,005,595**	-	**1,005,595**

5 COMPARATIVE INFORMATION AND RECLASSIFICATION OF OPENING BALANCES (CONTINUED)

in thousands of HRK

	Notes	31 December 2014 published	reclassified	31 December 2014 reclassified
Sales income	(i),(j)	786,681	2,363	789,044
Other income	(j),(n)	28,801	(2,445)	26,356
Total operating income		**815,482**		**815,400**
Changes in inventories		12,276	-	12,276
Material expenses	(m),(n)	(719,406)	2,132	(717,274)
Staff expenses		(36,681)	-	(36,681)
Depreciation and amortisation		(31,364)	-	(31,364)
Other external costs	(m),(n)	(10,285)	180	(10,105)
Value adjustment of current assets	(k)	(18,913)	(5,419)	(24,332)
Provisions		(250)	-	(250)
Other operating expenses	(l),(m),(n)	(9,786)	(2,280)	(12,066)
Total operating expenses		**(814,409)**		**(819,796)**
Net financial result	(k),(n)	**(50,020)**	5,469	**(44,551)**
Result before taxation		**(48,947)**		**(48,945)**
Income tax	(o)	-	(2)	(2)
Profit / (loss) after taxation		**(48,947)**		**(48,947)**
Other comprehensive income				
Financial assets held for sale, reclassification to profit or loss		3,205	-	3,205
Total comprehensive profit / (loss)		**(45,742)**	-	**(45,742)**

in thousands of HRK

	Notes	2014 published	reclassified	2014 reclassified
Result before taxation		**(48,947)**	**2**	**(48,945)**
Operating cash flows	(p),(q),(s),(t),(u),(v),(w),(x)	9,888	20,153	30,041
Cash flows from investing activities	(p),(q),(r),(s),(u),(v),(w),(x)	(204,879)	9,372	(195,507)
Cash flows from financing activities	(p),(q),(t)	188,376	(29,525)	158,851
Net changes in cash and cash equivalents		**(6,615)**	-	**(6,615)**
Cash at the beginning of the period		9,965	-	9,965
Cash at the end of the period		**3,350**	-	**3,350**

5 COMPARATIVE INFORMATION AND RECLASSIFICATION OF OPENING BALANCES (CONTINUED)

For the purposes of the publication of the financial statements for the year ended 31 December 2015, the Group disclosed reclassification adjustments to 2014 comparative information, in accordance with the transparency, comparability and integrity of the disclosures required by IAS 8, which are as follows:

a) A long-term deposit in the amount of HRK 24 thousand was reclassified from 'Long-term receivables' to 'Given loans, deposits and similar' within 'Non-current financial assets'.

(b) Receivables based on credit extended for the sowing season in the amount of HRK 46,562 thousand were reclassified from 'Short-term financial assets' to 'Short-term trade receivables'.

(c) Reclassifications made within the item 'Inventories', which include the following: HRK 55 thousand were reclassified from 'Finished products' to 'Merchandise'; HRK 391 thousand were reclassified from 'Raw material' to 'Merchandise'; HRK 807 thousand were reclassified from 'Finished products' to 'Work in progress', and HRK 8 thousand from 'Raw material' to 'Work in progress'.

(d) Interest receivable on loans to related parties in the amount of HRK 263 thousand was reclassified from 'Other short-term receivables' to 'Short-term receivables from related parties'.

(e) Current receivables in the amount of HRK 1,348 thousand were reclassified from 'Long-term receivables' to 'Short-term trade receivables'.

(f) Advances received from the Croatian Health Insurance Fund (HZZO) in the amount of HRK 12 thousand were reclassified from 'Taxes, contributions and similar duties payable' to 'Advances received'.

(g) Interest payable on bank borrowings in the amount of HRK 61 thousand was reclassified from 'Trade payables' to 'Interest payable'.

(h) Interest payable in the amount of HRK 3 thousand was reclassified from 'Other short-term liabilities' to 'Interest payable'.

(i) Within 'Sales income', HRK 1,734 thousand were reclassified from 'Service income' to 'Domestic sales of goods'.

(j) Operating income in the amount of HRK 2,363 thousand reported under 'Other operating income' was reclassified to 'Sales income'.

(k) Value adjustment of receivables from credits extended for the sowing season in the amount of HRK 5,419 thousand was reclassified from financial expenses – impairment losses on financial assets charged to value adjustment of current assets, in line with the reclassification of receivables from credits extended for the sowing season from current financial assets to short-term trade receivables.

(l) Entertainment and hospitality expenses in the amount of HRK 172 thousand were reclassified from 'Other expenses' to 'Other operating expenses'.

(m) Subsequently approved volume discounts in the amount of HRK 2,084 thousand were reclassified from the line item 'Other external costs' within 'Material expenses' to 'Other operating expenses'.

(n) Additional intra-group balances in the amount of HRK 230 thousand were separated from the line item 'Other operating income' matching with the following expense items: 'Material expenses' in the amount of HRK 195 thousand; 'Other expenses' in the amount of HRK 9 thousand, 'Financial expenses' in the amount of HRK 50 thousand, and an increase in 'Other operating expenses' in the amount of HRK 23 thousand.

(o) The income tax expense of HRK 2 thousand, not reported in the previous year, was separated.

(p) In the 2014 statement of cash flows, the cash flow was adjusted by interest paid and received in that period, by adjusting the loss before tax by the net interest expense in the amount of HRK 27,676 thousand, resulting in a corrected balance of cash flows from operations, and the interest received in the amount of HRK 4,683 thousand was reclassified to cash flows from investing activities, whereas the balance of cash from financing activities was corrected by the interest paid for the period in the amount of HRK 29,192 thousand.

In addition, as a result of the adjustment of the net interest expense to the actual interest paid and collected, the cash flows from operating and financing activities were adjusted by a total of HRK 3,167 thousand.

5 COMPARATIVE INFORMATION AND RECLASSIFICATION OF OPENING BALANCES (CONTINUED)

(q) In the 2014 statement of cash flows, proceeds from the sale of fixed assets for 2014 in the amount of HRK 291 thousand were reclassified from cash flows from operating activities to the cash flows from investing activities.

(r) In the 2014 statement of cash flows, changes in proceeds from received bills of exchange were reclassified within the cash flows from investing activities, by separating them from 'Payments for issued loans' and 'Repayments of given loans' to a separate line item 'Net receipts/(payments) for securities' in the amount of HRK 509 thousand.

(s) In the 2014 statement of cash flows, changes in given loans were reclassified from cash flows from operating activities to the cash flows from investing activities in the net amount of HRK 3,838 thousand and added to the balance of proceeds from repayments of given loans.

(t) In the 2014 statement of cash flows, changes in received loans and borrowings in the net amount of HRK 1,452 thousand were reclassified from cash flows from operating activities to the cash flows from financing activities and added to the balance of proceeds from received loans and borrowings on repayments of given loans.

(u) In the 2014 statement of cash flows, the net proceeds from stock market transactions in the amount of HRK 251 thousand were reclassified from the operating cash flows to the cash flows from investing activities.

(v) In the 2014 statement of cash flows, proceeds from the natural increase in the amount of HRK 4,855 thousand under the adjustments to the cash flows from operating activities were disaggregated from 'Cash paid for purchases of fixed assets'.

(w) In the 2014 statement of cash flows, the balance of net proceeds from advances received in the amount of HRK 1,947 thousand was reclassified from cash flows from investing activities to the cash flows from operating activities.

(x) In the 2014 statement of cash flows, proceeds from the sale of investment in Ecofarm d.o.o. in the amount of HRK 6,171 thousand were transferred from the cash flows from operating activities to 'Proceeds from the sale of investments' within the cash flows from investing activities, with the result adjusting item 'Net loss from other financing activities' remaining classified as net losses on disposal of the investment in the amount of HRK 2,935 thousand.

The financial statements have been prepared on the principle of consistency. In case of any change in the presentation or classification of financial statement items, comparative amounts are restated accordingly whenever possible.

6 SALES INCOME

in thousands of HRK

	2015	2014	2013
Sales income – domestic	655,597	711,164	558,528
Sales income – foreign	245,007	77,880	195,914
	900,604	**789,044**	**754,442**

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

The Group monitors its performance through the following operating segments:

- Mill operations
- Dairy
- Wholesale
- Others

Segment information – industry analysis:

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

in thousands of HRK

	2015	2014	2013
Milling Operations	296,109	258,624	212,772
Dairy	168,931	150,468	146,416
Wholesale	379,948	322,923	332,198
Others	55,616	57,029	63,056
	900,604	**789,044**	**754,442**

Geographic analysis

in thousands of HRK

	2015	2014	2013
Croatia	655,597	711,164	558,528
Serbia	181,489	10,108	15,627
Bosnia and Herzegovina	21,955	18,186	22,664
Slovenia	15,237	18,192	7,016
Italy	11,610	11,402	63,738
France	4,293	-	-
The Netherlands	820	-	16,160
Switzerland	-	6,155	33,616
Other countries	9,603	13,837	37,093
	900,604	**789,044**	**754,442**

7 OTHER INCOME

in thousands of HRK

	2015	2014	2013
Income from subsidies	10,430	9,821	9,665
Subsequent credit notes from suppliers	7,672	4,751	4,397
Income from the collection of damages by litigation	7,362	1,696	2,438
	4,932	4,855	3,051
Inventory surplus	3,153	1,732	858
Subsequently identified income	1,538	1,701	142
Income from sale of fixed assets	75	291	3,351
Other income	2,452	1,509	2,429
	37,614	**26,356**	**26,331**

Damages credited to income upon the resolution of a legal action with PZ Osatina amount to HRK 4,836 thousand (2014: nil).

8 MATERIAL EXPENSES

The structure of material expenses is as follows:

in thousands of HRK

	2015	2014	2013
Cost of raw material	360,539	315,879	272,416
Energy used	29,339	28,340	19,031
Inventory spillage, breakage and similar costs	3,479	3,149	2,641
Cost of inventories for sold livestock	1,082	1,662	4,598
Other material expenses	**396,824**	**350,786**	**299,755**
Cost of raw material	360,539	315,879	272,416
Cost of goods sold	**344,403**	**312,660**	**308,899**
Telecommunication and transport expenses	29,088	24,174	18,697
Maintenance and securities services	6,050	5,883	5,343
Rental costs	4,840	8,646	4,534
Other sale expenses	4,100	3,303	546
Cost of production services	2,693	1,522	299
Quality control costs	2,478	1,926	1,718
Intellectual services	2,336	1,919	2,185
Promotions and sponsorships	1,722	1,368	2,081
Other external costs	8,181	5,087	10,880
	61,488	**53,828**	**46,283**
	802,715	**717,274**	**654,937**

9 STAFF EXPENSES

in thousands of HRK

	2015	2014	2013
Salaries	26,076	23,146	26,118
Income tax and contributions from salaries costs	10,343	8,339	10,930
Contributions on salaries costs	6,204	5,196	5,606
	42,623	**36,681**	**42,654**

10 VALUE ADJUSTMENT

in thousands of HRK

	2015	2014	2013
Receivables	2	21,187	35
Inventories	-	798	6,215
Long-term intangible assets	-	-	7,374
Other receivables	966	2,347	122
	968	24,332	13,746

Value adjustment of other receivables in 2015 are related to the write-off of receivables in the company Žitar d.o.o., Donji Miholjac, according to unpaid subsidies in agriculture from previous years.

11 OTHER EXPENSES

in thousands of HRK

	2015	2014	2013
Reimbursement of expenses to employees	4,257	2,352	2,734
Insurance premiums	2,944	2,183	1,383
Bank services	2,116	2,659	2,372
Contributions, membership fees and similar	1,048	1,193	887
Daily allowances	575	551	551
Rights, patents	273	365	533
Other expenses	613	802	729
	11,826	**10,105**	**9,189**

12 OTHER OPERATING EXPENSES

	2015	2014	in thousands of HRK 2013
Subsequently approved cassa sconto	7,675	6,904	2,566
Legal actions	5,248	-	-
Spillage, breakage and similar damage on goods	1,033	1,324	1,194
Carrying value of disposed assets	839	1,118	399
Entertainment and hospitality	832	593	605
Fines, penalties and damages	172	625	1,239
Damages paid under court decisions	-	-	3,017
Other operating expenses	1,849	1,502	5,984
	17,648	**12,066**	**15,004**

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

The costs of legal action relate to a legal action involving PZ Osatina and amount to HRK 5,284 thousand (2014: nil) (Note 7).

13 FINANCIAL INCOME AND EXPENSES

Financial income

in thousands of HRK

	2015	2014	2013
Exchange differences	3,805	1,759	1,119
Late-payment interest	2,770	2,798	3,335
Interest on given loans	1,413	1,623	1,621
Gains from stock transactions	847	251	-
Other financial income	**10,219**	**6,496**	**7,468**
	3,805	1,759	1,119

Financial expenses

in thousands of HRK

	2015	2014	2013
Interest expense	20,917	24,629	23,676
Discount on bills of exchange	4,302	6,649	2,021
Late-payment interest	3,812	819	4,170
Exchange differences	2,714	2,367	1,078
Losses on value adjustment of financial assets	115	13,557	-
Other financial expenses	66	3,026	1,723
	31,926	**51,047**	**32,668**

14 INCOME TAX

The tax expense / (income) comprises the following:

in thousands of HRK

	2015	2014
Current tax	3,582	2
	3,582	**2**

Adjustment by the effective tax rate

The following table analyses the tax expense recognised in the statement of comprehensive income using the statutory rate:

in thousands of HRK

	2015	2014
Profit/(loss) before taxation	19,651	(48,945)
Income tax at the rate of 20% (2014: 20%).	3,930	(9,789)
Tax effect of consolidation adjustments	59	102
Effect of non-taxable income	(40)	(358)
Effect of tax non-deductible expenses	1,363	9,559
Effect of grants (research and development, education, etc.).	(16)	(20)
Effect of unused tax losses and tax offsets not recognised as deferred tax assets	(2,149)	(383)
Income tax expense from continuing operations recognised in profit or loss	**3,582**	**2**
Tax income un recognized in other comprecensive income	**(435)**	**(891)**
Efective tax rate	**16%**	**2%**

Unused tax losses

Under the applicable tax legislation, the Group reported no tax losses available for carry forward at 31 December 2015 (31 December 2014: tax losses available for carry forward in the amount of HRK 47,441 thousand). Tax losses carried forward expire five years from the year of their origination.

Deferred tax liabilities are arising from:

in thousands of HRK

2015	**Opening balance**	**Recognised in profit or loss**	**Closing balance**
Non-current asset adjustments	16,846	(728)	**16,118**
Deferred tax liabilities	**16,846**	**(728)**	**16,118**

14 INCOME TAX (CONTINUED)

in thousands of HRK

2014	Opening balance	Recognised in profit or loss	Closing balance
Non-current asset adjustments	22,232	(5,386)	**16,846**
Deferred tax liabilities	**22,232**	**(5,386)**	**16,846**

Movements in deferred tax liabilities:

in thousands of HRK

	31 December 2015	31 December 2014
Balance at 1 January	16,846	22,232
Decrease	(728)	(5,386)
	16,118	**16,846**

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

15 INTANGIBLE ASSETS

Movements in intangible assets in 2015

in thousands of HRK

	Goodwill	Trademarks, concessions, licenses	Customer list	Software and othe rights	TOTAL
Cost					
Balance at 1 January 2015	60,379	120,000	10,000	3,338	**193,717**
Additions	-	-	-	411	**411**
Balance at 31 December 2015	**60,379**	**120,000**	**10,000**	**3,749**	**194,128**
Accumulated amortisation					
Balance at 1 January 2015	-	-	971	2,319	**3,290**
Charge for the year	-	-	1,667	296	**1,963**
Balance at 31 December 2015	-	-	**2,638**	**2,615**	**5,253**
Net book value at 1 January 2015	**60,379**	**120,000**	**9,029**	**1,019**	**190,427**
Net book value at 31 December 2015	**60,379**	**120,000**	**7,362**	**1,134**	**188,875**

15 INTANGIBLE ASSETS (CONTINUED)

Movements in intangible assets in 2014

in thousands of HRK

	Goodwill	Trademarks, concessions, licenses	Customer list	Software and other rights	Goodwill
Cost					
Balance at 1 January 2014	-	-	-	3,217	**3,217**
Additions	60,379	120,000	10,000	121	**190,500**
Balance at 31 December 2014	**60,379**	**120,000**	**10,000**	**3,338**	**193,717**
Accumulated amortisation					
Balance at 1 January 2014	-	-	-	1,959	**1,959**
Charge for the year	-	-	971	360	**1,331**
Balance at 31 December 2014	**-**	**-**	**971**	**2,319**	**3,290**
Net book value at 1 January 2015	**-**	**-**	**-**	**1,258**	**1,258**
Net book value at 31 December 2015	**60,379**	**120,000**	**9,029**	**1,019**	**190,427**

Intangible assets in the amount of HRK 120,000 thousand (2014: nil) have been pledged as collateral for the Company's borrowings (Note 25).

16 PROPERTY, PLANT AND EQUIPMENT

Movements in property, plant and equipment in 2015

in thousands of HRK

	Land	Buildings	Plant, equipment	Tools, transportation equipment and vehicle	Biological assets	Advance payments for purchase of property	Other tangible assets	Assets under construction	Investments in property	TOTAL
Cost										
Balance at 1 January 2015	**27,383**	**343,084**	**193,768**	**15,395**	**16,945**	**770**	**187**	**21,006**	**4,418**	**622,956**
Additions	6	659	1,980	167	-	86	2	11,775	-	**14,675**
Transfers	557	173	7,878	180	-	(530)	-	(8,258)	-	**-**
Natural increase	-	-	-	-	4,776	-	-	-	-	**4,776**
Reclassification	-	(40)	-	-	-	-	-	-	40	**-**
Disposals	(583)	-	(180)	(45)	(2,361)	-	-	-	-	**(3,169)**
Write off	-	-	(359)	-	(1,790)	-	(6)	-	-	**(2,155)**
Balance at 31 December 2015	**27,363**	**343,876**	**203,087**	**15,697**	**17,570**	**326**	**183**	**24,523**	**4,458**	**637,083**
Accumulated depreciation										
Balance at 1 January 2015	-	**99,486**	**115,003**	**11,574**	**6,002**	-	**97**	-	**1,489**	**233,651**
Depreciation of revaluation	-	7,805	13,273	1,067	2,077	-	2	-	77	**24,301**
Reclassification	-	(40)	-	-	-	-	-	-	40	**-**
Disposals	-	-	(180)	(25)	(1,102)	-	-	-	-	**(1,307)**
Write off	-	-	(359)	-	(807)	-	(1)	-	-	**(1,167)**
Depreciation of revaluation	-	2,517	1,442	30	-	-	-	-	-	**3,989**
Balance at 31 December 2015	**-**	**109,768**	**129,179**	**12,646**	**6,170**	**-**	**98**	**-**	**1,606**	**259,467**
Net book value at 1 January 2015	**27,383**	**243,598**	**78,765**	**3,821**	**10,943**	**770**	**90**	**21,006**	**2,929**	**389,305**
Net book value at 31 December 2015	**27,363**	**234,108**	**73,908**	**3,051**	**11,400**	**326**	**85**	**24,523**	**2,852**	**377,616**

Tangible assets in the amount of HRK 247,743 thousand (2014: HRK 247,179 thousand) have been pledged as collateral for the Company's borrowings (Note 25).

16 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Movements in property, plant and equipment in 2014

in thousands of HRK

	Land	Buildings	Plant, equipment	Tools, transportation equipment and vehicle	Biological assets	Advance payments for purchase of property	Other tangible assets	Assets under construction	Investments in property	TOTAL
Cost										
Balance at 1 January 2014	**27,980**	**343,205**	**184,622**	**15,625**	**15,776**	**745**	**155**	**19,544**	**854**	**608,506**
Additions	116	164	3,757	347	-	25	32	10,904	-	**15,345**
Transfers	265	2,723	5,867	138	449	-	-	(9,442)	-	**-**
Natural increase	-	-	-	-	4,735	-	-	-	-	**4,735**
Reclassification	(978)	(3,008)	(406)	406	-	-	-	-	3,986	**-**
Disposals	-	-	(15)	(1,121)	(2,715)	-	-	-	(422)	**(4,273)**
Write off	-	-	(57)	-	(1,300)	-	-	-	-	**(1,357)**
Balance at 31 December 2014	**27,383**	**343,084**	**193,768**	**15,395**	**16,945**	**770**	**187**	**21,006**	**4,418**	**622,956**
Accumulated depreciation										
Balance at 1 January 2014	-	**89,043**	**100,854**	**11,246**	**5,015**	-	**95**	-	**61**	**206,314**
Depreciation of revaluation	-	9,415	12,786	1,371	2,462	-	2	-	8	26,044
Reclassification	-	(1,489)	-	-	-	-	-	-	1,489	-
Disposals	-	-	(10)	(1,073)	(975)	-	-	-	(69)	(2,127)
Write off	-	-	(69)	-	(500)	-	-	-	-	(569)
Depreciation of revaluation	-	2,517	1,442	30	-	-	-	-	-	3,989
Balance at 31 December 2014	**-**	**99,486**	**115,003**	**11,574**	**6,002**	**-**	**97**	**-**	**1,489**	**233,651**
Net book value at 1 January 2014	**27,980**	**254,162**	**83,768**	**4,379**	**10,761**	**745**	**60**	**19,544**	**793**	**402,192**
Net book value at 31 December 2014	**27,383**	**243,598**	**78,765**	**3,821**	**10,943**	**770**	**90**	**21,006**	**2,929**	**389,305**

17 NON-CURRENT FINANCIAL ASSETS

(a) Investments at fair value through profit or loss

	31 December 2015	in thousands of HRK 31 December 2014
Zagrebačke pekarne Klara d.d., Zagreb	19,925	19,925
Prehrana trgovina d.d., Zagreb	536	536
PZ Zabara	10	10
Žitozajednica d.o.o., Zagreb	1	1
	20,472	**20,472**

Ownership interest:

	31 December 2015	31 December 2014
Zagrebačke pekarne Klara d.d., Zagreb	18.25%	18.25%
Prehrana trgovina d.d., Zagreb	11.48%	11.48%
Poljoprivredna zajednica Zabara	12.75%	12.75%
Žitozajednica d.o.o., Zagreb	2.08%	2.08%

(b) Given loans, deposits and similar

in thousands of HRK

	31 December 2015	31 December 2014	1 January 2014
Loans to legal presons	8,271	10,853	13,365
Loans to individuals	550	329	300
Deposits	607	822	795
	9,428	**12,004**	**14,460**

Maturity of long-term loans

u tisućama kuna

	31 December 2015	2016	2017	2018	2019	2020+
Loans to legal presons	8,271	-	2,545	2,545	2,545	636
Loans to individuals	550	119	74	75	74	208
	8,821	**119**	**2,619**	**2,620**	**2,619**	**844**

Žitar d.o.o. has granted a long-term loan to the company Cautio d.o.o.

18 INVENTORY

	31 December 2015	in thousands of HRK 31 December 2014
Raw materials	56,936	27,181
Finished products	25,790	14,228
Merchandise	15,731	88,925
Work in progress	10,425	13,048
Advance payments for inventories	56	14
Asset held for sale	-	20
	108,938	**143,416**

19 TRADE RECEIVABLES, RECEIVABLES FROM THE STATE AND OTHER INSTITUIONS AND OTHER RECEIVABLES

a) Trade receivables

in thousands of HRK

	31 December 2015	31 December 2014	1 January 2014
Domestic	137,949	160,311	121,607
Cooperators	33,166	50,283	54,089
Foreign	27,123	15,676	23,402
Value adjustment	(25,264)	(28,098)	(8,626)
	172,974	**198,172**	**190,472**

Amounts owed by cooperative farmers relate to intermediary products (seeds) sold to farmers who are at the same time the suppliers of raw material for the production and of merchandise.

Value adjustment of trade receivables

in thousands of HRK

	2015	2014	2013
Balance at 1 January	28,098	8,626	8,748
Increase – trade receivables	-	16,038	-
Increase – cooperative farmers	-	5,417	15
Adjusted receivables write off	(1,432)	(328)	(54)
Subsequent recovery of impaired trade receivables and receivables from cooperative farmers	(1,402)	(1,655)	(83)
Balance at 31 December	**25,264**	**28,098**	**8,626**

Maturity analysis of receivables not impaired:

in thousands of HRK

	31 December 2015	31 December 2014	1 January 2014
Not yet due	101,110	109,357	100,390
0 - 90 days past due	49,124	72,990	57,962
91 - 180 days past due	14,798	8,943	10,404
181 - 360 days past due	1,176	1,067	4,581
> 360 days past due	6,766	5,815	17,135
	172,974	**198,172**	**190,472**

All the trade receivables and receivables from cooperative farmers were tested for impairment, and the Group assesses that all the receivables grouped as at 31 December 2015 as past due beyond 360 days are recoverable.

19 TRADE RECEIVABLES, RECEIVABLES FROM THE STATE AND OTHER INSTITUIONS AND OTHER RECEIVABLES (CONTINUED)

b) Receivables from the State and other institutions

	in thousands of HRK	
	31 December 2015	31 December 2014
VAT refund	7,144	596
Receivables for grants	5,977	7,840
Overpaid income tax	8	1,575
Other receivables from the State and other institutions	408	716
	13,536	**10,727**

c) Other receivables

	in thousands of HRK	
	31 December 2015	31 December 2014
Receivables under assignment and offsetting arrangements	1,798	1,626
Prepayments made	1,950	1,087
Interest receivable	357	556
Other receivables	99	69
	4,204	**3,338**

20 NON-CURRENT FINANCIAL ASSETS

a) Investments in securities

	in thousands of HRK	
	31 December 2015	31 December 2014
Investments in stocks at fair value through profit or loss	570	1,268
Investments in bills of exchange	154	2,312
Investments in options	-	68
Value adjustment of investments in securities	(28)	(2,777)
	696	**871**

b) Given loans, deposits and similar

		in thousands of HRK	
	31 December 2015	31 December 2014	1 January 2014
Loans to associated persons	20,121	15,828	16,262
Loans to legal persons	8,045	5,069	3,577
Short-term loans to individuals	861	4,350	4,136
Deposits	47	68	648
Loans to related parties with minority interest	-	-	813
	29,074	**25,315**	**25,436**

20 NON-CURRENT FINANCIAL ASSETS (CONTINUED)

Movement in given loans in 2015

	Opening balance – 1 January 2015	Increase in receivables	Transfer from receivables to financial assets	Principal repaid	Transfer of a portion of long-term receivables to short-term	FX differences	Closing balance – at 31 December 2015
Given long-term loans							
Loans to third parties	10,853	-	-	-	(2,545)	(37)	**8,271**
Loans to individuals	329	30	(58)	-	249	-	**550**
Total long-term loans	**11,182**	**30**	**(58)**	**-**	**(2,296)**	**(37)**	**8,821**
Short-term loans							
Loans to related individuals	15.828	6.131	(1.838)	-	-	-	**20.121**
Loans to third parties	5.069	21.488	(25.418)	4.392	2.545	(31)	**8.045**
Loans to individuals	4.350	31	(3.269)	3	(249)	(5)	**861**
Total short-term loans	**25.247**	**27.650**	**(30.525)**	**4.395**	**2.296**	**(36)**	**29.027**
TOTAL	**36.429**	**27.680**	**(30.583)**	**4.395**	**-**	**(73)**	**37.848**

20 NON-CURRENT FINANCIAL ASSETS (CONTINUED)

Movement in given loans in 2014

	Opening balance – 1 January 2015	Increase in receivables	Principal repaid	Principal written off/written down	Transfer of a portion of long-term receivables to short-term	FX differences	Closing balance – at 31 December 2015
Given long-term loans							
Loans to third parties	13,365	-	-	-	(2,554)	42	**10,853**
Loans to individuals	300	112	(15)	-	(68)	-	**329**
Total long-term loans	**13,665**	**112**	**(15)**	**-**	**(2,622)**	**42**	**11,182**
Short-term loans							
Loans to related individuals	16,262	4,835	(2,947)	(2,322)	-	-	**15,828**
Loans to related parties	813	368	(1,181)	-	-	-	**-**
Loans to third parties	3,577	546,136	(547,193)	(11)	2,554	6	**5,069**
Loans to individuals	4,136	873	(454)	(278)	68	5	**4,350**
Total short-term loans	**24,788**	**552,212**	**(551,775)**	**(2,611)**	**2,622**	**11**	**25,247**
TOTAL	**38,453**	**552,324**	**(551,790)**	**(2,611)**	**-**	**53**	**36,429**

20 NON-CURRENT FINANCIAL ASSETS (CONTINUED)

Movement in given loans in 2013

	Opening balance – 1 January 2015	Increase in receivables	Principal repaid	Transfer of a portion of long-term receivables to short-term	FX differences	Closing balance – at 31 December 2015
Given long-term loans						
Loans to third parties	15,719	-	-	-	(2,546)	192
Loans to individuals	269	100	-	-	(69)	-
Total long-term loans	**15,988**	**100**	**-**	**-**	**(2,615)**	**192**
Short-term loans						
Loans to related individuals	14,556	1,765	(59)	-	-	-
Loans to related parties	167	804	(159)	-	-	1
Loans to third parties	8,567	241,020	(248,577)	-	2,546	21
Loans to individuals	1,105	3,246	(284)	-	69	-
Total short-term loans	**24,395**	**246,835**	**(249,079)**	**-**	**2,615**	**22**
TOTAL	**40,383**	**246,935**	**(249,079)**	**-**	**-**	**214**
Given long-term loans	14,556	1,765	(59)	-	-	-

21 CASH AND CASH EQUIVALENTS

	31 December 2015	31 December 2014
		in thousands of HRK
Cash in bank	15,581	858
Foreign currency accounts	1,001	355
Cash on hand	391	1
	16,973	**1,214**

22. PREPAID EXPENSES AND ACCRUED INCOME

	31 December 2015	31 December 2014
		in thousands of HRK
Prepaid expenses	5,005	1,513
Accrued income	302	12
	5,307	**1,525**

23 EQUITY

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

Pursuant to a decision adopted in the General Shareholders Meeting in 2014, Granolio d.o.o. changed its legal form from a Croatian limited liability company (d.o.o.) into a joint stock company through an issue of ordinary shares. The share capital of the Company in the amount of HRK 5,000 thousand was divided into 500,000 ordinary A-series shares, with a nominal amount of HRK 10 each.

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

Pursuant to the decision of the Company's Shareholders dated 16 March 2015, the share capital of the Company was increased from HRK 5,000 thousand to HRK 12,000 thousand by transferring retained earnings in the amount of HRK 7,000 thousand. The share capital was increased through an issue of ordinary shares with a nominal value of HRK 10 per share, subscribed by the shareholders in proportion to their respective shares in the Company's capital as of that date. The share capital increase was registered at the Commercial Court in Zagreb on 28 September 2011.

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

As of 31 December 2015, the Company's subscribed capital, as registered in the court registry, amounts to HRK 19,016,430 thousand. The total number of shares is 1,901,643, and the nominal value per share amounts to HRK 10. The outcome of the public share offering includes a capital gain in the amount of HRK 87,004 thousand, which was reduced in the period from 1 January 2014 to 31 December 2015 by the costs of the share capital increase incurred in that period which amount to a total of HRK 2,817 thousand.

23 EQUITY (CONTINUED)

The ownership structure of the share capital at 31 December 2015 is presented below, with the largest 10 shareholders holding 95.09 percent of the shares at that date:

	31 December 2015		31 December 2014	
	No. of shares in thousands	Ownership in %	No. of shares in thousands	Ownership in %
Hrvoje Filipović	1,155	60.74%	1,155	60.74%
Podravska banka d.d.	164	8.63%	-	0.00%
Hypo Alpe-adria-bank d.d./PBZ.CO. B-Category mandatory pension fund	150	7.89%	150	7.89%
Societe Generale-Splitska banka d.d./Erste plavi B-Category mandatory pension fund	149	7.85%	149	7.85%
HOK - osiguranje d.d.	75	3.93%	45	2.36%
Primorska banka d.d. Rijeka/Joint account of a legal person	35	1.82%	15	0.78%
PBZ d.d.	28	1.45%	28	1.47%
Hypo Alpe-adria-bank d.d./SZAIF d.d.	27	1.42%	30	1.58%
Erste & Steiermaerkische Bank d.d./CSC	15	0.79%	15	0.79%
Primorska banka d.d. Rijeka/Joint account of private banking customers - DF	11	0.58%	27	1.42%
Others	93	4.91%	288	15.12%
	1,902	**100.00%**	**1,902**	**100.00%**

24. NON-CONTROLLING INTEREST

		in thousands of HRK
Non-controlling interest	**31 December 2015**	**31 December 2014**
Share capital	72,368	72,368
Retained earnings	(18,657)	(15,959)
Profit/(loss) for the year	4,919	(2,680)
	58,630	**53,729**

25 LIABILITIES TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	31 December 2015	in thousands of HRK 31 December 2014
Long-term liabilities		
Bank loans	364,466	154,841
Financial leasing	2,458	3,589
	366,924	**158,430**
Short-term liabilities		
Bank loans	91,973	325,086
Financial leasing	2,569	3,733
Liabilities under assumed payment obligations (cession, assignment and debt assumption contracts)	1,500	-
	96,042	**328,819**

Summary of borrowing arrangements

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

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

On 31 July 2015 the Granolio d.d. signed an agreement on a long-term club facility of HRK 300 million. The club facility involves Erste&Steiermärkische Bank d.d., Privredna banka Zagreb d.d. (PBZ) and Zagrebačka banka d.d. (ZABA) , as the mandate agents and the creditors, and Privredna banka Zagreb d.d. as the Agent. The banks creditors have equal participation in the loan facility, i.e. each with HRK 100 million.

The long-term club facility was granted in Croatian kunas and used by the Granolio d.d. to extinguish its existing long-term loan debt and a portion of its current liabilities.

The Granolio d.d. is subject to covenants under the syndicated loan a part of which were not met at 31 December 2015. The banks creditors have not exercised and will not exercise their right to early repayment subsequent to the date of issue of these financial statements, as confirmed in their letter of intent.

The portion of the long-term debt, including the finance lease obligations, which falls due until 31 December 2016 amounts to HRK 31,466 thousand and is presented under current liabilities. The remaining debt falls due in the period from 1 January 2017 until August 2025.

Short-term loans received by the Company are intended for working capital purposes, financing the sowing and purchase of wheat.

At 31 December 2015 non-current assets mortgaged as collateral for the bank loans amount to HRK 450,131 thousand (31 December 2014: HRK 355,265 thousand).

Mortgages of Granolio d.d., Zagreb:

1. Land, buildings, plant, equipment and transportation vehicles: 133,398
2. Intangible assets: 120,000
3. Shares in Zdenka and Žitar: 82,388

Total value of mortgages: 335,786

Zdenka – mliječni proizvodi d.o.o., Veliki Zdenci – Mortgages on land, buildings, plant, equipment and transportation vehicles : 56,940

Žitar d.o.o., Donji Miholjac - Mortgages on land, buildings, plant, equipment and transportation vehicles : 57,405

25 LIABILITIES TO BANKS AND OTHER FINANCIAL INSTITUTIONS (CONTINUED)

Liabilities to banks and other financial institutions in 2015

	Opening balance – 1 January 2015	Increase in liabilities	Principal repaid	Transfer of a portion of long-term loans to short-term	FX differences	Closing balance – at 31 December 2015
Long-term loans						
Long-term bank loans	154,841	300,000	(34,710)	(55,229)	(436)	364,466
Long-term finance lease obligations	3,589	1,921	(492)	(2,527)	(33)	2,458
Total long-term loans	**158,430**	**301,921**	**(35,202)**	**(57,756)**	**(469)**	**366,924**
Short-term loans						
Short-term bank loans	325,086	113,031	(400,004)	55,229	(1,369)	91,973
Liabilities under assumed payment obligations (cession, assignment and debt assumption contracts)	-	21,020	(19,520)	-	-	1,500
Current portion of the lease obligations	3,733	-	(3,728)	2,527	37	2,569
Total short-term loans	**328,819**	**134,051**	**(423,252)**	**57,756**	**(1,332)**	**96,042**
TOTAL	**487,249**	**435,972**	**(458,454)**	**-**	**(1,801)**	**462,966**

25 LIABILITIES TO BANKS AND OTHER FINANCIAL INSTITUTIONS (CONTINUED)

Liabilities to banks and other financial institutions in 2014

	Begining balance 1 January 2014	Reclassification of 2013 on short term liabilities	Reclassified beginning balance	Principal repaid	Increase in liabilities	Transfer of a portion of long-term loans to short-term	FX differences	Closing balance – at 31 December 2015
Long-term loans								
Long-term bank loans	6,940	(1,877)	**5,063**	(945)	3,128	(3,660)	3	**3,589**
Long-term finance lease obligations	212,209	(5,343)	**206,866**	-	-	(52,403)	378	**154,841**
Total long-term loans	**219,149**	**(7,220)**	**211,929**	**(945)**	**3,128**	**(56,063)**	**381**	**158,430**
Short-term loans								
Short-term bank loans	242,969	5,343	**248,312**	(349,036)	373,190	52,403	217	**325,086**
Current portion of the lease obligations	1,777	1,877	**3,654**	(3,595)	-	3,660	14	**3,733**
Liabilities under assumed payment obligations (cession, assignment and debt assumption contracts)	12,204		**12,204**	(17,463)	5,259	-	-	**-**
Total short-term loans	**256,950**	**7,220**	**264,170**	**(370,094)**	**378,449**	**56,063**	**231**	**328,819**
TOTAL	**476,099**	**-**	**476,099**	**(371,039)**	**381,577**	**-**	**612**	**487,249**

The bank loans and finance leases mature as follows:

in thousands of HRK

	Balance 31 December 2015	2016	2017	2018	2019	2020
Domestic banks	456,439	91,973	77,796	31,115	33,974	221,581
Finance lease	5,027	2,569	1,042	679	500	237
Liabilities under assumed payment obligations (cession, assignment and debt assumption contracts)	1,500	1,500	-	-	-	-
	462,966	**96,042**	**78,838**	**31,794**	**34,474**	**221,818**

25 LIABILITIES TO BANKS AND OTHER FINANCIAL INSTITUTIONS (CONTINUED)

Balances of loans in currency (EUR) are shown in the following table:

	31 December 2015	31 December 2014
Granolio d.d., Zagreb	160	9,139
Žitar d.o.o., Donji Miholjac	7,865	9,605
Zdenka-mliječni proizvodi d.o.o., Veliki Zdenci	3,104	5,033
Zdenačka farma d.o.o., Veliki Zdenci	26	56
	11,155	**23,833**

26 SHORT-TERM LIABILITIES

(a) Trade payables

in thousands of HRK

	31 December 2015	31 December 2014	1 January 2014
Domestic	116,753	127,237	118,654
Foreign	12,823	12,770	6,245
Amounts not yet billed	1,036	416	381
	130,612	**140,423**	**125,280**

The maturity structure of trade payables at 31 December 2015:

in thousands of HRK

	31 December 2015	31 December 2014	1 January 2014
Not yet due	52,272	34,174	76,329
0 - 90 days past due	65,942	89,162	44,516
91 - 180 days past due	9,038	5,376	2,654
181 - 360 days past due	1,419	9,710	1,168
> 360 days past due	1,941	2,001	613
	130,612	**140,423**	**125,280**

(b) Liabilities for securities

The entire balance of liabilities for securities relates to amounts payable under issued bills of exchange.

(c) Taxes, contributions and similar duties payable

in thousands of HRK

	31 December 2015	31 December 2014	1 January 2014
VAT payable	5,989	5,942	2,292
Income tax payable	3,062	2	-
Taxes and contributions from and on salaries	1,418	1,116	1,088
Other taxes and contributions	306	276	165
	10,775	**7,336**	**3,545**

26 SHORT-TERM LIABILITIES (CONTINUED)

(d) Other short-term liabilities

in thousands of HRK

	31 December 2015	31 December 2014	1 January 2014
Interest - financial liabilities	3,024	5,094	73
Liabilities to employees	2,338	2,129	2,014
Other short-term liabilities	130	720	2,130
	5,492	**7,943**	**4,217**

27 ACCRUED EXPENSES AND DEFERRED INCOME

in thousands of HRK

	31 December 2015	31 December 2014
Deferred income	13,787	15,756
Accrued expenses	567	1
	14,354	**15,757**

28 COMMITMENTS

At 31 December 2015 the Group has commitments under operating lease arrangements entered into for tangible fixed assets in the total amount of HRK 4,647 thousand and rent agreements in the total amount of HRK 14,267 thousand which are not yet active or disclosed in the statement of financial position.

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

in thousands of HRK

	31 December 2015	2016	2017	2018	2019	From 2020
Operating leases	4,647	1,912	1,456	1,021	226	32
Rentals	14,267	1,071	872	817	775	10,732
	18,914	**2,983**	**2,328**	**1,838**	**1,001**	**10,764**

29 RELATED-PARTY TRANSACTIONS

In thousand of HRK

	31 December 2015		31 December 2014		1 January 2014	
	Assets	Obveze	Assets	Obveze	Assets	Obveze
Stan arka d.o.o.	-	-	4,392	-	4,387	-
Tepih galerija d.o.o.	-	-	-	-	365	-
Ekofarma d.o.o.	-	-	-	-	455	-
PZ Zabara	522	-	173	-	125	18
Key Management	508	-	263	-	737	-
Total	**1,030**	**-**	**4,828**	**-**	**6,069**	**18**

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

The remuneration of key management in 2015 are amounts 3,478 thousand (in 2014: 2,041 thousand).

During 2015 to members of the Supervisory Board has been paid out 187 thousand of compensations (in 2014: 194,000 million).

Income and expenses for the year ending on 31 December 2015 and 31 December 2014, arising from transactions with related parties, were as follows:

In thousand of HRK

	2015		2014		2013	
	Income	Expenses	Income	Expenses	Income	Expenses
Stan arka d.o.o., Zagreb	88	-	3,027	-	4,388	-
Tepih galerija d.o.o.	-	-	-	-	5	-
Ecofarm, BIH	-	-	49	4,371	353	-
PZ Zabara, Kapelna	201	172	168	990	136	-
	289	**172**	**3,244**	**5,361**	**4,882**	**-**

30 EARNINGS PER SHARE

in thousands of HRK

	31 December 2015	31 December 2014
Profit/(Loss) attributable to the Group	**11,150**	**(46,268)**
The weighted average number of ordinary shares used in the calculation of the basic earnings per share	1,901,643	1,239,003
Earnings per share (in kunas)	**5,86**	**(37,34)**

31 RISK MANAGEMENT

31.1 Financial risks

Equity risk management

Net debt-to-equity (Gearing ratio)

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

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

		in thousands of HRK
	31 December 2015	**31 December 2014**
Debt (long-term and short-term loans and liabilities for securities)	538,826	589,730
Lease liabilities (long-term and short-term)	5,027	7,321
Cash and cash equivalents	(22,426)	(3,350)
Net debt	**409,577**	**448,589**
Equity	232,514	216,905
Net debt-to-equity ratio	**176%**	**207%**

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

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

Categories of financial instruments

		in thousands of HRK
	31 December 2015	**31 December 2014**
Financial assets		
Cash	22,426	3,350
Loans and receivables	225,238	247,898
Financial liabilities at amortized cost		
Loans received and liabilities for securities	543,853	597,051
Trade payables	130,851	140,714
Other liabilities	22,990	26,744

Financial risk management objectives

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

The Group seeks to minimise the effects of these risks.

31 RISK MANAGEMENT (CONTINUED)

31.1 Financial risks (continued)

Market risk management

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

Currency risk

The Group is exposed to the risk of changes in foreign exchange rates. The exchange rate risk arises from the portion of the Group's loan debt tied to the movements in the exchange rate of the Croatian kuna against the euro. Significant fluctuations in the HRK/EUR exchange rate could affect the value of the Group's foreign-currency denominated assets and liabilities. In addition, according to the 2015 data, the Group generates around 30 percent of its total revenue on foreign markets and in euros, which is another aspect of the Group's performance being subject to the fluctuations in the EUR/HRK exchange rate.

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

The table below analyses the carrying amounts of the Group's foreign-currency denominated monetary assets and monetary liabilities at the reporting date.

In thousands of the original currency

	Assets		Liabilities	
	31 December 2015	31 December 2014	31 December 2015	31 December 2014
European Union (EUR)	4,636	3,594	12,678	24,411

Foreign currency sensitivity analysis

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

The following table details the Group's sensitivity to a 5-percent increase and decrease of the Croatian kuna against the relevant currency (? - jednina jer je samo euro). The 5-percent sensitivity rate represent the management's assessment of the reasonably possible change in the foreign exchange rate (opet samo jednina)?. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for the 10-percent change in the relevant foreign exchange rate. A positive number below indicates an increase in profit or equity where the Croatian kuna strengthens 5 percent against the relevant currency. For a 5 % weakening of the Croatian kuna against the relevant currency, there would be an equal and opposite impact on the profit or equity, and the balances below would be negative.

in thousands of HRK

	Increase / decrease of exchange rate	Effect on profit before taxes
2015		
EUR	+5%	(3,070)
	-5%	3,070
2014		
EUR	+5%	(8,358)
	-5%	8,358

31 RISK MANAGEMENT (CONTINUED)

31.1 Financial risks (continued)

Credit risk

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

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

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

In the course of its operations, the Group enters into factoring contracts and/or discounted bills with factoring houses. The ultimate risk arising from the recoverability of the debt from the principal debtor is borne by the Group. At the reporting date, the contingent liabilities of the Group arising from factoring deals with recourse amount to HRK 46.5 million (2014: HRK 128.9 million).

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

Interest rate risk

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

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

The sensitivity analysis below is based on the risk of changes in interest rates at the date of the statement of financial position. For variable-rate debt, the analysis is prepared assuming the amount of the liability outstanding at the date of the statement of financial position was outstanding for the whole year. If the interest rates would change by 0.5 percent, and all other variables remained constant, there would be a change in the interest expense of the Group in the amount of HRK 2,004 thousand at 31 December 2015 (2014: HRK 5,314 thousand). The increased level of long-term debt at variable rates increases the impact of a potential change in the interest rates on the Group's profit.

30 RISK MANAGEMENT (CONTINUED)

30.1 Financial risks (continued)

The Group is exposed to the risk of changes in foreign exchange rates. The exchange rate risk arises from the portion of the Group's loan debt tied to the movements in the exchange rate of the Croatian kuna against the euro. Significant fluctuations in the EUR/HRK exchange rate could affect the value of the Group's foreign-currency denominated assets and liabilities. In addition, according to the 2015 data, the Group generates around 27 percent of its total revenue on foreign markets and in euros, which also exposes the Group's performance to the fluctuations in the EUR/HRK exchange rate.

Potential future exposures of the Group include derivative contracts entered with financial institutions such as foreign-exchange (FX) hedges to hedge certain financial risks.

Changes in the fair value of such derivatives could affect the future profitability of the Group.

Currently, the Group does not use financial instruments as foreign-exchange hedges.

Liquidity risk

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

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

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

	Weighted average effective interest rate %	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
31 December 2015							
Non-interest bearing liabilities		119,443	46,886	53,247	7,964	4,123	231,663
Interest bearing liabilities	5.45%	6,614	22,110	89,936	270,609	185,126	574,395
		126,057	**68,997**	**143,183**	**278,572**	**189,250**	**806,058**
31 December 2014							
Non-interest bearing liabilities		134,527	99,745	22,176	10,836	4,862	272,146
Interest bearing liabilities	5.06%	88,939	59,084	209,000	135,671	21,436	514,130
		223,466	**158,828**	**231,176**	**146,508**	**26,298**	**786,276**

31 RISK MANAGEMENT (CONTINUED)

31.1 Financial risks (continued)

Liquidity risk (continued)

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

	Weighted average effective interest rate %	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
31 December 2015							
Non-interest bearing assets		142,145	40,765	24,060	1,418	1,124	209,513
Interest bearing assets	2.10%	272	298	29,155	9,357	260	39,342
		142,417	**41,064**	**53,215**	**10,775**	**1,384**	**248,855**
31 December 2014							
Non-interest bearing assets		131,891	53,246	26,291	3,036	-	214,464
Interest bearing assets	2.15%	1,725	1,128	23,318	257	10,947	37,375
		133,616	**54,374**	**49,609**	**3,293**	**10,947**	**251,838**

31 RISK MANAGEMENT (CONTINUED)

31.1 Financial risks (continued)

Fair value measurement

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

Financial assets and financial liabilities	Fair value as at		Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
	31 Dec 2015	31 Dec 2014				
Shares and units in private equity firms (Note 20).	18.25 % shares of Zagrebačke pekarne Klara d.d., a Group from the bakery industry (bread, pastry and other related food products): HRK 19,925 thousand; and 11.48 % shares of Prehrana trgovina d.d., a trade Group: HRK 536 thousand;	18.25 % shares of Zagrebačke pekarne Klara d.d., a Group from the bakery industry (bread, pastry and other related food products): HRK 19,925 thousand; and 11.48 % shares of Prehrana trgovina d.d., a trade Group: HRK 536 thousand;	Level 3	Income approach – in this approach, the discounted cash flow method was used to capture the present value of the expected future economic benefits to be derived from the ownership of these investees.	Based on the management's experience and knowledge of market conditions of the specific industries, a long-term revenue growth rate of 7 percent (2014: 7 %).	A slight increase in the long-term revenue growth rates used in isolation would result in a significant increase in the fair value (see under 1 above).
					Long-term pre-tax operating margin, based on the management's experience and knowledge of market conditions of the specific industries, ranging from 8 to 11 percent.	A significant increase in the long-term pre-tax operating margin used in isolation would result in a significant increase in the fair value.
					A weighted average cost of capital (WACC), determined using a Capital Asset Pricing Model (CAPM), of 10.38 percent.	A slight increase in the WACC used in isolation would result in a significant decrease in the fair value.

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

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

31 RISK MANAGEMENT (CONTINUED)

31.2 Industry risk

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

Flour production

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

Dairy product production

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

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

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

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

Livestock operations

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

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

31 RISK MANAGEMENT (CONTINUED)

31.2 Industry risk

Crop operations

Crop production is exposed to unfavourable weather conditions (draught, floods, hail) which may lower the crop yield or impair its quality, or both, and in extreme cases result in completely devastated crops. Unfavourable weather affects the operations of Žitar which is engaged in crop operations, but also on cooperative farmers to whom the Group extends credits by offering seeds and intermediary products, which may ultimately reduce the farmers' ability to settle their commodity loan debt, as described in more detail in Note 34.2. Credit risk

The weather risk is sought to be mitigated by arranging crop insurance, which the Government supports by subsidising 25 percent of the insurance cost.

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

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

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

Market risk

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

Input commodity and product delivery risks

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

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

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

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

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

31 RISK MANAGEMENT (CONTINUED)

31.2 Industry risk

Competition risk

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

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

31.3 Risks arising from the ordinary course of business

Key supplier and key customer concentration risk

Pursuant to the Business Cooperation Agreement concluded with Konzum d.d. on 2 May 2014, the shares of the Group's line of flour products in the the Konzum retail and wholesale networks has been defined according to the Group's market share. Consequently, the Group expects to have a largest future exposure to Konzum as the largest single counterparty, which also bears the risk of potential changes in the commercial relationship with the counterparty after the expiry of the Agreement.

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

The risk of change of the owner

The majority shareholder of the Group is Mr Hrvoje Filipović, who holds an ownership interest of 60.74 percent.

As the majority shareholder, Mr Hrvoje Filipović has the controlling influence over the shareholders of the Group, by means of the rights and powers pertaining to him as a Group shareholder.

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

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

31 RISK MANAGEMENT (CONTINUED)

31.3 Risks arising from the ordinary course of business (Continued)

Acquisition risk

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

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

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

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

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

Working capital risk

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

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

31 RISK MANAGEMENT (CONTINUED)

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

The input commodity price risk

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

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

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

Dependence on the management and key personnel

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

IT risks

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

31 RISK MANAGEMENT (CONTINUED)

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

Antitrust and competition law non-compliance risk

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

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

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

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

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

Litigation risk

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

The risk of obligations or losses not covered by insurance

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

31 RISK MANAGEMENT (CONTINUED)

31.4 General risks

Business environment risk

The business environment risk includes political, legal and macroeconomic risks prevailing in the business environment of the Group, which is primarily the Croatian market on which the Group generates almost 73 percent of its total revenue (according to the 2015 data), followed by the markets of Serbia, Italy, Bosnia and Herzegovina, and Slovenia.
The governments in power so far have introduced economic reforms to develop and stabilise free market economy by privatising state-owned companies, attracting foreign direct investments and implemented reforms required in the pre-accession stage. Despite the significant progress towards establishing a full market economy, reaching the level of infrastructure of West European countries will take several more years and additional investments. The Group cannot warrant that Croatia will fully implement the intended reforms or that the political environment will favour their implementation. In addition, the Group cannot warrant that the Government in power will not introduce new regulations, fiscal or monetary policies, including taxation, environmental and public procurement policy, an indemnity policy for nationalised property or a a new foreign exchange policy.

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

31 RISK MANAGEMENT (CONTINUED)

31.4 General risks (Continued)

Business environment risk

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

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

The risk of changes in the legal framework

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

32 CONTINGENT LIABILITIES

The Group as guarantor or co-debtor

	Amount	Balance in original currency at 31 Dcember 2015	Balance in HRK at 31 December 2015	Maturity
Bills of exchange issued to CERP	HRK 40,500,000	HRK 40,500,000	40,500,000	13 Sep 2015
Corporate guarantee issued to CERP	HRK 40,700,000	HRK 40,700,000	40,700,000T	23 Sep 2015
Total			**187,201,788**	

The bills of exchange and corporte guarantees issued to the Restructuring and Sale Centre (CERP; former Croatian Privatisation Fund) were furnished under the contract on the acquisition of Prerada žitarica d.o.o. and the annex to the contract dated 19 November 2009.

Legal cases

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

33 EVENTS AFTER THE REPORTING DATE

No events or transactions have taken place subsequent to 31 December 2015 that would have a significant impact on the financial statements for the year then ended, or be of such significance for the Group's operations that would require them to be disclosed in the notes to the financial statements.

34 MANAGEMENT AUTHORISATION OF FINANCIAL STATEMENTS FOR ISSUE

The financial statements were approved by the Management Board and authorized for issue on 28 April 2016.

Hrvoje Filipović, dipl.oec.
President of the Management Board

Tomislav Kalafatić, dipl.oec.
Management Board member

Granolio

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Zagreb, 28 April 2016

Statement of Executives responsible for preparing annual financial statements

Pursuant to the current Croatian Accounting Act (Official Gazzette 109/07), the Management Board is required to ensure that the financial statements of Granolio d.d. for each financial period are prepared in accordance with the International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board (IASB) and that they give a true and fair view of the financial position and results of the Company's operations in the given period.

To the best of our knowledge, annual audited unconsolidated and consolidated financial statements for the year ended 31 December 2015 present a fair view of assets and liabilities, profit and loss, financial position and business operations of the Company, and all subsidiary companies involved in the consolidation as a whole.

Reports prepared by:

Kordić J.

Jasenka Kordić
Accounting Director

Granolio
d.d., Budmanijeva 5
Zagreb

Granolio d.d.
Supervisory Board
Number: 28-04-01/2016

Pursuant to Article 263. of the Companies Act and Article 39. of the Statute of the Company Granolio d.d. (hereon in the text: the Company), the Supervisory Board at its meeting held on 28 April 2016, brings

THE DECISION
ON ESTABLISHING THE FINANCIAL STATEMENTS FOR 2014

Pursuant to Article 300.c of the Companies Actthe Supervisory Board has examined the Company's Annual financial statements for 2015 together with the Audit Report, the consolidated Annual financial statements of the Granolio Group for 2015 together with the Audit Report, the Management Report for the Company and affiliated Companies as well as the draft decision on the proposal for covering the loss from the previous period, distribution of earnings from 2015 and payment of dividend.

It is the opinion of the Supervisory Board that the Company's Annual financial statements for 2015 have been prepared in line with the Company's business books and that they reflect the true financial and business standing of the Company.
Also, the Supervisory Board does not have any objections regarding the consolidated Annual financial statements of the Granolio Group for 2015.
Therefore, the Supervisory Board approved the Company's Annual financial statements for 2015 and the consolidated Annual financial statements of the Granolio Group for 2015 which are confirmed by the Management Board and Supervisory Board in line with Article 300 d of the Companies Act.

The Supervisory Board has no objections concerning the Auditor's Audit Report regarding the Company's Annual financial statements for 2015 and the Auditor's Report regarding the consolidated Annual financial statements of the Granolio Group for 2015.

Article 2.

This Decision will bevalid at the day of its adoption.

Franjo Filipović

(the president of the Supervisory Board)

Zagreb, 28 April 2016 ____________________________

Granolio d.d.
Supervisory Board
Number: 28-04-01/2016

Pursuant to Article 263. of the Companies Act and Article 39. of the Statute of the Company Granolio d.d. (hereon in the text: the Company), the Supervisory Board at its meeting held on 28 April 2016, brings

THE DECISION
OF THE PROPOSAL FOR COVERING THE LOSS FROM THE PREVIOUS PERIOD, DISTRIBUTION OF EARNINGS FROM 2015 AND PAYMENT OF DIVIDEND

Pursuant to Article 300.c of the Companies Actthe Supervisory Board has examined the Company's Annual financial statements for 2015 together with the Audit Report, the consolidated Annual financial statements of the Granolio Group for 2015 together with the Audit Report, the Management Report for the Company and affiliated Companies as well as the draft decision on the proposalfor covering the loss from the previous period, distribution of earnings from 2015 and payment of dividend.

The Supervisory Board agrees with the Board's draft decision that:
I. The loss from the previous period in the amount of HRK 10,717,092.12 is to be covered through retained earnings in the amount of HRK 3,638,819.68.

II. The earnings from 2015 in the amount of HRK 9,073,131.33 (after taxes) are distributed as follows:
- loss coverage in the amount of HRK 7,078,272.44,
- legal reserves in the amount of HRK 99,742.94,
- reserves for company's own shares in the amount of HRK 800,000.00,
- retained earnings in the amount of HRK 144,294.45.
- payment of dividend HRK 950,821.50.

III. The Management Board proposes that the dividend for 2015 is set in the amount of HRK 0.50 per share. The shareholders may claim the payment of dividend from the Company upon the expiry of the day of the General Assembly meeting when the decision on dividend payment is made, and the dividends are paid within 30 days from the date of the decision, in line with Article 59 of the Company's Articles of Association.

Article 2.

This Decision will be valid at the day of its adoption.

Franjo Filipović

(the president of the Supervisory Board)

Zagreb, 28 April 2016