Granolio d.d., Zagreb

Annual Management Board Report on the business performance and position of the Company and unconsolidated 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 Company for the year 2015

General information about Granolio d.d.

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

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

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

At 31 December 2015 the ten largest shareholders of Granolio held a total ownership interest of 95.1 percent.

The principal activity of the Company comprises the production of and trade in agricultural products and cattle. At 31 December 2015 the business system of the Company comprised five active operations, of which two production centres: grain mills Farina and Kopanica, engaged in the production, packaging, warehousing and dispatch of grain mill products.
The business unit Bjeliš is a grain drying and storage silo.

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

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

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

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

Because of Granolio's focus on the product and delivery quality as well as on building long-term relationships with customers, Granolio is engaged in the production of private labels for a majority of retail chains in Croatia. Currently, flour is produced for 18 private labels.

The output capacities of the Company's mills at 31 December 2015 are presented in the following table.

Mill output capacities at 31 December 2015:

Mill	ton/24h
Farina	320
Kopanica	230
	550

Subsidiaries

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

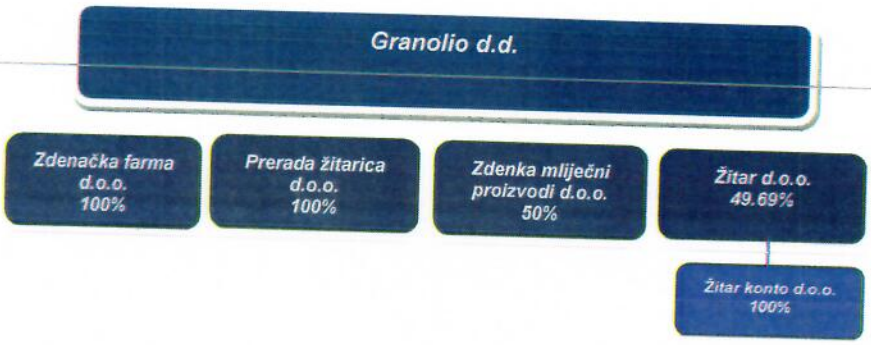
It exercises the controlling influence in the decision-making process at Zdenka - mliječni proizvodi d.o.o. and Žitar d.o.o. These companies have been consolidated as part of the Granolio Group since 2011.

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.

In addition, the Company has a minority interest in Žitozajednica d.o.o., Zagrebačke pekarne Klara d.d., and Prehrana trgovina d.d.

The ownership interests of Granolio in its subsidiaries are presented in the chart below:

Granolio Group Structure



Significant transactions in the current accounting period

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.

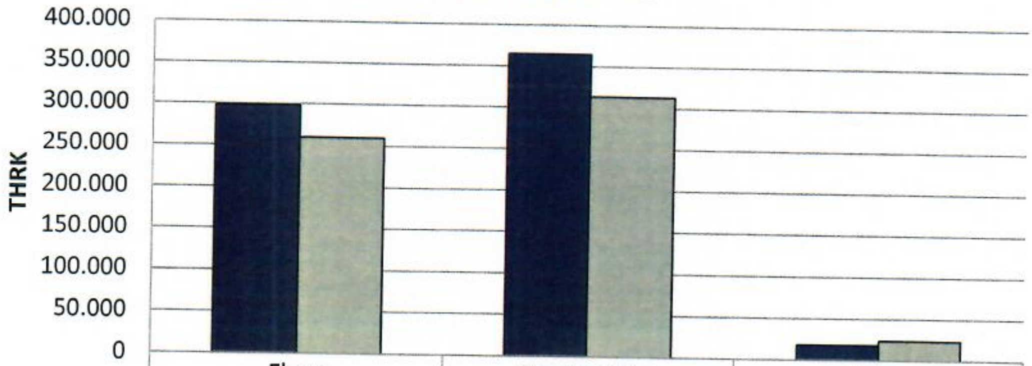
A legal action between the Company and Osatina grupa d.o.o. was finally concluded by a decision of the Commercial Court in Zagreb of 17 June 2015 establishing the claim as withdrawn.
Simultaneously, Agriculture Cooperative Osatina recovered its debt from Granolio d.o.o. arising from the warehouse fee 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 December 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.

Analysis of the 2015 business performance

The total product and service sales for 2015 are 14 percent higher than the prior-year sales, the highest sales growth being reported in merchandise sales (16%) and flour sales (15%).

Sales income by business segments 2015 vs 2014



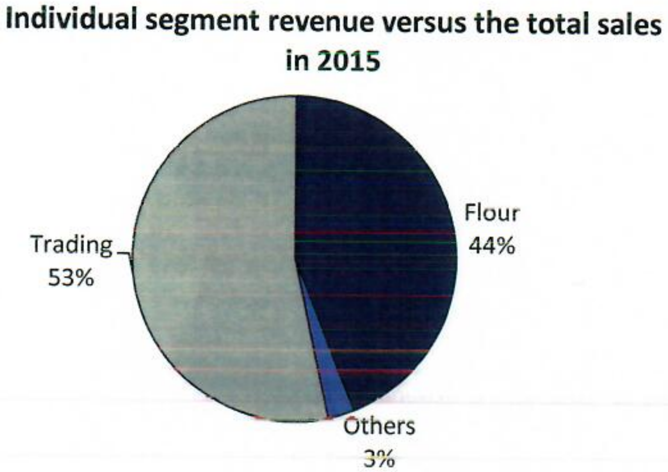
	Flour	Commodities	Other
■ 2015	298.594	364.647	18.546
□ 2014	259.536	313.424	24.127

In 2015 the Company sold 160 thousand tons of flour, almost 18 percent more than in the prior year. The flour sales increase resulted from an acquisition of a mill product operation in the previous year, whereby the 2014 acquisition effects on the Company's performance started from the second half of the year onwards.

The average flour selling price for 2015 was around 1 percent lower than the 2014 average selling price, whereas the 2015 spread[1] was 15 percent higher than in 2014.

Exports account for over 55 percent of the total merchandise sales for 2015. Of the total domestic sales, 65 percent are intermediary product sales. The higher merchandise sales comprise grains and oleaginous plant sales, whereas the seed material sales (as intermediary products) were lower than in the previous year.

The Other sales segment consist mainly of drying and warehousing service income, income from selling costs recharged to customers and cattle sales.



Cost of material, which includes the cost of raw material, energy, fuels as well as external services such as transportation, quality control and similar, increased 10 percent from 2014. In 2015 grain and oleaginous plant sales margins were higher than in 2014. Higher margins in the wholesale and mill operations are one of two man reasons underlying an increase of EBITDA from HRK 17 million to HRK 38.5 million. The other reasons is increase in sales volume.

Staff expenses increased in comparison with the prior year because of reduced remuneration paid to key management for business year 2014. In early 2015 the key management remuneration was restored to the previous level.

In 2014 the Company recognised an impairment allowance for trade receivables and amounts owed from cooperatives past due over 360 days. At 31 December 2015 there were no receivables assessed as of doubtful collection.

Out of the total balance of trade receivables and amounts owed from cooperatives that was initially provided against, HRK 1.4 million were recovered in 2015.

The total capital expenditure for 2015 amounts to HRK 4 million. This amount consists of an investment in the finished-product warehouse at Farina in the amount of HRK 1.1 million, purchases of mill equipment in the amount of HRK 1.7 million, upgrade of the existing ERP system in the amount of HRK 0.4 million and other items comprising purchases of two platform scales and improvements of the Farina Mill silo. The finished-product warehouse at Farina is currently presented as an asset under construction.

[1] Spread is defined as the difference between the selling price of 1 kilogramme of flour and the average price of one kilogramme of raw material used as input into production.

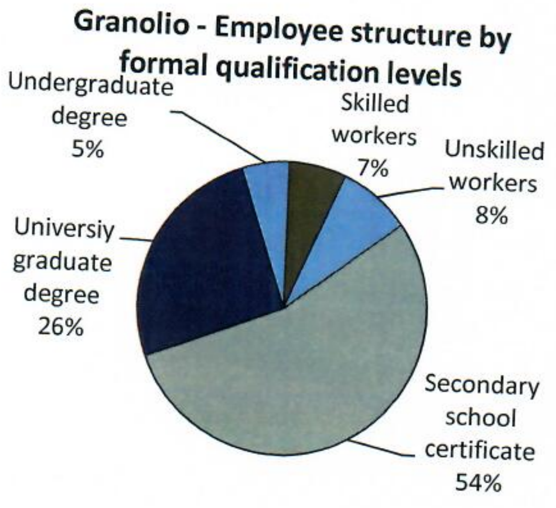
Significant events after the end of the accounting period and the strategic goals of the Company

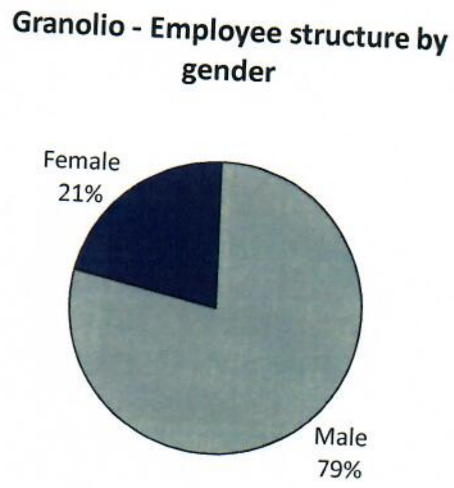
In February 2016 the Management Board of the Company adopted a decision to revise its strategy of investments in the biogas plant because of market changes that resulted in a lower project profitability expectation. Further activities on the 300-kW Biogas Plant Investment Project have been suspended, 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.

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 sales volume .

Employees

Based on the total hours of work, the Company had 169 employees in 2015 (2014: 167 employees), structured by formal qualification levels and gender as presented in the following charts:





Research and development

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

Purchase of own shares

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

Environmental protection

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

Risks

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

ZAGREBAČKA BURZA
THE ZAGREB STOCK EXCHANGE

CORPORATE GOVERNANCE CODE
ANNUAL SURVEY

BASIC COMPANY INFORMATION:	GRANOLIO d..d, Budmanijeva 5, 10000 Zagreb, OIB: 59064993527
CONTACT PERSON AND CONTACT PHONE:	Ivona Pehar, +385 1 6320200
DATE OF THE QUESTIONAIRE COMPLETION:	20.04.2016.

All the questions contained in this questionnaire relate to the period of one bussines year to which annual financial statements also relate.
If question in questionnaire ask for explanation, it is needed to explain answer.
All answers in questionnaire will be measured in percentage as explained in the beggining of each chapter.

COMPANY HARMONIZATION TO THE PRINCIPLES OF CORPORATE GOVERNANCE CODE

Answers to this questionnaire chapter will be valued with max. 20% of whole questionnaire valuation of company harmonization to the principles of Corporate Governance Code

	Question No.	Question	Answer YES/NO	Explanation
	1	Did the Company accept the application of the Corporate Governance Code or did it accept its own Policy of Corporate Governance?	YES	
	2	Does the Company have adopted principles of corporate governance within its internal policies?	YES	
	3	Does the Company announce within its annual financial reports the compliance with the principles of ' comply or explain'	YES	
	4	Does the Company take into account the interest of all shareholders in accordance with the principles of Corporate Governance Code while making decisions?	YES	

SHAREHOLDERS AND GENERAL Assembley

Answers to this questionnaire chapter will be valued with max. 30% of whole questionnaire valuation of company compliance to the principles of Corporate Governance Code.

	Question No.	Question	Answer YES/NO	Explanation
	5	Is the Company in a cross-shareholding relationship with another company or other companies? (If not, explain)	NO	
	6	Does each share of the Company have one voting right? (If not, explain)	YES	
	7	Does the Company treat all shareholders equally? (If not, explain)	YES	
	8	Has the procedure for issuing power of attorney for voting at the general assembly been fully simplified and free of any strict formal requirements? (If not, explain)	YES	
	9	Has the Company ensured that the shareholders of the company who, for whatever reason, are not able to vote at the assembly in person, have proxies who are obliged to vote in accordance with instructions received from the shareholders, with no extra costs for those shareholders? (If not, explain)	NO	Shareholders who are not able to vote at the assembly in person appoint, at their own discretion, proxies who are obliged to vote in accordance with instructions received from the shareholders.
	10	Did the management or Management Board of the company, when convening the assembly, set the date for defining the status in the register of shares, which will be relevant for exercising voting rights at the general assembly of the company, by setting that date prior to the day of holding the assembly and not earlier than 6 days prior to the day of holding the assembly? (If not, explain)	NO	According to the Company's Statute, shareholders, i.e. their proxies, have voting rights and the right to participate in the assembly if they are registered with the Central Depository and Clearing Company as shareholders on the beginning of the 21st (twenty first) day before the General Assembly is held, and persons who apply for participation at the General Assembly no later than 6 (six) days before the General Assembly meeting is held

	11	Were the agenda of the assembly, as well as all relevant data and documentation with explanations relating to the agenda, announced on the website of the company and put at the disposal of shareholders on the company's premises as of the date of the first publication of the agenda? (If not, explain)	YES	
	12	Does the decision on dividend payment or advance dividend payment include information regarding the date when shareholders acquire the right to dividend payment, and information on the date or period during which the dividend will be paid? (If not, explain)	NO	The decision on dividend payment was not made in 2015.
	13	Is the date of dividend payment or advance dividend payment set to be not later than 30 days after the date of decision making? (If not, explain)	NO	The decision on dividend payment was not made in 2015.
	14	Were any shareholders favoured while receiving their dividends or advance dividends? (If so, explain)	NO	
	15	Are the shareholders allowed to participate and to vote at the general assembly of the Company using modern communication technology? (If not, explain)	NO	The technical conditions do not allow for shareholders to participate in the General Assembly in such manner.
	16	Have the conditions been defined for participating at the general assembly by voting through proxy voting (irrespective of whether this is permitted pursuant to the law and articles of association), such as registration for participation in advance, certification of powers of attorney etc.? (If so, explain)	YES	Registration for participation in advance as a requirement for participation has been introduced in order to ensure orderly and lawful holding of the General Assembly.
	17	Did the Management of the Company publish the decisions of the general assembly of the company?	YES	
	18	Did the Management of the Company publish the data on legal actions, if any, challenging those decisions? (If not, explain)	NO	There has been no legal action challenging the decisions of the Company's General Assembly.

MANAGEMENT AND SUPERVISORY BOARD

PLEASE PROVIDE THE NAMES OF MANAGEMENT BOARD AND THEIR FUNCTIONS:

Hrvoje Filipović (President), Tomislav Kalafatić (Member), Drago Šurina (Member), Vladimir Kalčić (Member).

PLEASE PROVIDE THE NAMES OF SUPERVISORY BOARD AND THEIR FUNCTIONS:

Franjo Filipović (President), Jurij Detiček (Deputy-president), Josip Lasić (Member), Davor Štefan (Member), Braslav Jadrešić (Member).

Answers to this questionnaire chapter will be valued with max. 20% of whole questionnaire valuation of company compliance with the principles of Corporate Governance Code

	Question No.	Question	Answer YES/NO	Explanation
	19	Did the Supervisory or Management Board adopt a decision on the master plan of its activities, including the list of its regular meetings and data to be made available to Supervisory Board members, regularly and in a timely manner? (If not, explain)	YES	
	20	Did the Supervisory or Management Board adopt its Internal Code of Conduct? (If not, explain)	YES	
	21	Is the Supervisory Board mostly composed of non-executive directors and is the Management Board mostly composed of independent members? (If not, explain)	YES	
	22	Is there a long-term succession plan in the Company? (If not, explain)	NO	The Company does not have a formal succession plan.

	23	Is the remuneration received by the members of the Supervisory or Management Board entirely or partly determined according to their contribution to the Company's business performance? (If not, explain)	NO	The remuneration received by members of the Supervisory Board depends on their participation in Supervisory Board meetings.
	24	Is the remuneration to the members of the Supervisory or Management Board determined by a decision of the general assembly or in the articles of association of the company? (If not, explain)	YES	
	25	Have detailed records on all remunerations and other earnings of each member of the Supervisory or Management Board received from the Company or from other persons related to the Company, including the structure of such remuneration, been made public? (If not, explain)	NO	The Management Board members' total earnings received from the Company are listed in the Financial statements.
	26	Does every member of the Supervisory or Management Board inform the Company of each change relating to their acquisition or disposal of shares of the Company, or to the possibility to exercise voting rights arising from the Company 's shares, not later than five trading days, after such a change occurs (If not, explain)	NO	So far we did not have a case of change, acquisition or disposal of shares by members of the Supervisory Board, however, all members are informed of the obligation to inform the company of such cases.
	27	Were all transactions involving members of the Supervisory or Management Board or persons related to them and the Company and persons related to it clearly presented in reports of the Company? (If not, explain)	YES	
	28	Are there any contracts or agreements between members of the Supervisory or Management Board and the company?	NO	
	29	Did they obtain prior approval of the Supervisory or Management Board? (If not, explain)	NO	There are no such contracts or agreements.
	30	Are the important elements of all such contracts or agreements included in the Annual Report? (If not, explain)	NO	There are no such contracts or agreements.
	31	Did the Supervisory or Management Board establish the Appointment Committee?	NO	

	32	Did the Supervisory or Management Board establish the Remuneration Committee?	NO	
	33	Did the Supervisory or Management Board establishe the Audit Committee?	YES	The Audit Committee was established in December 2015 and started it's work in 2016.
	34	Was the majority of the Committee members selected from the group of independent members of the Supervisory Board? (If not, explain)	NO	The Audit Committee has only one member from the Management Board, who is not independent.
	35	Did the Committee monitor the integrity of the financial information of the Company, especially the correctness and consistency of the accounting methods used by the Company and the group it belongs to, including the criteria for the consolidation of financial reports of the Companies belonging to the Group? (If not, explain)	NO	The Audit Committee was established in December 2015.
	36	Did the committee assess the quality of the internal control and risk management system, with the aim of adequately identifying and publishing the main risks the Company is exposed to (including the risks related to the compliance with regulations), as well as managing those risks in an adequate manner? (If not, explain)	NO	The Audit Committee was established in December 2015.
	37	Has the Committee been working on ensuring the efficiency of the internal audit system, especially by preparing recommendations for the selection, appointment, reappointment and dismissal of the Head of internal audit department, and with regard to funds at his/her disposal, and the evaluation of the actions taken by the Management after findings and recommendations of the Internal audit? (If not, explain)	NO	The Internal Audit function was not established in the Company.
	38	If there is no Internal audit system in the Company, did the Committee consider the need to establish it? (If not, explain)	NO	The Audit Committee was established in December 2015.
	39	Did the Committee monitor the independence and impartiality of the External Auditor, especially with regard to the rotation of authorised auditors within the Audit Company and the fees the company is paying for services provided by external auditors? (If not, explain)	NO	The Audit Committee was established in December 2015.

	40	Did the Committee monitor nature and quantity of services other than audit, received by the company from the audit company or from persons related to it?	NO	The Audit Committee was established in December 2015.
	41	Did the Committee prepar rules defining which services may not be provided to the Company by the external audit company and persons related to it, which services may be provided only with, and which without prior consent of the committee? (If not, explain)	NO	The Audit Committee was established in December 2015.
	42	Did the Committee analyse the efficiency of the External Audit and actions taken by the Senior Management with regard to recommendations made by the external auditor? (If not, explain)	NO	The Audit Committee was established in December 2015.
	43	Did the Audit Committee ensure the submission of high quality information by dependent and associated companies, as well as by third parties (such as expert advisors)? (If not, explain)	NO	The Audit Committee was established in December 2015.
	44	Was the documentation relevant for the work of the Supervisory Board submitted to all members on time? (If not, explain)	YES	
	45	Do Supervisory Board or Management Board meeting minutes contain all adopted decisions, accompanied by data on voting results? (If not, explain)	YES	
	46	Has the Supervisory or Management Board evaluated their work in the preceding period, including evaluation of the contribution and competence of individual members, as well as of joint activities of the Board, evaluation of the work of the committees established, and evaluation of the company's objectives reached in comparison with the objectives set?	NO	
	47	Did the Company publish a statement on the remuneration policy for the Management, Management Board and the Supervisory Board as part of the Annual Report? (If not, explain)	NO	The Company has not adopted a remuneration policy for the Management Board and the Supervisory Board
	48	Is the statement on the remuneration policy for the management or executive directors permanently available on the website of the company? (If not, explain)	NO	The Company has not adopted a remuneration policy for the Management Board and the Supervisory Board

	49	Are the detailed data on all earnings and remunerations received by each member of the Management or each executive director from the Company published in the Annual Report of the company? (If not, explain)	NO	Data on total earnings and remunerations received by members of the Management Board are published in the Annual Report of the Company.
	50	Are all forms of remuneration to the members of the Management, Management Board and Supervisory Board, including options and other benefits of the management, made public, broken down by items and persons, in the Annual Report of the Company? (If not, explain)	NO	According to their contract, members of the Supervisory and Management Board do not receive any remuneration or benefits.
	51	Are all transactions involving members of the Management or executive directors, and persons related to them, and the Company and persons related to it, clearly presented in reports of the Company? (If not, explain)	YES	Except transaction treated as materially not relevant by the external auditor
	52	Does the report to be submitted by the Supervisory or Management Board to the General Assembly include, apart from minimum information defined by law, the evaluation of total business performance of the Company, of activities of the anagement of the company, and a special comment on its cooperation with the Management Board? (If not, explain)	YES	

AUDIT AND MECHANISMS OF INTERNAL CONTROL

Answers to this questionnaire chapter will be valued with max. 10% of whole questionnaire valuation of company compliance with the principles of Corporate Governance Code

	Question No.	Questions	Answer YES/NO	Explanation
	53	Does the Company have an external auditor?	YES	
	54	Is the External auditor of the company related with the company in terms of ownership or interests?	NO	
	55	Is the external auditor of the company providing to the company, him/herself or through related persons, other services?	YES	

	56	Has the company published the amount of charges paid to the independent external auditors for the audit carried out and for other services provided? (If not, explain)	NO	The amount of charges paid to the auditor for the Company audit is determined in the contract.
	57	Does the Company have Internal Auditors and an Internal Audit system established? (If not, explain)	NO	The internal audit is performed partly through activities of the Controlling function, and partly through activities of the management, external auditors and certification companies.

TRANSPARANCY AND THE PUBLIC ANNOUNCEMENT OF BUSINESS

Answers to this questionnaire chapter will be valued with max. 20% of whole questionnaire valuation of company harmonization to the principles of Corporate Governance Code

	Question No.	Questions	Answer YES/NO	Explanation
	58	Are the semi-annual, annual and quarterly reports available to the shareholders?	YES	
	59	Did the company prepar the calendar of important events?	NO	
	60	Did the company establish mechanisms to ensure that persons who have access to or possess inside information understand the nature and importance of such information and limitations related to it?	YES	
	61	Did the company establish mechanisms to ensure supervision of the flow of inside information and possible abuse thereof?	YES	
	62	Has anyone suffered negative consequences for pointing out to the competent authorities or bodies in the company or outside, shortcomings in the application of rules or ethical norms within the company?	NO	
	63	Did the management of the company hold meetings with interested investors, in the last year?	NO	
	64	Do all the members of the management, Management Board and Supervisory Board agree that the answers provided in this questionnaire are, to the best of their knowledge, entirely truthful?	YES	

Responsibility for the unconsolidated financial statements

Pursuant to the Croatian Accounting Law, the Management Board of Granolio d.d. ("the Company") 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 Company for that period.

After making enquiries, the Management Board has a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, the Management Board continues to 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 Company will continue in business

The Management Board is responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Company and must also ensure that the financial statements comply with the Croatian Accounting Law. The Management Board is also responsible for safeguarding the assets of the Company 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 report on the operations and position of the Company in accordance with the requirements of Article 18 of the Croatian Accounting Law.

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

Deloitte.

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Independent Auditor's Report

To the Shareholders of Granolio d.d.:

Report on the financial statements

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

Responsibility for the Unconsolidated Financial Statements

Management is responsible for the preparation and fair presentation of the unconsolidated 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 unconsolidated 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 financial statements present fairly, in all material respects, the financial position of the Company 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 5. 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 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.

Emphasis of matter

Without qualifying our opinion, we draw attention to the fact that the Company has prepared the accompanying unconsolidated financial statements on the basis and as per the requirements of Croatian laws and regulations, and that investments in subsidiaries and associates are presented at cost. The Company has also prepared separately the consolidated financial statements of Granolio d.d. and its subsidiaries ('the Group'), which are approved on 28 April 2016. For a better understanding of the Group as a whole, the consolidated financial statements should be read in conjunction with these financial statements.

Deloitte d.o.o.

Branislav Vrtačnik,
President of the Board

Vanja Vlak,
Certified Auditor

Zagreb, 28 April 2016

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

in thousands of HRK

	Notes	2015	2014 reclassified	2013
Income				
Sales income	6	681,787	597,087	542,150
Other income	7	16,665	8,055	8,648
Total operating income		**698,452**	**605,142**	**550,798**
Changes in inventories		343	3,980	(725)
Material expenses	8	(620,684)	(563,914)	(485,433)
Staff expenses	9	(22,074)	(16,529)	(18,896)
Depreciation and amortisation	15, 16	(9,988)	(9,252)	(9,918)
Other expenses	11	(6,373)	(5,036)	(4,233)
Value adjustment	10	-	(18,418)	(6,249)
Other operating expenses	12	(11,136)	(6,451)	(11,548)
Total operating expenses		**(669,912)**	**(615,620)**	**(537,002)**
Profit/ (loss) from operations		**28,540**	**(10,478)**	**(13,796)**
Financial income	13	9,640	6,777	7,188
Financial expenses	13	(25,564)	(39,158)	(22,423)
Net financial result		**(15,924)**	**(32,381)**	**(15,235)**
Result before taxation		**12,616**	**(42,859)**	**(1,439)**
Income tax	14	(3,543)	-	(1,647)
Profit/ (loss) after taxation		**9,073**	**(42,859)**	**(3,086)**
Other comprehensive income				
Financial assets held for sale, reclassification to profit or loss		-	3,205	(3,205)
Total comprehensive income		**9,073**	**(39,654)**	**(6,291)**
Earnings per share				
Basic and diluted earnings per share (in Croatian kunas and lipas)	***27***	***4.77***	***(34.59)***	***(2.49)***

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.

Unconsolidated statement of financial position
At 31 December 2015

in thousands of HRK

	Notes	31 December 2015	31 December 2014	1 January 2014
			reclassified	reclassified
I NON-CURRENT ASSETS				
Intangible assets				
1. Goodwill		60,379	60,379	-
2. Trademarks, concessions, licenses		120,000	120,000	-
3. Customer list		7,362	9,028	-
4. Software and other intangible assets		401	94	141
	15	**188,142**	**189,501**	**141**
Property, plant and equipment				
1. Land		8,182	8,182	8,182
2. Buildings		113,392	116,824	119,061
3. Plant, equipment and tools		19,797	21,755	18,482
4. Other tangible assets		78	81	50
5. Plant and equipment under construction		2,366	1,591	245
	16	**143,815**	**148,433**	**146,020**
Financial assets				
1. Investments in subsidiaries	17a	115,255	98,953	98,420
2. Investments at fair value through profit or loss	17b	20,462	20,462	22,905
3. Given loans, deposits and similar	17c	901	745	733
		136,618	**120,160**	**122,058**
Long-term receivables		**15**	**15**	**15**
II CURRENT ASSETS				
Inventories	18	**54,699**	**97,912**	**85,432**
Receivables				
1. Receivables from related parties	26	3,880	7,525	7,179
2. Trade receivables	19a	124,866	146,523	137,441
3. Receivables from the State and other institutions	19b	5,474	1,811	13,877
4. Other receivables	19c	4,204	3,338	7,051
		138,424	**159,197**	**165,545**
Financial assets				
1. Loans to related parties	26	35,402	49,193	50,260
2. Investments in securities	20a	696	871	4,458
3. Given loans, deposits and similar	20b	6,375	4,414	4,399
		42,473	**54,478**	**59,117**
Cash and cash equivalents	21	**16,973**	**1,214**	**6,910**
Prepaid exenses and accrued income		**5,053**	**1,374**	**861**
TOTAL ASSETS		**726,212**	**772,284**	**586,099**

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

in thousands of HRK

	Notes	31 December 2015	31 December 2014	1 January 2014
			reclassified	reclassified
I EQUITY				
1. Subscribed capital		19,016	19,016	12,000
2. Premium for issued shares		84,187	85,379	-
3. Revaluation reserves		64,473	67,384	83,504
4. Legal reserves		183	183	161
5. (Accumulated loss)/ retained earnings		(7,077)	32,143	13,395
6. Profit or loss for the year		9,073	(42,859)	(3,086)
	22	**169,855**	**161,246**	**105,974**
II LONG-TERM LIABILITIES				
1. Deferred tax liabilities	14	16,118	16,846	21,677
2. Liabilities to banks and other financial institutions	23	283,005	51,663	84,502
3. Liabilities to related companies	26	-	10,853	13,356
		299,123	**79,362**	**119,544**
III SHORT-TERM LIABILITIES				
1. Liabilities to related companies	26	591	5,304	3,333
2. Received loans, deposits and similar liabilities		-	-	2,880
3. Liabilities to banks and other financial institutions	23	62,657	288,337	228,297
4. Advances received		2,845	2,714	3,760
5. Trade payables	24a	97,020	115,321	105,639
6. Liabilities for securities	24b	80,888	109,802	13,044
7. Taxes, contributions and similar duties payable	24c	8,541	4,301	686
8. Accrued expenses and deferred income		545	-	10
9. Other short-term liabilities	24d	4,147	5,897	2,932
		257,234	**531,676**	**630,581**
TOTAL EQUITY AND LIABILITIES		**726,212**	**772,284**	**586,099**

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.

Unconsolidated statement of changes in shareholders' equity
For the year ended 31 December 2015

	Share capital	Capital reserves	Legal reserves	Revaluation reserves	(Accumulated loss) / retained earnings	Profit / (loss) for the year	Total
Balance at 31 December 2013	**12,000**	-	**161**	**83,504**	**13,395**	**(3,086)**	**105,974**
Loss for the year, net	-	-	-	-	-	(42,859)	(42,859)
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
Transfer of revaluation reserves to retained earnings	-	-	-	(2,911)	2,911	-	-
Total other comprehensive income for the year	-	-	-	**(16,120)**	**19,325**	-	**3,205**
Income tax transfer	-	-	-	-	99	-	99
Reversal of deferred tax liabilities	-	-	-	-	4,831	-	4,831
Premium on issue of shares	-	87,004	-	-	-	-	87,004
Allocation of capital gains from the share issue	7,016	-	-	-	-	-	7,016
Dividends paid	-	-	-	-	(2,399)	-	(2,399)
Decrease in capital reserves by the costs of share capital increase	-	(1,625)	-	-	-	-	(1,625)
Allocation of the result for the year 2013	-	-	22	-	(3,108)	3,086	-
Balance at 31 December 2014	**19,016**	**85,379**	**183**	**67,384**	**32,143**	**(42,859)**	**161,246**
Net profit for the year	-	-	-	-	-	9,073	9,073
Transfer of revaluation reserves to retained earnings	-	-	-	(2,911)	2,911	-	-
Total other comprehensive income for the year	-	-	-	**(2,911)**	**2,911**	**9,073**	**9,073**
Reversal of deferred tax liabilities	-	-	-	-	728	-	**728**
Decrease in capital reserves by the costs of share capital increase	-	(1,192)	-	-	-	-	**(1,192)**
Allocation of the result for the year 2014	-	-	-	-	(42,859)	42,859	-
Balance at 31 December 2015	**19,016**	**84,187**	**183**	**64,473**	**(7,077)**	**9,073**	**169,855**

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.

Unconsolidated statement of cash flows

For the year ended 31 December 2015

	2015	2014
		in thousands of HRK
		reclassified
Result before taxation	12,616	(42,859)
Adjusted by:		
Depreciation and amortisation	9,988	9,252
Changes in equity - correction of prior periods	-	98
Increase in provisions	921	-
Loss on the disposal and retirement of fixed assets, net	(7)	(51)
Value adjustment of trade receivables	-	18,418
Value adjustment of financial assets	-	11,036
Inventory surplus	(2,258)	(1,340)
Net interest expense	19,075	21,324
Net (gain) from investing	(772)	(251)
Increase/(decrease) in accrued expenses and deferred income	291	(9)
Increase in prepaid expenses and accrued income	(4,013)	(513)
Operating result before changes in working capital	**35,841**	**15,105**
Decrease/ (increase) in inventories	45,471	(11,140)
Decrease/ (increase) in short-term receivables	16,261	(9,020)
(Decrease)/ increase in short-term liabilities	(17,761)	13,761
Advances received/ (made)	132	(1,047)
Operating result after changes in working capital	**79,944**	**7,659**
Income tax paid	(520)	(1,466)
Cash generated from operations	**79,424**	**6,192**
Interest received	4,977	3,906
Payments for the acquisition of mill operations	-	(193,679)
Payments to acquire property, plant, equipment and intangibles	(4,037)	(7,383)
Proceeds from the sale of property, plant and equipment	33	88
Net cash paid to increase the equity investments in subsidiaries	(16,302)	(533)
Proceeds from stock market transactions	772	251
Deposits paid/received	104	507
Net proceeds from received bills of exchange	154	509
Payments for given loans	(45,596)	(566,642)
Repayments of given loans	61,574	564,870
Cash generated from investing activities	**1,679**	**(198,106)**

Unconsolidated statement of cash flows (continued)

For the year ended 31 December 2015

	Note	2015	2014
			in thousands of HRK
			reclassified
Repayment of borrowings		(848,957)	(999,971)
Proceeds from borrowings		842,402	1,021,552
Net (payments of)/ proceeds from securities		(28,915)	96,758
Repayment of finance leases		(1,200)	(1,476)
Proceeds from finance lease		-	2,833
Interest paid		(25,902)	(23,710)
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		(1,580)	234
Net cash from financing activities		**(65,344)**	**186,217**
Net change in cash and cash equivalents		**15,759**	**(5,696)**
Cash at the beginning of the year		1,214	6,910
Cash at the end of the year	**21**	**16,973**	**1,214**

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 unconsolidated 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 and Osijek.
Subsidiaries constituting the Granolio Group are the following:

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

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

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

Pursuant to the decision of the Company's Shareholders dated 16 March 2015, the share capital of Zdenačka farma was increased from HRK 13,520 thousand to HRK 29,520 thousand by issuing a new business share in the amount of HRK 16,000 thousand.

Around the middle of 2008 the Company acquired the entire equity share in Prerada žitarica d.o.o., Grubišno Polje, for HRK 5,206 thousand. The subsidiary is engaged in grains warehousing and drying activities.

In 2011 Granolio d.d. acquired a controlling interest in the subsidiary, enabling it to exercise power in making operational decisions of its subsidiaries as well as to govern the financial and business policies, the appointment of the members of the Management Boards or the majority of vote at Zdenka mliječni proizvodi d.o.o. and Žitar d.o.o.

At 31 December 2015 the Management Board of Granolio d.d. consisted of the following members:
Hrvoje Filipović - President (since 23 February 2011),
Vladimir Kalčić - Member (since 23 February 2011),
Drago Šurina - Member (since 23 February 2011) and
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) and
Josip Lasić – Member (since 16 January 2015).

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 29 March 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 Company 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

3.1 Statement of compliance

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

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 Company 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 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, which 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; 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)

3.3 Business combinations (continued)

When the consideration transferred by the Company in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill.

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 was 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.

3.4 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 3.18) 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 3.18.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Interests in associates and joint ventures

An associate is an entity over which the Company has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results, assets and liabilities of associates or joint ventures are 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 Company's share of the profit or loss and other comprehensive income of the associate or joint venture. When the Company's share of losses of an associate or a joint venture exceeds the Company's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Company's net investment in the associate or joint venture), the Company discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Company 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 Company'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 Company 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 Company retains an interest in the former associate or joint venture and the retained interest is a financial asset, the Company 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 Company 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 Company reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the equity method is discontinued.

The Company 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 Company reduces its ownership interest in an associate or a joint venture but the Company continues to use the equity method, the Company 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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.6 Interests in joint operations

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

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

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

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

When a group entity transacts with a joint operation in which a group entity 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.

3.7 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.

3.8 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.9 Revenue recognition

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

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

(i) Income from the wholesale of products and merchandise

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

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

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

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

Retail product and merchandise sales are recognised upon the sale to the customer. Retail sales are generated in cash. The Company operates no 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)

3.10 Leasing

The Company 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 Company as lessee

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

3.11 Foreign currencies

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.

3.12 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)

3.13 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 Company recognises no obligation for long-term employee benefits (jubilee awards), as they are not included in the employment contracts or defined by other legal acts.

(iii) Short-term employee benefits

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

(iv) Share-based payments

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

3.14 Dividends

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

3.15 Operating segment reporting

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

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

The Company identifies operating segments on the basis of internal reports about components of the Company that are regularly reviewed by the chief operating decision maker 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 Unconsolidated financial statements. Comparative information has been presented on the principle of comparability.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.16 Taxation

(i) Income tax

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

3.17 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)

3.18 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)*

3.19 Impairment of property, plant and equipment and intangible assets

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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.

3.20 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.

3.21 Trade receivables

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

3.22 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 unconsolidated statement of financial position.

3.23 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.

3.24 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.25 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.

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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.25 Financial assets (continued)

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.

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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.25 Financial assets (continued)

Impairment of financial assets (continued)

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.

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 Company 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 Company's own equity instruments.

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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.25 Financial assets (continued)

Financial liabilities (continued)

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.

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 Company'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.

4 CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

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

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

Critical judgements in 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 Company's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

(i) *Revenue recognition*

In making their judgement, the Management 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 Company 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 Company 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 Company 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:

		in thousands of HRK
	31 December 2015	**31 December 2014**
Goodwill	60,379	60,379
Trademarks	120,000	120,000
Customer list	7,362	9,028
Software and other intangible assets	401	94
	188,142	**189,501**

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 Company 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 Company 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		189,501		189,501
2. Property, plant and equipment		148,433		148,433
3. Long-term financial assets		120,160		120,160
4. Long-term receivables	(e)	1,363	(1,348)	15
II CURRENT ASSETS				
1. Inventories		97,912		97,912
2. Short-term receivables	(a),(b),(c),(e),(f)	111,383	47,814	159,197
3. Short-term financial assets	(a),(b),(c),(d)	100,944	(46,466)	54,478
4. Cash and cash equivalents		1,214		1,214
Prepaid expenses and accrued income		**1,374**		**1,374**
TOTAL ASSETS		**772,284**	-	**772,284**
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		32,143		32,143
6. Loss for the year		(42,859)		(42,859)
II LONG-TERM LIABILITIES				
1. Deferred tax liabilities		16,846		16,846
2. Liabilities to banks and other financial institutions		51,663		51,663
3. Liabilities to related companies		10,853		10,853
III SHORT-TERM LIABILITIES				
1. Liabilities to related companies		5,304		5,304
2. Liabilities to banks and other financial institutions		288,337		288,337
3. Advances received		2,714		2,714
4. Trade payables		115,321		115,321
5. Liabilities for securities		109,802		109,802
6. Taxes, contributions and similar duties payable		4,301		4,301
7. Other short-term liabilities		5,897		5,897
Accrued expenses and deferred income		-		-
TOTAL EQUITY AND LIABILITIES		**772,284**	-	**772,284**

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	(g)	597,087		597,087
Other income		8,055		8,055
Total operating income		**605,142**		**605,142**
Changes in inventories		3,980		3,980
Material expenses		(220,771)		(220,771)
Cost of goods sold		(301,388)		(301,388)
Other external costs		(41,755)		(41,755)
Staff expenses		(16,529)		(16,529)
Depreciation and amortisation		(9,252)		(9,252)
Value adjustment of current assets	(h)	(13,001)	(5,417)	(18,418)
Other expenses		(5,036)		(5,036)
Other operating expenses		(6,451)		(6,451)
Total operating expenses		**(610,203)**		**(615,620)**
Net financial result	(h)	**(37,798)**	5,417	**(32,381)**
Result before taxation		**(42,859)**		**(42,859)**
Income tax		-		-
Profit / (loss) after taxation		**(42,859)**		**(42,859)**

in thousands of HRK

	Notes	2014 published	reclassified	2014 reclassified
Result before taxation		**(42,859)**	-	**(42,859)**
Operating cash flows	(i),(j),(l),(m),(n)	(8,559)	14,751	6,192
Cash flows from investing activities	(i),(j),(k),(l),(n)	(209,015)	10,909	(198,106)
Cash flows from financing activities	(i),(m)	211,878	(25,661)	186,217
Net changes in cash and cash equivalents		**(5,696)**	-	**(5,696)**
Cash at the beginning of the period		6,910	-	6,910
Cash at the end of the period		**1,214**	-	**1,214**

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 Company 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) Interest receivable on loans to related companies (Zdenačka farma d.o.o.) in the amount of HRK 1,000 thousand was reclassified from 'Short-term financial assets' to 'Short-term receivables from related parties'.

(b) Receivables from cooperatives in the amount of HRK 44,343 thousand were reclassified from 'Short-term financial assets' to 'Short-term trade receivables'.

(c) Receivables from related cooperatives in the amount of HRK 1,124 thousand were reclassified from 'Short-term financial assets' to 'Short-term receivables from related parties'.

(d) Within 'Short-term financial assets', HRK 4 thousand were reclassified from 'Investments in securities' to 'Given loans to individuals'.

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

(f) 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'.

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

(h) Value adjustment of receivables from cooperatives in the amount of HRK 5,417 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 cooperatives from current financial assets to short-term trade receivables.

(i) 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 21,324 thousand, resulting in a corrected balance of cash flows from operations, and the interest received in the amount of HRK 3,906 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 23,710 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 1,520 thousand.

(j) In the 2014 statement of cash flows, proceeds from the sale of fixed assets for 2014 in the amount of HRK 88 thousand were reclassified from cash flows from operating activities to the cash flows from investing activities.

(k) 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.

(l) 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 6,664 thousand and added to the balance of proceeds from repayments of given loans.

(m) In the 2014 statement of cash flows, changes in received borrowings were reclassified from operating cash flows to the cash flows from financing activities in the net amount of HRK 1,194 thousand which were added to the balance of the higher cash paid than proceeds from borrowings.

(n) 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.

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	450,242	527,701	369,650
Sales income - foreign	214,089	47,208	164,131
Service income	17,456	22,178	8,369
	681,787	**597,087**	**542,150**

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

The Company monitors its performance through the following operating segments:

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

Segment information – industry analysis:

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

in thousands of HRK

	2015	2014	2013
Milling Operations	298,594	259,536	211,567
Wholesale	364,647	313,424	319,329
Other	18,546	24,127	11,254
	681,787	**597,087**	**542,150**

Geographic analysis

in thousands of HRK

	2015	2014	2013
Croatia	467,666	548,751	377,965
Serbia	179,204	6,984	11,791
Italy	11,610	11,402	63,761
Bosnia and Herzegovina	10,642	7,237	9,576
Slovenia	6,074	10,390	1,576
France	4,293	-	5,913
Hungary	2,186	2,951	5,612
Libya	112	-	-
Switzerland	-	6,155	33,531
Romania	-	3,164	5,875
Slovakia	-	53	-
The Netherlands	-	-	16,160
Other countries	-	-	10,390
	681,787	**597,087**	**542,150**

7 OTHER INCOME

		in thousands of HRK
	2015	**2014**
Subsequent credit notes from suppliers	7,318	4,326
Income from the collection of damages by litigation	4,836	-
Inventory surplus	2,258	1,352
Subsequently identified income	1,316	1,576
Income from grants	325	286
Other income	612	515
	16,665	**8,055**

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**
Cost of raw material	226,759	199,002
Energy used	17,324	16,385
Inventory spillage, breakage and similar costs	3,478	3,149
Cost of inventories for sold livestock	1,082	1,662
Cost of small inventory	302	301
Other material expenses	275	272
Cost of raw material	**249,220**	**220,771**
Cost of goods sold	**326,949**	**301,388**
Telecommunication and transportation expenses	23,007	19,363
Selling costs (freight-forwarding, goods handling, etc.)	4,945	4,450
Rental costs	4,218	7,787
External milling costs	2,620	2,033
Maintenance and security services	2,569	2,658
Intellectual services	1,949	1,568
Quality control costs	1,866	1,310
Promotions and sponsorships	1,214	782
Other external costs	2,127	1,804
Other external costs	**44,515**	**41,755**
	620,684	**563,914**

Inventory spillage, breakage and similar costs comprise mostly the standard spillage and breakage in the production in the amount of HRK 3,313 thousand (2014: HRK 2,951 thousand).

9 STAFF EXPENSES

		in thousands of HRK
	2015	**2014**
Salaries	12,660	10,107
Income tax and contributions from salaries costs	6,220	4,069
Contributions on salaries costs	3,194	2,353
	22,074	**16,529**

10 VALUE ADJUSTMENT

The entire value adjustment charge for 2014 consists of impairment losses on trade receivables and receivables from cooperative farms, determined on the basis of impairment test of the receivables. No indications of impairment were identified as a result of the impairment test performed in 2015 (Note 19).

11 OTHER EXPENSES

		in thousands of HRK
	2015	**2014**
Reimbursement of expenses to employees	2,904	924
Bank services	1,701	2,004
Contributions, membership fees and similar	622	512
Insurance premiums	605	715
Daily allowances	198	210
Taxes independent of the result	70	298
Other expenses	273	373
	6,373	**5,036**

Costs reimbursed to employees in 2015 comprise mainly termination benefits paid to the employees of the Belje Mills and PIK Vinkovci in the total amount of HRK 2,042 thousand (2014: HRK 40 thousand), based on the decision to optimise the production process. The remaining balance represents the commutation allowance cost.

12 OTHER OPERATING EXPENSES

		in thousands of HRK
	2015	**2014**
Legal actions	5,248	-
Subsequently approved cassa sconto	4,442	4,867
Entertainment and hospitality	418	315
Spillage, breakage and similar damage on goods	309	430
Donations and sponsorships	169	101
Fines, penalties and damages	93	486
Other operating expenses	457	252
	11,136	**6,451**

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

13 FINANCIAL INCOME AND EXPENSES

Financial income

in thousands of HRK

	2015	2014
Interest on given loans	2,590	3,388
Exchange differences	2,449	1,288
Late-payment interest	2,368	1,784
Gains from stock transactions	848	251
Gains from participating interest	-	11
Other financial income	1,385	55
	9,640	**6,777**

Financial expenses

in thousands of HRK

	2015	2014	2013
Interest expense	16,243	19,264	17,013
Discount on bills of exchange	4,302	6,649	2,132
Default interest	3,488	583	1,049
Exchange differences	1,412	1,613	2,227
Losses on value adjustment of financial assets	115	11,036	-
Other financial expenses	4	13	2
	25,564	**39,158**	**22,423**

14 INCOME TAX

The tax expense/ (income) comprises the following:

in thousands of HRK

	2015	2014
Current tax	3,543	-
	3,543	-

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	12,616	(42,859)
Income tax at the rate of 20% (2014: 20%).	2,523	(8,572)
Effect of non-taxable income	-	(317)
Effect of tax non-deductible expenses	1,080	8,829
Effect of unused tax losses and tax offsets not recognised as deferred tax assets	(60)	-
Income tax expense from continuing operations recognised in profit or loss	**3,543**	**(60)**

14 INCOME TAX (CONTINUED)

Unused tax losses

Under the applicable tax legislation, the Company 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 299 thousand). Tax losses carried forward expire five years from the year of their origination.

The gross balance of unused tax losses at the reporting date was as follows:

in thousands of HRK

	2015	**2014**
Tax losses carried forward available for use until 2019	-	299
	-	**299**

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**

in thousands of HRK

2014	**Opening balance**	**Recognised in profit or loss**	**Closing balance**
Non-current asset adjustments	21,677	(4,831)	**16,846**
Deferred tax liabilities	**21,677**	(4,831)	**16,846**

Movements in deferred tax liabilities:

in thousands of HRK

	31 December 2015	**31 December 2014**
Balance at 1 January	16,846	21,677
Decrease	(728)	(4,831)
	16,118	**16,846**

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

15 INTANGIBLE ASSETS

Movements in intangible assets in 2015

in thousands of HRK

	Goodwill	Trademarks, concessions, licenses	Customer list	Software	TOTAL
Cost					
Balance at 1 January 2015	60,379	120,000	10,000	1,446	**191,825**
Additions	-	-	-	410	**410**
Balance at 31 December 2015	**60,379**	**120,000**	**10,000**	**1,856**	**192,235**
Accumulated amortisation					
Balance at 1 January 2015	-	-	972	1,352	**2,324**
Charge for the year	-	-	1,666	103	**1,769**
Balance at 31 December 2015	-	-	**2,638**	**1,455**	**4,093**
Net book value at 1 January 2015	**60,379**	**120,000**	**9,028**	**94**	**189,501**
Net book value at 31 December 2015	**60,379**	**120,000**	**7,362**	**401**	**188,142**

Movements in intangible assets in 2014

in thousands of HRK

	Goodwill	Trademarks, concessions, licenses	Customer list	Software	Goodwill
Cost					
Balance at 1 January 2014	-	-	-	1,331	**1,331**
Additions	60,379	120,000	10,000	115	**190,494**
Balance at 31 December 2014	**60,379**	**120,000**	**10,000**	**1,446**	**191,825**
Accumulated amortisation					
Balance at 1 January 2014	-	-	-	1,190	**1,190**
Charge for the year	-	-	972	162	**1,134**
Balance at 31 December 2014	-	-	**972**	**1,352**	**2,324**
Net book value at 1 January 2014	-	-	-	**141**	**141**
Net book value at 31 December 2014	**60,379**	**120,000**	**9,028**	**94**	**189,501**

Intangible assets in the amount of HRK 120,000 thousand (2014: nil) have been pledged as collateral for the Company's borrowings (Note 23).

16 PROPERTY, PLANT AND EQUIPMENT

Movements in property, plant and equipment in 2015

in thousands of HRK

	Land	Buildings	Plant, equipment and tools	Other tangible assets	Assets under construction	TOTAL
Cost						
Balance at 1 January 2015	**8,182**	**162,026**	**87,633**	**175**	**1,591**	**259,607**
Additions	-	452	1,956	2	1,217	3,627
Transfers	-	-	442	-	(442)	-
Disposals	-	-	(46)	-	-	(46)
Retirement	-	-	(340)	(5)	-	(345)
Balance at 31 December 2015	**8,182**	**162,478**	**89,645**	**172**	**2,366**	**262,843**
Accumulated depreciation						
Balance at 1 January 2015	-	**45,202**	**65,878**	**94**	-	**111,174**
Depreciation of revaluation	-	2,165	1,472	-	-	3,637
Charge for the year	-	1,719	2,862	1	-	4,582
Disposals	-	-	(24)	-	-	(24)
Retirement	-	-	(340)	(1)	-	(341)
Balance at 31 December 2015	-	**49,086**	**69,848**	**94**	-	**119,028**
Net book value at 1 January 2015	**8,182**	**116,824**	**21,755**	**81**	**1,591**	**148,433**
Net book value at 31 December 2015	**8,182**	**113,392**	**19,797**	**78**	**2,366**	**143,815**

Tangible assets in the amount of HRK 133,398 thousand (2014: HRK 133,385 thousand) have been pledged as collateral for the Company's borrowings (Note 23).

16 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Movements in property, plant and equipment in 2014

	Land	Buildings	Plant, equipment and tools	Other tangible assets	Assets under construction	TOTAL
<u>Cost</u>						
Balance at 1 January 2014	8,182	160,415	80,303	143	245	249,288
Additions	-	163	3,542	32	6,832	10,569
Transfers	-	1,448	4,038	-	(5,486)	-
Disposals	-	-	(250)	-	-	(250)
Balance at 31 December 2014	**8,182**	**162,026**	**87,633**	**175**	**1,591**	**259,607**
<u>Accumulated depreciation</u>						
Balance at 1 January 2014	-	41,354	61,821	93	-	103,268
Depreciation of revaluation	-	2,165	1,474	-	-	3,639
Charge for the year	-	1,683	2,795	1	-	4,479
Disposals	-	-	(212)	-	-	(212)
Balance at 31 December 2014	**-**	**45,202**	**65,878**	**94**	**-**	**111,174**
Net book value at 1 January 2014	**8,182**	**119,061**	**18,482**	**50**	**245**	**146,020**
Net book value at 31 December 2014	**8,182**	**116,824**	**21,755**	**81**	**1,591**	**148,433**

17 NON-CURRENT FINANCIAL ASSETS

(a) Investment in subsidiaries

	31 December 2015	in thousands of HRK 31 December 2014
Zdenka mliječni proizvodi d.o.o., Veliki Zdenci	42,767	42,754
Žitar d.o.o., Donji Miholjac	39,621	39,332
Zdenačka farma d.o.o., Veliki Zdenci	27,661	11,661
Prerada žitarica d.o.o., Grubišno Polje	5,206	5,206
	115,255	**98,953**

(b) 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
Žitozajednica d.o.o., Zagreb	1	1
	20,462	**20,462**

Ownership interest

	31 December 2015	31 December 2014
Zdenačka farma d.o.o., Veliki Zdenci	100.00%	100.00%
Prerada žitarica d.o.o., Grubišno Polje	100.00%	100.00%
Zdenka mliječni proizvodi d.o.o., Veliki Zdenci	50.00%	49.99%
Žitar d.o.o., Donji Miholjac	49.69%	49.69%
Zagrebačke pekarne Klara d.d., Zagreb	18.25%	18.25%
Prehrana trgovina d.d., Zagreb	11.48%	11.48%
Žitozajednica d.o.o., Zagreb	1.28%	1.28%

In 2015 the Company purchased additional shares in Zdenka mliječni proizvodi d.o.o. of 0.01 percent and increased its total ownership interest from 49.99 percent to 50.00 percent.

(c) Given loans, deposits and similar

	31 December 2015	in thousands of HRK 31 December 2014
Loans to individuals	550	329
Guarantee deposits	351	416
	901	**745**

Guarantee deposits were furnished as a security for obligations under finance lease contracts.

Movements in long-term given loans are presented in Note 20.

18 INVENTORY

	31 December 2015	31 December 2014
		in thousands of HRK
Raw materials	41,614	11,433
Merchandise	7,886	82,061
Finished products	3,412	3,170
Non-invoiced goods	1,038	391
Work in progress	749	857
	54,699	**97,912**

Since 2015 the Company has been accounting for wheat as raw material, while in 2014 it was accounted for as merchandise (at 31 December 2015 the total balance of wheat on stock at the Company amounts to HRK 36,848 thousand and at 31 December 2014 the balance was HRK 65,357 thousand).

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

a) Trade receivables

	31 December 2015	31 December 2014	1 January 2014
			in thousands of HRK
Domestic	96,680	112,530	81,695
Foreign	20,420	9,374	12,470
Cooperators	30,349	48,507	50,322
Value adjustment	(22,583)	(23,888)	(7,046)
	124,866	**146,523**	**137,441**

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

Value adjustment of trade receivables

	2015	2014	2013
			in thousands of HRK
Balance at 1 January	**23,888**	**7,046**	**7,108**
Increase – trade receivables	-	13,001	35
Increase – cooperators	-	5,417	-
Subsequent recovery of impaired trade receivables and receivables from cooperative farmers	(1,305)	(1,576)	(97)
Balance at 31 December	**22,583**	**23,888**	**7,046**

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

a) Trade receivables (continued)

Maturity analysis of receivables not impaired:

in thousands of HRK

	31 December 2015	31 December 2014	1 January 2014
Not yet due	71,084	80,912	69,691
0 - 90 days past due	36,283	53,656	44,734
91 - 180 days past due	11,685	6,372	8,576
181 - 360 days past due	666	772	3,681
> 360 days past due	5,148	4,811	10,759
	124,866	**146,523**	**137,441**

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

b) Receivables from the State and other institutions

in thousands of HRK

	31 December 2015	31 December 2014
VAT refund	5,474	193
Overpaid income tax	-	1,466
Other receivables from the State and other institutions	-	152
	5,474	**1,811**

c) Other receivables

in thousands of HRK

	31 December 2015	31 December 2014	1 January 2014
Receivables under assignment and offsetting arrangements	1,798	1,626	2,690
Prepayments made	1,950	1,087	4,105
Interest receivable	357	556	195
Other receivables	99	69	60
	4,204	**3,338**	**7,050**

20 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	542	494
Investments in bills of exchange	154	309
Investments in options	-	68
	696	**871**

b) Given loans, deposits and similar

in thousands of HRK

	31 December 2015	31 December 2014	1 January 2014
Loans to legal entities	5,500	-	11
Short-term loans to individuals	829	4,350	4,137
Deposits	46	64	251
	6,375	**4,414**	**4,399**

20 CURRENT FINANCIAL ASSETS (CONTINUED)

Movement in given loans in 2015

	Opening balance at 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	Exchange differences	Closing balance at 31 December 2015
Given long-term loans							
Loans to individuals	329	30	-	(58)	249	-	550
Total long-term loans	**329**	**30**	**-**	**(58)**	**249**	**-**	**550**
Short-term loans							
Loans to individuals	4,350	-	-	(3,267)	(249)	(5)	829
Loans to related parties	49,193	19,816	4,392	(37,999)	-	-	35,402
Loans to third parties	-	25,750	-	(20,250)	-	-	5,500
Total short-term loans	**53,543**	**45,566**	**4,392**	**(61,516)**	**(249)**	**(5)**	**41,731**
TOTAL	**53,872**	**45,596**	**4,392**	**(61,574)**	**-**	**(5)**	**42,281**

Movement in given loans in 2014

	Opening balance at 1 January 2014	Increase in receivables	Principal repaid	Principal written off/written down	Transfer of a portion of long-term receivables to short-term	Exchange differences	Closing balance at 31 December 2014
Given long-term loans							
Loans to individuals	300	112	(15)	-	(68)	-	329
Total long-term loans	**300**	**112**	**(15)**	**-**	**(68)**	**-**	**329**
Short-term loans							
Loans to individuals	4,137	872	(454)	(278)	68	5	4,350
Loans to related parties	50,258	22,658	(21,401)	(2,322)	-	-	49,193
Loans to third parties	11	543,000	(543,000)	(11)	-	-	-
Total short-term loans	**54,406**	**566,530**	**(564,855)**	**(2,611)**	**68**	**5**	**53,543**
TOTAL	**54,706**	**566,642**	**(564,870)**	**(2,611)**	**-**	**5**	**53,872**

20 CURRENT FINANCIAL ASSETS (CONTINUED)

Movement in given loans in 2013

	Opening balance at 1 January 2013	Increase in receivables	Principal repaid	Transfer of a portion of long-term receivables to short-term	Exchange differences	Closing balance at 31 December 2013
Given long-term loans						
Loans to individuals	268	100	-	(68)	-	300
Total long-term loans	**268**	**100**	**-**	**(68)**	**-**	**300**
Short-term loans						
Loans to individuals	963	3,247	(141)	68	-	4,137
Loans to related parties	46,671	18,698	(15,111)	-	-	50,258
Loans to third parties	11	240,000	(240,000)	-	-	11
Total short-term loans	**47,645**	**261,945**	**(255,252)**	**68**	**-**	**54,406**
TOTAL	**47,913**	**262,045**	**(255,252)**	**-**	**-**	**54,706**

21 CASH AND CASH EQUIVALENTS

	in thousands of HRK	
	31 December 2015	31 December 2014
Cash in bank	15,581	858
Foreign currency accounts	1,390	355
Cash on hand	2	1
	16,973	**1,214**

22 EQUITY

Equity represents own permanent sources of funding the operations of the Company. 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 2012, 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 HRKK 5,000 thousand was divided into 500,000 ordinary A-series shares, with a nominal value of HRK 10 each.

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

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

Pursuant to the decision of the Company shareholders dated 2 September 2014, the share capital was increased by an additional contribution of HRK 7,016,430.00 from HRK 12,000 thousand to HRK 19,016,430.00. Based on a public invitation to the subscription of the new shares, the share capital was increased by cash contributions made based on an issue of 701,643 new non-materialised shares in the nominal value 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 amounted to a total of HRK 2,817 thousand.

22 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%**

23 LIABILITIES TO BANKS AND OTHER FINANCIAL INSTITUTIONS

		in thousands of HRK
	31 December 2015	**31 December 2014**
Long-term liabilities		
Bank loans	282,290	50,434
Finance lease	715	1,229
	283,005	**51,663**
Short-term liabilities		
Bank loans	60,647	287,136
Finance lease	510	1,201
Liabilities under assumed payment obligations (cession, assignment and debt assumption contracts)	1,500	-
	62,657	**288,337**
	345,662	**340,000**

Summary of borrowing arrangements

On 31 July 2015 the Company 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 Company to extinguish its existing long-term loan debt and a portion of its current liabilities.

The Company 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 15,690 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 335,786 thousand (31 December 2014: HRK 215,471 thousand).

23 LIABILITIES TO BANKS AND OTHER FINANCIAL INSTITUTIONS (CONTINUED)

Liabilities to banks and other financial institutions in 2015

	Opening balance at 1 January 2015	Increase in liabilities	Principal repaid	Transfer of a portion of long-term loans to short-term loans	Exchange differences	Closing balance at 31 December 2015
Long-term loans						
Long-term bank loans	50,434	300,000	(52,819)	(15,182)	(143)	282,290
Long-term finance lease obligations	1,229	-	-	(508)	(6)	715
Total long-term loans	**51,663**	**300,000**	**(52,819)**	**(15,690)**	**(149)**	**283,005**
Short-term loans						
Short-term bank loans	287,136	102,912	(343,296)	15,182	(1,287)	60,647
Liabilities under assumed payment obligations (cession, assignment and debt assumption contracts)	-	21,020	(19,520)	-	-	1,500
Current portion of the lease obligations	1,201	-	(1,200)	508	1	510
Total short-term loans	**288,337**	**123,932**	**(364,016)**	**15,690**	**(1,286)**	**62,657**
TOTAL	**340,000**	**423,932**	**(416,835)**	**-**	**(1,435)**	**345,662**

Liabilities to banks and other financial institutions in 2014

	Begining balance 1 at January 2014	Increase in liabilities	Principal repaid	Transfer of a portion of long-term loans to short-term loans	Exchange differences	Closing balance – at 31 December 2014
Long-term loans						
Long-term bank loans	84,056	-	-	(33,685)	63	50,434
Long-term finance lease obligations	446	2,833	(836)	(1,201)	(13)	1,229
Total long-term loans	**84,502**	**2,833**	**(836)**	**(34,886)**	**50**	**51,663**
Short-term loans						
Short-term bank loans	214,770	365,384	(326,843)	33,685	140	287,136
Credit cards liabilities	683	-	(682)	-	(1)	-
Liabilities under assumed payment obligations (cession, assignment and debt assumption contracts)	12,204	5,259	(17,463)	-	-	-
Current portion of the lease obligations	640	-	(640)	1,201	-	1,201
Total short-term loans	**228,297**	**370,643**	**(345,628)**	**34,886**	**139**	**288,337**
TOTAL	**312,799**	**373,476**	**(346,464)**	**-**	**189**	**340,000**

23 LIABILITIES TO BANKS AND OTHER FINANCIAL INSTITUTIONS (CONTINUED)

The bank loans and finance leases mature as follows:

in thousands of HRK

	Balance 31 December 2015	2016	2017	2018	2019	From 2020
Domestic banks	342,937	60,647	62,180	15,180	17,710	187,220
Finance lease	1,225	510	438	173	104	-
Liabilities under assumed payment obligations (cession, assignment and debt assumption contracts)	1,500	1,500	-	-	-	-
	345,662	**62,657**	**62,618**	**15,353**	**17,814**	**187,220**

The foreign-currency balance of the loans is shown in the following table:

	31 December 2015	31 December 2014
Total liabilities to financial institutions, in thousands of EUR	160	9,139

24 SHORT-TERM LIABILITIES

(a) Trade payables

in thousands of HRK

	31 December 2015	31 December 2014
Domestic	92,195	106,898
Foreign	3,788	8,032
Amounts not yet billed	1,037	391
	97,020	**115,321**

The maturity structure of trade payables at 31 December 2015:

in thousands of HRK

	31 December 2015	31 December 2014
Not yet due	31,342	69,626
0 - 90 days past due	56,800	40,150
91 - 180 days past due	6,609	4,149
181 - 360 days past due	948	588
> 360 days past due	1,321	808
	97,020	**115,321**

24 SHORT-TERM LIABILITIES (CONTINUED)

(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
VAT payable	4,533	3,550
Income tax payable	3,023	-
Taxes and contributions from and on salaries	775	567
Other taxes and contributions	210	184
	8,541	**4,301**

(d) Other short-term liabilities

in thousands of HRK

	31 December 2015	31 December 2014
Interest – liabilities towards banks	3,012	4,879
Liabilities to employees	1,094	996
Other short-term liabilities	41	22
	4,147	**5,897**

25 COMMITMENTS

At 31 December 2015 the Company has commitments under operating lease arrangements entered into for tangible fixed assets in the total amount of HRK 2,165 thousand and rent agreements in the total amount of HRK 2,054 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	2,165	876	750	419	120	-
Rentals	2,054	545	383	352	352	422
	4,219	**1,421**	**1,133**	**771**	**472**	**422**

26 RELATED-PARTY TRANSACTIONS

in thousands of HRK

31 December 2015

	Assets		Liabilities	
	Trade and other receivables	**Given loans**	**Long-term liabilities**	**Short-term liabilities**
Žitar d.o.o., Donji Miholjac	811	-	-	440
Zdenačka farma d.o.o., Veliki Zdenci	2,561	15,281	-	-
Zdenka- mliječni proizvodi d.o.o., Veliki Zdenci	-	-	-	35
Prerada žitarica d.o.o., Grubišno Polje	-	-	-	116
Stan arka d.o.o., Zagreb	88	14,810	-	-
Key management personnel	420	5,311	-	-
	3,880	**35,402**	**-**	**591**

in thousands of HRK

31 December 2014

	Assets		Liabilities	
	Trade and other receivables	**Given loans**	**Long-term liabilities**	**Short-term liabilities**
Žitar d.o.o., Donji Miholjac	1,041	2,550	10,853	4,468
Zdenačka farma d.o.o., Veliki Zdenci	1,828	30,814	-	-
Zdenka- mliječni proizvodi d.o.o., Veliki Zdenci	-	-	-	2
Prerada žitarica d.o.o., Grubišno Polje	-	-	-	834
Stan arka d.o.o., Zagreb	4,392	10,718	-	-
Key management personnel	264	5,111	-	-
	7,525	**49,193**	**10,853**	**5,304**

in thousands of HRK

1 January 2014

	Assets		Liabilities	
	Trade and other receivables	**Given loans**	**Long-term liabilities**	**Short-term liabilities**
Žitar d.o.o., Donji Miholjac	1,477	-	13,365	3,253
Zdenačka farma d.o.o., Veliki Zdenci	578	34,856	-	-
Zdenka- mliječni proizvodi d.o.o., Veliki Zdenci	-	-	-	32
Prerada žitarica d.o.o., Grubišno Polje	-	-	-	48
Stan arka d.o.o., Zagreb	4,392	10,604	-	-
Tepih galerija d.o.o., Zagreb	366	1,148	-	-
F.I.V.E.S. d.o.o., Zagreb	366	1,173	-	-
Key management personnel	-	2,477	-	-
	7,179	**50,258**	**13,365**	**3,333**

26 RELATED-PARTY TRANSACTIONS (CONTINUED)

Income and expenses arising from transactions with related parties for the years ended 31 December 2015 and 31 December 2014 were as follows:

in thousands of HRK

	2015		2014	
	Income	**Expenses**	**Income**	**Expenses**
Žitar d.o.o., Donji Miholjac	4,986	(8,511)	14,117	(15,312)
Zdenačka farma d.o.o., Veliki Zdenci	2,677	(231)	3,217	(224)
Zdenka- mliječni proizvodi d.o.o., Veliki Zdenci	-	(41)	-	(93)
Prerada žitarica d.o.o., Grubišno polje	50	(1,398)	91	(2,342)
Stan arka d.o.o., Zagreb	88	-	3,027	-
	5,391	**(10,181)**	**20,452**	**(17,971)**

The key management personnel consists of the members of the Management Board of Granolio d.d.

Remuneration paid to the key management personnel in 2015 amounts to HRK 2,831 thousand (2014: HRK 1,363 thousand).

The total remuneration paid to the members of the Supervisory Board in 2015 amounts to HRK 187 thousand (2014: HRK 194 thousand).

27 EARNINGS PER SHARE

in thousands of HRK

	31 December 2015	31 December 2014
Profit/(Loss)	9,073	(42,859)
Profit/(Loss) attributable to the shareholders	9,073	(42,859)
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 and lipas)	**4.77**	**(34.59)**

28 RISK MANAGEMENT

28.1 Financial risks

Equity risk management

Net debt-to-equity (Gearing ratio)

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

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

in thousands of HRK

	31 December 2015	31 December 2014
Debt (long-term and short-term loans and liabilities for securities)	425,325	447,372
Lease liabilities (long-term and short-term)	1,225	2,431
Cash and cash equivalents	(16,973)	(1,214)
Net debt	**409,577**	**448,589**
Equity	169,855	161,246
Net debt-to-equity ratio	**241%**	**278%**

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

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

Categories of financial instruments

in thousands of HRK

	31 December 2015	31 December 2014
Financial assets		
Cash	16,973	1,214
Loans and receivables	181,391	213,998
Financial liabilities at amortized cost		
Loans received and liabilities for securities	426,550	449,803
Trade payables	97,020	115,321
Other liabilities	8,128	24,768

Financial risk management objectives

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

The Company seeks to minimise the effects of these risks.

28 RISK MANAGEMENT (CONTINUED)

28.1 Financial risks (continued)

Market risk management

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

Currency risk

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

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

The table below analyses the carrying amounts of the Company'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)	2,211	749	500	10,099

Foreign currency sensitivity analysis

The Company 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 Company's sensitivity to a 5-percent increase and decrease of the Croatian kuna against the relevant currency. The 5-percent sensitivity rate represent the management's assessment of the reasonably possible change in the foreign exchange rate. 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 percent weakening of the Croatian kuna against the relevant currency, there would be an equal and opposite impact on the profit or equity, and the balances below would be negative.

in thousands of HRK

	Increase / decrease of exchange rate	Effect on profit before taxes
2015		
EUR	+5%	653
	-5%	(653)
2014		
EUR	+5%	(3,582)
	-5%	3,582

28 RISK MANAGEMENT (CONTINUED)

28.1 Financial risks (continued)

Credit risk

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

In addition to credit risk arising from trade debtors, the Company is also exposed to credit risk from dealing with 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 Company protects itself from such situations by obtaining additional collateral, such as personal guarantees of the agricultural farm owners, their family members, establishing pledge on the agricultural equipment and facilities, fiduciary title to harvested crops or grains on stock, co-ownership of the crops, and similar. The instruments to secure the settlement are negotiated separately with each individual farmer, depending on the relationship history.

Where an individual farmer cannot repay a commodity loan due to unfavourable weather conditions and/or market prices of crops/oleaginous plants, the Company enters into a deferred payment arrangement with such 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 Company enters into factoring contracts and/or discounted bills with factoring houses. The ultimate risk arising from the recoverability of the debt from the principal debtor is borne by the Company. At the reporting date, the contingent liabilities of the Company arising from factoring deals with recourse amount to HRK 46.5 million (2014: HRK 128.9 million).

Interest rate risk

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

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

The sensitivity analysis below is based on the risk of changes in interest rates at the date of the statement of financial position. For variable-rate debt, the analysis is prepared assuming the amount of the liability outstanding at the date of the statement of financial position was outstanding for the whole year. If the interest rates would change by 0.5 percent, and all other variables remained constant, there would be a change in the interest expense of the Company in the amount of HRK 1,703 thousand at 31 December 2015 (2014: HRK 1,583 thousand). The increased level of long-term debt at variable rates increases the impact of a potential change in the interest rates on the Company's profit.

28 RISK MANAGEMENT (CONTINUED)

28.1 Financial risks (continued)

Liquidity risk

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

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

The following tables detail the remaining contractual maturities of the Company'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 Company 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 Company 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	-	91,120	42,827	48,709	327	-	182,983
Interest bearing liabilities	6.23%	5,391	19,221	57,425	194,699	170,140	446,877
		96,511	**62,048**	**106,134**	**195,026**	**170,140**	**629,860**
31 December 2014							
Non-interest bearing liabilities	-	115,853	96,546	17,271	-	-	229,670
Interest bearing liabilities	5.73%	89,289	54,815	164,895	65,722	772	375,493
		205,142	**151,361**	**182,166**	**65,722**	**772**	**605,163**

28 RISK MANAGEMENT (CONTINUED)

28.1 Financial risks (continued)

Liquidity risk (continued)

The following table details the Company'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 Company'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	-	103,542	27,701	22,298	1,418	1,124	156,083
Interest bearing assets	3.32%	75	149	42,777	290	260	43,551
		103,617	**27,850**	**65,075**	**1,708**	**1,384**	**199,634**
31 December 2014							
Non-interest bearing assets	-	105,051	30,489	25,236	564	-	161,340
Interest bearing assets	5.30%	2,200	4,724	48,389	257	94	55,664
		107,251	**35,213**	**73,625**	**821**	**94**	**217,004**

28 RISK MANAGEMENT (CONTINUED)

28.1 Financial risks (continued)

Fair value measurement

Some of the Company'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
	31.12.2015	31.12.2014				
Shares and units in private equity firms (Note 20).	18.25 % shares of Zagrebačke pekarne Klara d.d., a company 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 company: HRK 536 thousand;	18.25 % shares of Zagrebačke pekarne Klara d.d., a company 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 company: 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.

28 RISK MANAGEMENT (CONTINUED)

28.2 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 Company has arranged an insurance coverage for its facilities, the insurance coverage is inherently limited by caps on insured sums and may not be sufficient to cover all the costs. In addition, the Company may be exposed to costs not covered by insurance.

28.3 Risks arising from the ordinary course of business

Market risk

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

Input commodity and product delivery risks

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

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

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

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

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

Competition risk

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

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

28 RISK MANAGEMENT (CONTINUED)

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

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 Company's line of flour products in the Konzum retail and wholesale networks has been defined according to the Company's market share. Consequently, the Company 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 Company's major suppliers are those supplying the raw material and seeds for sowing. The Company seeks to cooperate with as many suppliers as possible to mitigate the risk of discontinued cooperation with a key supplier. Despite this, the Company cannot provide any assurance that a potential termination of cooperation with a key supplier will not have a significant impact on the Company's performance and financial position.

The risk of change of the owner

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

Acquisition risk

The Company'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 Company 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 Company's performance and financial position. Major acquisitions as well as acquisitions outside the current markets of the Company are possible in the future. The Company has no experience in acquisitions outside its current markets, which could impact the success of an acquisition as well as the level of acquisition and integration costs. A large acquisition could prove to be much more difficult from the integration point of view as well as require significantly higher funds than any acquisition performed in the past. Acquisitions beyond the Company'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 Company presently operates.

The Company 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 Company's level of 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 Company would be able to take on in the future. Any considerable increase in the Company's debt in connection with an acquisition could have a material impact on the Company's performance.

In undertaking any future acquisition and as part of the related acquisition analysis, the Company 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 Company is faced with a risk of failure to achieve all or a part of savings and synergies envisaged at the beginning of an acquisition.

28 RISK MANAGEMENT (CONTINUED)

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

Acquisition risk (continued)

In addition, in an acquisition process, the Company usually assumes all the liabilities and acquires all assets of the acquiree. Although the Company 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 Company assuming contingent liabilities without receiving adequate assurance or warranties could have a material impact on the performance and financial position of the Company.

Working capital risk

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

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

The input commodity price risk

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

The Company seeks to mitigate the risk of changes in wheat prices by participating actively on futures markets. Granolio has been managing the risks and input commodity purchase prices actively, by using various future trading techniques on global commodity markets, and without any pronounced open positions.

Dependence on the management and key personnel

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

IT risks

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

28 RISK MANAGEMENT (CONTINUED)

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

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

Although the Company is not aware of any infringement of competition rules and has never been a respondent in proceedings initiated before the Competition Agency, it cannot warrant that no such proceedings will never be initiated. Any infringement of the competition rules is subject to significant administrative sanctions. For instance, a fine of up to 10 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 Company.

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

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

Litigation risk

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

The risk of obligations or losses not covered by insurance

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

28 RISK MANAGEMENT (CONTINUED)

28.4 General risks

Business environment risk

The business environment risk includes political, legal and macroeconomic risks prevailing in the business environment of the Company, which is primarily the Croatian market on which the Company generates almost 70 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 Company cannot warrant that Croatia will fully implement the intended reforms or that the political environment will favour their implementation. In addition, the Company cannot warrant that the Government in power will not introduce new regulations, fiscal or monetary policies, including taxation, environmental and public procurement policy, an indemnity policy for nationalised property or a new foreign exchange policy.
The legal framework of the Republic of Croatia is still evolving, which may give rise to a certain level of legal uncertainty. As a result, the Company may come into a position of not being able to succeed in exercising or protecting some of its rights.

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

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

The risk of changes in the legal framework

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

29 CONTINGENT LIABILITIES

The Company as guarantor or co-debtor

	Amount	**Balance in original currency at 31 December 2015**	**Balance in HRK at 31 December 2015**	**Maturity**
Žitar d.o.o.- Loan 1	EUR 6,190,000	EUR 3,126,221	23,868,842	1.9.2020
Žitar d.o.o.- Loan 2	EUR 5,980,000	EUR 3,068,290	23,426,536	1.9.2020
Žitar d.o.o.- Loan 3	HRK 4,100,000	HRK 4,100,000	4,100,000	31.5.2016
Žitar d.o.o.- Loan 4	EUR 787,000	EUR 787,000	6,008,782	1.12.2016
Zdenka-mliječni proizvodi d.o.o. - Loan 1	EUR 3,294,190	EUR 1,744,225	13,317,241	31.12.2024
Zdenka-mliječni proizvodi d.o.o. – Loan 2	HRK 40,000,000	HRK 25,856,693	25,856,693	30.4.2024
Zdenka- mliječni proizvodi d.o.o. – Loan 3	EUR 1,395,751	EUR 1,234,268	9,423,694	31.12.2023
Bills of exchange issued to CERP	HRK 40,500,000	HRK 40,500,000	40,500,000	13.9.2015
Corporate guarantee issued to CERP	HRK 40,700,000	HRK 40,700,000	40,700,000	23.9.2015
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 Company. The Management Board of the Company is confident of a successful defence as well as of no losses suffered by the Company. Hence, no litigation provision has been recognised.

30 EVENTS AFTER THE REPORTING DATE

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 Company's operations that would require them to be disclosed in the notes to the financial statements.

31 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 2

Granolio
d.d., Budmanijeva 5
Zagreb

MB: 1244272; OIB: 59064993527; IBAN HR6024020061100063532 Erste&Steiermarkische bank d.d. Rijeka,
IBAN HR1423400091110416692 Privredna banka Zagreb, IBAN HR5123900011100014261 Hrvatska poštanska banka Zagreb;
temeljni kapital: 19.016.430,00 kn uplaćen u cijelosti podijeljen na 1.901.643 redovnih dionica serije A nominalnog iznosa 10,00 kn;
tvrtka je upisana u Trgovačkom sudu u Zagrebu, MBS: 080111595; predsjednik Uprave: Hrvoje Filipović, članovi Uprave: Vladimir Kalčić, Drago Šurina i Tomislav Kalafatić, predsjednik Nadzornog odbora: Franjo Filipović

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 ____________________________