

Granolio Group

Annual Management Board Report on the business performance and position of the Granolio group and consolidated financial statements for the year 2016, together with Independent Auditor's Report

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Annual Management Board report on the business performance and position of the Group for the year 2016

General information about Granolio Group.

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

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

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

The members of its Management Board are as follows:

Hrvoje Filipović, Chairman
Tomislav Kalafatić, Member
Drago Šurina, Member
Vladimir Kalčić, Member.

Members of the Supervisory Board are as follows:

Franjo Filipović, President
Jurij Detiček, Deputy President
Braslav Jadrešić, Member
Davor Štefan, Member
Josip Lasić, Member

At 31 December 2016 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 since 23 March 2015 have been listed on the Official Market of the Zagreb Stock Exchange.

The majority shareholder of the Company is Mr Hrvoje Filipović, who on the day 31 December 2016 holds 58.11% of the shareholders' equity.

Consolidated Financial statements of the Group for period from January 1st till December 31st 2016 represents financial statements from parent company and related parties. Related parties (common name "Group") own and manage manufacturing facilities and activities in food industry, agriculture industry and in retail industry.

In consolidated financial statements are included financial statements of following related parties:

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

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

The Group could be classified into the following business segments :

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

At the end of reporting period the Group disposes with:

- 3 active mills to produce wheat flour with total capacity of 645 tons per day
- Silos for storage of grains and oilseeds with a total capacity of about 160,000 tons ,
- 2 dairy farms with a total capacity of 880 cows in the milking,
- pig farm with capacity of 10,000 pigs a year,
- cattle fattening farm with 180 pieces of beef cattle,
- 269 pieces of calves for fattening with subcontractors,
- approximately 1,170 hectares of agricultural land ,
- production capacity milk processing of 11,400 tons of finished products

Production capacity of mills of the Group as of 31 December 2016 are shown in the following table.

Production capacity of mills as of 31 December 2016:

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

Subsidiaries

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

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

Company Žitar d.o.o., has established another company, Žitar konto d.o.o., as the sole owner whose financial statements are part of the consolidated financial statements.

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

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

Significant transactions in the current accounting period

Granolio d.d.

During 2016, dividends were paid to shareholders of the Company in the total amount of HRK 951 thousand.

At the end of December 2016, the Company entered into a contract with the associated company Žitar d.o.o. about Mill rent, thus taking over the business segment. Thus, from 1 January 2017, production capacity of the Company Granolio will be a total of three mills.

In addition to the milling industry, Company has in December 2016 from related company Žitar d.o.o. took over the segment of slicing material for sowing.

At the end of 2016, an annex to the Club Loan Agreement (dated 31 July 2015) was signed, which modified the dynamics of repayment of tranche B with some other conditions that were changed to the benefit of the Company.

Financial indicators for 2016 for the company Granolio d.d. are shown in the following table:

In thousand HRK

	1-12 2016	1-12 2015	Changes	
Sales income	595,310	698,452	(103,143)	(15%)
EBITDA	29,074	28,540	534	(2%)
EBITDA margin %	5%	4%		
EBIT	41,774	39,932	1,842	5%
EBIT margin %	7%	6%		
Net financial result	(24,577)	(15,924)	(8,653)	(54%)
Net result	2,507	9,073	(6,566)	72%
Net margin %	0.4%	1.3%		

Zdenačka farma d.o.o.

Sales revenues are lower compared to the previous year due to lower sales prices of milk. The average milk sales price is lower compared to 2015 by about 9%. The quantity of milk sold in 2016 is lower by 2% than the quantity sold in 2015. In 2016 sales of milk within the Granolio Group amounted to 48% of total milk sales (2015: 0%)

The Company at the end of 2016 concluded a sale agreement for the biogas plant in the total value of HRK 1.1 million.

Financial indicators for 2016 for the company Zdenačka Farma d.o.o. are shown in the following table.

in thousand HRK

	1-12 2016	1-12 2015	Changes	
Operating income	19,154	20,121	(967)	(5%)
EBITDA	(1,639)	(913)	(726)	80%
EBITDA margin %	(9%)	(5%)		
EBIT	1,145	2,461	(1,315)	(53%)
EBIT margin %	6%	12%		
Net financial result	(829)	(1,207)	378	31%
Net result	(2,468)	(2,120)	(349)	16%
Net margin %	(13%)	(11%)		

Zdenka – mliječni proizvodi d.o.o.

The total production capacity of Zdenka amounts 11.4 thousand tons of finished products (cheese). The Company has since 2015 under its brands included permanent milk: Bilogorsko permanent milk and Zdenka permanent milk.

Own brand is "Zdenka", but the Company also produces a significant number of products under the brand names. Zdenka's portfolio currently includes 20 private label.

Sales growth is a result of higher sales volumes in almost all categories of products, especially in the sale of warm and fresh cheeses.

Increase in revenue is the result of increased sales volume of products, while average selling prices are somewhat lower compared to the previous year.

Revenue growth was recorded both in domestic and foreign markets. Most of the exports are realized with the neighboring countries of BIH, Slovenia, Serbia and Macedonia.

The total debt of the Company as of 31 December 2016 amounts to HRK 52 million (31 December, 2015: HRK 57 million). The debt consists of HRK 38 million long-term liabilities to financial institutions (31 December, 2015: HRK 44 million) and HRK 14 million in current liabilities to financial institutions which are due in 2017 (31 December, 2015: HRK 13 million).

In 2016, the Company (based on hours worked) employed 182 workers, which is 6% more than in 2015 (2015: 172 workers).

Financial Indicators for 2016 for the company Zdenka–mliječni proizvodi d.o.o. are shown in the following table

in thousand HRK

	1-12 2016	1-12 2015	Changes	
Operating income	163,319	151,230	12,088	8%
EBITDA	4,982	8,818	(3,836)	43%
EBITDA margin %	3%	6%		
EBIT	18,356	21,332	(2,977)	(14%)
EBIT margin %	11%	14%		
Net financial result	(1,336)	(2,166)	830	38%
Net result	5,747	6,651	(904)	14%
Net margin %	4%	4%		

Prerada žitarica d.o.o.

The Company has, during 2016, realized income from sales of grain and oil products worth HRK 20 million (2015: HRK 0.1 million), and by providing services for drying and storing goods and by renting premises revenues amounted to about HRK 1.2 million (2015: HRK 1.3 million).

Financial indicators for 2016 for the company Prerada žitarica d.o.o. are shown in the following table .

In thousand HRK

	1-12 2016	1-12 2015	Changes	
Sales income	21,404	1,535	19,869	1294%
EBITDA	(161)	(389)	227	58%
EBITDA margin %	(1%)	(25%)		
EBIT	263	30	233	773%
EBIT margin %	1%	2%		
Net financial result	49	(20)	69	348%
Net result	(112)	(408)	296	73%
Net margin %	(1%)	(27%)		

Žitar d.o.o.

The Company Žitar d.o.o. recorded a significant increase in revenues in segment of the sale of cereals and oilseeds. In 2016 a significant sale of wheat was made in total amount of HRK 44 million, of which part was realized within Granolio Group.

The EBITDA value is lower due to lower sales margins in the wholesale segment and partly due to increased employee expenses due to an increase in average number of employees and average salaries compared to the same period last year.

The normalized EBITDA was obtained by correcting the EBITDA's reporting value for one-off severance and loss expenses from the sale of fixed assets, the cost of bank credit and subsequently determined operating costs. The total correction is HRK 1.1 million.

Value adjustment of the stock of about HRK 2 million had an impact on the decrease in net profit compared to the previous year.

The total debt of the Company as of 31 December 2016 is HRK 57 million (31 December 2015: HRK 60 million). The debt consists of HRK 30 million long-term liabilities to financial institutions and HRK 27 million in current liabilities which are due by the end of 2017.

Financial indicators for 2016 for the company Prerada žitarica d.o.o. are shown in the following table.

In thousand HRK

	1-12 2016	1-12 2015	Changes	
Operating income	121,016	86,097	34,918	41%
EBITDA	1,006	5,594	(4,588)	(82%)
EBITDA margin %	1%	6%		
EBIT	10,330	12,233	(1,903)	(16%)
EBIT margin %	9%	14%		
Net financial result	(1,636)	(2,390)	754	32%
Net result	(739)	3,166	(3,905)	123%
Net margin %	(1%)	4%		

Granolio Group

Operating income of Granolio group has decreased by 10% compared to the previous year. A more detailed analysis of income is presented below in this document.

Net debt of the Group is lower than the previous year by HRK 31 million as a result of loan repayments by Granolio (HRK 23 million), Zdenka (HRK 5 million) and Žitar (HRK 3 million).

Financial indicators for 2016 for Granolio group are shown in the following table.

In thousand HRK

	1-12 2016	1-12 2015	Changes	
Operating income	842,988	938,218	(95,230)	(10%)
EBITDA	(809,762)	(896,860)	87,098	10%
<i>EBITDA margin %</i>	33,226	41,357	(8,131)	(20%)
EBIT	<i>4%</i>	<i>4%</i>		
<i>EBIT margin %</i>	71,834	75,695	(3,861)	(5%)
Net financial result	<i>9%</i>	<i>8%</i>		
Net result	(28,329)	(21,707)	(6,622)	(31%)
<i>Net margin %</i>	4,918	16,069	(11,151)	69%
<i>Grupe result</i>	2,406	11,150	(8,744)	78%
<i>Minority interest</i>	2,512	4,919	(2,407)	49%

Financial Indicators

In thousand HRK

	31 December 2016	31 December 2015	Changes	
Net assets (Equity and Reserves)	237,208	232,514	4,694	2%
Total debt	512,314	543,865	(31,551)	(6%)
Cash and cash equivalents	9,729	22,426	(12,697)	(57%)
Given loans, deposits and similar*	34,649	39,198	(4,549)	(12%)
Net debt	467,936	482,241	(14,305)	(3%)
Net debt/ normalized EBITDA	6,51	6,37		
Normalized EBITDA	71,834	75,695		

*Given financial loans, securities and deposits

The total debt of the Group does not include liabilities with back regressive rights that are stated in the positions of other short-term liabilities and on assets in the position of other receivables.

Normalization of EBITDA values

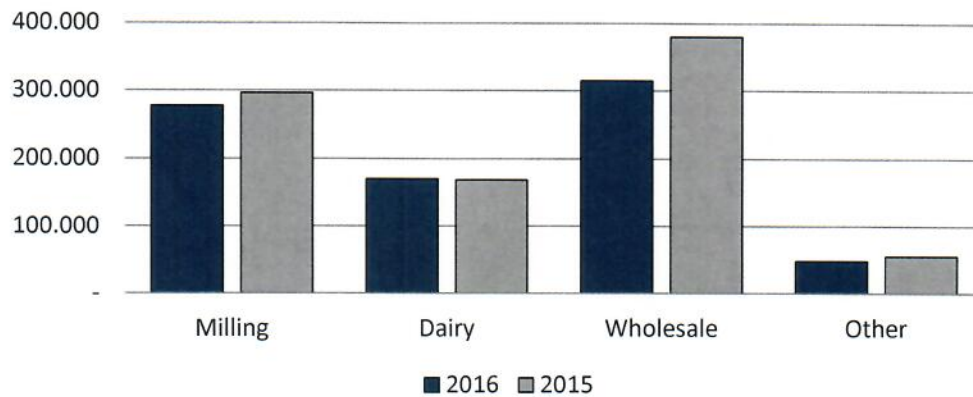
	1-12 2016	1-12 2015
Reporting EBITDA	68,223	72,578
<u>Normalization</u>		
One-time costs	1,032	1,083
Direct write-offs of unpaid receivables	20	196
Reimbursement for past years	877	563
Expenses for loan processing expressed in operating expenses	1,681	1,275
Normalized EBITDA	71,834	75,695

Income analysis – Granolio Group

Sales income of Granolio Group in 2016 amounts HRK 811 million what is by 10% less than sales income in previous year.

Sales income generated within the Group during 2016 amounts aproximetly HRK 77 million (2015: HRK 19 million) and it has been eliminated from total consilidated income.

**Consollidated sales income by business segments
(2016 vs 2015)**



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

The milling segment comprises flour sale, earned by the parent company, the dairy segment comprises sale of milk by the company Zdenačka farma, by the farm within the company Žitar and sale of dairy products by the company Zdenka – mliječni proizvodi. Trading encompasses trade of cereals, oil seeds and sowing material, earned by the companies Granolio and Žitar. The other segment encompasses the services of drying and storing grains and oil seeds which are rendered by the companies Granolio, Žitar and Prerada žitarica, sale of beef by Granolio, sale of beef and pigs by Žitar, and income from own production of agricultural products and seed processing, what is part of Žitar’s activities.

The decrease in sales was recorded in the segment of milling (6%) and wholesale (17%).

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

After 31 December 2016 there were no significant business events.

Business development and investment plan

Granolio

During 2017, the Company plans to invest in storage capacity of mills, grain and oilseed drier and in the upgrading of IT systems.

Zdenačka farma d.o.o.

The goals of Zdenačka farma are as follows

1. In 2016. production of 28.3 kg (daily average per cow) in 305 days of lactation. The objective is to achieve the following production in the next three years:
 - in 2017 - 30 kg per cow per day
 - in 2018 - 32 kg per cow per day
 - in 2019 - 34 kg per cow per day
2. In the next three years reduce the inter calving period from the current 420 days to 400 days
3. Reduced the age of heifers in calving from the current 26.2 to 24 months
4. For the long-term reduction in feed costs, additional processing areas should be provided, from the existing 165 ha to 300-350 ha over the next two years
5. In accordance with the increase of the cultivable area during the next three years period, ensure the mechanization necessary for the production of the crop and the efficient day to day functioning of the farm
6. In 2018 to build a stables for the drying and the heifers and the lodges for the caldron

Zdenka - mliječni proizvodi d.o.o.

As from its privatization till today, Zdenka has invested significant resources in the modernization of production facilities and is entering further into new investment in order to be able to keep up the needs of the customers and market trends.

The goal is to finance part of these investments by the EU funds subventions.

Žitar d.o.o.

During 2017 the company will continue with the restructuring plans started earlier in the previous years.

Basic strategic goals are as follows:

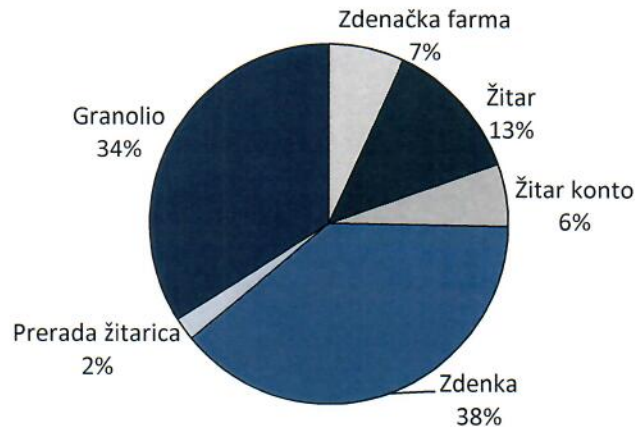
- Irrigation of agricultural areas to 600 ha in order to organize seed and vegetables production, by dynamics to get to 480 ha till 2018. Planned sources of finance are the EU funds resources and own funds received by bank loans.
- Widening the cooperatives production segment from agricultural production to include also cattle breeding cooperation (pigs, calves), and to include also cooperation with the lucerna producers
- Within the period from 2017 to 2018 to increase by 10 percent the number of milking cows, i.e. to achieve the total number of 420 milking cows in milking in 2017. Also forming of the basic herd is planned from the reproduction of the current herd
- Purchase of mechanization equipment necessary for the milking cows farm (mixing machine and tractor) funded by EU funds
- Increasing farm capacities, sources of finance from the EU funds and from own funds received from the bank loans
- To organize calves fattening, for approximately 800 units

As from 1 January 2017 milling operations and cooperation will be done by the parent company, while the operations of the animal feed production plant will be done within the business operations of the company Cautio d.o.o. Transfer of animal feed production operations will result with the decrease of income and expenses of the consolidated financial statements.

Employees

In 2016, the Group based on working hours employed 471 employees (2015: 470).
The structure employed by a particular company from the group shown by the following graph.

Employees structure based on total working hours in 2016



Research and development

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

Purchase of own shares

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

Environmental protection

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

Risks

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

CORPORATE GOVERNANCE STATEMENT

Statement on the Application of Corporate Governance Code

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

As a company whose shares are listed in the Official Market of the Zagreb Stock Exchange, in 2015 and 2016 the Company voluntarily applied the recommendations provided in the Code of Corporate Governance developed by the Croatian Financial Services Supervisory Agency (CFSSA) and Zagrebačka burza d.d., with departures from certain recommendations and guidelines provided therein. The Code was adopted by the resolution of CFSSA, Class.: 011-02/07-04/28, Reg. no.: 326-01-07-02 of 26 April 2007. The resolution adopting the Code of Corporate Governance was published in the Croatian Official Gazette "Narodne novine" no. 46/2007, and the Code is published on the website of Zagrebačka burza d.d..

The Supervisory Board of Granolio d.d. has not established any appointment, bonus or audit board because, according to the Statute, it consists of three to five members and as such the Board discharges the duties and responsibilities of those bodies itself, except for those of the audit committee the function of which, according to the Auditing Act, is discharged by the appointed Audit Committee. There are also departures concerning the proxies for the shareholders not being able to vote in person, the date defined as the relevant reference date for establishing the right to vote in the General Shareholders' Meetings, the contents of the decisions to pay dividends, remote voting in General Shareholder Meetings by means of modern communication technologies, the exercise of the voting rights in General Shareholder Meetings, public disclosure of information about any legal actions and rebutting any such disputes, a long-term succession plan, rules for determining bonuses for the supervisory board members, public disclosure of all remuneration and other benefits provided by the company or its related parties to each individual supervisory board member, the internal audit system, the audit commission and the audit committee, the statement of bonus for the members of the management and supervisory board members, details about all remuneration and benefits of the management board members or executive directors received from the Company, transactions involving the members of the management board or executive directors and their related parties, a public disclosure of fees for external auditors for the audit and other services provided by them, or the existence of internal auditors and internal control systems. Further explanations regarding the 2016 departures from individual recommendations provided in the Code are presented in the Annual Questionnaire, which is an inseparable part of the Code and submitted to Zagrebačka burza d.d. for public disclosure, together with the annual financial statements. In addition to the recommendations from the Code, the Company's Management and Supervisory Boards invest increasing efforts to establish adequate corporate governance taking into account the structure and organisation of the Company, its strategy and business objectives, the allocation of duties and responsibilities, with a particular emphasis on effective procedures for identifying, measuring and monitoring operational risks and reporting on those risks, as well as the establishment of appropriate internal control mechanisms.

The Company has prepared its separate financial statements as well as the consolidated financial statements for the Granolio Group, which consists of Granolio d.d. and its fully-owned subsidiaries Zdenačka farma d.o.o. and Prerada žitarica d.o.o. and associates Zdenka – mliječni proizvodi d.o.o. and Žitar d.o.o., co-owned by the Company.

Significant Shareholders and Restrictions on the Rights Arising from the Shares

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

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

Rules for the Appointment and Revocation of the Supervisory Board

Members of the Supervisory Board are elected in a General Meeting of Shareholders based on a proposal of the shareholders representing individually or in aggregate at least one-twentieth of the Company's share capital at the point of the election.

The Supervisory Board of the Company consists of three or five members. The exact number of the Supervisory Board members is determined by decision of the Company's shareholders in their general meeting. As long as there is a prescribed obligation, one member of the Supervisory Board is a representative of employees, who is appointed and revoked as specified in the Labour Act. One member of the Supervisory Board is appointed and revoked directly by Hrvoje Filipović as long as he holds at least 25 of the total number of issued ordinary shares of the Company. Other Supervisory Board members are elected and revoked by the Company's shareholders in a general meeting.

Rules for the Appointment and Revocation of the Management Board, Amendments to the Statute and Special Powers of the Management Board

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

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

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

Members and Activities of the Supervisory Board

Pursuant to the Companies Act and the Company's Statute, the principal responsibilities of the Supervisory Board comprise permanent supervision of the management of the Company's affairs and adopting decisions to appoint and revoke the president and members of the Management Board. The composition of the Supervisory Board and changes of its members are presented in the accompanying financial statements

Members and Activities of the Management Board

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

Description of the Work of the General Assembly

In a General Shareholders' Meeting, the Company shareholders may participate and vote themselves or through their proxies, which applies to the shareholders registered at the Central Depository and Clearing Company Inc. 21 days before the Meeting. Each ordinary share entitles to one vote in a General Meeting of Shareholders. The Company shareholders may participate in a General Meetings personally or through their proxies. A General Shareholders' Meeting is convoked in cases specified by law and the Company's Statute. The meetings are convoked by the Company's Management or Supervisory Board when it is necessary for the benefit of the Company. The invitation and the agenda are published at least one month before the date of the meeting. Any propositions of the shareholders counter those of the Management Board and/or Supervisory Board, with the full name of the proposing shareholder and his or her explanation, or propositions of the shareholders regarding the appointment of the Company's auditor must be received by the Company at least 14 days prior to the General Shareholders' Meeting, excluding the date of receipt of the counter-proposition. Shareholders holding jointly 20th portion of the Company's share capital may require an issue to be included in the General Meeting agenda, by providing an explanation and the decision proposal. The request must be received by the Company at least 30 days in advance of the General Meeting, excluding the day of the request receipt.

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

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

The members of the Management Board of Granolio d.d. in 2016 were the following:

President of the Management Board: Hrvoje Filipović (re-appointed on 23 February 2016)

Members of the Management Board: Hrvoje Filipović (re-appointed on 23 February 2016)
Vladimir Kalčić (re-appointed on 23 February 2016)
Tomislav Kalafatić (re-appointed on 19 April 2016)

The members of the Supervisory Board of Granolio d.d. in 2016 were the following:

Chairperson of the Supervisory Board: Franjo Filipović (re-appointed on 9 June 2016)

Members of the Supervisory Board: Braslav Jadrešić (re-appointed on 9 June 2016)
Davor Štefan (re-appointed on 9 June 2016)
Josip Lasić (re-appointed on 9 June 2016)
Jurij Detiček (re-appointed on 9 June 2016)

This Corporate Governance Statement is an inseparable part of the Company's Annual Report for the year 2016.

Responsibility for the consolidated financial statements

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

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

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

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

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

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

Signed on behalf of the Management Board

28 April 2017

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




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



Vladimir Kalčić dipl.oec.
Member of the Management Board



Drago Šurina dipl.oec.
Member of the Management Board



INDEPENDENT AUDITOR'S REPORT

To the Owner of Granolio Group:

Opinion

We have audited the annual consolidated financial statements of Granolio d.d., Zagreb (the Company), and its subsidiaries (the Group) which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit and loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effects of the issues described in our report in the Basis for Qualified opinion the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Basis for Qualified Opinion

During the acquisition of mill operations, the Group recognized the goodwill of Mlineta and Belje as indicated in Note 14. On 31 December 2016, the value of the goodwill was HRK 60,379 thousand and the value of the brands was HRK 120,000 thousand. In accordance with the International Accounting Standard 36: Impairment of Assets The Group is obliged to evaluate each year whether there are any impairment indicators of the asset. On the basis of the current economic situation, it is estimated that there are impairment indicators. When assessing the value of the impairment of the asset concerned, significant assumptions relate to the possibility of realizing the income of the said brands on the market of the Republic of Croatia. Taking into account the current economic situation and the availability of information, the Management Board has not been able to collect enough information to make an assessment of the impairment of the asset. In accordance with the aforementioned, we could not collect sufficient and appropriate audit evidence related to the value of goodwill and brands' impairment, and we could not determine if any adjustments had to be made.

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

Društvo upisano u sudski registar Trgovačkog suda u Zagrebu: MBS 030022053; uplaćen temeljni kapital: 44.900,00 kuna; članovi uprave: Branislav Vrtačnik, Eric Daniel Olcott, Marina Tonžetić, Juraj Moravek, Dražen Nimčević and John Jozef H. Ploem; poslovna banka: Zagrebačka banka d.d., Trg bana Josipa Jelačića 10, 10 000 Zagreb, ž. račun/bank account no. 2360000-1101896313; SWIFT Code: ZBAHR2X IBAN: HR2723600001101896313; Privredna banka Zagreb d.d., Radnička cesta 50, 10 000 Zagreb, ž. račun/bank account no. 2340009-1110098294; SWIFT Code: PBZGHR2X IBAN: HR3823400091110098294; Raiffeisenbank Austria d.d., Petrijska 59, 10 000 Zagreb, ž. račun/bank account no. 2484008-1100240905; SWIFT Code: RZBHR2X IBAN: HR1024840081100240905.

Deloitte se odnosi na Deloitte Touche Tohmatsu Limited, pravnu osobu osnovanu sukladno pravu Ujedinjenog Kraljevstva Velike Britanije i Sjeverne Irske (izvorno "UK private company limited by guarantee"), i mrežu njegovih članova, od kojih je svaki zaseban i samostalan pravni subjekt. Molimo posjetite www.deloitte.com/hr/ona za detaljni opis pravne strukture Deloitte Touche Tohmatsu Limited i njegovih tvrtki članica.

Member of Deloitte Touche Tohmatsu Limited

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Key Audit Matters

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

Key Audit Matters	How we solved the key audit matter
<p>Revenue</p> <p>Revenue is measured at fair value of the consideration received, that is, the consideration that is claimed for the goods, goods or services sold within the ordinary course of business of the company. Revenue is stated net of value added tax, quantity discounts and cash discount.</p> <p>The Group recognizes revenue when the amount of revenue can be measured reliably when future benefits are used in the Group and when specific criteria are described below, which relate to all Group activities. The revenue from the wholesale of goods and merchandise goods</p> <p style="padding-left: 40px;"><i>(i) Revenues from wholesale of goods and merchandise</i></p> <p>The Group produces and distributes its own products as well as third-party merchandise (wholesale services). Wholesale revenues are reported when the Group has delivered goods to a wholesaler when it has no control over the asset management and when there is no open obligation that would affect the takeover of the products from a wholesaler.</p> <p>Delivery has been made to the item delivered to a particular location by transferring the risk of loss to the wholesaler and if one of the following conditions is met: the wholesaler has accepted the goods in accordance with the contract or the withdrawal period has expired, or when the Group has objective evidence that all the terms of delivery are met.</p> <p>The products are sold at the agreed volume discounts and the right of the buyer to refund the defective products and defective goods. Sales proceeds are calculated and expressed in the contract prices, less the estimated discounts, cash discounts and refunds.</p>	<p>The procedures we applied included asking management questions, testing the organization and effectiveness of the actions of established internal controls, as well as testing the details to assure the accuracy of transaction processing transactions.</p> <p>>> We have evaluated the relevant information systems and the organization and effectiveness of the activity of controlling the identification and recording of income transactions. To assist in the revision of automated controls, we have included our IT specialists.</p> <p>>> We have evaluated existing controls over the business authorization process of posting revenue sales.</p> <p>>> We tested the accuracy of a sample of accounts issued to buyers.</p> <p>>> We tested the essential adjustments that the management conducted to assess the completeness and accuracy of the revenue.</p> <p>>> We've tested evidence as a basis for manual postings in your revenue log in order to determine the existence of unusual items.</p> <p>We have validated the validity of the assumptions and key estimates applied by management to the calculation and disclosure of revenue.</p> <p>We have not noticed significant deficiencies in relevant information systems and controls over relevant revenue-related business processes.</p> <p>We did not notice any exceptions to essential adjustments and manually entered journal entries that could result in material misstatements in the revenue statement booked in the reporting year.</p>

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Key Audit Matters (continued)

Discounts and return on goods are estimated based on past experience. Quantitative discounts are estimated based on estimated annual sales revenues. Receivables based on the sale under conditions that contain the financing element, i.e. when the payment deadline exceeds 60 days, are classified as short-term financial assets.

(II) Revenues from retail sales of goods and merchandise

Revenues from the sale of goods and merchandise are shown after the sale to the buyer. Revenues from retail sale are realized in cash. The group does not have any special customer reward programs.

(i) Revenues from services

Service revenues are calculated and reported in the accounting period in which the services are provided by the degree of completion of the specific transaction and on the basis of the actual service performed in proportion to the total service to be provided.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Annual Report, but does not include the consolidated financial statements and our auditor's report.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. With respect to the Management Report and the Corporate Governance Statement, which are included in the Annual Report, on pages 1 to 12 under the heading "Annual Report of the Management Board on Business and the Status of the Group for 2016 Years" or "Corporate Governance Code", we have also performed the procedures prescribed by the Accounting Act. These procedures include examination of whether the Management Report includes required disclosures as set out in the Article 21 and 24 of the Accounting Act and whether the Corporate Governance Statement includes the information specified in the Article 22 of the Accounting Act.

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

- 1) Information included in the other information is, in all material respects, consistent with the attached annual financial statements.
- 2) Management Report for the year 2016 has been prepared, in all material respects, in accordance with Article 21 and 24 of the Accounting Act.
- 3) Corporate Governance Statement has been prepared, in all material aspects, in accordance with the Article 22, paragraph 1, items 3 and 4 of the Accounting Act, and includes also the information from Article 22, paragraph 1, point 2, 5, 6 and 7 of the noted Act.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Other Information (continued)

Based on the knowledge and understanding of the Company and its environment, which we gained during our audit of the financial statements, we have not identified material misstatements in the other information. We have nothing to report in this respect.

Responsibilities of Management and the Supervisory Board for the consolidated Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The Supervisory board is responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- *Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.*
- *Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.*
- *Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.*
- *Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.*

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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


Branislav Vrtačnik
President of the Board


Vanja Vlák
Certified auditor

Deloitte d.o.o.

Zagreb, 28. travnja 2017. godine

Radnička cesta 80,
10000 Zagreb,
Republika Hrvatska

Consolidated statement of profit or loss and other comprehensive income

For the year ended 31 December 2016

		in thousands of HRK	
	Notes	2016	2015
Income			
Sales income	5	811,749	900,270
Other income	6	31,239	37,948
Total operating income		842,988	938,218
Changes in inventories		4,281	9,173
Material expenses	7	(710,227)	(802,715)
Staff expenses	8	(45,603)	(42,623)
Depreciation and amortisation	14,15	(31,202)	(30,253)
Other expenses	10	(9,843)	(11,826)
Value adjustment of expenses	9	(3,794)	(968)
Other operating expenses	11	(13,373)	(17,648)
Total operating expenses		(809,761)	(896,860)
Profit / (loss) from operations		33,227	41,358
Financial income	12	5,069	10,219
Financial expenses	12	(33,398)	(31,926)
Net financial result		(28,329)	(21,707)
Result before taxation		4,898	19,651
Income tax	13	20	(3,582)
Profit / (loss) after taxation		4,918	16,069
Other comprehensive income			
Items that are subsequently reclassified to profit or loss:			
Financial assets held for sale, reclassification to profit or loss		-	-
Total comprehensive profit / (loss)		4,918	16,069
Profit / (loss) attributable to:			
To the owners		2,406	11,150
Minority interest	23	2,512	4,919
Earnings per share in HRK			
Basic and diluted earnings per share (in Croatian kunas and lipas)	29	1.27	5.86

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

Consolidated statement of financial position

At 31 December 2016

		in thousands of HRK	
Notes	<u>31 December 2016</u>	<u>31 December 2015</u>	
I NON-CURRENT ASSETS			
Intangible assets			
		60,379	60,379
		120,000	120,000
		5,696	7,362
		1,010	1,134
14		187,085	188,875
Property, plant and equipment			
		27,668	27,363
		230,490	234,108
		70,975	76,959
		10,627	11,400
		260	326
		83	85
		21,777	24,523
		432	2,852
15		362,312	377,616
Financial assets			
	16a	20,472	20,472
	16b	6,551	9,428
		27,023	29,900
Long-term receivables			
		25	15
Deffered tax assets			
	13	2,100	-
II CURRENT ASSETS			
	17	90,702	108,938
Inventories			
Receivables			
	28	331	508
	18a	167,142	173,092
		11	34
	18b	10,864	13,536
	18c	113,678	7,084
		292,026	194,254
Financial assets			
	19b,29	20,559	20,121
	19a	882	696
	19b	6,657	8,953
		28,098	29,770
Cash and cash equivalents			
	20	9,729	22,426
Prepaid expenses and accrued income			
	21	4,601	5,307
TOTAL ASSETS		1,003,701	957,101

Consolidated statement of financial position

At 31 December 2016 (continued)

	Notes	in thousands of HRK	
		31 December 2016	31 December 2015
I EQUITY			
1. Subscribed capital		19,016	19,016
2. Capital reserves		84,187	84,187
3. Revaluation reserves		61,562	64,473
4. Legal reserves		283	183
5. Reserves for own shares		800	-
6. (Accumulated loss) / Retained earnings		7,812	(5,126)
7. Profit or loss for the year		2,406	11,150
	22	176,066	173,883
Minority interest	23	61,142	58,630
II Provisions		-	250
III LONG-TERM LIABILITIES			
1. Deferred tax liabilities	13	15,390	16,118
2. Leasing liabilities and liabilities for deposits received		11	11
3. Liabilities to banks and other financial institutions	24	335,954	366,924
4. Liabilities to related companies		213	239
		351,568	383,292
IV SHORT-TERM LIABILITIES			
1. Liabilities to banks and other financial institutions	24	136,578	96,042
2. Received loans, deposits and similar liabilities		3,653	2,883
3. Trade payables	25a	103,074	130,612
4. Liabilities for securities	25b	39,770	80,888
5. Liabilities towards employees		2,521	2,338
6. Taxes, contributions and similar duties payable	25c	6,830	10,775
7. Interests payable		3,067	3,024
8. Accrued expenses and deferred income	26	12,805	14,354
9. Other short-term liabilities	25d	106,627	130
		414,925	341,046
TOTAL EQUITY AND LIABILITIES		1,003,701	957,101

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

Consolidated statement of changes in shareholders' equity

	Subscribed capital	Capital reserves	Legal reserves	Reserves for own shares	Revaluation reserves	Retained earnings	Profit / (loss) for the year	Total for the Group	Minority interest	Total
Balance at 31 December 2014	19,016	85,379	183	-	67,384	37,479	(46,267)	163,174	53,729	216,903
Net profit for the year	-	-	-	-	-	-	11,150	11,150	4,919	16,069
Transfer of revaluation reserves to retained	-	-	-	-	(2,911)	2,911	-	-	-	-
Total other comprehensive income for the year	-	-	-	-	(2,911)	2,911	11,150	11,150	4,919	16,069
Reversal of deferred tax liabilities	-	-	-	-	-	728	-	728	-	728
Decrease in capital reserves by the costs of share capital increase	-	(1,192)	-	-	-	-	-	(1,192)	-	(1,192)
Allocation of the result for the year 2014	-	-	-	-	-	(46,267)	46,267	-	-	-
Change of shares in minority interest	-	-	-	-	-	23	-	23	(18)	5
Balance at 31 December 2015	19,016	84,187	183	-	64,473	(5,126)	11,150	173,883	58,630	232,513
Net profit for the year	-	-	-	-	-	-	2,406	2,406	2,512	4,918
Transfer of revaluation reserves to retained earnings	-	-	-	-	(2,911)	2,911	-	-	-	-
Total other comprehensive income for the year	-	-	-	-	(2,911)	2,911	2,406	2,406	2,512	4,918
Reversal of deferred tax liabilities	-	-	100	-	-	-	(100)	-	-	-
Decrease in capital reserves by the costs of share capital increase	-	-	-	800	-	-	(800)	-	-	-
Allocation of the result for the year 2014	-	-	-	-	-	728	-	728	-	728
Change of shares in minority interest	-	-	-	-	-	-	(951)	(951)	-	(951)
Balance at 31 December 2016	19,016	84,187	283	800	61,562	7,812	2,406	176,066	61,142	237,208

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

Consolidated statement of cash flows

For the year ended 31 December 2016

in thousands of HRK

	Notes	2016	2015
Result before taxation		4,898	19,651
<i>Adjusted by:</i>			
Depreciation and amortisation	14,15	31,202	30,253
Net (income)/ provisions costs		(1,175)	921
Natural increase in biological assets	6	(4,922)	(4,932)
Loss on the disposal and retirement of fixed assets, net		6,578	1,358
Value adjustment of trade receivables	9	1,683	968
Value adjustment of financial assets	12	60	-
Value adjustment of inventories		20	196
Inventory surplus	9	2,111	185
Net interest expense	6	(3,406)	(3,153)
Net losses of other financial activity	12	28,645	24,848
Net gain from investing	12	(20)	-
Liabilities write off	12	(203)	66
Increase / (Decrease) in accrued expenses and deferred income	12	(153)	(772)
Decrease in prepaid expenses and accrued income		(10)	(676)
Operating result before changes in working capital		65,308	68,913
Decrease/(increase) in inventories	17	19,684	37,603
Decrease/(increase) in short-term receivables		9,676	21,208
(Decrease)/increase in short-term liabilities		(30,125)	(9,705)
Increase/(decrease) in accrued expenses		184	(1,658)
Increase in prepaid expenses		(343)	(1,248)
Prepaid expenses for bank charges		-	(2,868)
Advances received/(made)		1,016	(700)
Operating result after changes in working capital		65,400	111,545
Income tax paid		(5,271)	(540)
Cash generated from operations		60,129	111,005
Interest received		1,816	4,446
Payments to acquire property, plant, equipment and intangibles		(18,726)	(15,087)
Proceeds from the sale of property, plant and equipment		2,807	75
Net cash paid to increase the equity investments in subsidiaries		20	-
Proceeds from stock market transactions		-	772
Deposits received/(paid)		194	291
Net proceeds from received bills of exchange		(27)	154
Payments for given loans	19	(82,086)	(27,680)
Repayments of given loans	19	86,565	30,584
Cash generated from investing activities		(9,437)	(6,445)

Consolidated statement of cash flows (continued)

For the year ended 31 December 2016

	Notes	in thousands of HRK	
		2016	2015
Repayment of borrowings	24	(355,637)	(454,234)
Proceeds from borrowings	24	366,346	434,050
Net (payments of)/proceeds from securities	25b	(41,118)	(28,915)
Repayment of finance leases	24	(3,609)	(4,220)
Proceeds from finance lease	24	3,094	1,921
Interest paid		(31,214)	(31,101)
Payments for initial public offering		-	(1,192)
Dividends paid		(951)	-
Other net payments from financing activities		(300)	(1,793)
Net cash from financing activities		(63,389)	(85,484)
Net change in cash and cash equivalents		(12,697)	19,076
Cash at the beginning of the year		22,426	3,350
Cash at the end of the year	21	9,729	22,426

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

Notes to the consolidated financial statements

For the year ended 31 December 2016

1. GENERAL INFORMATION

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

The Management Board of Granolio d.d. in 2015 and 2016 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).

The Supervisory Board of Granolio d.d. in 2015 and 2016 consisted of the following members:

Franjo Filipović – Chairman (since 23 February 2011),
 Jurij Detiček – Member (since 23 February 2011),
 Braslav Jadrešić – Membe (since 23 February 2011),
 Davor Štefan – Member (since 16 January 2015) and
 Josip Lasić – Member (since 16 January 2015).

Subsidiaries

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

Name of Subsidiaries	Main activity	City of establishment and operation	Share of the Group in ownership and in voting rights	
			2016	2015
Zdenka - mliječni proizvodi d.o.o.	dairy products production , trade and services	Veliki Zdenci	50%	50%
Žitar d.o.o.	agricultural production, trade and services	Donji Miholjac	49.69%	49.69%
Žitar konto d.o.o.	services and trade	Donji Miholjac	49.69%	49.69%
Zdenačka farma d.o.o.	milk production , livestock and agricultural production	Veliki Zdenci	100%	100%
Prerada žitarica d.o.o.	production of mill products and animal feed	Grubišno polje	100%	100%

Notes to the unconsolidated financial statements (continued)

For the year ended 31 December 2016

1. GENERAL INFORMATION (CONTINUED)

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

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

Based on decision of the Company dated 16 March 2015, the share capital of the Company Zdenačka farma d.o.o. increased by issuing new shares in the amount of HRK 13.52 million in the amount of 16,000,000 on the amount of HRK 29,520,000.

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

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

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

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

The Company IPK Kapelna d.o.o. registered on 4 December 1998 in the court register as a limited liability company. The Company is according to the Commercial Court in Osijek Tt-99 / 586-4 of 7 May 1999 recorded in the general ledger Court Registry under number MBS: 030064710. On 1 January 2011, merged to Novi Žitar d.o.o. Donji Miholjac to a Company Kapelna d.o.o.

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

Company Granolio d.d. gained business shares in the company Zdenka in 2010, and in the company Žitar d.o.o. in 2011.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2016

2 ADOPTION OF NEW AND REVISED INTERNATIONAL 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 the current reporting period:

- **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 - adopted by the EU on 22 September 2016 (effective for annual periods beginning on or after 1 January 2016),
- **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 Amortisation - 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”** - 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 “Separate Financial Statements”** - Equity Method in Separate Financial Statements - adopted by the EU on 18 December 2015 (effective for annual periods beginning on or after 1 January 2016),

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2016

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

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

- **Amendments to various standards “Improvements to IFRSs (cycle 2010-2012)”** 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 (amendments are to be applied for annual periods beginning on or after 1 February 2015),
- **Amendments to various standards “Improvements to IFRSs (cycle 2012-2014)”** resulting from the annual improvement project of IFRS (IFRS 5, IFRS 7, IAS 19 and IAS 34) primarily with a view to removing inconsistencies and clarifying wording - adopted by the EU on 15 December 2015 (amendments are to be applied for annual periods beginning on or after 1 January 2016).

The adoption of these amendments to the existing standards has not led to any material changes in the Company's financial statements.

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

- **IFRS 9 “Financial Instruments”** - adopted by the EU on 22 November 2016 (effective for annual periods beginning on or after 1 January 2018),
- **IFRS 15 “Revenue from Contracts with Customers”** and amendments to IFRS 15 “Effective date of IFRS 15” - adopted by the EU on 22 September 2016 (effective for annual periods beginning on or after 1 January 2018).

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 for the following new standards, amendments to the existing standards and new interpretation, which were not endorsed for use in EU as at 28 April 2017 (the effective dates stated below is for IFRS in full):

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

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2016

**2 ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS
(CONTINUED)****2.3. New standards and amendments to the existing standards issued by IASB but not yet adopted by the EU (continued)**

- **IFRS 16 “Leases”** (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to IFRS 2 “Share-based Payment”** - Classification and Measurement of Share-based Payment Transactions (effective for annual periods beginning on or after 1 January 2018),
- **Amendments to IFRS 4 “Insurance Contracts”** - Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (effective for annual periods beginning on or after 1 January 2018 or when IFRS 9 “Financial Instruments” is applied first time),
- **Amendments to IFRS 10 “Consolidated Financial Statements” and IAS 28 “Investments in Associates and Joint Ventures”** - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded),
- **Amendments to IFRS 15 “Revenue from Contracts with Customers”** - Clarifications to IFRS 15 Revenue from Contracts with Customers (effective for annual periods beginning on or after 1 January 2018),
- **Amendments to IAS 7 “Statement of Cash Flows”** - Disclosure Initiative (effective for annual periods beginning on or after 1 January 2017),
- **Amendments to IAS 12 “Income Taxes”** - Recognition of Deferred Tax Assets for Unrealised Losses (effective for annual periods beginning on or after 1 January 2017),
- **Amendments to IAS 40 “Investment Property”** - Transfers of Investment Property (effective for annual periods beginning on or after 1 January 2018),
- **Amendments to various standards “Improvements to IFRSs (cycle 2014-2016)”** resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording (amendments to IFRS 12 are to be applied for annual periods beginning on or after 1 January 2017 and amendments to IFRS 1 and IAS 28 are to be applied for annual periods beginning on or after 1 January 2018),

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2016

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

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

- **IFRIC 22 “Foreign Currency Transactions and Advance Consideration”** (effective for annual periods beginning on or after 1 January 2018).

The Group anticipates that the adoption of these new standards and amendments to the existing standards will have no material impact on the financial statements of the Group in the period of initial application.

Impact of IFRSs 15

IFRS 15 establishes a unique, comprehensive model for entities that derive revenue from customer contracts. IFRS 15 will, in effect, replace the existing revenue recognition guidelines, including IAS 18 "Revenue", IAS 11 "Construction Contracts" and related interpretations.

The underlying principle of IFRS 15 is that an entity recognizes revenue as a reflection of the transfer of promised goods or services to the customer in the amount reflecting the remuneration it expects to be entitled to in return for the promised good or service. Specifically, the new revenue standard introduces access to recognition and measurement of revenue through five steps:

1. Step 1: Identify the contract (s) with the buyer
2. Step 2: Determine the Contract on Obligations to Perform
3. Step 3: Determine the price of the transaction
4. Step 4: Transfer the price of the transaction to the contractual obligations to the performance
5. Step 5: Recognize revenue when, i.e., how an entity fulfills its obligation to perform

The Group expects that adoption of IFRS 15 will have an impact on the Group's financial statements for the first time they are applied, but it is not currently possible to determine the significance of the impact.

Impact of IFRSs 16

The Group envisages that adoption of IFRS 16 will have an impact on the Group's financial statements during their first application period, but it is not currently possible to determine the significance of the impact.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2016

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

3.1 Statement of compliance

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

3.2 Basis of preparation

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

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

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

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2016

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

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

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

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

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

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

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2016

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

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

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

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

3.4 Business combinations

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

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

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

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

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

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

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2016

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

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

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

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

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

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

3.5 Goodwill

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

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

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

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

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

3.6 Interests in associates and joint ventures

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

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

Notes to the unconsolidated financial statements (continued)

For the year ended 31 December 2016

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

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

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

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

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

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

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

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

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2016

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**3.7 Interests in joint operations**

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

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

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

3.8 Interests in joint management

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

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

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

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

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

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

3.9 Functional and presentation currency

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

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

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2016

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**3.10 Use of estimates and judgments**

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

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

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

3.11 Revenue recognition

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

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

(i) Income from the wholesale of products and merchandise

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

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

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

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

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

(iii) Service income

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

(iv) Financial income

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

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2016

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**3.12 Leasing***The Group as lessor*

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

The Group as lessee

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

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

3.13 Foreign currencies*(i) Foreign-currency transactions and balances*

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

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

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

The valid exchange rate of the Croatian currency at 31 December 2016 was 7.557787 for 1 EUR and 31 December 2015 was HRK 7.635047 for 1 EUR.

(ii) Group members

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

3.14 Borrowing costs

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

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

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2016

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**3.15 Government grants**

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

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

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

(ii) Long-term employee benefits

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

(iii) Short-term employee benefits

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

(iv) Share-based payments

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

3.17 Dividends

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

3.18 Operating segment reporting

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

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

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

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

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2016

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**3.19 Taxation****(i) Income tax**

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

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

(ii) Deferred tax assets and liabilities

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

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

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

(iii) Tax exposure

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

(iv) Value-added tax (VAT)

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

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2016

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.20 Property, plant and equipment

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

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

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

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

Freehold land is not depreciated.

Installations and equipment are stated at cost less impairment losses and accumulated impairment losses. Depreciation is calculated in such a way that the acquisition or estimated value of the property, other than the land owned and the tangible fixed assets, is written off during the estimated useful life using the straight-line method. Estimated useful life, residual values and depreciation methods are reviewed at the end of each year, with the effects of possible changes in estimates being calculated prospectively.

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

	2016	2015
Buildings	40 years	40 years
Plant and equipment	10 years	10 years
Office equipment and delivery vans	4 years	4 years
Telecommunication equipment	2 years	2 years
Personal cars	2,5 years	2,5 years
Compulsory 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.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2016

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.21 Intangible assets

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

(i) Brands and contracts with customers

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

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

(ii) Computer software

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

(iii) Goodwill

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

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

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

Goodwill was estimated assuming that the quantities sold will equal the history of the quantities sold obtained from Agrokor and that it will remain constant in the future. Another input into the calculation was the assumed constant spread (as the difference between the flour selling price 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)

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2016

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**3.22 Impairment of property, plant and equipment and intangible assets**

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

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

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

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

3.23 Inventory

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

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

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

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

3.24 Biological assets

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

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

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

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

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

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2016

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**3.25 Trade receivables**

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

3.26 Cash and cash equivalents

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

3.27 Equity

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

3.28 Financial instruments

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

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

3.29 Financial assets

Financial assets are recognised and derecognised on a trade-date basis where the purchase or sale of a financial asset is under a contract whose terms require delivery of the investment within the time frame established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through the statement of comprehensive income, which are initially measured at fair value.

Financial assets are classified into the following categories: financial assets at fair value through profit or loss (FVTPL), financial assets available for sale (AFS) and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Financial assets at FVTPL

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

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Company manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2016

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

A financial asset other than a financial asset held for trading or contingent consideration that may be paid by an acquirer as part of a business combination may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 permits the entire combined contract to be designated as at FVTPL.

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

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

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

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

The fair value of AFS monetary financial assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate prevailing at the end of the reporting period. The foreign exchange gains and losses that are recognised in profit or loss are determined based on the amortised cost of the monetary asset. Other foreign exchange gains and losses are recognised in other comprehensive income.

Loans and receivables

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

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

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

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

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2016

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

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

- significant financial difficulty of the issuer or counterparty;
- breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as trade receivables, assets are assessed for impairment on a collective basis even if they were assessed not to be impaired individually. Objective evidence of impairment for a portfolio of receivables could include the Company's past experience in collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 60 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets that are carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of AFS equity securities, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. In respect of AFS debt securities, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

Derecognition of financial assets

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

Classification as debt or equity

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2016

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.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2016

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.29 Financial assets (continued)

Impairment of financial assets (continued)

Equity instruments

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

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

3.30 Financial liabilities

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

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

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

A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing it in the near term;
- on initial recognition it is part of a portfolio of identified financial instruments that the Company manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading or contingent consideration that may be paid by an acquirer as part of a business combination may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise;
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Company's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 permits the entire combined contract to be designated as at FVTPL.

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

Other financial liabilities

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

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2016

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

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

Financial guarantee contracts

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

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

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

Derecognition of financial liabilities

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

3.31 Provisions

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

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2016

4 CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

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

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

Critical judgements in applying accounting policies

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

(i) Revenue recognition

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

(ii) Consequences of certain legal actions

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

(iii) Recoverable amount of trade and other receivables

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

(iv) Impairment test of intangible assets

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

	Milling	Dairy	31 December 2016
Trademarks	120,000	-	120,000
Goodwill	60,379	-	60,379
Customer list	5,696	-	5,696
Software and other intangible assets	401	733	1,010
	188,142	733	187,085

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 2016 the carrying amount of goodwill was HRK 60 million (31 December 2015: HRK 60 million).

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2016

4 CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (CONTINUED)

(iv) Impairment test of intangible assets (continued)

Goodwill impairment test

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

If the discount and long-term growth rate were different than the management's estimates as at 31 December 2016 and 2015, 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 10.13 percent for goodwill and 12.13 percent for brands. 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 2016 the Company performed impairment tests for goodwill and trademarks.

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

(v) Useful life of property, plant and equipment

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

(vi) Fair value of assets

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

5 SALES INCOME

	in thousands of HRK	
	2016	2015
Sales income – domestic	630,389	655,264
Sales income – foreign	181,360	245,006
	811,749	900,270

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

The Group monitors its performance through the following operating segments:

- Mill operations
- Dairy
- Wholesale
- Others

Segment information – industry analysis:

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

	in thousands of HRK	
	2016	2015
Milling Operations	277,428	296,108
Dairy	170,079	168,931
Wholesale	314,589	379,948
Others	49,653	55,283
	811,749	900,270

Geographic analysis

	in thousands of HRK	
	2016	2015
Croatia	630,389	655,264
Italy	66,764	11,610
Serbia	32,326	181,489
Hungary	27,098	2,730
Slovenia	23,611	15,237
Bosnia and Herzegovina	20,685	21,955
Macedonia	2,946	2,177
Montenegro	2,330	2,224
Romania	1,985	-
France	-	4,293
Other countries	3,615	3,291
	811,749	900,270

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2016

6 OTHER INCOME

	in thousands of HRK	
	2016	2015
Income from subsidies	10,841	10,430
Subsequent credit notes from suppliers	5,077	7,672
Income from herd growth	4,922	4,932
Inventory surplus	3,406	3,153
Income from the collection of damages by litigation	1,714	7,362
Subsequently identified income	1,220	1,538
Income from sale of fixed assets	634	75
Other income	3,425	2,786
	31,239	37,948

Income related to claims are related to claims against the claims of insurance companies, while in 2015 they include incomes on a court dispute with the company PZ Osatina in the amount of HRK 4,836 thousand.

7 MATERIAL EXPENSES

The structure of material expenses is as follows:

	in thousands of HRK	
	2016	2015
Cost of raw material	312,392	360,539
Energy used	24,566	29,339
Inventory spillage, breakage and similar costs	2,990	3,479
Cost of inventories for sold livestock	1,216	1,082
Other material expenses	2,672	2,385
Cost of raw material	343,836	396,824
Cost of goods sold	308,144	344,403
Telecommunication and transport expenses	30,718	29,088
Maintenance and securities services	5,883	6,050
Rental costs	4,507	4,840
Cost of UHT milk finishing	2,596	2,854
Product development services	2,395	2,693
Intellectual services	2,136	2,336
Quality control costs	1,667	2,478
Other sales costs	1,311	4,100
Promotions and sponsorships	1,245	1,722
Other external costs	5,789	5,327
	58,247	61,488
	710,227	802,715

Notes to the unconsolidated financial statements (continued)

For the year ended 31 December 2016

8 STAFF EXPENSES

	in thousands of HRK	
	2016	2015
Salaries	27,728	26,076
Income tax and contributions from salaries costs	11,184	10,343
Contributions on salaries costs	6,691	6,204
	45,603	42,623

9 VALUE ADJUSTMENT OF EXPENSES

	in thousands of HRK	
	2016	2015
Inventories	2,111	-
Receivables	1,072	2
Other receivables	611	966
	3,794	968

10 OTHER EXPENSES

	in thousands of HRK	
	2016	2015
Reimbursement of expenses to employees	2,771	4,257
Insurance premiums	2,498	2,944
Bank services	2,119	2,116
Contributions, membership fees and similar	1,161	1,048
Daily allowances	669	575
Rights, patents	95	273
Other expenses	530	613
	9,843	11,826

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2016

11 OTHER OPERATING EXPENSES

	in thousands of HRK	
	2016	2015
Subsequently approved cassa sconto	7,884	7,675
Carrying value of disposed assets	1,426	839
Cost of representation and donation	1,195	832
Spillage, breakage and similar damage on goods	1,126	1,033
Fines, penalties and damages	534	172
Legal actions	-	5,248
Other operating expenses	1,208	1,849
	13,373	17,648

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

During 2016 there were no costs related to the court case with PZ Osatina, while in 2015 costs related to the court dispute with the PZ Osatina amounted to HRK 5,248 thousand. According to the same court verdict, income was also realized as shown in note 7.

12 FINANCIAL INCOME AND EXPENSES

Financial income

	in thousands of HRK	
	2016	2015
Exchange differences	2,278	3,805
Interest on given loans	1,936	1,413
Late-payment interest	675	2,770
Gains from stock transactions	160	847
Dividend income	20	-
Other financial income	-	1,384
	5,069	10,219

Financial expenses

	in thousands of HRK	
	2016	2015
Interest expense	25,640	20,917
Discount on bills of exchange	4,494	4,302
Exchange differences	1,878	2,714
Late-payment interest	1,122	3,812
Value adjustment of financial assets	60	-
Losses on value adjustment of financial assets	31	115
Other financial expenses	173	66
	33,398	31,926

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2016

13 INCOME TAX

Income tax recognized in profit or loss

The tax expense / (income) comprises the following:

	in thousands of HRK	
	2016	2015
Current tax	2,080	3,582
Deferred tax revenue	(2,100)	-
Tax (income) / expense	(20)	3,582

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	
	2016	2015
Profit/(loss) before taxation	4,898	19,651
Income tax at the rate of 20% (2015: 20%).	980	3,930
Tax effect of consolidation adjustments	7	58
Effect of non-taxable income	(40)	(40)
Effect of tax non-deductible expenses	1,609	1,363
Effect of grants (research and development, education, etc.).	(12)	(16)
Effect of unused tax losses and tax offsets not recognised as deferred tax assets	(6,800)	(8,939)
Income tax expense from continuing operations recognised in profit or loss	2,080	3,582
Income from operating activities recognized in profit or loss	(2,100)	-
Tax income un recognized in other comprehensive income	(4,236)	(7,226)
Effective tax rate	0%	18%

The effect of unrecognized tax expense is increased by HRK 183 thousand - that is 20% of the write-offs of the receivables in Žitar HRK 919,450 which were carried out only through the consolidated report.

Deferred tax assets and deferred tax liabilities

Analysis of deferred tax assets and deferred tax liabilities reported in the Consolidated Statement of Financial Position:

	u tisućama kuna	
	2016. godina	2015. godina
Deferred tax assets	2,100	-
Deferred tax liabilities	(15,390)	(16,118)
	(13,290)	(16,118)

Deferred tax assets are presented in the Consolidated Statement of financial position as follows:

	in thousands of HRK	
	31 December 2016	31 December 2015
Balance at 1 January	-	-
Recognition os deferred tax assets	2,100	-
	2,100	-

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2016

13 INCOME TAX (CONTINUED)

Deferred tax assets are arising from:

2016	Opening balance	Recognised in profit or loss	in thousands of HRK
			Closing balance
Non-current asset adjustments			
Deferred tax liabilities	-	2,100	2,100
	-	2,100	2,100

Unused tax losses

In accordance with the tax regulations, the Group has deferred tax losses amounting to HRK 31,679 thousand as at 31 December 2016 (carrying taxable losses of HRK 36,129 thousand as at 31 December 2015). These tax losses are transferable 5 years in advance of the year of tax loss.

Deferred tax liability is recognized only to the extent of the tax losses that are expected to be utilized in future periods.

Deferred tax liabilities are arising from:

2016	Opening balance	Recognised in profit or loss	in thousands of HRK
			Closing balance
Non-current asset adjustments	16,118	(728)	15,390
Deferred tax liabilities	16,118	(728)	15,390

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

	31 December 2016	31 December 2015
Balance at 1 January	16,118	16,846
Decrease	(728)	(728)
	15,390	16,118

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

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2016

14 INTANGIBLE ASSETS

Movements in intangible assets in 2016

<u>Cost</u>	Goodwill	concessions,	Trademarks,	Customer list	Software and other rights	TOTAL	in thousands of HRK	
							licenses	
Balance at 1 January 2016	60,379	120,000	120,000	10,000	3,749	194,128		
Additions	-	-	-	-	295	295		
Balance at 31 December 2016	60,379	120,000	120,000	10,000	4,044	194,423		
<u>Accumulated amortisation</u>								
Balance at 1 January 2016	-	-	-	2,638	2,615	5,253		
Charge for the year	-	-	-	1,666	419	2,085		
Balance at 31 December 2016	-	-	-	4,304	3,034	7,338		
Net book value at 1 January 2016	60,379	120,000	120,000	7,362	1,134	188,875		
Net book value at 31 December 2016	60,379	120,000	120,000	5,696	1,010	187,085		

Intangible assets in the amount of HRK 120,000 thousand (2015: HRK 120,000 thousand) have been pledged as collateral for the Company's borrowings (Note 25).

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2016

14 INTANGIBLE ASSETS (CONTINUED)

Movements in intangible assets in 2015

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

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2016

15. PROPERTY, PLANT AND EQUIPMENT

Movements in property, plant and equipment in 2016

	Land	Buildings	Plant, equipment	Tools, transportation equipment and vehicle	Biological assets	Advance payments for purchase of property	Other tangible assets for construction	Assets under construction	Investments in property	TOTAL
Cost										
Balance at 1 January 2016	27.363	343.876	203.087	15.697	17.570	326	183	24.523	4.458	637.083
Additions	305	1.378	2.531	1.491	-	484	-	12.241	-	18.430
Transfers	-	5.356	9.387	532	-	-	-	(15.275)	-	-
Natural increase	-	-	-	-	4.769	-	-	-	-	4.769
Reclassification	-	-	-	-	-	(550)	-	550	-	-
Disposals	-	-	(6.426)	(4.048)	(3.938)	-	-	(262)	(4.026)	(18.700)
Write off	-	-	(285)	(11)	(2.098)	-	-	-	-	(2.394)
Balance at 31 December 2016	27.668	350.610	208.294	13.661	16.303	260	183	21.777	432	639.188
Accumulated depreciation										
Balance at 1 January 2016	-	109.768	129.179	12.646	6.170	-	98	-	1.606	259.467
Depreciation of revaluation	-	7.835	13.898	1.261	2.068	-	2	-	64	25.128
Reclassification	-	-	-	-	-	-	-	-	-	-
Disposals	-	-	(3.626)	(3.564)	(1.671)	-	-	-	(1.670)	(10.531)
Write off	-	-	(276)	(10)	(891)	-	-	-	-	(1.177)
Depreciation of revaluation	-	2.517	1.442	30	-	-	-	-	-	3.989
Balance at 31 December 2016	-	120.120	140.617	10.363	5.676	-	100	-	-	276.876
Net book value at 1 January 2016	27.363	234.108	73.908	3.051	11.400	326	85	24.523	2.852	377.616
Net book value at 31 December 2016	27.668	230.490	67.677	3.298	10.627	260	83	21.777	432	362.312

Tangible assets in the amount of HRK 281,580 thousand (2015: HRK 257,041 thousand) have been pledged as collateral for the Company's borrowings (Note 25).

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2016

15. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Movements in property, plant and equipment in 2015

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

16 FINANCIAL ASSETS

(a) Investments at fair value through profit or loss

	in thousands of HRK	
	31 December 2016	31 December 2015
Zagrebačke pekare Klara d.d., Zagreb	19,925	19,925
Prehrana trgovina d.d., Zagreb	536	536
PZ Zabara	10	10
Žitozajednica d.o.o., Zagreb	1	1
	20,472	20,472

Ownership interest:

	31 December 2016	31 December 2015
Zagrebačke pekare Klara d.d., Zagreb	18.25%	18.25%
Prehrana trgovina d.d., Zagreb	11.48%	11.48%
Poljoprivredna zajednica Zabara	12.75%	12.75%
Žitozajednica d.o.o., Zagreb	2.08%	2.08%

(b) Given loans, deposits and similar

	in thousands of HRK	
	31 December 2016	31 December 2015
Loans to legal persons	5,668	8,271
Loans to individuals	479	550
Deposits	404	607
	6,551	9,428

The trend of long-term loans during the year is shown in Note 20.

17 INVENTORIES

	in thousands of HRK	
	31 December 2016	31 December 2015
Raw materials	24,363	56,936
Finished products	29,038	25,790
Merchandise	28,403	15,731
Work in progress	8,882	10,425
Advance payments for inventories	16	56
	90,702	108,938

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2016

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

a) Trade receivables

	in thousands of HRK	
	31 December 2016	31 December 2015
Domestic	143,759	138,067
Cooperators	28,347	27,123
Foreign	19,887	33,166
Value adjustment	(24,851)	(25,264)
	167,142	173,092

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

Value adjustment of trade receivables

	in thousands of HRK	
	2016	2015
Balance at 1 January	25,264	28,098
Increase – trade receivables	975	-
Increase – cooperative receivables	52	-
Adjusted receivables write off	(466)	(1,442)
Subsequent recovery of impaired trade receivables and receivables from cooperative farmers	(974)	(1,392)
Balance at 31 December	24,851	25,264

The aging analysis of outstanding receivables from customers where no impairment has been made is shown in the following table:

	in thousands of HRK	
	31 December 2016	31 December 2015
Not yet due	94,228	101,173
0 - 90 days past due	58,780	49,168
91 - 180 days past due	5,956	14,805
181 - 360 days past due	2,402	1,176
> 360 days past due	5,776	6,770
	167,142	173,092

The Group carried out a test of impairment of all receivables from customers and receivables from cooperatives and estimated that receivables from customers and subcontractors as at 31 December 2016 were reported in the age of 360 days.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2016

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

b) Receivables from the State and other institutions

	in thousands of HRK	
	31 December 2016	31 December 2015
Receivables for grants	5,745	6,224
VAT receivables	4,792	7,185
Overpaid income tax	215	8
Other receivables from the State and other institutions	112	119
	10,864	13,536

c) Other receivables

	in thousands of HRK	
	31 December 2016	31 December 2015
Receivables by regressive factorization	106,100	-
Receivables by cessions and compensations	2,676	3,703
Receivables for intrests	1,885	1,159
Given advances	1,718	1,964
Receivables from insurance companies	1,148	119
Other receivables	151	139
	113,678	7,084

Receivables by regressive factorization in the amount of HRK 106,100 thousand refer to receivables based on bills of exchange with regress right, discounted at factoring companies. For more details, see footnote 25a.

19 NON-CURRENT FINANCIAL ASSETS

a) Investments in securities

	in thousands of HRK	
	31 December 2016	31 December 2015
Investments in stocks at fair value through profit or loss	700	542
Investments in bills of exchange	182	154
	882	696

b) Given loans, deposits and similar

	in thousands of HRK	
	31 December 2016	31 December 2015
Loans to legal persons	5,637	8,045
Short-term loans to individuals	978	861
Given deposits	42	47
Given loans deposits and similar	6,657	8,953
Given loans to related parties	20,559	20,121
	27,216	29,074

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2016

19 NON-CURRENT FINANCIAL ASSETS (CONTINUED)

Movement in given loans in 2016

	Opening balance – 1 January 2016	Increase in receivables	Transfer from receivables to financial assets	Write- off/ value adjustment of loans given	Collection of given loans	Transfer of a portion of long- term receivables to short-term	FX differences	Closing balance – at 31 December 2016
Given long-term loans								
Loans to third parties	8,271	-	-	-	-	(2,508)	(95)	5,668
Loans to individuals	550	-	-	-	(8)	(60)	(3)	479
Total long-term loans	8,821	-	-	-	(8)	(2,568)	(98)	6,147
Short-term loans and short-term part of long-term loans								
Loans to related individuals	20,121	650	-	-	(212)	-	-	20,559
Loans to third parties	8,045	80,686	137	-	(85,717)	2,508	(22)	5,637
Loans to individuals	861	750	-	(60)	(628)	60	(5)	978
Total short-term loans	29,027	82,086	137	(60)	(86,557)	2,568	(27)	27,174
TOTAL	37,848	82,086	137	(60)	(86,565)	-	(125)	33,321

Notes to the consolidated financial statements (continued)
For the year ended 31 December 2016

19 NON-CURRENT FINANCIAL ASSETS (CONTINUED)

Movement in given loans in 2015

	Opening balance – 1 January 2015	Increase in receivables	Principal repaid	Principal written off/written down	Transfer of a portion of long- term receivables to short-term	FX differences	Closing balance – at 31 December 2015
Given long-term loans							
Loans to third parties	10,853	-	-	-	(2,545)	(37)	8,271
Loans to individuals	329	30	-	(58)	249	-	550
Total long-term loans	11,182	30	-	(58)	(2,296)	(37)	8,821
Short-term loans							
Loans to related individuals	15,828	6,131	-	(1,838)	-	-	20,121
Loans to third parties	5,069	21,488	4,392	(25,418)	2,545	(31)	8,045
Loans to individuals	4,350	31	3	(3,269)	(249)	(5)	861
Total short-term loans	25,247	27,650	4,395	(30,525)	2,296	(36)	29,027
TOTAL	36,429	27,680	4,395	(30,583)	-	(73)	37,848

Maturity of long-term loans:

	stanje 31. prosinca 2016. godine	2017.	2018.	2019.	2020.	2021+
Loans to related parties	20,559	20,559	-	-	-	-
Loans to legal entities	11,305	5,637	2,519	2,519	630	-
Loans to physical persons	1,457	978	75	74	57	273
	33,321	27,174	2,594	2,593	687	273

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A long-term loan to legal entities refers to a loan granted to company Cautio by the company Žitar d.o.o.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2016

20 CASH AND CASH EQUIVALENTS

	in thousands of HRK	
	31 December 2016	31 December 2015
Bank accounts – domestic currency	8,468	21,032
Bank accounts – foreign currency	1,032	1,392
Cash register	2	2
Short-term bank deposits	227	-
	9,729	22,426

21. PREPAID EXPENSES AND ACCRUED INCOME

	in thousands of HRK	
	31 December 2016	31 December 2015
Prepaid expenses	4,601	5,005
Accrued income	-	302
	4,601	5,307

Movements in future period expenses during the year were as follows:

	in thousands of HRK	
	31 December 2016	31 December 2015
1 January	5,005	1,513
Increase in prepaid expenses	168	3,905
Decrease in prepaid expenses	(572)	(413)
31 December	4,601	5,005

22 EQUITY

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

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

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

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

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

As of 31 December 2016, 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 result of the sale of shares through the public offering is also capital gain, which, minus the recapitalization costs, amounted to HRK 84,187 thousand as at 31 December 2016.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2016

22 EQUITY (CONTINUED)

The ownership structure of the share capital at 31 December 2016 is presented below, with the largest 10 shareholders holding 94.27 percent of the shares at that date:

	31 December 2016		31 December 2015	
	No. of shares in thousands	Ownership in %	No. of shares in thousands	Ownership in %
Hrvoje Filipović	1,105	58.11%	1,155	60.74%
Addiko bank d.d./PBZ.CO. Mandatory pension fund- category B	150	7.89%	150	7.89%
Societe Generale-Splitska banka d.d./Erste blue Mandatory pension fund- category B	149	7.85%	149	7.85%
Podravska banka d.d.	125	6.57%	164	8.63%
HOK - osiguranje d.d.	67	3.53%	75	3.93%
Primorska banka d.d. Rijeka/Collector's account of private banking clients - DF	61	3.21%	11	0.58%
Primorska banka d.d. Rijeka/ Collector's account of legal entity's	46	2.40%	35	1.82%
HPB d.d./ Fund for financing propertys (1/1)	35	1.84%	-	-
Privredna banka Zagreb d.d./ custody client account	28	1.45%	28	1.45%
Addiko bank d.d./SZAIF d.d.	27	1.42%	27	1.42%
Others	109	5.73%	108	5.69%
	1,902	100.00%	1,902	100.00%

23. MINORITY INTEREST

	in thousands of HRK	
	31 December 2016	31 December 2015
Share capital	72,368	72,368
Retained earnings	(13,738)	(18,657)
Profit/(loss) for the year	2,512	4,919
	61,142	58,630

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2016

24 LIABILITIES TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	in thousands of HRK	
	31 December 2016	31 December 2015
<u>Long-term liabilities</u>		
Bank loans	333,204	364,466
Financial leasing	2,750	2,458
	335,954	366,924
<u>Short-term liabilities</u>		
Bank loans	133,347	91,973
Financial leasing	1,731	2,569
Liabilities under assumed payment obligations (cession, assignment and debt assumption contracts)	1,500	1,500
	136,578	96,042
	472,532	462,966

Summary of borrowing arrangements

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

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

Granolio d.d. at the end of 2016, signed an annex to the Club Loan Agreement (as of 31st July 2015), which modified the dynamics of repayment of Tranche B with some other conditions that were changed for the benefit of the Company. Club credit is also secured by shares in subsidiaries Žitar d.o.o. and Zdenka - Milk Products d.o.o.

Company Granolio d.d has agreed covenants per club loan. As of 31 December 2016 Granolio d.d. operates according to the conditions of the covenant.

A portion of long-term loans, including financial leasing, that matures by 31 December 2017 amounts to HRK 32,401 thousand and is stated at short-term liabilities.

Remaining liabilities are due in the period from 31 December 2017 to August 2025.

Short-term loans are intended to finance liquidity and finance the purchase of wheat. The value of tangible assets loaded with a loan to banks on 31 December 2016 amounted to HRK 483,968 thousand (as at 31 December 2015: HRK 516,834 thousand) relating to:

Mortgages Granolio d.d., Zagreb:

1. Tangible asset: HRK 128,415 thousand
2. Intangible asset: HRK 120,000 thousand
3. Shares in Zdenka and Žitaru: HRK 82,388 thousand

Total value of assets under mortgages: HRK 330,803 thousand

Zdenka – mliječni proizvodi d.o.o., Veliki Zdenci- value of tangible assets under mortgages: HRK 45,160 thousand

Žitar d.o.o., Donji Miholjac - value of tangible assets under mortgages: HRK 42,086 thousand

Prerada žitarica d.o.o. - value of tangible assets under mortgages: HRK 33,810 thousand

Zdenačaka farma d.o.o.. - value of tangible assets under mortgages: HRK 32,109 thousand

Notes to the consolidated financial statements (continued)
For the year ended 31 December 2016

24 LIABILITIES TO BANKS AND OTHER FINANCIAL INSTITUTIONS (CONTINUED)

Liabilities to banks and other financial institutions in 2016

	Opening balance – 1 January 2016	Increase in liabilities	Principal repaid	Transfer of a portion of long-term loans to short-term	FX differences	Closing balance – at 31 December 2016
Long-term loans						in thousands of HRK
Long-term bank loans	364,466			(30,618)	(644)	333,204
Long-term finance lease obligations	2,458	3,094	(935)	(1,833)	(34)	2,750
Total long-term loans	366,924	3,094	(935)	(32,451)	(678)	335,954
Short-term loans						
Short-term bank loans	91,973	154,280	(143,572)	30,618	48	133,347
Liabilities under assumed payment obligations (cession, assignment and debt assumption contracts)	1,500	12,268	(12,268)	-	-	1,500
Current portion of the lease obligations	2,569		(2,675)	1,833	4	1,731
Total short-term loans	96,042	166,548	(158,515)	32,451	52	136,578
TOTAL	462,966	169,642	(159,450)	-	(626)	472,532

Notes to the consolidated financial statements (continued)
For the year ended 31 December 2016

24 LIABILITIES TO BANKS AND OTHER FINANCIAL INSTITUTIONS (CONTINUED)

Liabilities to banks and other financial institutions in 2015

	Beginning balance 1 January 2015	Increase in liabilities	Principal repaid	Transfer of a portion of long-term loans to short-term	FX differences	Closing balance – at 31 December 2015
Long-term loans						
Long-term bank loans	154,841	300,000	(58,335)	(31,604)	(436)	364,466
Long-term finance lease obligations	3,589	1,921	(492)	(2,527)	(33)	2,458
Total long-term loans	158,430	301,921	(58,827)	(34,131)	(469)	366,924
Short-term loans						
Short-term bank loans	325,086	113,031	(376,379)	31,604	(1,369)	91,973
Current portion of the lease obligations	-	21,020	(19,520)	-	-	1,500
Liabilities under assumed payment obligations (cession, assignment and debt assumption contracts)	3,733	-	(3,728)	2,527	37	2,569
Total short-term loans	328,819	134,051	(399,627)	34,131	(1,332)	96,042
TOTAL	487,249	435,972	(458,454)	-	(1,801)	462,966

in thousands of HRK

The bank loans and finance leases mature as follows:

	Balance 31 December 2016	2017	2018	2019	2020	From 2021
Domestic banks	466,551	133,347	33,806	37,602	35,739	226,057
Finance lease	4,481	1,731	1,027	871	634	218
Liabilities under assumed payment obligations (cession, assignment and debt assumption contracts)	1,500	1,500	-	-	-	-
	472,532	136,578	34,833	38,473	36,373	226,275

in thousands of HRK

24 LIABILITIES TO BANKS AND OTHER FINANCIAL INSTITUTIONS (CONTINUED)

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

	31 December 2016	31 December 2015
Granolio d.d., Zagreb	2,487	160
Žitar d.o.o., Donji Miholjac	7,552	7,865
Zdenka-mliječni proizvodi d.o.o., Veliki Zdenci	2,690	3,104
Zdenačka farma d.o.o., Veliki Zdenci	51	26
	12,780	11,155

25 SHORT-TERM LIABILITIES

(a) Trade payables

	in thousands of HRK	
	31 December 2016	31 December 2015
Domestic payables	90,805	116,753
Foreign payables	12,245	12,823
Amounts not yet billed	24	1,036
	103,074	130,612

The maturity structure of trade payables at 31 December 2016:

	in thousands of HRK	
	31 December 2016	31 December 2015
Not yet due	40,011	52,272
0 - 90 days past due	51,928	65,942
91 - 180 days past due	6,020	9,038
181 - 360 days past due	2,537	1,419
> 360 days past due	2,578	1,941
	103,074	130,612

(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 2016	31 December 2015
VAT payable	5,018	5,989
Income tax payable	1,444	3,062
Taxes and contributions from and on salaries	91	1,418
Other taxes and contributions	277	306
	6,830	10,775

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2016

25 SHORT-TERM LIABILITIES (CONTINUED)

(d) Other short-term liabilities

	in thousands of HRK	
	31 December 2016	31 December 2015
Liabilities based on recourse factoring	106,100	-
Other short-term liabilities	527	130
	106,627	130

Obligations based on a recourse factoring right in the amount of HRK 106,000 thousand according to the customer group where the process of potential reorganization and changes in the business model began after the reporting date.

		31. December 2016
Bills of exchange received from	Bills of exchange consecrated with	
Agrokor-trgovina d.o.o.	Erste factoring d.o.o.	65,000
Velpro-centar d.o.o.	C.I.M. Banque, Geneva, CH	20,000
Agrokor-trgovina d.o.o.	Erste factoring d.o.o.	15,000
Konzum d.d.	Raiffeisen factoring d.o.o.	6,000
Brodokomerc nova d.o.o.	Slatinska banka d.d.	100
		106,100

Bills of exchange in total value of HRK 21,100 thousand have been redeemed until the report date issue.

26 ACCRUED EXPENSES AND DEFERRED INCOME

	in thousands of HRK	
	31 December 2016	31 December 2015
Deferred income	12,223	13,801
Accrued expenses	582	553
	12,805	14,354

Moving of deferred income during the year was as follows:

	in thousands of HRK	
	2016	2015
1 January	13,801	15,757
Increase in deferred income	435	32
Increase in deferred income	(2,013)	(1,988)
31 December	12,223	13,801

Moving of accrued expenses during the year was as follows:

	in thousands of HRK	
	2016	2016
1 January	553	1
Increase in accrued expenses	522	552
Increase in accrued expenses	(493)	-
31 December	582	553

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2016

27 COMMITMENTS

At 31 December 2016 the Group has commitments under operating lease arrangements entered into for tangible fixed assets in the total amount of HRK 3,590 thousand and rent agreements in the total amount of HRK 13,669 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					
	2016	2017	2018	2019	2020	From 2021
Operating leases	3,590	1,909	1,165	348	125	43
Rentals	13,669	1,209	1,021	818	615	10,006
	17,259	3,118	2,186	1,166	740	10,049

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2016

28 RELATED-PARTY TRANSACTIONS

	in thousands of HRK			
	31 December 2016			
	Assets		Liabilities	
	Trade receivables and other receivables	Given loans	Long-term liabilities	Short-term liabilities
Stan arka d.o.o.	169	14,660	-	-
Key management	162	5,899	-	-
	331	20,559	-	-

	in thousands of HRK			
	31 December 2015			
	Assets		Liabilities	
	Trade receivables and other receivables	Given loans	Long-term liabilities	Short-term liabilities
Stan arka d.o.o.	89	14,810	-	-
Key management	419	5,311	-	-
	508	20,121	-	-

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

The remuneration of key management in 2016 are amounts 3,552 thousand (in 2015: 3,478 thousand).

During 2016 to members of the Supervisory Board has been paid out 252 thousand of compensations (in 2015: 187 million).

Income and expenses for the year ending on 31 December 2016 and 31 December 2015, arising from transactions with related parties, were as follows:

	In thousand of HRK			
	2016		2015	
	Income	Expenses	Income	Expenses
Stan arka d.o.o., Zagreb	81	-	88	-
Key management	165	-	157	-
	246	-	245	-

29 EARNINGS PER SHARE

	in thousands of HRK	
	31 December 2016	31 December 2015
	Profit/(Loss) attributable to the Group	2,406
The weighted average number of ordinary shares used in the calculation of the basic earnings per share	1,901,643	1,901,643
Earnings per share (in HRK)	1.27	5.86

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2016

30 RISK MANAGEMENT

30.1 Financial risks

Equity risk management

Net debt-to-equity (Gearing ratio)

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

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

	in thousands of HRK	
	<u>31 December 2016</u>	<u>31 December 2015</u>
Debt (long-term and short-term loans and liabilities for securities)	507,821	538,826
Lease liabilities (long-term and short-term)	4,481	5,027
Cash and cash equivalents	<u>(9,729)</u>	<u>(22,426)</u>
Net debt	<u>502,573</u>	<u>521,427</u>
Equity	237,208	232,514
Net debt-to-equity ratio	212%	224%

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

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

Categories of financial instruments

	in thousands of HRK	
	<u>31 December 2016</u>	<u>31 December 2015</u>
Financial assets		
Cash	9,729	22,426
Loans and receivables	214,337	225,238
Financial liabilities at amortized cost		
Loans received and liabilities for securities	512,302	543,853
Trade payables	103,286	130,851
Other liabilities	22,584	22,990

Financial risk management objectives

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

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

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2016

30 RISK MANAGEMENT (CONTINUED)

30.1 Financial risks (continued)

Market risk management

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

Currency risk

The Group is exposed to the risk of changes in foreign exchange rates. The exchange rate risk arises from the portion of the Group's loan debt tied to the movements in the exchange rate of the Croatian kuna against the euro. Significant fluctuations in the HRK/EUR exchange rate could affect the value of the Group's foreign-currency denominated assets and liabilities. In addition, according to the 2016 data, the Group generates around 23 percent of its total revenue on foreign markets and in euros, which is another aspect of the Group's performance being subject to the fluctuations in the EUR/HRK exchange rate.

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

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

	In thousands of the original currency			
	Assets		Liabilities	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
European Union (EUR)	4,756	4,636	14,400	12,678

Foreign currency sensitivity analysis

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

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

	in thousands of HRK	
	Increase / decrease of exchange rate	Effect on profit before taxes
2016		
EUR	+5%	(3,644)
	-5%	3,644
2015		
EUR	+5%	(3,070)
	-5%	3,070

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2016

30 RISK MANAGEMENT (CONTINUED)**30.1 Financial risks (continued)****Credit risk**

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

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

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

In the course of its operations, the Group enters into factoring contracts and/or discounted bills with factoring houses. The ultimate risk arising from the recoverability of the debt from the principal debtor is borne by the Group. At the reporting date, the contingent liabilities of the Group arising from factoring deals with recourse amount to HRK 106,1 million.

Until the report date bills of exchange were recovered in the amount of HRK 21.1 million.

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

Interest rate risk

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

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

The sensitivity analysis below is based on the risk of changes in interest rates at the date of the statement of financial position. For variable-rate debt, the analysis is prepared assuming the amount of the liability outstanding at the date of the statement of financial position was outstanding for the whole year. If the interest rates would change by 0.5 percent, and all other variables remained constant, there would be a change in the interest expense of the Group in the amount of HRK 1,867 thousand at 31 December 2016 (2015: HRK 2,004 thousand). The increased level of long-term debt at variable rates increases the impact of a potential change in the interest rates on the Group's profit.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2016

30 RISK MANAGEMENT (CONTINUED)

30.1 Financial risks (continued)

Liquidity risk

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

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

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

	Weighted average effective interest rate %	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
31 December 2016							
Non-interest bearing liabilities		55,364	41,590	13,443	106	80	110,583
Interest bearing liabilities	5.22%	8,950	69,861	118,847	207,489	207,641	612,788
		64,314	111,451	132,290	207,595	207,721	723,371
31 December 2015							
Non-interest bearing liabilities		102,135	11,755	10,997	7,964	4,123	136,974
Interest bearing liabilities	5.22%	10,139	57,798	134,861	270,609	185,126	658,533
		112,274	69,553	145,858	278,573	189,249	795,507

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

	Weighted average effective interest rate %	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
31 December 2016							
Non-interest bearing liabilities		69,259	86,161	28,285	226	-	183,931
Interest bearing liabilities	2.79%	56	373	28,538	6,238	219	35,424
		69,315	86,534	56,823	6,464	219	219,355
31 December 2015							
Non-interest bearing liabilities		135,777	40,765	24,060	1,418	1,124	203,144
Interest bearing liabilities	2.79%	272	298	29,155	9,357	260	39,342
		136,049	41,063	53,215	10,775	1,384	242,486

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2016

30 RISK MANAGEMENT (CONTINUED)

30.1 Financial risks (continued)

Fair value measurement

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

Financial assets and financial liabilities	Fair value as at		Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
	31 Dec 2016	31 Dec 2015				
Shares and units in private equity firms (Note 17).	18.25 % shares of Zagrebačke pekarnje Klara d.d., a Group from the bakery industry (bread, pastry and other related food products): HRK 19,925 thousand; and 11.48 % shares of Prehrana trgovina d.d., a trade Group: HRK 536 thousand;	18.25 % shares of Zagrebačke pekarnje Klara d.d., a Group from the bakery industry (bread, pastry and other related food products): HRK 19,925 thousand; and 11.48 % shares of Prehrana trgovina d.d., a trade Group: HRK 536 thousand;	Level 3	Income approach – in this approach, the discounted cash flow method was used to capture the present value of the expected future economic benefits to be derived from the ownership of these investees.	Based on the management's experience and knowledge of market conditions of the specific industries, a long-term revenue growth rate of 3 percent (2015: 6.5 %).	Shares and units in private equity firms (Note 17).
					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 9.69 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.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2016

30 RISK MANAGEMENT (CONTINUED)**30.2 Industry risk**

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

Flour production

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

Dairy product production

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

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

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

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

Livestock operations

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

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

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2016

30 RISK MANAGEMENT (CONTINUED)**30.2 Industry risk (continued)****Crop operations**

Crop production is exposed to unfavourable weather conditions (draught, floods, hail) which may lower the crop yield or impair its quality, or both, and in extreme cases result in completely devastated crops. Unfavourable weather affects the operations of Žitar which is engaged in crop operations, but also on cooperative farmers to whom the Group extends credits by offering seeds and intermediary products, which may ultimately reduce the farmers' ability to settle their commodity loan debt, as described in more detail in Note 31.1. Credit risk

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

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

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

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

Market risk

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

Input commodity and product delivery risks

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

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

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

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

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

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

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2016

30 RISK MANAGEMENT (CONTINUED)**30.2 Industry risk (continued)****Competition risk**

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

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

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

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

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

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

The risk of change of the owner

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

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

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

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

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2016

30 RISK MANAGEMENT (CONTINUED)**30.3 Risks arising from the ordinary course of business (continued)****Acquisition risk**

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

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

The Group cannot provide any assurance that it will be able to address properly all the risks of future acquisitions or integrations. As a result of an acquisition, the Group's 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 Group would be able to take on in the future. Any considerable increase in the Group's debt in connection with an acquisition could have a material impact on the Group's performance.

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

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

Working capital risk

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

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

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2016

30 RISK MANAGEMENT (CONTINUED)**30.3 Risks arising from the ordinary course of business (continued)****The input commodity price risk**

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

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

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

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

Dependence on the management and key personnel

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

IT risks

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

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2016

30 RISK MANAGEMENT (CONTINUED)**30.3 Risks arising from the ordinary course of business (continued)****Antitrust and competition law non-compliance risk**

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

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

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

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

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

Litigation risk

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

The risk of obligations or losses not covered by insurance

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

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2016

30 RISK MANAGEMENT (CONTINUED)**30.4 General risks****Business environment risk**

The business environment risk includes political, legal and macroeconomic risks prevailing in the business environment of the Group, which is primarily the Croatian market on which the Group generates almost 77% of its total revenue (2015: 73%), followed by the markets of Bosnia and Herzegovina, Italy, Serbia, Hungary and Slovenia. The Group can not provide any guarantee that the Croatian market where the Group realizes most of its revenues will continue with the successful implementation of political and economic reforms. Delays or failures in carrying them out could have an impact on the Group's business. The state budget savings and tax burden currently being implemented in the Republic of Croatia could result in slowing economic growth or reducing disposable income, which could affect both revenue and profitability of the Group.

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

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

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

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2016

30 RISK MANAGEMENT (CONTINUED)**30.4 General risks (Continued)****Business environment risk**

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

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

The risk of changes in the legal framework

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

Notes to the consolidated financial statements (continued)
For the year ended 31 December 2016

Granolio Group, Zagreb

31 CONTINGENT LIABILITIES

The Group as guarantor or co-debtor

	Amount	Balance in original currency at 31 December 2016	Balance in HRK at 31 December 2016	Maturity
Bills of exchange issued to CERP	HRK 40,500,000	HRK 40,500,000	40,500,000	31 December 2016 + 60 days
Corporate guarantee issued to CERP	HRK 40,700,000	HRK 40,700,000	40,700,000	31 December 2016 + 60 days
Total			81,200,000	

The bills of exchange and corporate 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. Annex 2 was signed on 6 February 2017, releasing us from the investment under the basic contract and obliging us to invest HRK 28 million in working capital and recapitalize the company in the amount of HRK 40.7 million. The insurance is valid until 1 March 2018.

Legal cases

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

32 EVENTS AFTER THE REPORTING DATE

Trade receivables and other receivables included in Note 18 include receivables in the amount of HRK 27,333 thousand and those due under a regressive right of factoring in the amount of HRK 106,100 thousand (see notes 19c and 24c) towards the group of customers in which, after the reporting date, the process of potential reorganization and business model changes started. Until the date of these reports of the total amount, bills of exchange worth HRK 21,100 were redeemed and the remaining liabilities decreased to HRK 85,000. At the time of approval of the financial statements, the process is only started and potential effects (if any) are uncertain, but the Management expects to be able to collect the entire amount of receivables.

33 MANAGEMENT AUTHORISATION OF FINANCIAL STATEMENTS FOR ISSUE

The financial statements were approved by the Management Board and authorized for issue on 28 April 2017.

Hrvoje Filipović dipl.oec.
President of the Management Board

Tomislav Kalafatić dipl.oec.
Management Board member

Vladimir Kalčić dipl.oec.
Management Board member

Drago Šurina dipl.oec.
Management Board member

Granolio d.d.
Supervisory Board
Number: 28-04-01/2017

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 2017, adopted

THE DECISION
ON PROPOSAL FOR THE DISTRIBUTION OF 2016 PROFIT

Pursuant to Article 300.c of the Companies Act the Supervisory Board has examined the Company's Annual financial statements for 2016 together with the Audit Report, the consolidated Annual financial statements of the Granolio Group for 2016 together with the Audit Report, the Management Report for the Company and affiliated Companies for 2016, as well as the proposal of the decision on distribution of 2016 profit.

The Supervisory Board agrees with the Management Board's proposal that the 2016 profit in the amount of HRK 2.506.535,26 kn (after taxes) is distributed as follows:

- legal reserves in the amount of HRK 125.326,76 and
- retained earnings in the amount of HRK 2.381.208,50.

Article 2.

This Decision enters into force on the day of its adoption.

Franjo Filipović
(*the president of the Supervisory Board*)

Zagreb, 28 April 2017

Granolio d.d.
Supervisory Board
Number: 28-04-01/2017

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 2017, brings

THE DECISION
ON ESTABLISHING THE FINANCIAL STATEMENTS FOR 2016

Pursuant to Article 300.c of the Companies Act the Supervisory Board has examined the Company's Annual financial statements for 2016 together with the Audit Report, the consolidated Annual financial statements of the Granolio Group for 2016 together with the Audit Report, the Management Report for the Company and affiliated Companies for 2016 as well as the proposal of the decision on distribution of 2016 profit.

It is the opinion of the Supervisory Board that the Company's Annual financial statements for 2016 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 2016. Therefore, the Supervisory Board approves the Company's Annual financial statements for 2016 and the consolidated Annual financial statements of the Granolio Group for 2016 which are thereby established 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 2016 and the Auditor's Report regarding the consolidated Annual financial statements of the Granolio Group for 2016.

Article 2.

This Decision enters into force on the date of its adoption.

Franjo Filipović
(*the president of the Supervisory Board*)

Zagreb, 28 April 2017
