

**Granolio d.d., Zagreb**

*Annual Management Board Report on the business performance and position of the  
Company and unconsolidated 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 Company for the year 2016**

**General information about Granolio d.d.**

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

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

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

The members of its Management Board are as follows: Hrvoje Filipović, Chairman  
Tomislav Kalafatić, Member  
Drago Šurina, Member  
Vladimir Kalčić, Member

Members of the Supervisory Board are as follows: Franjo Filipović, President  
Jurij Detiček, Deputy President  
Braslav Jadrešić, Member  
Davor Štefan, Member  
Josip Lasić, Member

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

The majority shareholder of the company is Mr Hrvoje Filipović, who holds 58.11 percent of the shareholders' equity.

At 31 December 2016 the ten largest shareholders of Granolio held a total ownership interest of 94.27 percent.

The principal activity of the Company comprises the production of and trade in agricultural products and cattle. At 31 December 2016 the business system of the Company comprised six active operations, of which three are production centres: grain mills Farina, Kopanica and Žitar d.o.o., engaged in the production, packaging, warehousing and dispatch of grain mill products.

The business unit Bjeliš is a grain drying and storage silo.

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

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

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

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



Because of Granolio's focus on the product and delivery quality as well as on building long-term relationships with customers, Granolio is engaged in the production of private labels for a majority of retail chains in Croatia. Currently, flour is produced for 16 private labels.

The output capacities of the Company's mills at 31 December 2016 are presented in the following table.

**Mill output capacities at 31 December 2016:**

Mill	ton/24h
Farina	320
Kopanica	230
	<b>550</b>

**Subsidiaries**

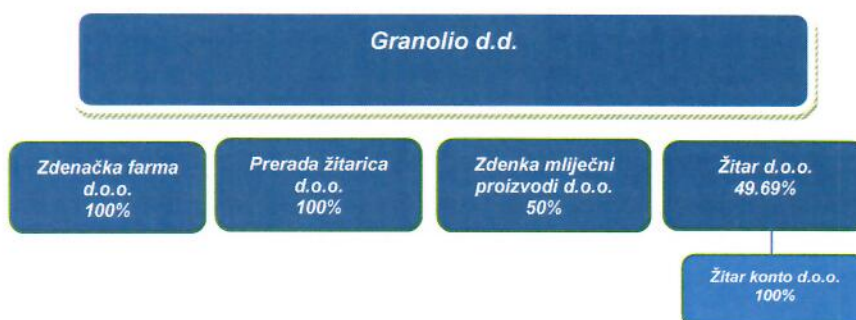
The Company holds the entire equity interest in Zdenačka farma d.o.o. and Prerada Žitarica d.o.o. It exercises the controlling influence in the decision-making process at Zdenka - mliječni proizvodi d.o.o. and Žitar d.o.o. These companies have been consolidated as part of the Granolio Group since 2011.

Žitar d.o.o., as the sole owner, has established another company, Žitar konto d.o.o., whose financial statements have been included in the 2016 consolidated financial statements.

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

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

*Granolio Group Structure*



**Significant transactions in the current accounting period**

In 2016 dividends were paid to the Company's shareholders in the total amount of HRK 951 thousand.

In late December 2016 the Company concluded with its related company Žitar d.o.o. a mill lease contract, under which it assumed the business segment from the related company. Thus, since 1 January 2017 the production capacities of Granolio will comprise a total of three mills. The Company uses the business premises in Osijek under a lease arrangement with its related parties. The lease payments for the year 2016 amount to HRK 331 thousand (2015: HRK 25 thousand).

Apart from the milling, the Company assumed in December 2016 from Žitar also the crop seed and planting material sales segment.

In late 2016 an annex to the Club Loan (of 31 July 2015) was concluded under which the repayment of the B-tranche has been rescheduled and certain terms and conditions revised to the benefit of the Company.

## Analysis of the 2016 business performance

## Normalization of EBITDA-e

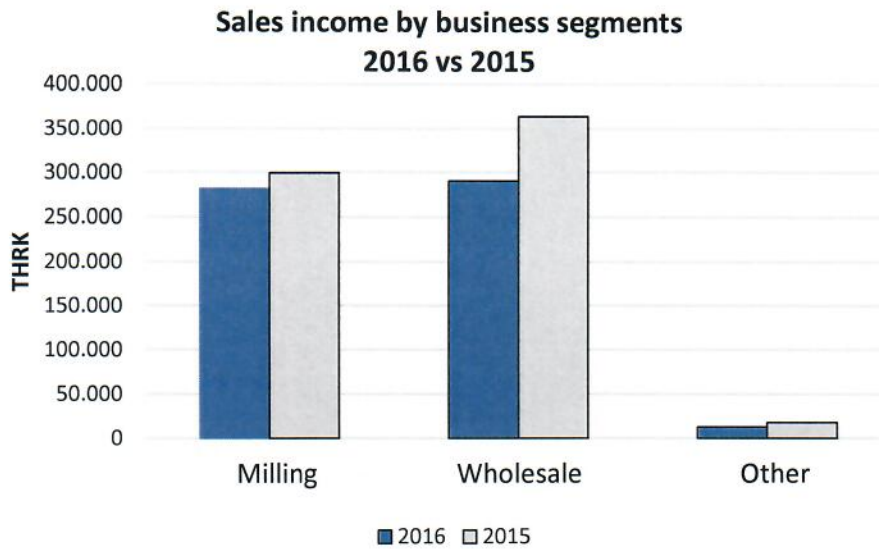
	31/12/2016	31/12/2015
<b>Reported EBITDA</b>	<b>39,627</b>	<b>38,528</b>
<u>Normalization</u>		
One-time expenses	106	-
Direct write off accounts receivable	20	196
Additionally found operating expenses	796	182
Loan fees expressed in operating expenses	1,225	1,026
<b>Normalized EBITDA</b>	<b>41,774</b>	<b>39,932</b>

## Net debt/ Normalized EBITDA

	31/12/2016	31/12/2015
Total debt to Financial institutions	402,444	426,550
Cash and cash equivalents	9,300	16,973
Financial assets	47,772	43,373
<b>Net debt</b>	<b>345,372</b>	<b>366,204</b>
Normalized EBITDA	41,774	39,932
<b>Net debt/Normalized EBITDA</b>	<b>8.27</b>	<b>9.17</b>

The total debt to financial institutions excludes the amounts payable under the right of recourse included in other current receivables and it also excludes a portion of other receivables.

The total product and service sales for 2016 are 14 percent lower than the prior-year sales. The highest sales decrease was reported in trading, 20 percent, while in milling sales decreased 6 percent.



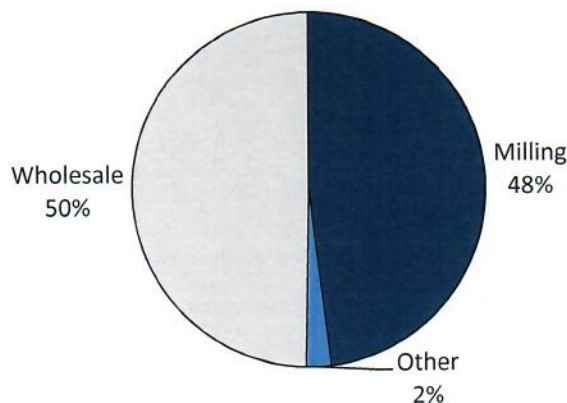
In 2016 the Company sold 164 thousand tons of flour, almost 3 percent more than in the prior year. The lower sales are a result of lower flour prices on the market.

The average flour selling price for 2016 was around 8 percent lower than the 2015 average selling price, whereas the 2016 spread<sup>1</sup> was by 7 percent higher from the 2015 spread.

Exports account for about 40 percent of the total trading for 2015. Of the total domestic trading, 50 percent are intermediary product sales. The decrease in the crop and oleaginous plant sales amounts to 21 percent, whereas the seed material sales (as intermediary products) decreased by 17 percent compared with the prior year.

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

**Individual segment revenue versus the total sales  
in 2016**



<sup>1</sup> Spread is defined as the difference between the selling price of 1 kilogramme of flour and the average price of one kilogramme of raw material used as input into production.

The 2016 crop and oleaginous plant sales margins are lower than those for 2015. The selling expenses are lower than in the prior year, albeit the lower selling expense decrease is being lower than the sales decrease.

Staff expenses for the year increased by 1 percent from the prior year because of a higher number of employees.

In 2016 the Company recognised impairment on trade receivables past due over 360 days identified as irrecoverable.

In 2016 around HRK 1 million of receivables provided against in the previous years were recovered.

Total capital investments, i.e. investments in fixed assets for the year 2016 amount to HRK 4.4 million (2015: HRK 3.6 million). The additions comprise purchases of vehicles (HRK 1 million) and plant, equipment and buildings of the production units.

The net financial result for the year 2016 amounts to a negative HRK 25 million (2015: HRK (16) million). The total interest expense for 2016 increased by HRK 6 million compared with 2015. Financial income (excluding foreign exchange gains) is lower by HRK 4 million. Income from recharged costs also decreased.

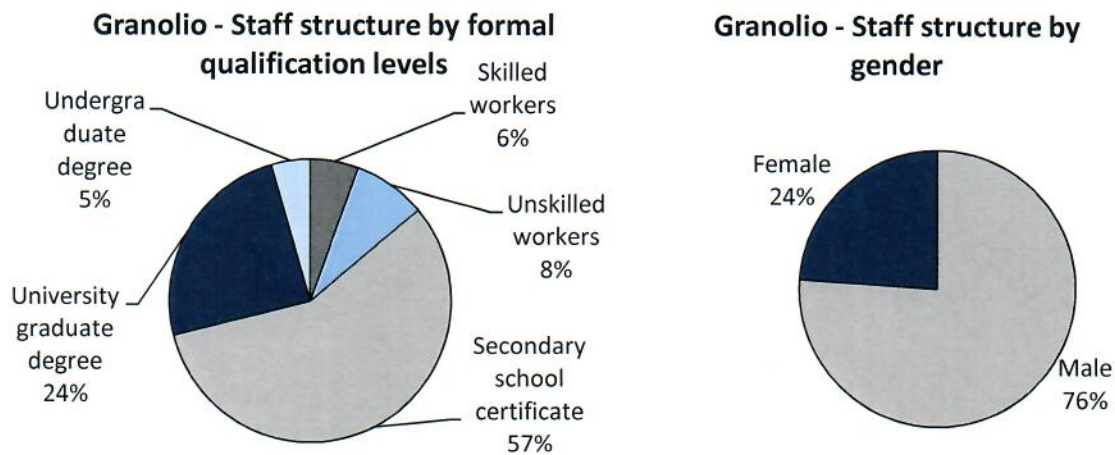


**Significant events after the end of the accounting period and the strategic goals of the Company**

In 2017 the Company plans to invest in mill storage capacities, specifically in grain and oleaginous plant drying facilities as well improvement in IT systems. The next year's focus will be on strengthening flour exports to the neighbouring countries to increase the volume of sales.

**Employees**

Based on the total hours of work, the Company had 160 employees in 2016 (2015: 176 employees), structured by formal qualification levels and gender as presented in the following charts:



**Research and development**

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

**Purchase of own shares**

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

**Environmental protection**

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

**Risks**

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

## *CORPORATE GOVERNANCE CODE*

### **Corporate Governance Statement**

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 are as follows:

Drago Šurina (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 09 June 2016)

Members of the Supervisory Board: Braslav Jadrešić (re-appointed 09 June 2016)

Davor Štefan (re-appointed 09 June 2016)

Josip Lasić (re-appointed 09 June 2016)

Jurij Detiček (re-appointed 09 June 2016)

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

*Responsibility for the unconsolidated financial statements*

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

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

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

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

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

Management is also responsible for the preparation and content of the annual report on the operations and position of the Company in accordance with the requirements of Article 18 of the Croatian Accounting Law.

Signed on behalf of the Management Board:

28 April 2017

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



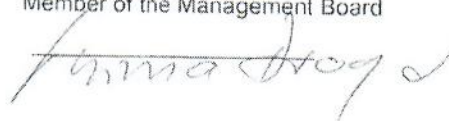
Tomislav Kalafatić, dipl.oec.  
Member of the Management Board



Vladimir Kalčić dipl.oec.  
Member of the Management Board



Drago Šurina dipl.oec.  
Member of the Management Board



## INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Granolio d.d.:

### Opinion

We have audited the financial statements of Granolio d.d. (the Company), which comprise the statement of financial position as at December 31, 2016, and the statement of comprehensive income, statement of changes in equity and 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, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 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

On acquiring the mill operations, the Company has recognised goodwill on the Mlineta and Belje brands, as disclosed in Note 14. At 31 December 2016 the carrying amount of goodwill was HRK 60,379 thousand and of the brands HRK 120,000 thousand. According to International Accounting Standard 36 "Impairment of Assets", the Company must review annually whether there are any indications that assets may be impaired. Based on the current economic situation, impairment indications are identified as existing. Significant assumptions underlying the estimated impairment loss for those assets include the realisation of the revenue from those brands on the market of the Republic of Croatia. Considering the current economic situation and the availability of information, the Management Board of the Company was not able to obtain sufficient information for making an estimate of the impairment of those assets. Therefore, we were not able to obtain sufficient appropriate audit evidence in support of the potential impairment of goodwill and the brands and we could not identify whether any of the amounts should be adjusted

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 qualified opinion.

The company was registered at Zagreb Commercial Court: MBS 030022053; paid-in initial capital: Kn 44,900.00; Board Members: Branislav Vrtačnik, Eric Daniel Olcott, Marina Tonžetić, Juraj Moravek, Dražen Nimčević and John Jozef H. Ploem; Bank: Zagrebačka banka d.d., Trg bana Josipa Jelačića 10, 10 000 Zagreb, bank account no. 2360000-1101896313; SWIFT Code: ZABHR2X IBAN: HR2723600001101896313; Privredna banka Zagreb d.d., Radnička cesta 50, 10 000 Zagreb, bank account no. 2340009-1110098294; SWIFT Code: PBZGHR2X IBAN: HR3823400091110098294; Raiffeisenbank Austria d.d., Petrinjska 59, 10 000 Zagreb, bank account no. 2484008-1100240905; SWIFT Code: RZBHR2X IBAN: HR1024840081100240905.

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## 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 unconsolidated 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.

<b>Key Audit Matters</b>	<b>How our audit addressed the key audit matter</b>
<p>Revenue</p> <p>Revenue is measured at the fair value of the consideration received or receivable for products, goods or services sold in the ordinary course of the Company's business. Revenue is recognised net of value-added tax, volume and cash discounts.</p> <p>The Company recognises revenue when the amount of the revenue can be measured reliably, when future benefits will flow into the Company and when the specific requirements, set out below, applicable to all the activities of the Company are met.</p> <p><i>(i) Income from the wholesale of products and trading</i></p> <p>The Company produces and distributes own products and third-party trading (wholesale services). Wholesale revenue is recognised when the Company has delivered the goods to the wholesaler, when it no longer controls the management of the goods and when there is no outstanding liability that could affect the acceptance of the products by the wholesaler.</p> <p>A delivery is considered completed upon the delivery of the products to a specific location, when the risk of loss is transferred to the wholesaler and when one of the following conditions is met:</p> <p>Products are sold at the agreed volume discounts, with the right of the customers to return faulty products and goods. Sales are recognised at prices defined in the underlying sales contracts, less any estimated volume discounts, cash discounts and returns. The discounts and returns are estimated based on past experience. Volume discounts are estimated based on the anticipated annual sales.</p>	<p>The procedures applied by us included inquiries of the management, testing the structure and efficiency of internal control procedures as well as tests of details to satisfy ourselves with the accuracy of the revenue transactions.</p> <p>&gt;&gt; We assessed the relevant IT systems and the design and operational effectiveness of controls over capturing and recording of revenue transactions. We involved our IT specialists to assist in the audit of the automated controls.</p> <p>&gt;&gt; We assessed the existing controls over the authorisation of sales booking and recognition.</p> <p>&gt;&gt; We tested the accuracy on a sample of invoices issued to customers.</p> <p>&gt;&gt; We tested significant adjustments made by the management in order to assess the completeness and accuracy of the revenue.</p> <p>&gt;&gt; We tested the evidence supporting journal entries made manually to revenue accounts in order to identify any unusual items.</p> <p>We confirmed the validity of the assumptions and key estimates made by the management in accounting for the revenue.</p> <p>We did not note any significant weaknesses in the relevant IT systems and controls over the relevant revenue processes.</p> <p>We did not note any exceptions in significant adjustments and manual journal entries as a result of which the revenue recognised for the reporting year could be materially misstated.</p>



Amounts receivable for sales made under terms and conditions that involve financing elements, i.e. where the collection period is longer than 60 days, are classified as current financial assets.

*(ii) Income from the retail sale of products and trading*

Product and trading retail sales are recognised upon their sale to the customer. Retail sales are made in cash. The Company does not operate any customer reward schemes.

*(iii) Service sales*

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

### **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 financial statements and our auditor's report.

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

In connection with our audit of the unconsolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the 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 11 under the titles Annual Management Board report on the business performance and position of the Company for the year 2016, ie. Corporate Governance Statement, 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 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 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.

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 regard.

**INDEPENDENT AUDITOR'S REPORT (CONTINUED)****Responsibilities of Management and those Charged with Governance for the 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.

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 unconsolidated 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)

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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 Vlak,**  
Certified Auditor

**Deloitte d.o.o.**

Zagreb, 28 April 2017.

Radnička cesta 80,  
10 000 Zagreb,  
Croatia

**Unconsolidated statement of profit or loss and comprehensive income**

For the year ended 31 December 2016

		in thousands of HRK	
	Notes	2016	2015
<b>Income</b>			
Sales income	5	585,657	681,787
Other income	6	9,652	16,665
<b>Total operating income</b>		<b>595,309</b>	<b>698,452</b>
<b>Changes in inventories</b>			
Material expenses	7	(520,821)	(620,684)
Staff expenses	8	(22,359)	(22,074)
Depreciation and amortisation	14, 15	(10,306)	(9,988)
Other expenses	10	(4,291)	(6,373)
Value adjustment	9	(247)	-
Other operating expenses	11	(6,765)	(11,136)
<b>Total operating expenses</b>		<b>(566,236)</b>	<b>(669,912)</b>
<b>Profit/ (loss) from operations</b>		<b>29,073</b>	<b>28,540</b>
<b>Financial income</b>			
Financial income	12	3,700	9,640
Financial expenses	12	(28,277)	(25,564)
<b>Net financial result</b>		<b>(24,577)</b>	<b>(15,924)</b>
<b>Result before taxation</b>			
Income tax	13	(1,989)	(3,543)
<b>Profit after taxation</b>		<b>2,507</b>	<b>9,073</b>
<i>Other comprehensive income</i>			
Financial assets held for sale, reclassification to profit or loss			-
<b>Total comprehensive income</b>		<b>2,507</b>	<b>9,073</b>
<b>Earnings per share</b>			
<b>Basic and diluted earnings per share (in Croatian kunas and lipas)</b>	<b>27</b>	<b>1,32</b>	<b>4.77</b>

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

**Unconsolidated statement of financial position**

At 31 December 2016

		in thousands of HRK	
	Notes	31 December 2016	31 December 2015
<b>I NON-CURRENT ASSETS</b>			
<b>Intangible assets</b>			
1. Goodwill		60,379	60,379
2. Trademarks, concessions, licenses		120,000	120,000
3. Customer list		5,696	7,362
4. Software and other intangible assets		400	401
	14	<b>186,475</b>	<b>188,142</b>
<b>Property, plant and equipment</b>			
1. Land		8,182	8,182
2. Buildings		110,566	113,392
3. Plant, equipment and tools		17,635	19,797
4. Other tangible assets		77	78
5. Plant and equipment under construction		2,729	2,366
	15	<b>139,189</b>	<b>143,815</b>
<b>Financial assets</b>			
1. Investments in subsidiaries	16a	115,255	115,255
2. Investments at fair value through profit or loss	16b	20,462	20,462
3. Given loans, deposits and similar	16c	667	901
		<b>136,384</b>	<b>136,618</b>
<b>Long-term receivables</b>		<b>25</b>	<b>15</b>
<b>II CURRENT ASSETS</b>			
<b>Inventories</b>	17	<b>32,554</b>	<b>54,699</b>
<b>Receivables</b>			
1. Receivables from related parties	26	27,584	3,880
2. Trade receivables	18a	100,499	124,866
3. Receivables from the State and other institutions	18b	1,748	5,474
4. Other receivables	18c	104,915	4,204
		<b>234,746</b>	<b>138,424</b>
<b>Financial assets</b>			
1. Loans to related parties	19	39,919	35,402
2. Investments in securities	19a	882	696
3. Given loans, deposits and similar	19b	6,303	6,375
		<b>47,104</b>	<b>42,473</b>
<b>Cash and cash equivalents</b>	20	<b>9,300</b>	<b>16,973</b>
<b>Prepaid expenses and accrued income</b>	21	<b>4,370</b>	<b>5,053</b>
<b>TOTAL ASSETS</b>		<b>790,147</b>	<b>726,212</b>

**Unconsolidated statement of financial position**

At 31 December 2016 (continued)

		in thousands of HRK	
	Notes	31 December 2016	31 December 2015
<b>I EQUITY</b>			
1. Subscribed capital		19,016	19,016
2. Premium for issued shares		84,187	84,187
3. Revaluation reserves		61,562	64,473
4. Legal reserves		283	183
5. Own shares reserves		800	-
6. Retained earnings /(Accumulated loss)/		3,784	(7,077)
7. Profit or loss for the year		2,507	9,073
	22	<b>172,139</b>	<b>169,855</b>
<b>II LONG-TERM LIABILITIES</b>			
1. Deferred tax liabilities	13	15,390	16,118
2. Liabilities to banks and other financial institutions	23	267,783	283,005
		<b>283,173</b>	<b>299,123</b>
<b>III SHORT-TERM LIABILITIES</b>			
1. Liabilities to related companies	26	13,969	591
2. Liabilities to banks and other financial institutions	23	94,891	62,657
3. Advances received		3,616	2,845
4. Trade payables	24a	73,823	97,020
5. Liabilities for securities	24b	39,770	80,888
6. Taxes, contributions and similar duties payable	24c	4,145	8,541
7. Accrued expenses and deferred income		479	545
8. Other short-term liabilities	24d	104,142	4,147
		<b>334,835</b>	<b>257,234</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>790,147</b>	<b>726,212</b>

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

**Unconsolidated statement of changes in shareholders' equity**

For the year ended 31 December 2016

	Share capital	Capital reserves	Legal reserves	Own shares reserves	Revaluation reserves	(Accumulated loss) / retained earnings	Profit / (loss) for the year	Total
<b>Balance at 31 December 2014</b>	<b>19,016</b>	<b>85,379</b>	<b>183</b>		<b>67,384</b>	<b>32,143</b>	<b>(42,859)</b>	<b>161,246</b>
Profit for the year, net	-	-	-	-	-	-	9,073	9,073
Depreciation	-	-	-	-	-	-	-	-
<b>Total other comprehensive income for the year</b>					<b>(2,911)</b>	<b>2,911</b>	<b>9,073</b>	<b>9,073</b>
Reversal of deferred tax liabilities	-	-	-	-	-	728	-	728
Decrease in capital reserves by the costs of share capital increase	-	(1,192)	-	-	-	-	-	(1,192)
Allocation of the result for the year 2014	-	-	-	-	-	(42,859)	42,859	-
<b>Balance at 31 December 2015</b>	<b>19,016</b>	<b>84,187</b>	<b>183</b>		<b>64,473</b>	<b>(7,077)</b>	<b>9,073</b>	<b>169,855</b>
Net profit for the year	-	-	-	-	-	-	2,507	2,507
Transfer of revaluation reserves to retained earnings	-	-	-	-	(2,911)	2,911	-	-
<b>Total other comprehensive income for the year</b>					<b>(2,911)</b>	<b>2,911</b>	<b>2,507</b>	<b>2,507</b>
Reversal of deferred tax liabilities	-	-	100	-	-	-	(100)	-
Reversal for own shares	-	-	-	800	-	-	(800)	-
Reversal of deferred tax liabilities	-	-	-	-	-	728	-	728
Dividends paid	-	-	-	-	-	-	(951)	(951)
Allocation of the result for the year 2015	-	-	-	-	-	7,222	(7,222)	-
<b>Balance at 31 December 2016</b>	<b>19,016</b>	<b>84,187</b>	<b>283</b>	<b>800</b>	<b>61,562</b>	<b>3,784</b>	<b>2,507</b>	<b>172,139</b>

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

**Unconsolidated statement of cash flows**

For the year ended 31 December 2016

		in thousands of HRK	
	Note	2016	2015
<b>Result before taxation</b>		<b>4,496</b>	<b>12,616</b>
<i>Adjusted by:</i>			
Depreciation and amortisation	14,15	10,306	9,988
The cost of provision		697	921
Profit on the disposal and retirement of fixed assets, net		(187)	(7)
Value adjustment of trade receivables	9	247	-
Receivables write off		20	196
Value adjustment of financial assets		60	-
Liability write off		(9)	(8)
Inventory surplus	6	(3,121)	(2,258)
Dividend income		(20)	-
Net interest expense	12	24,408	19,075
Net (gain) from investing		(153)	(772)
Net loss from other financial activities	12	262	-
<b>Operating result before changes in working capital</b>		<b>37,006</b>	<b>39,751</b>
Decrease in inventories	17	25,266	45,470
Decrease in short-term receivables		6,726	16,899
(Decrease) in short-term liabilities		(25,303)	(17,724)
Advances received/(made)		1,037	(3,378)
(Decrease)/increase accrued expenses		(275)	291
Increase in prepaid expenses		(47)	(1,366)
<b>Operating result after changes in working capital</b>		<b>44,410</b>	<b>79,944</b>
Income tax paid		(5,200)	(520)
<b>Cash generated from operations</b>		<b>39,210</b>	<b>79,424</b>
Interest received		2,435	4,977
Payments to acquire property, plant, equipment and intangibles		(4,607)	(4,037)
Proceeds from the sale of property, plant and equipment		187	33
Proceeds from dividends		20	-
Net cash paid to increase the equity investments in subsidiaries		-	(16,302)
Proceeds from stock market transactions		-	772
Deposits paid/received		159	104
Net proceeds from received bills of exchange		(27)	154
Payments for given loans	19	(96,222)	(45,596)
Repayments of given loans	19	91,911	61,574
<b>Cash generated from investing activities</b>		<b>(6,144)</b>	<b>1,679</b>



**Unconsolidated statement of cash flows (continued)**

For the year ended 31 December 2016

	Note	in thousands of HRK	
		2016	2015
Repayment of borrowings	23	(333,073)	(848,957)
Proceeds from borrowings	23	361,876	842,402
Net (payments of)/proceeds from securities	24b	(41,118)	(28,915)
Interest paid		(27,325)	(25,902)
Repayment of finance leases	23	(736)	(1,200)
Proceeds from finance lease	23	728	-
Payments for initial public offering		-	(1,192)
Dividends paid		(951)	-
Other net payments from financing activities		(140)	(1,580)
<b>Net cash generated from financing activities</b>		<b>(40,739)</b>	<b>(65,344)</b>
<b>Net (decrease)/ increase in cash and cash equivalents</b>		<b>(7,673)</b>	<b>15,759</b>
Cash at the beginning of the year		16,973	1,214
<b>Cash at the end of the year</b>	<b>21</b>	<b>9,300</b>	<b>16,973</b>

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

**Notes to the unconsolidated financial statements**

For the year ended 31 December 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 and Osijek.

Subsidiaries constituting the Granolio Group are the following:

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

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

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

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

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

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

At 31 December 2016 and at 31 December 2015 the Management Board of Granolio d.d. consisted of the following members:

Hrvoje Filipović - President (since 23 February 2016),  
Vladimir Kalčić - Member (since 23 February 2016),  
Drago Šurina - Member (since 23 February 2016) and  
Tomislav Kalafatić – Member (since 19 April 2016).

At 31 December 2016 and at 31 December 2015 the Supervisory Board of Granolio d.d. consisted of the following members:

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

**Notes to the unconsolidated 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 effective for the current reporting 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 unconsolidated 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 effective for the current reporting 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**

At the date of authorisation of these financial statements, the following new standards and amendments to standards issued by IASB and adopted by the EU are 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 unconsolidated 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 unconsolidated 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 Company 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 Company in the period of initial application.

**Impact of IFRS 15**

IFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related Interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

The Entity anticipates that the adoption of IFRS 15 will have an impact on the financial statements of the Entity in the period of initial application. However, the effect currently cannot be quantified.

**Impact of IFRS 16**

The Entity anticipates that the adoption of IFRS 16 will have an impact on the financial statements of the Entity in the period of initial application. However, the effect currently cannot be quantified.

**Notes to the unconsolidated financial statements (continued)**

For the year ended 31 December 2016

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES****3.1 Statement of compliance**

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

**3.2 Basis of preparation**

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

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

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

**3.3 Interests in associates and joint ventures**

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

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

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

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

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

**Notes to the unconsolidated financial statements (continued)**

For the year ended 31 December 2016

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****3.3 Interests in associates and joint ventures (continued)**

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

The Company continues to use the equity method when an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate. There is no remeasurement to fair value upon such changes in ownership interests. When the Company reduces its ownership interest in an associate or a joint venture but the Company continues to use the equity method, the Company reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

**3.4 Interests in joint operations**

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

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

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

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

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

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



**Notes to the unconsolidated financial statements (continued)**

For the year ended 31 December 2016

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****3.5 Functional and presentation currency**

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

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

**3.6 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.

**3.7 Revenue recognition**

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

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

*(i) Income from the wholesale of products and trading*

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

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

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

*(ii) Income from the retail sale of products and trading*

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

**Notes to the unconsolidated financial statements (continued)**

For the year ended 31 December 2016

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****3.7 Revenue recognition (continued)***(iii) Service income*

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

*(iv) Financial income*

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

**3.8 Leasing***The Company as lessor*

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

*The Company as lessee*

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

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

**3.9 Foreign currencies***Foreign-currency transactions and balances*

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

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

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

At 31 December 2016 the official exchange rate of the Croatian kuna against 1 euro (EUR) was HRK 7.557787, and at 31 December 2015 it was HRK 7.635047, respectively.

**3.10 Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are

**Notes to the unconsolidated financial statements (continued)**

For the year ended 31 December 2016

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****3.10 Borrowing costs (continued)**

added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

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

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

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

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

**(ii) Long-term employee benefits**

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

**(iii) Short-term employee benefits**

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

**(iv) Share-based payments**

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

**3.12 Dividends**

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

**3.13 Operating segment reporting**

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

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

- Milling
- Wholesale
- Others (services, cattle growing, other activities)

The Company identifies operating segments on the basis of internal reports about components of the Company that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segments and to assess their performance. Details about the operating segments of the Company are disclosed in Note 5 to the Unconsolidated financial statements. Comparative information has been presented on the principle of comparability.

**Notes to the unconsolidated financial statements (continued)**

For the year ended 31 December 2016

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****3.14 Taxation****(i) Income tax**

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

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

**(ii) Deferred tax assets and liabilities**

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

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

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

**(iii) Tax exposure**

In determining current and deferred taxes, the Company considers the impact of uncertain tax positions as well as potential additional taxes and interest. The consideration is based on estimates and assumptions and may involve a series of judgements about future events. New data may become available that may cause the Company to revise 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 unconsolidated statement of financial position on a net basis. If a trade debtor is impaired, the related impairment loss is included in the gross amount receivable from the debtor, which includes VAT.

**Notes to the unconsolidated financial statements (continued)**

For the year ended 31 December 2016

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****3.15 Property, plant and equipment**

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

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

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

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

Freehold land is not depreciated.

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

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

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

	<u>2016</u>	<u>2015</u>
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 vehicles	2,5 years	2,5 years
Delivery 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 unconsolidated financial statements (continued)**

For the year ended 31 December 2016

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****3.16 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 milling was recognised as an addition to non-current assets in the amount of HRK 193,679 thousand. The balance was allocated as follows:

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

Goodwill was estimated assuming that the quantities sold will equal the history of the quantities sold obtained from Agrokor and that it will remain constant in the future. Another input into the calculation was the assumed constant spread (as the difference between the flour selling rice and the cost of purchase of the direct raw material). The discount rate was determined as the weighted average cost of capital based on the net debt-to-equity ratio of 70:30.

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

**3.17 Impairment of property, plant and equipment and intangible assets**

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

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

**Notes to the unconsolidated financial statements (continued)**

For the year ended 31 December 2016

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****3.17 Impairment of property, plant and equipment and intangible assets (continued)**

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

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

**3.18 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).

Trading 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.

**3.19 Trade receivables**

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

**3.20 Cash and cash equivalents**

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

**3.21 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.

**3.22 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.

**Notes to the unconsolidated financial statements (continued)**

For the year ended 31 December 2016

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****3.23 Financial assets**

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

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

*Financial assets at FVTPL*

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

A financial asset is classified as held for trading if:

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

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

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

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

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

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

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

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



**Notes to the unconsolidated financial statements (continued)**

For the year ended 31 December 2016

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****3.23 Financial assets (continued)***Loans and receivables*

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

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

*Impairment of financial assets*

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

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

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

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

For certain categories of financial assets, such as trade receivables, assets are assessed for impairment on a collective basis even if they were assessed not to be impaired individually. Objective evidence of impairment for a portfolio of receivables could include the Company's past experience in collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 360 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment 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.

**Notes to the unconsolidated financial statements (continued)**

For the year ended 31 December 2016

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****3.23 Financial assets (continued)***Impairment of financial assets (continued)*

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

*Derecognition of financial assets*

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

*Classification as debt or equity*

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

*Equity instruments*

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

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

**3.24 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.

**Notes to the unconsolidated financial statements (continued)**

For the year ended 31 December 2016

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****3.24 Financial liabilities (continued)**

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

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

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

*Other financial liabilities*

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

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

*Financial guarantee contracts*

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

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

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

*Derecognition of financial liabilities*

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

**Notes to the unconsolidated financial statements (continued)**

For the year ended 31 December 2016

**4. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES**

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

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

## Critical judgements in applying accounting policies

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

*(i) Revenue recognition*

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

*(ii) Consequences of certain legal actions*

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

*(iii) Recoverable amount of trade and other receivables*

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

*(iv) Impairment test of intangible assets*

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

	in thousands of HRK	
	31 December 2016	31 December 2015
Goodwill	60,379	60,379
Trademarks	120,000	120,000
Customer list	5,696	7,362
Software and other intangible assets	400	401
	<b>186,475</b>	<b>188,142</b>

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 unconsolidated 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 Company tests annually whether goodwill has suffered any impairment, in accordance with its accounting policy. The recoverable amounts of cash-generating units are determined based on value-in-use. These calculations require the use of assumptions (Note 14).

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 trademarks.. Constant expected future cash flows were used as calculation inputs.

Intangible assets other than software and other intangible assets are those on the acquisition of the milling 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 Company reviews the estimated useful lives of property, plant and equipment at the end of each reporting period.

*(vi) Fair value of assets*

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

**Notes to the unconsolidated financial statements (continued)**

For the year ended 31 December 2016

**5. SALES INCOME**

	in thousands of HRK	
	<b>2016</b>	<b>2015</b>
Sales income - domestic	438,098	450,242
Sales income - foreign	135,095	214,089
Service income	12,464	17,456
	<b>585,657</b>	<b>681,787</b>

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

The Company monitors its performance through the following operating segments:

- Milling
- Wholesale
- Other (services, cattle growing, other activities)

**Segment information – industry analysis:**

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

	in thousands of HRK	
	<b>2016</b>	<b>2015</b>
Milling	281,524	298,594
Wholesale	290,815	364,647
Other	13,318	18,546
	<b>585,657</b>	<b>681,787</b>

**Geographic analysis**

	in thousands of HRK	
	<b>2016</b>	<b>2015</b>
Croatia	450,531	467,666
Italy	66,552	11,610
Hungary	26,882	2,186
Serbia	17,892	179,204
Slovenia	13,088	6,074
Bosnia and Herzegovina	8,727	10,642
Romania	1,985	-
France	-	4,293
Libya	-	112
	<b>585,657</b>	<b>681,787</b>

**Notes to the unconsolidated financial statements (continued)**

For the year ended 31 December 2016

**6. OTHER INCOME**

	in thousands of HRK	
	2016	2015
Subsequent credit notes from suppliers	4,521	7,318
Inventory surplus	3,121	2,258
Income from grants	70	325
Income from the collection of damages by litigation	-	4,836
Other income	1,940	1,928
	<b>9,652</b>	<b>16,665</b>

In 2016 no damages were collected from legal actions, whereas in 2015 the Company recognised HRK 4,836 thousand of damages in a legal dispute with PZ Osatina, which were credited to income.

**7. MATERIAL EXPENSES**

The structure of material expenses is as follows:

	in thousands of HRK	
	2016	2015
Cost of raw material	197,974	226,759
Energy used	13,250	17,324
Inventory spillage, breakage and similar costs	2,990	3,478
Cost of inventories for sold livestock	1,216	1,082
Cost of small inventory	322	302
Other material expenses	348	275
<b>Cost of raw material</b>	<b>216,100</b>	<b>249,220</b>
<b>Cost of goods sold</b>	<b>264,905</b>	<b>326,949</b>
Telecommunication and transportation expenses	24,610	23,007
External milling costs	3,013	2,620
Rental costs	2,412	4,218
Maintenance and security services	2,263	2,569
Intellectual services	1,817	1,949
Selling costs (freight-forwarding, goods handling, etc.)	1,785	4,945
Quality control costs	1,113	1,866
Promotions and sponsorships	719	1,214
Other external costs	2,084	2,127
<b>Other external costs</b>	<b>39,816</b>	<b>44,515</b>
	<b>520,821</b>	<b>620,684</b>

Inventory spillage, breakage and similar costs comprise mostly the standard spillage and breakage in the production in the amount of HRK 2,847 thousand (2015: HRK 3,313 thousand).

**Notes to the unconsolidated financial statements (continued)**

For the year ended 31 December 2016

**8. STAFF EXPENSES**

	in thousands of HRK	
	<b>2016</b>	<b>2015</b>
Salaries	12,725	12,660
Income tax and contributions from salaries costs	6,391	6,220
Contributions on salaries costs	3,243	3,194
	<b>22,359</b>	<b>22,074</b>

**9. VALUE ADJUSTMENT**

The entire value adjustment charge for 2016 consists of impairment losses on trade receivables and receivables from cooperative farms, determined on the basis of impairment test of the receivables. No indications of impairment were identified as a result of the impairment test performed in 2015 (Note 18).

**10. OTHER EXPENSES**

	in thousands of HRK	
	<b>2016</b>	<b>2015</b>
Bank services	1,499	1,701
Reimbursement of expenses to employees	938	2,904
Contributions, membership fees and similar	675	622
Insurance premiums	609	605
Daily allowances	274	198
Taxes independent of the result	99	70
Other expenses	197	273
	<b>4,291</b>	<b>6,373</b>

Reimbursement of costs to employees consists mainly of commutation allowances and termination benefits in the amount of HRK 8 thousand (2015: termination benefits in the amount of HRK 2,041 thousand were paid to the employees of the Belje Mills and PIK Vinkovci based on the decision to rationalise the production process).

**11. OTHER OPERATING EXPENSES**

	in thousands of HRK	
	<b>2016</b>	<b>2015</b>
Subsequently approved cassa sconto	5,058	4,442
Entertainment and hospitality	641	418
Spillage, breakage and similar damage on goods	188	309
Donations and sponsorships	178	169
Fines, penalties and damages	33	93
Legal actions	-	5,248
Other operating expenses	667	457
	<b>6,765</b>	<b>11,136</b>

No litigation costs were incurred in 2016 with respect to the legal dispute with PZ Osatina, whereas the costs incurred in 2015 amount to HRK 5,248 thousand.



**Notes to the unconsolidated financial statements (continued)**

For the year ended 31 December 2016

**12. FINANCIAL INCOME AND EXPENSES****Financial income**

	in thousands of HRK	
	<b>2016</b>	<b>2015</b>
Interest on given loans	2,489	2,590
Exchange differences	566	2,449
Late-payment interest	465	2,368
Gains from stock transactions	160	848
Gains from participating interest	20	-
Other financial income	-	1,385
	<b>3,700</b>	<b>9,640</b>

**Financial expenses**

	in thousands of HRK	
	<b>2016</b>	<b>2015</b>
Interest expense	21,964	16,243
Discount on bills of exchange	4,494	4,302
Default interest	904	3,488
Exchange differences	808	1,412
Dividend income	60	-
Losses on value adjustment of financial assets	32	115
Other financial expenses	15	4
	<b>28,277</b>	<b>25,564</b>

**13. INCOME TAX**

The tax expense/ (income) comprises the following:

	in thousands of HRK	
	<b>2016</b>	<b>2015</b>
Current tax	1,989	3,543
	<b>1,989</b>	<b>3,543</b>

*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	
	<b>2016</b>	<b>2015</b>
Profit before taxation	4,496	12,616
Income tax at the rate of 20% (2015: 20%).	899	2,523
Effect of non-taxable income	-	-
Effect of tax non-deductible expenses	1,090	1,080
Effect of unused tax losses and tax offsets not recognised as deferred tax assets	-	(60)
<b>Income tax expense from continuing operations recognised in profit or loss</b>	<b>1,989</b>	<b>3,543</b>

**Notes to the unconsolidated financial statements (continued)**

For the year ended 31 December 2016

**13. INCOME TAX (CONTINUED)**

*Unused tax losses*

Under the applicable tax legislation, the Company reported no tax losses available for carry forward at 31 December 2016 or 31 December 2015. The gross balance of unused tax losses at the reporting date was as follows:

Deferred tax liabilities are arising from:

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

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

Movements in deferred tax liabilities:

	in thousands of HRK	
	31 December 2016	31 December 2015
Balance at 1 January	16,118	16,846
Decrease	(728)	(728)
	<b>15,390</b>	<b>16,118</b>

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

**Notes to the unconsolidated financial statements (continued)**

For the year ended 31 December 2016

**14. INTANGIBLE ASSETS**

Movements in intangible assets in 2016

<u>Cost</u>	Trademarks, concessions, licenses			Customer list		Software	TOTAL
	Goodwill						
Balance at 1 January 2016	60,379	120,000		10,000	1,856	192,235	
Additions	-	-		-	218	218	
<b>Balance at 31 December 2016</b>	<b>60,379</b>	<b>120,000</b>		<b>10,000</b>	<b>2,074</b>	<b>192,453</b>	
<u>Accumulated amortisation</u>							
Balance at 1 January 2016	-	-		2,638	1,455	4,093	
Charge for the year	-	-		1,666	219	1,885	
<b>Balance at 31 December 2016</b>	<b>-</b>	<b>-</b>		<b>4,304</b>	<b>1,674</b>	<b>5,978</b>	
<b>Net book value at 1 January 2016</b>	<b>60,379</b>	<b>120,000</b>		<b>7,362</b>	<b>401</b>	<b>188,142</b>	
<b>Net book value at 31 December 2016</b>	<b>60,379</b>	<b>120,000</b>		<b>5,696</b>	<b>400</b>	<b>186,475</b>	

Movements in intangible assets in 2015

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

Intangible assets in the amount of HRK 120,000 thousand (2015: 120,000) have been pledged as collateral for the Company's borrowings (Note 23).

**Notes to the unconsolidated financial statements (continued)**

For the year ended 31 December 2016

**15. PROPERTY, PLANT AND EQUIPMENT**

Movements in property, plant and equipment in 2016

in thousands of HRK

	Land	Buildings	Plant, equipment and tools	Other tangible assets	Assets under construction	TOTAL
<b>Cost</b>						
Balance at 1 January 2016	8,182	162,478	89,645	172	2,366	262,843
Additions	-	1,094	2,932	-	363	4,389
Disposals	-	-	(1,171)	-	-	(1,171)
<b>Balance at 31 December 2016</b>	<b>8,182</b>	<b>163,572</b>	<b>91,406</b>	<b>172</b>	<b>2,729</b>	<b>266,061</b>
<b>Accumulated depreciation</b>						
Balance at 1 January 2016	-	49,086	69,848	94	-	119,028
Depreciation of revaluation	-	2,165	1,472	-	-	3,637
Charge for the year	-	1,755	3,028	1	-	4,784
Disposals	-	-	(577)	-	-	(577)
<b>Balance at 31 December 2016</b>	<b>-</b>	<b>53,006</b>	<b>73,771</b>	<b>95</b>	<b>-</b>	<b>126,872</b>
<b>Net book value at 1 January 2016</b>	<b>8,182</b>	<b>113,392</b>	<b>19,797</b>	<b>78</b>	<b>2,366</b>	<b>143,815</b>
<b>Net book value at 31 December 2016</b>	<b>8,182</b>	<b>110,566</b>	<b>17,635</b>	<b>77</b>	<b>2,729</b>	<b>139,189</b>

Tangible assets in the amount of HRK 128,415 thousand (2014: HRK 133,385 thousand) have been pledged as collateral for the Company's borrowings (Note 23).

**Notes to the unconsolidated financial statements (continued)**

For the year ended 31 December 2016

**15. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)**

Movements in property, plant and equipment in 2015

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

**Notes to the unconsolidated financial statements (continued)**

For the year ended 31 December 2016

**16. NON-CURRENT FINANCIAL ASSETS****(a) Investment in subsidiaries**

		in thousands of HRK	
	Ownership and voting rights	31 December 2016	31 December 2015
Zdenka mliječni proizvodi d.o.o., Veliki Zdenci	50%	42,767	42,767
Žitar d.o.o., Donji Miholjac	49.69%	39,621	39,621
Zdenačka farma d.o.o., Veliki Zdenci	100%	27,661	27,661
Prerada žitarica d.o.o., Grubišno Polje	100%	5,206	5,206
		<b>115,255</b>	<b>115,255</b>

**(b) Investments at fair value through profit or loss**

		in thousands of HRK	
		31 December 2016	31 December 2015
Zagrebačke pekarnе Klara d.d., Zagreb		19,925	19,925
Prehrana trgovina d.d., Zagreb		536	536
Žitozajednica d.o.o., Zagreb		1	1
		<b>20,462</b>	<b>20,462</b>

**Ownership interest**

	31 December 2016	31 December 2015
Zdenačka farma d.o.o., Veliki Zdenci	100.00%	100.00%
Prerada žitarica d.o.o., Grubišno Polje	100.00%	100.00%
Zdenka mliječni proizvodi d.o.o., Veliki Zdenci	50.00%	50.00%
Žitar d.o.o., Donji Miholjac	49.69%	49.69%
Zagrebačke pekarnе Klara d.d., Zagreb	18.25%	18.25%
Prehrana trgovina d.d., Zagreb	11.48%	11.48%
Žitozajednica d.o.o., Zagreb	1.28%	1.28%

**(c) Given loans, deposits and similar**

	in thousands of HRK	
	31 December 2016	31 December 2015
Loans to individuals	479	550
Guarantee deposits	188	351
	<b>667</b>	<b>901</b>

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

Movements in long-term given loans are presented in Note 19.

**Notes to the unconsolidated financial statements (continued)**

For the year ended 31 December 2016

**17. INVENTORY**

	in thousands of HRK	
	31 December 2016	31 December 2015
Trading	21,841	7,886
Raw materials	8,359	41,614
Finished products	1,783	3,412
Non-invoiced goods	-	1,038
Work in progress	571	749
	<b>32,554</b>	<b>54,699</b>

**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	82,919	96,680
Foreign	21,419	20,420
Cooperators	17,586	30,349
Value adjustment	(21,425)	(22,583)
	<b>100,499</b>	<b>124,866</b>

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

**Value adjustment of trade receivables**

	in thousands of HRK	
	2016	2015
<b>Balance at 1 January</b>	<b>22,583</b>	<b>23,888</b>
Increase – trade receivables	195	-
Increase – cooperators	52	-
Write off receivables	(433)	-
Subsequent recovery of impaired trade receivables and receivables from cooperative farmers	(972)	(1,305)
<b>Balance at 31 December</b>	<b>21,425</b>	<b>22,583</b>

Maturity analysis of receivables not impaired:

	in thousands of HRK	
	31 December 2016	31 December 2015
Not yet due	56,390	71,084
0 - 90 days past due	34,775	36,283
91 - 180 days past due	3,149	11,685
181 - 360 days past due	1,400	666
> 360 days past due	4,785	5,148
	<b>100,499</b>	<b>124,866</b>

All the trade receivables and receivables from cooperative farmers were tested for impairment, and the Company assessed that all the receivables grouped as at 31 December 2016 as past due beyond 360 days are recoverable.

**Notes to the unconsolidated 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
VAT refund	1,553	5,474
Overpaid income tax	186	-
Other receivables from the State and other institutions	9	-
	<b>1,748</b>	<b>5,474</b>

**c) Other receivables**

	in thousands of HRK	
	31 December 2016	31 December 2015
Receivables under assignment and offsetting arrangements	1,647	1,798
Prepayments made	1,684	1,950
Interest receivable	1,472	357
Receivables under factoring with recourse	100,000	-
Other receivables	112	99
	<b>104,915</b>	<b>4,204</b>

Receivables under factoring with recourse, which amount to HRK 100,000 thousand, represent amounts receivable under bills of exchange with recourse, discounted at the factoring companies. Further details about the receivables are disclosed in Note 24d.

**19. 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
	<b>882</b>	<b>696</b>

**b) Given loans, deposits and similar**

	in thousands of HRK	
	31 December 2016	31 December 2015
Loans to legal entities	5,637	5,500
Short-term loans to individuals	626	829
Deposits	40	46
	<b>6,303</b>	<b>6,375</b>



**Notes to the unconsolidated financial statements (continued)**

For the year ended 31 December 2016

**19. CURRENT FINANCIAL ASSETS (CONTINUED)**

Movement in given loans in 2016

	Opening balance at 1 January 2016	Increase in receivables	Transfer from receivables to financial assets	Write off/ value adjustment of given loans	Principal repaid	Transfer of a portion of long-term receivables to short-term	Exchange differences	Closing balance at 31 December 2016
<b>Given long-term loans</b>								
Loans to individuals	550	-	-	-	(8)	(60)	(3)	479
<b>Total long-term loans</b>	<b>550</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(8)</b>	<b>(60)</b>	<b>(3)</b>	<b>479</b>
<b>Short-term loans</b>								
Loans to individuals	829	410	-	(60)	(608)	60	(5)	626
Loans to related parties	35,402	15,126	-	-	(10,609)	-	-	39,919
Loans to third parties	5,500	80,686	137	-	(80,686)	-	-	5,637
<b>Total short-term loans</b>	<b>41,731</b>	<b>96,222</b>	<b>137</b>	<b>(60)</b>	<b>(91,903)</b>	<b>60</b>	<b>(5)</b>	<b>46,182</b>
<b>TOTAL</b>	<b>42,281</b>	<b>96,222</b>	<b>137</b>	<b>(60)</b>	<b>(91,911)</b>	<b>-</b>	<b>(8)</b>	<b>46,661</b>

Movement in given loans in 2015

	Opening balance at 1 January 2015	Increase in receivables	Transfer from receivables to financial assets	Principal written off/written down	Transfer of a portion of long-term receivables to short-term	Exchange differences	Closing balance at 31 December 2015
<b>Given long-term loans</b>							
Loans to individuals	329	30	-	(58)	249	-	550
<b>Total long-term loans</b>	<b>329</b>	<b>30</b>	<b>-</b>	<b>(58)</b>	<b>249</b>	<b>-</b>	<b>550</b>
<b>Short-term loans</b>							
Loans to individuals	4,350	-	-	(3,267)	(249)	(5)	829
Loans to related parties	49,193	19,816	4,392	(37,999)	-	-	35,402
Loans to third parties	-	25,750	-	(20,250)	-	-	5,500
<b>Total short-term loans</b>	<b>53,543</b>	<b>45,566</b>	<b>4,392</b>	<b>(61,516)</b>	<b>(249)</b>	<b>(5)</b>	<b>41,731</b>
<b>TOTAL</b>	<b>53,872</b>	<b>45,596</b>	<b>4,392</b>	<b>(61,574)</b>	<b>-</b>	<b>(5)</b>	<b>42,281</b>

**Notes to the unconsolidated 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
Cash in bank	8,411	15,581
Foreign currency accounts	887	1,390
Cash on hand	2	2
	<b>9,300</b>	<b>16,973</b>

**21. PREPAID EXPENSES AND ACCRUED INCOME**

	in thousands of HRK	
	31 December 2016	31 December 2015
Prepaid expenses	4,370	4,751
Accrued income	-	302
	<b>4,370</b>	<b>5,053</b>

Movement of prepaid expenses in 2016 is shown below:

	in thousands of HRK	
	2016	2015
<b>Opening balance at 1 January 2016</b>	<b>4.751</b>	<b>1.374</b>
Increase of prepaid expenses	72	3.753
Decrease of prepaid expenses	(453)	(376)
<b>Closing balance at 31 December 2016</b>	<b>4.370</b>	<b>4.751</b>

Movement of accrued income in 2016 is shown below:

	in thousands of HRK	
	2016	2015
<b>Opening balance at 1 January 2016</b>	<b>302</b>	-
Increase of accrued income	-	302
Decrease of accrued income	302	-
<b>Closing balance at 31 December 2016</b>	<b>-</b>	<b>302</b>

**Notes to the unconsolidated financial statements (continued)**

For the year ended 31 December 2016

**22. EQUITY**

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

Pursuant to a decision adopted in the General Shareholders Meeting in 2012, Granolio d.o.o. changed its legal form from a Croatian limited liability company (d.o.o.) into a joint stock company through an issue of ordinary shares. The share capital of the Company in the amount of HRKK 5,000 thousand was divided into 500,000 ordinary A-series shares, with a nominal value of HRK 10 each.

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

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

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

As of 31 December 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 outcome of the public share offering includes a capital gain in the amount of HRK 87,004 thousand, which was reduced in the period from 1 January 2014 to 31 December 2015 by the costs of the share capital increase incurred in that period which amounted to a total of HRK 2,817 thousand.

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 d.d./PBZ.CO. B-Category mandatory pension fund	150	7.89%	150	7.89%
Societe Generale-Splitska banka d.d./Erste plavi B-Category mandatory pension fund	149	7.85%	149	7.85%
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/Joint account of private banking customers - DF	61	3.21%	11	0.58%
Primorska banka d.d. Rijeka/Joint account of a legal person	46	2.40%	35	1.82%
HPB d.d./ Fund for financing the decommissioning of NEK (1/1)	35	1.84%	-	-
Privredna banka Zagreb d.d./ guardian joint 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%
	<b>1,902</b>	<b>100.00%</b>	<b>1,902</b>	<b>100.00%</b>

**Notes to the unconsolidated financial statements (continued)**

For the year ended 31 December 2016

**23. LIABILITIES TO BANKS AND OTHER FINANCIAL INSTITUTIONS**

	in thousands of HRK	
	31 December 2016	31 December 2015
<u>Long-term liabilities</u>		
Bank loans	267,110	282,290
Finance lease	673	715
	<b>267,783</b>	<b>283,005</b>
<u>Short-term liabilities</u>		
Bank loans	92,864	60,647
Finance lease	527	510
Liabilities under assumed payment obligations (cession, assignment and debt assumption contracts)	1,500	1,500
	<b>94,891</b>	<b>62,657</b>
	<b>362,674</b>	<b>345,662</b>

**Summary of borrowing arrangements**

In late 2016 an annex to the Club Loan (of 31 July 2015) was concluded under which the repayment of the B-tranche has been rescheduled and certain terms and conditions revised to the benefit of the Company.

The long-term Club facility was granted in Croatian kunas, with certain covenants imposed to the Company. At 31 December 2016 the Company complied with all the covenants.

The portion of the long-term debt, including the finance lease obligations, which falls due until 31 December 2017 amounts to HRK 15,707 thousand and is presented under current liabilities. The remaining debt falls due in the period from 1 January 2017 until August 2025.

At 31 December 2016 non-current assets mortgaged as collateral for the bank loans amount to HRK 330,803 thousand (31 December 2015: HRK 335,786 thousand).

**Notes to the unconsolidated financial statements (continued)**

For the year ended 31 December 2016

**23 LIABILITIES TO BANKS AND OTHER FINANCIAL INSTITUTIONS (CONTINUED)**

Liabilities to banks and other financial institutions in 2016

	Opening balance at 1 January 2016	Increase in liabilities	Principal repaid	Transfer of a portion of long-term loans to short-term loans	Exchange differences	Closing balance at 31 December 2016
<b>Long-term loans</b>						
Long-term bank loans	282,290	-	-	(15,180)	-	267,110
Long-term finance lease obligations	715	728	(200)	(554)	(16)	673
<b>Total long-term loans</b>	<b>283,005</b>	<b>728</b>	<b>(200)</b>	<b>(15,734)</b>	<b>(16)</b>	<b>267,783</b>
<b>Short-term loans</b>						
Short-term bank loans	60,647	136,907	(120,008)	15,180	138	92,864
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	510	-	(536)	554	(1)	527
<b>Total short-term loans</b>	<b>62,657</b>	<b>149,175</b>	<b>(132,812)</b>	<b>15,734</b>	<b>137</b>	<b>94,891</b>
<b>TOTAL</b>	<b>345,662</b>	<b>149,903</b>	<b>(133,012)</b>	<b>-</b>	<b>121</b>	<b>362,674</b>

Liabilities to banks and other financial institutions in 2015

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

**Notes to the unconsolidated financial statements (continued)**

For the year ended 31 December 2016

**23. LIABILITIES TO BANKS AND OTHER FINANCIAL INSTITUTIONS (CONTINUED)**

The bank loans and finance leases mature as follows:

	in thousands of HRK					
	Balance 31 December 2016	2017	2018	2019	2020	From 2021
Domestic banks	359,974	92,864	18,000	21,470	21,940	205,700
Finance lease	1,200	527	271	208	110	84
Liabilities under assumed payment obligations (cession, assignment and debt assumption contracts)	1,500	1,500	-	-	-	-
	<b>362,674</b>	<b>94,891</b>	<b>18,271</b>	<b>21,678</b>	<b>22,050</b>	<b>205,784</b>

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

	31 December 2016	31 December 2015
Total liabilities to financial institutions, in thousands of EUR	2,487	160

**24. SHORT-TERM LIABILITIES****(a) Trade payables**

	in thousands of HRK	
	31 December 2016	31 December 2015
Domestic	70,188	92,195
Foreign	3,597	3,788
Amounts not yet billed	38	1,037
	<b>73,823</b>	<b>97,020</b>

The maturity structure of trade payables at 31 December 2016:

	in thousands of HRK	
	31 December 2016	31 December 2015
Not yet due	23,875	31,342
0 - 90 days past due	43,102	56,800
91 - 180 days past due	3,887	6,609
181 - 360 days past due	1,698	948
> 360 days past due	1,261	1,321
	<b>73,823</b>	<b>97,020</b>

**Notes to the unconsolidated financial statements (continued)**

For the year ended 31 December 2016

**24. SHORT-TERM LIABILITIES (CONTINUED)**

**(b) Liabilities for securities**

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

**(c) Taxes, contributions and similar duties payable**

	in thousands of HRK	
	31 December 2016	31 December 2015
VAT payable	3,213	4,533
Income tax payable	-	3,023
Taxes and contributions from and on salaries	770	775
Other taxes and contributions	162	210
	<b>4,145</b>	<b>8,541</b>

**(d) Other short-term liabilities**

	in thousands of HRK	
	31 December 2016	31 December 2015
Liabilities due to recourse factoring	100,000	-
Interest – liabilities towards banks	2,958	3,012
Liabilities to employees	1,173	1,094
Other short-term liabilities	11	41
	<b>104,142</b>	<b>4,147</b>

Liabilities arising from the right of recourse under factoring in the amount of HRK 100,000 are owed to a group of customers under potential reorganisation and change of the business model initiated subsequent to the reporting date.

Bills receivable	Discounted bills of exchange	31 December 2015
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
		<b>100,000</b>

Bills of exchange in the amount of HRK 15,000 thousand, received from Agrokor trgovina d.o.o and discounted by Erste factoring d.o.o., were redeemed by the date of issue of the financial statements.

**Notes to the unconsolidated financial statements (continued)**

For the year ended 31 December 2016

**25. COMMITMENTS**

At 31 December 2016 the Company has commitments under operating lease arrangements entered into for tangible fixed assets in the total amount of HRK 1,716 thousand and rent agreements in the total amount of HRK 1,965 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

	<b>31 December</b>					
	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>From 2021</b>
Operating leases	1,716	842	519	219	93	43
Rentals	1,965	587	556	395	192	235
	<b>3,681</b>	<b>1,429</b>	<b>1,075</b>	<b>614</b>	<b>285</b>	<b>278</b>



**Notes to the unconsolidated financial statements (continued)**

For the year ended 31 December 2016

**26. RELATED-PARTY TRANSACTIONS**

	Assets		Liabilities	
	Trade and other receivables	Given loans	Long-term liabilities	Short-term liabilities
	in thousands of HRK 31 December 2016			
Žitar d.o.o., Donji Miholjac	289	-	-	478
Zdenačka farma d.o.o., Veliki Zdenci	2,251	18,217	-	-
Zdenka- mliječni proizvodi d.o.o., Veliki Zdenci	-	-	-	30
Prerada žitarica d.o.o., Grubišno Polje	24,714	1,143	-	13,461
Stan arka d.o.o., Zagreb	169	14,660	-	-
Key management personnel	161	5,899	-	-
	<b>27,584</b>	<b>39,919</b>	<b>-</b>	<b>13,969</b>

	Assets		Liabilities	
	Trade and other receivables	Given loans	Long-term liabilities	Short-term liabilities
	in thousands of HRK 31 December 2015			
Žitar d.o.o., Donji Miholjac	811	-	-	440
Zdenačka farma d.o.o., Veliki Zdenci	2,561	15,281	-	-
Zdenka- mliječni proizvodi d.o.o., Veliki Zdenci	-	-	-	35
Prerada žitarica d.o.o., Grubišno Polje	-	-	-	116
Stan arka d.o.o., Zagreb	88	14,810	-	-
Key management personnel	420	5,311	-	-
	<b>3,880</b>	<b>35,402</b>	<b>-</b>	<b>591</b>

Income and expenses arising from transactions with related parties for the years ended 31 December 2016 and 31 December 2015 were as follows:

	2016		2015	
	Income	Expenses	Income	Expenses
	in thousands of HRK			
Žitar d.o.o., Donji Miholjac	20,327	(24,396)	4,986	(8,511)
Zdenačka farma d.o.o., Veliki Zdenci	2,538	(1,012)	2,677	(231)
Zdenka- mliječni proizvodi d.o.o., Veliki Zdenci	-	(33)	-	(41)
Prerada žitarica d.o.o., Grubišno polje	19,803	(1,324)	50	(1,398)
Stan arka d.o.o., Zagreb	81	-	88	-
Key management	165	-	156	-
	<b>42,914</b>	<b>(26,765)</b>	<b>7,957</b>	<b>(10,181)</b>

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

Remuneration paid to the key management personnel in 2016 amounts to 2.896 HRK thousand (2015: HRK 2,831 thousand).

The total remuneration paid to the members of the Supervisory Board in 2016 amounts to HRK 252 thousand (2015: HRK 187 thousand).

**Notes to the unconsolidated financial statements (continued)**

For the year ended 31 December 2016

**27. EARNINGS PER SHARE**

	in thousands of HRK	
	<b>31 December 2016</b>	<b>31 December 2015</b>
Profit/(Loss)	2,507	9,073
Profit/(Loss) attributable to the shareholders	2,507	9,073
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 kunas and lipas)	<b>1.32</b>	<b>4.77</b>

**Notes to the unconsolidated financial statements (continued)**

For the year ended 31 December 2016

**28. RISK MANAGEMENT****28.1 Financial risks****Equity risk management**

Net debt-to-equity (Gearing ratio)

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

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

	in thousands of HRK	
	<b>31 December 2016</b>	<b>31 December 2015</b>
Debt (long-term and short-term loans and liabilities for securities)	401,244	425,325
Lease liabilities (long-term and short-term)	1,200	1,225
Cash and cash equivalents	(9,300)	(16,973)
<b>Net debt</b>	<b>393,144</b>	<b>409,577</b>
Equity	172,138	169,855
<b>Net debt-to-equity ratio</b>	<b>228%</b>	<b>241%</b>

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

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

**Categories of financial instruments**

	in thousands of HRK	
	<b>31 December 2016</b>	<b>31 December 2015</b>
<b>Financial assets</b>		
Cash	9,300	16,973
Loans and receivables	185,165	181,391
<b>Financial liabilities at amortized cost</b>		
Loans received and liabilities for securities	402,444	426,550
Trade payables	73,823	97,020
Other liabilities	22,206	8,128

**Financial risk management objectives**

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

The Company seeks to minimise the effects of these risks.

**Notes to the unconsolidated financial statements (continued)**

For the year ended 31 December 2016

**28. RISK MANAGEMENT (CONTINUED)**

**28.1 Financial risks (continued)**

**Market risk management**

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

**Currency risk**

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

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

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

	In thousands of the original currency			
	Assets		Liabilities	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
European Union (EUR)	3,061	2,211	2,963	500

**Foreign currency sensitivity analysis**

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

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

	in thousands of HRK	
	Increase / decrease of exchange rate	Effect on profit before taxes
<b>2016</b>		
EUR	+5%	37
	-5%	(37)
<b>2015</b>		
EUR	+5%	653
	-5%	(653)

**Notes to the unconsolidated financial statements (continued)**

For the year ended 31 December 2016

**28. RISK MANAGEMENT (CONTINUED)****28.1 Financial risks (continued)****Credit risk**

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

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

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

In the course of its operations, the Company enters into factoring contracts and/or discounted bills. The risk arising from the recoverability of the amounts owed by principal debtors is borne ultimately by the Company. At the reporting date, the Company has liabilities arising from the right of recourse under factoring in the amount of HRK 100 million, which relate to a group of customers under potential reorganisation and change of the business model initiated subsequent to the reporting date.

By the date of the financial statements, bills in the amount of HRK 15 million were redeemed.

**Interest rate risk**

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

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

The sensitivity analysis below is based on the risk of changes in interest rates at the date of the statement of financial position. For variable-rate debt, the analysis is prepared assuming the amount of the liability outstanding at the date of the statement of financial position was outstanding for the whole year. If the interest rates would change by 0.5 percent, and all other variables remained constant, there would be a change in the interest expense of the Company in the amount of HRK 1,580 thousand at 31 December 2016 (2015: HRK 1,703 thousand).

**Notes to the unconsolidated financial statements (continued)**

For the year ended 31 December 2016

**28. RISK MANAGEMENT (CONTINUED)****28.1 Financial risks (continued)****Liquidity risk**

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

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

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

	Weighted average effective interest rate %	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
<b>31 December 2016</b>							
Non-interest bearing liabilities	-	29,492	39,414	11,824	-	-	80,730
Interest bearing liabilities	5.23%	<u>7,376</u>	<u>65,779</u>	<u>93,272</u>	<u>150,439</u>	<u>192,875</u>	<u>509,741</u>
		<b><u>36,868</u></b>	<b><u>105,193</u></b>	<b><u>105,096</u></b>	<b><u>150,439</u></b>	<b><u>192,875</u></b>	<b><u>590,471</u></b>
<b>31 December 2015</b>							
Non-interest bearing liabilities	-	87,613	7,695	6,460	327	-	102,095
Interest bearing liabilities	6.25%	<u>8,917</u>	<u>54,909</u>	<u>102,350</u>	<u>194,699</u>	<u>170,140</u>	<u>531,015</u>
		<b><u>96,530</u></b>	<b><u>62,604</u></b>	<b><u>108,810</u></b>	<b><u>195,026</u></b>	<b><u>170,140</u></b>	<b><u>633,110</u></b>

**Notes to the unconsolidated financial statements (continued)**

For the year ended 31 December 2015

**28.. RISK MANAGEMENT (CONTINUED)**

**28.1 Financial risks (continued)**

**Liquidity risk (continued)**

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

	Weighted average effective interest rate %	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
<b>31 December 2016</b>							
Non-interest bearing assets	-	32,182	67,744	41,704	-	-	141,630
Interest bearing assets	3.41%	<u>965</u>	<u>1,360</u>	<u>46,506</u>	<u>255</u>	<u>219</u>	<u>49,305</u>
		<u><b>33,147</b></u>	<u><b>69,104</b></u>	<u><b>88,210</b></u>	<u><b>255</b></u>	<u><b>219</b></u>	<u><b>190,935</b></u>
<b>31 December 2015</b>							
Non-interest bearing assets	-	103,542	27,701	22,298	1,418	1,124	156,083
Interest bearing assets	3.32%	<u>75</u>	<u>149</u>	<u>42,777</u>	<u>290</u>	<u>260</u>	<u>43,551</u>
		<u><b>103,617</b></u>	<u><b>27,850</b></u>	<u><b>65,075</b></u>	<u><b>1,708</b></u>	<u><b>1,384</b></u>	<u><b>199,634</b></u>

**Notes to the unconsolidated financial statements (continued)**

For the year ended 31 December 2016

**28. RISK MANAGEMENT (CONTINUED)**

**28.1 Financial risks (continued)**

**Fair value measurement**

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

Financial assets and financial liabilities	Fair value as at		Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
	31.12.2016	31.12.2015				
Shares and units in private equity firms (Note 20).	18.25 % shares of Zagrebačke pekarnje Klara d.d., a company from the bakery industry (bread, pastry and other related food products): HRK 19,925 thousand; and 11.48 % shares of Prehrana trgovina d.d., a trade company: HRK 536 thousand	18.25 % shares of Zagrebačke pekarnje Klara d.d., a company from the bakery industry (bread, pastry and other related food products): HRK 19,925 thousand; and 11.48 % shares of Prehrana trgovina d.d., a trade company: HRK 536 thousand;	Level 3	Income approach – in this approach, the discounted cash flow method was used to capture the present value of the expected future economic benefits to be derived from the ownership of these investees.	Based on the management's experience and knowledge of market conditions of the specific industries, a long-term revenue growth rate of 7 percent (2014: 7 %).	A slight increase in the long-term revenue growth rates used in isolation would result in a significant increase in the fair value (see under 1 above).
					Long-term pre-tax operating margin, based on the management's experience and knowledge of market conditions of the specific industries, ranging from 8 to 11 percent.	A significant increase in the long-term pre-tax operating margin used in isolation would result in a significant increase in the fair value.
					A weighted average cost of capital (WACC), determined using a Capital Asset Pricing Model (CAPM), of 10.38 percent.	A slight increase in the WACC used in isolation would result in a significant decrease in the fair value.

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

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



**Notes to the unconsolidated financial statements (continued)**

For the year ended 31 December 2016

**28. RISK MANAGEMENT (CONTINUED)****28.2 Industry risk**

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

**Flour production**

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

**28.3 Risks arising from the ordinary course of business****Market risk**

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

**Input commodity and product delivery risks**

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

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

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

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

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

**Competition risk**

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

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

**Notes to the unconsolidated financial statements (continued)**

For the year ended 31 December 2016

**28. RISK MANAGEMENT (CONTINUED)****28.3 Risks arising from the ordinary course of business (continued)****Key supplier and key customer concentration risk**

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

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

**The risk of change of the owner**

The majority shareholder of the Company is Mr Hrvoje Filipović, who holds an ownership interest of 58.11 percent. As the majority shareholder, Mr Hrvoje Filipović has the controlling influence over the shareholders of the Company, by means of the rights and powers pertaining to him as a Company shareholder. The majority share enables Mr Filipović to exercise his influence in all decisions made in a General Shareholders' Meeting. No assurance can be provided that the influence of Mr Filipović, as the majority shareholder, will not have a significant effect on the performance and financial condition of the Company.

**Acquisition risk**

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

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

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

In undertaking any future acquisition and as part of the related acquisition analysis, the Company will have to make assumptions about expected cost savings and potential synergies to be achieved. Such estimates are uncertain and subject to a series of significant operational, economic and competition risks that might have a significant influence, as the actual results could differ from the initial estimates. The Company is faced with a risk of failure to achieve all or a part of savings and synergies envisaged at the beginning of an acquisition. In addition, in an acquisition process, the Company usually assumes all the liabilities and acquires all assets of the acquiree. Although the Company performs acquisition due diligence and seeks to obtain adequate guarantees and assurance as to the value of assets and liabilities it will acquire, it cannot provide any assurance that it will be able to identify all actual and contingent liabilities in advance of the actual acquisition implementation. Acquisitions resulting in the Company assuming contingent liabilities without receiving adequate assurance or warranties could have a material impact on the performance and financial position of the Company.

**Notes to the unconsolidated financial statements (continued)**

For the year ended 31 December 2016

**28. RISK MANAGEMENT (CONTINUED)****28.3 Risks arising from the ordinary course of business (continued)****Working capital risk**

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

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

**The input commodity price risk**

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

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

**Dependence on the management and key personnel**

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

**IT risks**

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

**Antitrust and competition law non-compliance risk**

It is a part of the overall strategy of the Company to become the leading flour producer on the Croatian market and flour supplier in the region, which may render the Company non-compliant with the market competition rules.

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

**Notes to the unconsolidated financial statements (continued)**

For the year ended 31 December 2016

**28. RISK MANAGEMENT (CONTINUED)****28.3 Risks arising from the ordinary course of business (continued)**

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

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

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

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

**Litigation risk**

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

**The risk of obligations or losses not covered by insurance**

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

**28.4 General risks****Business environment risk**

The business environment risk includes political, legal and macroeconomic risks prevailing in the business environment of the Company, which is primarily the Croatian market on which the Company generates 77 percent of its total revenue (according to the 2016 data), followed by the markets of Serbia, Italy, Bosnia and Herzegovina, Slovenia, Hungary and Romania.

The governments in power so far have introduced economic reforms to develop and stabilise free market economy by privatising state-owned companies, attracting foreign direct investments and implemented reforms required in the pre-accession stage. Despite the significant progress towards establishing a full market economy, reaching the level of infrastructure of West European countries will take several more years and additional investments. The Company cannot warrant that Croatia will fully implement the intended reforms or that the political environment will favour their implementation. In addition, the Company cannot warrant that the Government in power will not introduce new regulations, fiscal or monetary policies, including taxation, environmental and public procurement policy, an indemnity policy for nationalised property or a new foreign exchange policy. The legal framework of the Republic of Croatia is still evolving, which may give rise to a certain level of legal uncertainty. As a result, the Company may come into a position of not being able to succeed in exercising or protecting some of its rights.

**Notes to the unconsolidated financial statements (continued)**

For the year ended 31 December 2016

**28. RISK MANAGEMENT (CONTINUED)****28.4 Risks arising from the ordinary course of business (continued)****Business environment risk (continued)**

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

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

**The risk of changes in the legal framework**

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

29. CONTINGENT LIABILITIES

The Company as guarantor or co-debtor

	Amount	Balance in original currency at 31 December 2015	Balance in HRK at 31 December 2015	Maturity
Žitar d.o.o.- Loan 1	EUR 6,190,000	EUR 2,507,512	18,951,242	1.9.2020
Žitar d.o.o.- Loan 2	EUR 5,980,000	EUR 2,461,046	18,600,064	1.9.2020
Žitar d.o.o.- Loan 3	HRK 4,100,000	EUR 600,000	4,534,672	3.5.2017
Žitar d.o.o.- Loan 4	EUR 787,000	EUR 1,000,000	7,557,787	1.12.2017
Zdenka-mliječni proizvodi d.o.o. - Loan 1	EUR 3,294,190	EUR 1,610,054	12,168,445	31.12.2024
Zdenka-mliječni proizvodi d.o.o. - Loan 2	HRK 40,000,000	EUR 23,701,969 kn	23,701,969	30.4.2024
Zdenka- mliječni proizvodi d.o.o. - Loan 3	EUR 1,395,751	EUR 1,079,998	8,162,392	31.10.2023
Prerada žitarica – debenture loan	HRK 42,000,000	HRK 40,500,000	24,738,433	31.10.2017 31.12.2016+ 60 days respiro
Bills of exchange issued to CERP	HRK 40,500,000	HRK 40,500,000	40,500,000	31.12.2016+ 60 days respiro
Corporate guarantee issued to CERP	HRK 40,700,000	HRK 40,700,000	40,700,000	31.12.2016+ 60 days respiro
<b>Total</b>			<b>199,615,005</b>	

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 February 6, 2017, releasing us from the investment under the basic contract and obliging us to invest HRK 28 million in working capital and to recapitalize the company in the amount of HRK 40.7 million. Insurance is valid until March 1, 2018.

Legal cases

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

30. EVENTS AFTER THE REPORTING DATE

Trade and other receivables, disclosed in Note 18, include HRK 27,333 thousand of receivables and HRK 100,000 thousand of liabilities under right of recourse from factoring deals (Notes 19.c and 24.c. respectively) involving a group of customers under potential reorganisation and change of the business model initiated subsequent to the reporting date. As of the date of disclosure of these financial statements, bills of exchange in the amount of HRK 15,000 million were redeemed, and the remaining debt has been reduced to HRK 85,000. At the date of authorisation of these financial statements, the process was only at the initiation stage, and the potential effects, if any, are uncertain. The Management Board expects to be able to recover the entire amount receivable.

31. 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 Kalafatic, dipl.oec.  
Management Board member

Vladimir Kalčić dipl.oec.  
Management Board member

Drago Šurina dipl.oec.  
Management Board member

**Appendices to financial statements**

For the year ended 31 December 2016

Pursuant to the Croatian Accounting Law adopted by Croatian Parliament (OG 78/15, 134/15, 120/16) and in accordance with the Rulebook on structure and contents of the annual financial statements adopted by the Ministry of Finance (OG 96/15, 41/16), the reporting schedules (forms) of the Company for the year 2016 presented in format prescribed by the rulebook are presented below.

**Statement of comprehensive income**

**STATEMENT OF COMPREHENSIVE INCOME  
for the period 1.1.2016–31.12.2016**

**Form  
POD-RDG**

Reporting entity: 59064993527; GRANOLIO d.d.				
Item description	EDP code	Note no	Prior year	Current year
1	2	3	4	5
<b>I. OPERATING INCOME (EDP 126-130)</b>	<b>125</b>		<b>698,452,264</b>	<b>595,309,665</b>
1 Sales – Group companies	126		6,104,214	41,825,909
2 Sales – outside the Group	127		675,683,257	543,831,579
3 Income from the use of own products, goods and services	128		7,478	21,809
4 Other operating income – Group companies	129			
5 Other operating income (outside the Group)	130		16,657,315	9,630,368
<b>II. OPERATING EXPENSES (EDP 132+133+137+141+142+143+146+153)</b>	<b>131</b>		<b>669,911,980</b>	<b>566,236,831</b>
1 Changes in the value of inventories of work in progress and finished products	132		-342,637	1,447,049
2 Material expenses (EDP 134 to 136)	133		620,684,452	520,821,355
a) Cost of raw material and supplies	134		249,219,868	216,100,074
b) Cost of goods sold	135		326,949,479	264,905,015
c) Other external charges	136		44,515,105	39,816,266
3 Staff expenses (EDP 138 to 140)	137		22,073,690	22,359,364
a) Net salaries and wages	138		12,660,142	12,724,662
b) Taxes and contributions from salaries	139		6,220,376	6,391,447
c) Contributions on salaries	140		3,193,172	3,243,255
4 Depreciation and amortisation	141		9,987,562	10,305,986
5 Other expenses	142		6,373,390	4,291,498
6 Value adjustment (EDP 144+145)	143		0	246,607
a) Non-current assets (other than financial assets)	144			
b) Current assets (other than financial assets)	145			246,607
7 PROVISIONS (EDP 147 to 152)	146		0	0
a) Provisions for retirement benefits, termination benefits and similar obligations	147			
b) Provisions for taxes	148			
c) Litigation provisions	149			
d) Provisions for rehabilitation of natural resources	150			
e) Warranty provisions	151			
f) Other provisions	152			
8 Other operating expenses	153		11,135,523	6,764,972

**Appendices to financial statements (continued)**  
For the year ended 31 December 2016

**STATEMENT OF COMPREHENSIVE INCOME (continued)**

Item description	EDP code	Note no	Prior year	Current year
1	2	3	4	5
<b>III. FINANCIAL INCOME (EDP 155 to 164)</b>	<b>154</b>		9,639,369	3,699,643
1 Income from investments (shares) in Group companies	155			
2 Income from investments in participating interests	156			
3 Income from other long-term financial investments and loans to Group companies	157		1,594,648	1,083,921
4 Other interest income – Group companies	158		18,827	3,508
5 Foreign exchange gains and other financial income – Group companies	159		150,205	
6 Income from other long-term financial investments and loans	160		976,838	1,401,778
7 Other interest income	161		2,368,369	464,618
8 Foreign exchange gains and other financial income	162		2,298,887	566,474
9 Unrealised gains (income) from financial assets	163			
10 Other financial income	164		2,231,595	179,344
<b>IV. FINANCIAL EXPENSES (EDP 166 to 172)</b>	<b>165</b>		<b>25,563,588</b>	<b>28,276,449</b>
1 Interest and similar expenses – Group companies	166			91,297
2 Foreign exchange losses and other expenses – Group companies	167			
3 Interest and similar expense	168		24,033,633	27,270,407
4 Foreign exchange losses and other expenses	169		1,412,456	808,352
5 Unrealised losses (expenses) from financial assets	170		28,932	
6 Value adjustment of financial assets, net	171			60,000
7 Other financial expenses	172		88,567	46,393
<b>V. SHARE IN THE PROFIT OF COMPANIES LINKED BY VIRTUE OF PARTICIPATING INTEREST</b>	<b>173</b>			
<b>VI. SHARE IN THE PROFIT OF JOINT VENTURES</b>	<b>174</b>			
<b>VII. SHARE IN THE LOSS OF COMPANIES LINKED BY VIRTUE OF PARTICIPATING INTEREST</b>	<b>175</b>			
<b>VIII. SHARE IN THE LOSSES OF JOINT VENTURES</b>	<b>176</b>			
<b>IX. TOTAL INCOME (EDP 125+154+173+174)</b>	<b>177</b>		<b>708,091,633</b>	<b>599,009,308</b>
<b>X. TOTAL INCOME (EDP 131+165+175+176)</b>	<b>178</b>		<b>695,475,568</b>	<b>594,513,280</b>
<b>XI. PROFIT OR LOSS BEFORE TAXATION (EDP 177-178)</b>	<b>179</b>		<b>12,616,065</b>	<b>4,496,028</b>
1 Profit before taxation (EDP 177-178)	180		12,616,065	4,496,028
2 Loss before taxation (EDP 178-177)	181		0	0
<b>XII. PROFIT (CORPORATE INCOME) TAX</b>	<b>182</b>		<b>3,542,934</b>	<b>1,989,493</b>
<b>XIII. PROFIT OR LOSS FOR THE PERIOD (EDP 179-182)</b>	<b>183</b>		<b>9,073,131</b>	<b>2,506,535</b>
1 Profit for the period (EDP 179-182)	184		9,073,131	2,506,535
2 Loss for the period (EDP 182-179)	185		0	0



**Appendices to financial statements (continued)**

For the year ended 31 December 2016

**STATEMENT OF COMPREHENSIVE INCOME (continued)**

Item description 1	EDP code 2	Note no 3	Prior year 4	Current year 5
<b>DISCONTINUED OPERATION (to be completed only by an IFRS preparer having a discontinued operation)</b>				
<b>XIV. PROFIT OR LOSS OF THE DISCONTINUED OPERATION BEFORE TAXATION (EDP 187-188)</b>	<b>186</b>		0	0
1 Profit of the discontinued operation before taxation	187			
2 Loss of the discontinued operation before taxation	188			
<b>XV. INCOME TAX OF THE DISCONTINUED OPERATION</b>	<b>189</b>			
1 Profit for the period of the discontinued operation (EDP 186-189)	190		0	0
2 Loss for the period of the discontinued operation (EDP 189-186)	191		0	0
<b>TOTAL DISCONTINUED OPERATION (to be completed only by an entrepreneur subject to IFRS preparer having a discontinued operation)</b>				
<b>XVI. PROFIT OR LOSS BEFORE TAXATION (EDP 179+186)</b>	<b>192</b>		0	0
1 Profit before taxation (EDP 192)	193		0	0
2 Loss before taxation (EDP 192)	194		0	0
<b>XVII. INCOME (PROFIT) TAX (EDP 182+189)</b>	<b>195</b>		0	0
<b>XVIII. PROFIT OR LOSS FOR THE PERIOD (EDP 192-195)</b>	<b>196</b>		0	0
1 Profit for the period (EDP 192-195)	197		0	0
2 Loss for the period (EDP 195-192)	198		0	0
<b>PROFIT OR LOSS STATEMENT SUPPLEMENT (to be completed by an entrepreneur preparing consolidated annual accounts)</b>				
<b>XIX. PROFIT OR LOSS FOR THE PERIOD (EDP 200+201)</b>	<b>199</b>		0	0
1 Attributable to the equity holders of the parent	200			
2 Attributable to minority (non-controlling) interest	201			
<b>STATEMENT OF OTHER COMPREHENSIVE INCOME (to be completed by entrepreneurs subject to IFRS reporting requirements)</b>				
<b>I. PROFIT OR LOSS FOR THE PERIOD</b>	<b>202</b>		9,073,131	2,506,535
<b>II. OTHER COMPREHENSIVE INCOME/LOSS BEFORE TAX (EDP 204 to 211)</b>	<b>203</b>		0	0
1 Exchange differences on translation of a foreign operation	204			
2 Movements in reserves on revaluation of non-current tangible and intangible assets	205			
3 Profit or loss on subsequent measurement of financial assets available for sale	206			
4 Profit or loss on determining the effectiveness of cash-flow hedges	207			
5 Profit or loss on determining the effectiveness of hedges of a net investment in a foreign operation	208			
6 Share in other comprehensive income/loss of companies linked by virtue of participating interest	209			
7 Actuarial gains/losses on defined benefit plans	210			
8 Other changes in equity not attributable to the equity holders in their capacity as owners	211			
<b>III. TAX ON OTHER COMPREHENSIVE INCOME FOR THE PERIOD</b>	<b>212</b>			
<b>IV. NET OTHER COMPREHENSIVE INCOME OR LOSS (EDP 203-212)</b>	<b>213</b>		0	0
<b>V. COMPREHENSIVE PROFIT OR LOSS FOR THE PERIOD (EDP 202+213)</b>	<b>214</b>		9,073,131	2,506,535
<b>SUPPLEMENT to the statement of other comprehensive income (to be completed by entrepreneurs preparing consolidated annual accounts)</b>				
<b>VI. COMPREHENSIVE PROFIT OR LOSS FOR THE PERIOD (EDP 216+217)</b>	<b>215</b>		0	0
1 Attributable to the equity holders of the parent	216			
2 Attributable to minority (non-controlling) interest	217			

**Appendices to financial statements (continued)**

For the year ended 31 December 2016

**Statement of financial position****STATEMENT OF FINANCIAL POSITION**Form  
POD-BIL

at 31.12.2016

Reporting entity: 59064993527; GRANOLIO d.d.				
Item description	EDP code	Note no	Prior year (net)	Current year (net)
1	2	3	4	5
<b>ASSETS</b>				
<b>A) RECEIVABLES FOR SUBSCRIBED CAPITAL UNPAID</b>	<b>001</b>			
<b>B) NON-CURRENT ASSETS (003+010+020+031+036)</b>	<b>002</b>		468,589,816	462,073,661
<b>I. INTANGIBLE ASSETS (EDP 004 to 009)</b>	<b>003</b>		188,142,343	186,475,266
1 Development expenses	004			
2 Concessions, patents, licences, trade and service marks, software and other rights	005		120,401,104	120,400,027
3 Goodwill	006		60,379,072	60,379,072
4 Prepayments for purchases of intangible assets	007			
5 Intangible assets under development	008			
6 Other intangible assets	009		7,362,167	5,696,167
<b>II. TANGIBLE ASSETS (EDP 011 to 019)</b>	<b>010</b>		143,815,327	139,189,258
1 Land	011		8,182,140	8,182,140
2 Buildings	012		113,392,162	110,565,819
3 Plant and equipment	013		19,406,193	16,479,891
4 Tools, plant fittings and fixtures, and transport assets	014		391,307	1,155,288
5 Biological assets	015			
6 Prepayments for tangible assets	016			
7 Tangible assets under development	017		2,365,901	2,729,289
8 Other tangible assets	018		77,624	76,831
9 Investment property	019			
<b>III. NON-CURRENT FINANCIAL ASSETS (EDP 021 to 030)</b>	<b>020</b>		136,617,146	136,384,026
1 Equity investments in Group companies	021		115,254,813	115,254,813
2 Investments in other securities of intragroup companies	022			
3 Given loans, deposits and similar – Group companies	023			
4. Investments in participating interests	024			
5 Investments in other securities of companies linked by virtue of participating interests	025			
6 Given loans, deposits and similar – participating interest	026			
7 Investments in securities	027			
8 Given loans, deposits and similar	028		900,643	667,523
9 Other equity-method investments	029			
10 Other non-current financial assets	030		20,461,690	20,461,690

**Appendices to financial statements (continued)**

For the year ended 31 December 2016

**STATEMENT OF FINANCIAL POSITION (continued)**

Item description	EDP code	Note no	Prior year (net)	Current year (net)
1	2	3	4	5
<b>IV. RECEIVABLES (EDP 032 to 035)</b>	<b>031</b>		15,000	25,111
1 Receivables from Group companies	032			
2 Receivables from companies linked by virtue of participating interests	033			
3 Trade receivables	034			
4 Other receivables	035		15,000	25,111
<b>V. DEFERRED TAX ASSETS</b>	<b>036</b>			
<b>C) CURRENT ASSETS (EDP 038+046+053+063)</b>	<b>037</b>		252,568,052	223,703,645
<b>I. INVENTORIES (EDP 039 to 045)</b>	<b>038</b>		54,699,132	32,553,845
1 Raw material and supplies	039		42,652,245	8,359,133
2 Work in progress	040		748,544	570,661
3 Finished products	041		3,412,663	1,783,385
4 Trading	042		7,885,680	21,840,666
5 Prepayments for inventories	043			
6 Non-current assets held for sale	044			
7 Biological assets	045			
<b>II. RECEIVABLES (EDP 047 to 052)</b>	<b>046</b>		138,423,624	234,745,406
1 Receivables from Group companies	047		3,880,456	27,583,830
2 Receivables from companies linked by virtue of participating interests	048			
3 Trade receivables	049		124,865,490	100,499,078
4 Amounts due from employees and owners	050		7,342	7,342
5 Receivables from the State and other institutions	051		5,473,744	1,747,619
6 Other receivables	052		4,196,592	104,907,537
<b>III. CURRENT FINANCIAL ASSETS (EDP 054 to 062)</b>	<b>053</b>		42,472,749	47,104,112
1 Equity investments in Group companies	054			
2 Investments in other securities of intragroup companies	055			
3 Given loans, deposits and similar – Group companies	056		35,401,763	39,918,768
4 Investments in participating interests	057			
5 Investments in other securities of companies linked by virtue of participating interests	058			
6 Given loans, deposits and similar – participating interest	059			
7 Investments in securities	060		695,738	881,994
8 Given loans, deposits and similar	061		6,375,248	6,303,350
9 Other financial assets	062			
<b>IV. CASH WITH BANKS AND IN HAND</b>	<b>063</b>		16,972,547	9,300,282
<b>D) PREPAID EXPENSES AND ACCRUED INCOME</b>	<b>064</b>		5,053,062	4,370,100
<b>E) TOTAL ASSETS (EDP 001+002+037+064)</b>	<b>065</b>		726,210,930	790,147,406
<b>F) OFF-BALANCE SHEET ITEMS</b>	<b>066</b>		4,398,007	4,091,915

**Appendices to financial statements (continued)**

For the year ended 31 December 2016

**STATEMENT OF FINANCIAL POSITION (continued)**

Item description 1	EDP code 2	Note no 3	Prior year (net) 4	Current year (net) 5
<b>LIABILITIES AND EQUITY</b>				
<b>A) CAPITAL AND RESERVES (EDP 068 to 070+076+077+081+084+087)</b>	<b>067</b>		169,854,332	172,137,809
I. REGISTERED (SUBSCRIBED) CAPITAL	068		19,016,430	19,016,430
II. CAPITAL RESERVES	069		84,186,547	84,186,547
III. RESERVES OUT OF PROFIT (EDP 071+072-073+074+075)	070		183,484	1,083,227
1 Statutory reserves	071			
2 Reserves for own shares	072		183,484	283,227
3 Own shares (deductible item)	073			800,000
4 Statutory reserves	074			
5 Other reserves	075			
IV. REVALUATION RESERVES	076		64,473,012	61,561,956
V. FAIR VALUE RESERVE (EDP 078 to 080)	077		0	0
1 Fair value of financial assets available for sale	078			
2 Effective portion of cash flow hedges	079			
3 Effective portion of hedge of a net investment in a foreign operation	080			
VI. RETAINED PROFIT OR ACCUMULATED LOSSES (EDP 082-083)	081		-7,078,272	3,783,114
1 Retained earnings	082			3,783,114
2 Accumulated losses	083		7,078,272	
VII. PROFIT OR LOSS FOR THE YEAR (EDP 085-086)	084		9,073,131	2,506,535
1 Profit for the year	085		9,073,131	2,506,535
2 Loss for the year	086			
VIII. MINORITY (NON-CONTROLLING) INTEREST	087			
<b>B) PROVISIONS (EDP 089 to 094)</b>	<b>088</b>		0	0
1 Provisions for retirement and termination benefits and similar obligations	089			
2 Provisions for taxes	090			
3 Litigation provisions	091			
4 Provisions for rehabilitation of natural resources	092			
5 Provisions for warranties	093			
6 Other provisions	094			
<b>C) NON-CURRENT LIABILITIES (EDP 096 to 106)</b>	<b>095</b>		299,123,101	283,173,339
1 Liabilities to Group companies	096			
2 Liabilities for loans, deposits and similar – Group companies	097			
3 Liabilities to companies linked by virtue of participating interests	098			
4 Liabilities for loans, deposits and similar – participating interest	099			
5 Liabilities for loans, deposits and similar	100			
6 Liabilities to banks and other financial institutions	101		283,004,848	267,782,850
7 Advances received	102			
8 Trade payables	103			
9 Liabilities in respect of securities	104			
10 Other non-current liabilities	105			
11 Deferred tax liability	106		16,118,253	15,390,489

**Appendices to financial statements (continued)**

For the year ended 31 December 2016

**STATEMENT OF FINANCIAL POSITION (continued)**

Item description	EDP code	Note no	Prior year (net)	Current year (net)
1	2	3	4	5
<b>LIABILITIES AND EQUITY</b>				
<b>D) CURRENT LIABILITIES (EDP 108 to 121)</b>	<b>107</b>		<b>256,688,654</b>	<b>334,356,995</b>
1 Liabilities to Group companies	108		591,129	2,065,328
2 Liabilities for loans, deposits and similar – Group companies	109			11,903,566
3 Liabilities to companies linked by virtue of participating interests	110			
4 Liabilities for loans, deposits and similar – participating interest	111			
5 Liabilities for loans, deposits and similar	112			
6 Liabilities to banks and other financial institutions	113		62,656,825	94,891,018
7 Advances received	114		2,845,263	3,615,967
8 Trade payables	115		97,020,329	73,823,782
9 Liabilities in respect of securities	116		80,887,770	39,770,000
10 Liabilities to employees	117		1,093,562	1,172,827
11 Taxes, contributions and similar duties payable	118		8,540,805	4,145,359
12 Liabilities in respect of profit distributions (dividends payable)	119			
13 Liabilities for non-current assets held for sale	120			
14 Other current liabilities	121		3,052,971	102,969,148
<b>E) ACCRUED EXPENSES AND DEFERRED INCOME</b>	<b>122</b>		<b>544,843</b>	<b>479,263</b>
<b>F) TOTAL EQUITY AND LIABILITIES (EDP 067+088+095+107+122)</b>	<b>123</b>		<b>726,210,930</b>	<b>790,147,406</b>
<b>G) OFF-BALANCE SHEET ITEMS</b>	<b>124</b>		<b>4,398,007</b>	<b>4,091,915</b>

**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

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**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

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