



***ANNUAL BUSINESS REPORT***  
***2012***

*Virovitica, February 2013*

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## I INTRODUCTION/ ABOUT THE COMPANY

### 1.1 Introduction

In accordance with Croatian law, VIRO Sugar Factory is obliged to prepare and submit an Annual Business Report, intended for the Company management and other interested parties.

Annual Business Report presents a complex and documented insight into Company's operations, with all statistical methods, necessary material and financial data, as well as business indicators, calculated on bases of modern analytical and statistical methods and valid international financial reporting standards.

This Report, together with basic financial reports (Balance Sheet, Profit and Loss Account, Cash flows Statement) and Notes to the Financial Statements, make an integral report.

Data relevant for the preparation of this report, were collected from the Company's departments of production, raw material supply, sales, finance, accounting and department of planning and analysis, where the report is actually prepared, as well as the data supplied by company VIRO KOOPERACIJA d.o.o.

### 1.2 About the Company

On June 27, 2002, based on the Article 7 of the Purchase contract, companies EOS-Z d.o.o., Zagreb and Robić d.o.o. Velika Gorica, purchased the company Tvornica šećera Virovitica in bankruptcy, its immovable, stocks of raw materials, spare parts and production in course, and engaged themselves to found a new company, invest all the purchased assets and continue the main activity of the factory in bankruptcy.

So, on July 19, 2002 a new company was founded, VIRO limited liability company, for production and trade (further on VIRO Ltd.), registered at the Register of Business Entities at the Commercial Court Bjelovar, with subscribed core capital of HRK 20.000,00 and founders EOS-Z Ltd. with 51% stake and Robić Ltd. with 49% stake.

After settlement of the total purchase price with the sellers of the bankrupted company assets, on September 5, 2002, companies EOS-Z Ltd. and Robić Ltd. transferred to VIRO Ltd. the stocks of raw material, spare parts and semi-final products, what was actually the real start of business activity for the new company. On September 10, 2002, new employment contracts were signed with 264 full time employees.

During 2003 transfer of long-term fixed assets from EOS-Z Ltd. and Robić Ltd. to VIRO Ltd. took place. During the same period the new company was additionally capitalised, and the core capital was increased to HRK 104.000.000,00.

By decision of the Assembly of July 21, 2005, and after registration at the Register of Business Entities at the Commercial Court Bjelovar of September 1, 2005, company was transformed from limited liability to joint stock company, and the name was changed to VIRO SUGAR FACTORY, joint stock company for production and trade (abbr.: VIRO SUGAR FACTORY), and subscribed capital of HRK 104.000.000,00 was substituted with 1.040.000 A-shares, made out in the name, at HRK 100,00 par value each.

During first quarter of 2006, the increase of the company core capital was completed, by money investments and distribution of A-shares to the public, through Zagreb stock market system: 346.667 new A-shares were issued, made out in the name, at HRK 100,00 par value each, in the total par value of HRK 34.666.700,00. Shares were sold at HRK 365,00 each, and fully subscribed and paid for. In such a way company collected HRK 126.533.455,00 in total. On March 17, 2006 the increase of the core capital was registered at the Commercial Court Bjelovar in the amount of HRK 34.666.700,00, so the total core capital reached HRK 138.666.700,00.

Once the process of capitalisation was successfully completed, on April 20, 2006 company stocks were officially listed on the Zagreb stock market.

By decision of the General Assembly of August 30, 2006, all 1.386.667 shares at par value of HRK 100,00 each, were substituted by shares without par value, in such a way company core capital was divided to 1.386.667 A-shares made out in the name, without par value.

By decision of the General Assembly of December 14, 2006, further increase of core capital was made, by transformation of a part of the capital gain, and a part of the retention profit, in the amount of HRK 110.933.360,00, so the total core capital reached HRK 249.600.060,00. The core capital increase was carried out without issuance of new shares, so the core capital is divided to 1.386.667 shares made out in the name, without par value.

### 1.3 Management Bodies

Effective July 19, 2002 when the Company was founded, Marinko Zadro and Dražen Robić were appointed to the Management Board.

By decision of the Company members of May 23, 2003

a) Appointed to Supervisory Board

1. Marinko Zadro, Chairman
2. Željko Zadro, Deputy Chairman
3. Dražen Robić, Member of the Board

b) Appointed to Management Board

1. Damir Barić, President of the Board
2. Ivan Duvnjak, Member of the Board
3. Ivan Tot, Member of the Board

By decision of Company members of June 17, 2005, appointed to Supervisory Board

1. Marinko Zadro, Chairman
2. Boris Šimunović, Deputy Chairman
3. Dražen Robić, Member of the Board
4. Danaja Debicki, Member of the Board
5. Krešimir Mostovac, Member of the Board

By decision of the General Assembly of August 30, 2007, instead of Danaja Debicki, Marinko Papuga was appointed to the Supervisory Board.

By decision of the Supervisory Board of March 19, 2008, instead of three Members of the Management Board, Željko Zadro, former authorised representative, was appointed as the sole Member of the Management Board, as from March 27, 2008.

By decision of the General Assembly of April 12, 2011, instead of Marinko Papuga, Ivan Mišetić was appointed to the Supervisory Board.

By decision of the Supervisory Board of December 12, 2011 Member of the Management Board Željko Zadro was appointed as the President of the Management Board and Ivan Škorić was appointed as the Member of the Management Board.

## II RAW MATERIAL PROCUREMENT ANALYSES

By the plan of sugar beet production for 2012, foreseen sow area was 24.710 acres.

Contracting of production started in September 2011. Necessary fertilizers, seeds and plant protection chemicals were provided on time and in sufficient quantities.

Contracted area was 27.020 acres, and 26.720 acres were sown.

Sowing started in Belje on March 12, and in Anabela, Agronom, Fermopromet and Baranjsko Petrovo selo on March 15.

Till the end of March, 97,7% of the area was sown, and the reminder 620 acres (2,3% of the area) by beginning of April.

Morning frost on April 9 and 10, and low temperatures to  $-10^{\circ}\text{C}$  caused significant damage on just sprouted plants. Sowing of sugar beet had to be repeated on 3.600 acres, and 40 acres were sown with other crop. Accordingly, 26.680 acres remained sown with beet. In May and June, there were between 24.300 and 40.500 sugar beet plants per acre, and in average about 34.400 plants per acre. Thanks to favourable agroclimatic conditions in May and June, and sufficient rainfall, sugar beet was growing well, and crop expectations were good. By beginning of July, yield estimations were optimistic. In spite of frost, repeated sowing and reduced number of plants per acre, a yield of 21 t/acre was estimated, and over 560.000 t total quantity of beet.

However, due to very dry July, August and first decade of September, combined with very high temperatures, sugar beet crop suffered significant drought stress.

About 20% of crop (over 5.000 acres) lost their leaves, and the reminder 80% of crop (about 20000 acres) lost between 50-80% of leaves.

By beginning of September, the yield estimates were notably lower than those two months earlier. New estimates were under 15 t/acre, and the total quantity of sugar beet under 380000 tons. Due to loss of leaves and additional retro-vegetation, the sugar content was notably decreased, especially after rainfall in second half of September.

Harvesting of sugar beet started on September 8, delivery to the factory on September 10, and processing started on September 11, 2012.

At the beginning of the campaign, polarisation was 16,50%. Later on polarisation was constantly decreasing due to retrovegetation. In the second half of the campaign, average polarisation was under 15%. At the end of the campaign, average polarisation was 15,29%.

In the campaign 2012 a total of 439.156 tons of sugar beet were processed.

Average yield was 17,45 t/acre, average polarisation 15,29% and impurity 13,10%.

Out of the total quantity, 8.409 t of sugar beet were sent for processing to the factory Sladorana, Županja, as a service production.

### CONCLUSION

The characteristics of the campaign 2012 are the following:

- Sugar beet was sown in March on 97,7% of the area
- Due to morning frost on April 9 and 10, sowing repeated on 3600 acres (about 15% of the area), and on the reminder 85% of the area the number of plants per acre were cut down by 15-30%.
- In spite of significant frost damages, thanks to favourable agroclimatic conditions and sufficient rainfall during May and June, crops were in very good condition.
- Very unfavourable climatic conditions during July, August and September (very high temperatures and insufficient rainfall) caused the reduction of sugar beet crop by 20 to 70%. Instead of planned 600000 t of sugar beet, only 450000 t were harvested.
- Sugar beet quality was significantly lower than expected due to severe drought, and sugar yield was only 2,38 t/acre instead of expected 3,44 t/acre.

According to production results trend achieved in the previous few years, an increase of sugar production per acre would have been achieved in 2012 too.

A significant insufficiency of precipitations during whole 2011 also affected the results of production in 2012. During 2011 there were by 35,7% less precipitations compared to an average number, while in 2012 July and August were extremely drought with only 40,2 mm/m<sup>2</sup>, wich is only 25% of multy-year average (160,5 mm/m<sup>2</sup>).

### III PROCESSING AND PRODUCTION RESULTS ANALYSES

#### 3.1 Raw sugar processing technology and production results

During 2012, the processing of imported raw sugar was performed in two turns.

The first turn of raw sugar processing was performed between April 4 and May 14, when the total of 50.000 tones were processed. Total amount of 47.948,56 tons of sugar was produced in 41 day, at average daily processing quantity of 1.221,67 tons.

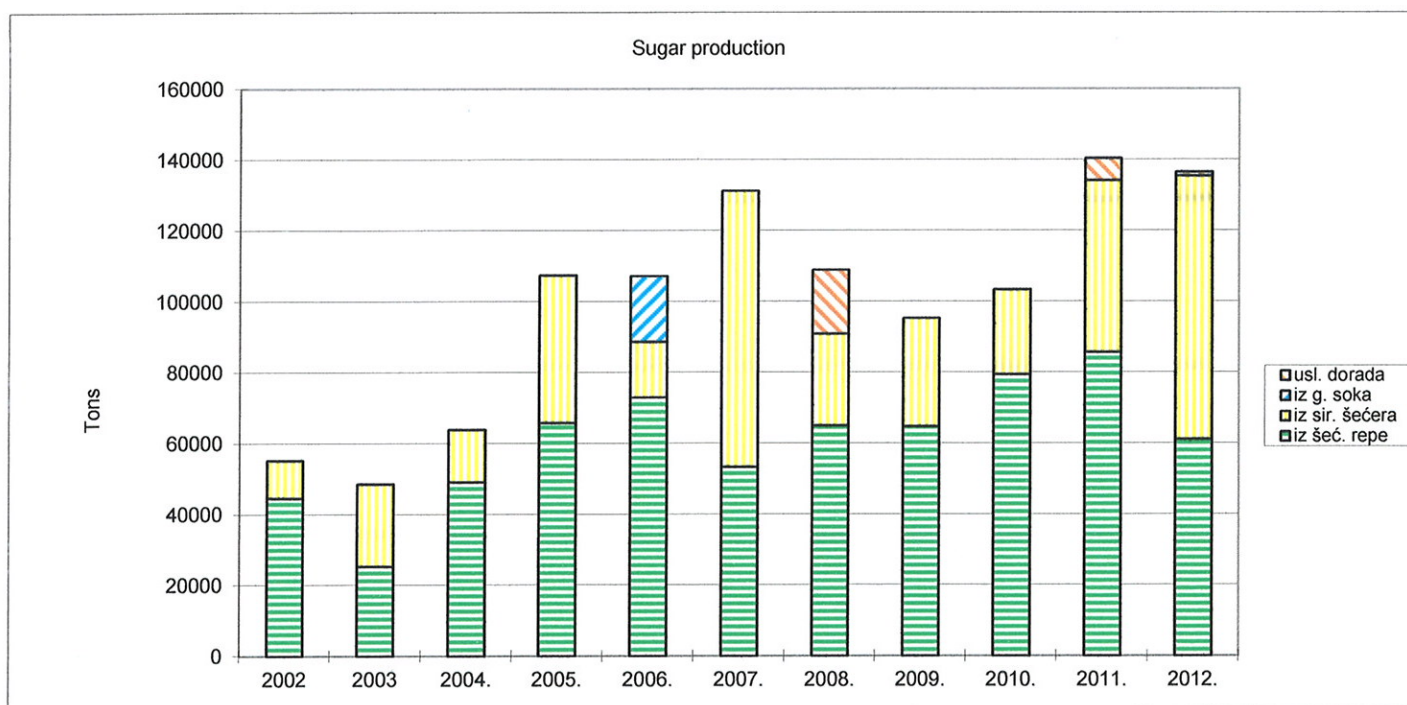
The second turn of raw sugar processing was performed between December 6 and December 31, when the total of 33.668,00 tons were processed. Total amount of 29.951,00 tons of sugar were produced in 26 day, at average daily processing quantity of 1.294,92 tons.

Item	Description of good	Unit	Quantity
1	Sugar		
	Total	t	77.899,57
	First ship	t	47.948,57
	Second ship	t	29.951,00
2	Molasses		
	Total	t	1.947,33
	First ship	t	1.388,33
	Second ship	t	559,00

#### 3.2 Sugar beet processing campaign results

Sugar beet campaign started on September 11 and lasted till November 28, 2012.

Item	Description of goods	Unit	Produced 2011	Produced 2012	Service qty 2012
1	Sugar	t	85.712,00	61.110,00	1.140,00
2	Molasses	t	23.111,00	22.544,00	443,19
3	Dry pulp	t	24.500,00	13.002,00	232,00
4	Pressed pulp	t	-	32.775,00	-



#### IV SALES ANALYSES FOR 2012

Total sales of sugar per packing units in 2012 is the following:

- sugar 50/1	59.091.457 kg
- sugar 25/1	3.435.600 kg
- sugar 1/1	28.483.900 kg
- liquide sugar	5.621.463 kg
- big bags 1200 kg	7.879.300 kg
- sugar 1000/1	19.339.000 kg
- sugar in bulk	20.022.770 kg
- sugar 800/1	478.400 kg
- sugar 850/1	7.650 kg
- industrial sugar - other	143.795 kg
<b>TOTAL</b>	<b>144.503.335 kg</b>

Total sales of sugar in 2012 were by 9% lower compared to previous year. The main reason is the reduction of sales on EU market, so exports of sugar in 2012 were by 15% lower than previous year, while the reduction of sales on domestic market was 3%.

#### V CREDIT RISK EXPOSURE, LIQUIDITY AND CASH FLOW RISK

##### 5.1 Financing and liquidity issues

Current production and other business activities in 2012, VIRO Sugar factory financed through:

- Sales of transitional stocks of 35.392 t of sugar, 17.246 t of molasses and 21.680 t of dry pulp
- Sales of 48.206 t of sugar and 1.794 t of molasses produced of raw sugar
- Sales of 58.606 t of sugar, 15.614 t of molasses, 13.002 t of dry pulp and 32.775 t of pressed pulp produced of sugar beet
- Sales of 2.299 t of sugar bought on the market and
- Postponement of trade payables (protection, overhaul, and others) till the new campaign.

Settlement of current obligations towards suppliers in the total amount of HRK 948.147.594,36 have been carried out as follows:

- Wire transfer	360.020.825,45	37,97%
- Advance payment	77.040.862,61	8,13%
- Compensation	243.979.032,81	25,73%
- Cession and assignment	10.509.929,55	1,11%
- Bill of Exchange	2.076.637,27	0,22%
- Foreign remittance	252.596.897,83	26,64%
- Advance foreign remittance	1.923.408,84	0,20%

Buyers settled their obligations in the amount of HRK 1.146.201.343,16 as follows:

- Wire transfer	245.559.505,97	21,42%
- Advance payment	18.997.722,23	1,66%
- Compensation	251.769.691,03	21,97%
- Cession and assignment	17.347.978,86	1,51%
- Bill of Exchange	128.440.590,65	11,21%
- Foreign remittance	109.020.233,28	9,51%
- Advance foreign remittance	375.065.621,14	32,72%

## 5.2 Cash flow in 2012

Item	HRK AMOUNT
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>	
Profit before taxation	122.560.221
Amortisation	34.312.381
Increase of current liabilities	118.979.735
Decrease of current receivables	22.717.659
Decrease of stocks	
Other increase of cash flow	
<b>I Total increase of cash flow from operating activities</b>	<b>298.569.996</b>
Decrease of current liabilities	
Increase of current receivables	
Stocks increase	32.408.919
Other decrease of cash flow	24.929.446
<b>II Total decrease of cash flow from operating activities</b>	<b>57.338.365</b>
<b>A1) NET INCREASE OF CASH FLOW FROM OPERATING ACTIVITIES</b>	<b>241.231.631</b>
<b>A2) NET DECREASE OF CASH FLOW FROM OPERATING ACTIVITIES</b>	
<b>CASH FLOW FROM INVESTMENT ACTIVITIES</b>	
Proceeds from sale of long-term fixed and intangible assets	1.530.367
Proceeds from sales of equity and debt financial instruments	
Proceeds from interests	1.593.876
Proceeds from dividends	
Other proceeds from investment activities	41.924
<b>III Total proceeds from investment activities</b>	<b>3.166.167</b>
Acquisition of long-term fixed and intangible assets	31.754.969
Acquisition of equity and debt financial instruments	
Other expenses for investment activities	65.611.568
<b>IV Total expenses for investment activities</b>	<b>97.366.537</b>
<b>B1) NET INCREASE OF CASH FLOW FROM INVESTMENT ACTIVITIES</b>	
<b>B2) NET DECREASE OF CASH FLOW FROM INVESTMENT ACTIVITIES</b>	<b>94.200.370</b>
<b>CASH FLOW FROM FINANCIAL ACTIVITIES</b>	
Proceeds from sales of equity and debt financial instruments	
Proceeds from credit principals, due bills, borrowings and others	230.854.714
Other proceeds from financial activities	1.194.232
<b>V Total proceeds from financial activities</b>	<b>232.048.946</b>
Expenses for credit principals and bonds instalments	318.196.219
Expenses for dividends	49.556.935
Expenses for financial leasing	7.417.850
Redemption of own shares	26.106.522
Other expenses for financial activities	1.045.802
<b>VI Total expenses for financial activities</b>	<b>402.323.328</b>
<b>C1) NET INCREASE OF CASH FLOW FROM FINANCIAL ACTIVITIES</b>	
<b>C2) NET DECREASE OF CASH FLOW FROM FINANCIAL ACTIVITIES</b>	<b>170.274.382</b>
<b>Total increase of cash flow</b>	
<b>Total decrease of cash flow</b>	<b>23.243.121</b>
<b>Cash and cash equivalents at the beginning of the year</b>	<b>49.916.889</b>
<b>Increase of cash and cash equivalents</b>	
<b>Decrease of cash and cash equivalents</b>	<b>23.243.121</b>
<b>Cash and cash equivalents at the end of the year</b>	<b>26.673.768</b>



### 5.3 Statement structure analyses

For consideration of Company's financial position, and its assets, capital, receivables and liabilities, see the structural Statement below.

#### STATEMENT as per 31/12/2012

HRK

Item	DESCRIPTION	31/12/2011		31/12/2012		Indeks 7 (5/3)
		Amount	%	Amount	%	
1	2	3	4	5	6	7 (5/3)
<b>ASSETS</b>						
A)	<b>LONG-TERM ASSETS (I+II+III+IV)</b>	569.899.534	55,46	689.688.914	53,89	121
I	Intangible assets (1 to 2)	531.083	0,05	448.027	0,04	84
1	Research and development expenses	518.268	0,05	395.598	0,03	76
2	Patents, licences, concessions and similar rights	12.815	0,00	52.429	0,00	409
II	Tangible assets (3 to 9)	272.801.344	26,55	242.167.121	18,92	89
3	Land and forests	3.685.749	0,36	5.184.243	0,41	141
4	Buildings	81.588.110	7,94	84.452.874	6,60	104
5	Plants and equipments	160.293.587	15,60	146.841.067	11,47	92
6	Prepayments for tangible assets	2.587.429	0,25	-	-	-
7	Tangible assets in progress	23.411.903	2,28	3.007.044	0,23	13
8	Residential buildings and dwellings	9.300	0,00	9.300	0,00	100
9	Other tangible assets	1.225.266	0,12	267.2593	0,21	218
III	Financial assets (10 to 12)	296.542.243	28,86	447.073.766	34,93	151
10	Shares in affiliated companies	285.332.803	27,77	408.623.353	31,93	143
11	Loans, deposits and guarantees	11.209.440	1,09	38.450.413	3,00	343
IV	Receivables	24.864	0,00	-	-	-
12	Receivables from sales on credit	24.864	0,00	-	-	-
B)	<b>CURRENT ASSETS (V+VI+VII+VIII)</b>	455.543.559	44,33	585.140.394	45,72	128
V	Stocks (13 to 16)	211.954.385	20,63	247.106.459	19,31	117
13	Raw material and consumables	20.391.554	1,98	72.441.728	5,66	355
14	Trading goods	175.331.477	17,06	155.104.394	12,1187	88
15	Final products	2.869.607	0,28	7.022.956	0,55	245
16	Prepayments	13.361.747	1,30	12.537.381	0,98	94
VI	Receivables (17 to 21)	131.418.296	12,79	212.312.573	16,59	162
17	Receivables from affiliated companies	23.314.628	2,27	49.237.692	3,85	211
18	Trade receivables	78.898.405	7,68	94.943.658	7,42	120
19	Receivables from employees	-	-	150	0,00	-
20	Receivables from state and other institutions	29.020.842	2,82	68.120.065	5,32	235
21	Other receivables	184.420	0,02	11.008	0,00	6
VII	Financial assets (22 to 24)	85.497.110	8,32	121.252.683	9,47	142
22	Loans to affiliated companies	1.506.678	0,15	11.781.770	0,92	782
23	Securities	39.779.361	3,87	21.551.755	1,68	54
24	Loans, deposits and guarantees	44.211.071	4,30	87.919.158	6,87	199
VIII	Cash at bank and in hand	26.673.768	2,60	4.468.679	0,35	17
C)	<b>PREPAID EXPENSES AND ACCRUED INCOME</b>	2.122.790	0,21	5.046.859	0,39	238
D)	<b>LOSS ABOVE CAPITAL LEVEL</b>	-	-	-	-	-
E)	<b>TOTAL ASSETS (A+B+C+D)</b>	1.027.565.883	100,00	1.279.876.167	100,00	125
F)	<b>OFF STATEMENT ITEMS</b>	10.852.530	1,06	225.262.526	17,60	2.076

HRK

Item	DESCRIPTION	31/12/2011		31/12/2012		Indeks
		Amount	%	Amount	%	
1	2	3	4	5	6	7 (5/3)
<b>LIABILITIES</b>						
A)	<b>CAPITAL AND RESERVES (1+2+3+4+5+6)</b>	532.440.254	51,82	685.171.561	53,53	129
1	Subscribed capital	249.600.060	24,29	249.600.060	19,50	100
2	Capital gains	9.064.213	0,88	10.368.101	0,81	114
3	Revaluation reserve	19.389.313	1,89	56346673	4,40251	291
4	Reserve	874.338	0,09	3.726.291	0,29	426
5	Retained earning	130.952.109	12,74	226.526.538	17,70	173
6	Profit for the year	122.560.221	11,93	138.603.898	10,83	113
B)	<b>LONG-TERM LIABILITIES (7 to 8)</b>	142.272.174	13,85	84.726.068	6,62	60
7	Liabilities for loans	16.985.496	1,65	19.186.058	1,50	113
8	Liabilities to credit institutions	125.286.678	12,19	65.540.010	5,12	52
C)	<b>CURRENT LIABILITIES (9 to 17)</b>	350.998.386	34,16	506.529.900	39,58	144
9	Liabilities to affiliated companies	9.040.876	0,88	574.219	0,04	6
10	Liabilities based on loans	5.198.874	0,51	24.676.690	1,93	475
11	Liabilities to credit institutions	65.505.340	6,37	79.804.451	6,24	122
12	Liabilities to advancements, deposits and guaranties	154.321.367	15,02	107.149.234	8,37	69
13	Liabilities to suppliers	111.464.083	10,85	273.859.056	21,40	246
14	Liabilities to employees	1.897.442	0,18	1.743.407	0,14	92
15	Taxes, contributions and fees liabilities	1.906.090	0,19	1.134.550	0,09	60
16	Liabilities based on shares of result	11.874	0,00	16.556.077	1,29	139.431
17	Other current liabilities	1.652.440	0,16	1.032.216	0,08	62
D)	<b>DEFERRED EXPENSES AND DEFERRED INCOME</b>	1.855.069	0,18	3.448.638	0,27	186
E)	<b>TOTAL LIABILITIES (A+B+C)</b>	1.027.565.883	100,00	1.279.876.167	100,00	125
F)	<b>OFF STATEMENT ITEMS</b>	10.852.530	1,06	225.262.526	17,60	2.076

#### 5.4 Investments in 2012

During 2012 Company made following investments stated by allotments:

Item	ALLOTMENT	Amount in HRK	Amount in EURO (1 EURO=7,5 HRK)	%
1	Investment into technology and equipment maintenance	5.626.513,09	750.201,75	28,69
2	Investment in buildings	1.522.236,71	202.964,89	7,76
3	Transport means and passenger cars	601.585,15	80.211,35	3,07
4	Telecom means and office equipment	355.671,60	47.422,88	1,81
5	Other	502.697,93	67.026,39	2,56
<b>TOTAL (1 to 5)</b>		<b>8.608.704,48</b>	<b>1.147.827,26</b>	<b>43,90</b>
6	Equipment leasing investments	2.672.057,65	356.274,35	13,63
7	Business premises leasing investments	6.780.762,38	904.101,65	34,58
8	Investments into apartments	1.548.982,93	206.531,06	7,90
<b>GRAND TOTAL (1 to 8)</b>		<b>19.610.507,44</b>	<b>2.614.734,33</b>	<b>100,00</b>

From the above review it is evident that out of EUR 2.614.734,33 total investments, 50,08% was allocated to investments into technology and equipment maintenance.

## VI EMPLOYEES

Next review shows the structure of calculated working hours for 2012:

Item	TYPE OF FEE	Hours	%
	CALCULATED WORKING HOURS (A+B)	504.287	100,00
A)	Normal hours of work	504.287	100,00
B)	Overtime		
	STRUCTURE OF NORMAL HOURS (1 to 6)	504.287	100,00
1	Working hours	372.604	73,89
2	Annual vacation	55.436	10,99
3	State holiday	21.921	4,35
4	Sick leave up to 42 days	5.474	1,09
5	Sick leave over 42 days	9.704	1,92
6	Paid absences and days off	39.148	7,76

Based on the calculated working hours, during 2012 there were in average 241,52 employees (seasonal workers included).

Next review shows the structure of the working days of an average worker in 2012:

192,85 - Days spend at work in the Factory  
 28,69 - Days of annual hollidays  
 11,35 - Days of state holidays  
 2,83 - Days of sick leave up to 42 days  
 5,02 - Days of sick leave over 42 days  
 20,26 - Days of paid absences and days off

Next table shows the fluctuations in the number of employees during the year (without seasonal workers) by qualification structure:

Qualification structure	Situation per 31/12/2011	Went during 2012	Gone during 2012	Situation per 31/12/2012
University degree	36	5	10	31
Associate degree	5	1	2	4
Secondary qualification	101	7	2	106
Lower qualification				
Operative	2			2
Skilled worker	61		3	58
Semi-skilled worker	4			4
Low-skilled worker	20	1		21
<b>TOTAL</b>	<b>229</b>	<b>14</b>	<b>17</b>	<b>226</b>

## VII PROFIT AND LOSS ACCOUNT FOR 2012

Item	Description	2011	2012	Index 2012/2011
1.	Operating incomes	872.654.576	1.090.632.019	125
1.1	Sales revenue	852.277.165	1.070.259.940	126
1.2	Other operating incomes	20.377.411	20.372.079	100
2.	Financial incomes	4.647.860	13.554.162	292
2.1	Incomes related to dependant corporates	12.246	744.382	6.079
2.2	Incomes related to independent corporates	4.635.614	12.809.780	276
2.3	Other financial incomes			
I	TOTAL INCOME (1+2)	877.302.436	1.104.186.181	126
4.	Material costs	722.660.929	818.384.893	113
4.1	Cost of raw material and consumables	543.869.035	594.137.875	109
4.2	Cost of goods sold	137.574.787	183.457.324	133
4.3	Other service costs	41.217.107	40.789.694	99
5.	Staff costs	28.965.340	31.265.775	108
6.	Amortisation and value adjustment of long term assets	34.312.381	36.803.071	107
7.	Other operating costs	10.135.686	8.227.232	81
8.	Other operational costs	35.045.480	20.081.610	57
9.	Finished products stock value increase	94.723.355		
10.	Finished products stock value decrease		20.227.079	
11.	OPERATING EXPENSES (4+5+6+7-8+9+10)	736.396.461	934.989.660	127
12.	Financial expenses	18.345.754	30.592.623	167
12.1.	Expenses related to dependant corporates	288.503	260.164	90
12.2.	Expenses related to independent corporates	17.469.031	26.023.319	149
12.3.	Unrealized losses on financial assets		3.950.000	
12.4.	Other financial expenses	588.220	359.140	
II	TOTAL EXPENSES (11+12)	754.742.215	965.582.283	128
III	PROFIT OF THE YEAR (I-II)	122.560.221	138.603.898	113
IV	PROFIT TAX EXPENSE			
V	NET PROFIT (III-IV)	122.560.221	138.603.898	113
13.	Other comprehensive income	3.020.600	2.503.997	83
VI	COMPREHENSIVE INCOME (V+13)	125.580.821	141.107.895	112
VII	EBIT	136.258.115	155.642.359	114
VIII	EBITDA	170.570.496	192.445.430	113

EBTDA - Earnings before taxes, interest, depreciation and amortization for 2012 amounts to HRK 192,45 million, while in the previous year it was HRK 170,57 million, which is an increase of 13%.

Realised comprehensive income of the observed period in the amount of HRK 141,11 million is higher compared to the previous year by 12%.

Achievement of these indicators of financial operations is mostly the result of multi-year investments into modernization of productional equipment and increase of installed processing capacity, followed by considerable reduction of cost per unit of product.

Achieved total income of HRK 1.104,19 million is by 26% higher compared to the previous year. Exports sale share of the income is increased from 38,22% to 48,59%, while the domestic sales share is reduced from 61,49% to 48,34%.

Total expenses realised in the amount of HRK 965,58 million are by 27,94% higher compared to the previous year.

Material costs and costs of sold goods amount to HRK 818,38 million, and are by 13,25 % higher than those in 2011.

Staff costs are increased by 7,94% because of increased working hours.

Amortization costs reached HRK 36,80 million, and are by 7,26% higher compared to the previous year. The increase of amortization costs is due to amortization of newly purchased equipment.

Financial expenses amount to HRK 30,59 mil, and are by 66,76% higher compared to the previous year.

## VIII KEY INDICATORS OF BUSINESS EFFICIENCY

### 8.1 Indicators of liquidity and financial stability

For the analysis of liquidity and financial stability as per 31/12/2012, following indicators are presented:

Item	INDICATOR	Standard value	2011	2012	Index	
					5/4	5/3
1	2	3	4	5	6	7
<b>a) Liquidity</b>						
1	Instant liquidity ratio	-	0,08	0,01	12	
2	Quick ratio	>1	0,45	0,43	95	43
3	Current ratio	>2	1,30	1,16	89	58
<b>b) Financial stability</b>						
4	- Net working capital in 000 HRK	-	104.545.173,00	78.610.494,00	75	-
	- Share of net working capital in financing of current assets, %	>50	22,95	13,43	59	27
5	Financial security	>1	0,86	0,82	95	82
6	Degree of self-financing, %	>100	68,10	73,14	107	73
7	Long-term assets/ long-term sources, %	>100	118,39	111,63	94	112

Indicators of financial stability show to the degree of indebtedness, and the following financing of assets:

000 HRK

Index  
2012/2011

Item	DESCRIPTION	Unit	2011	2012	Index 2012/2011
1	Current assets	000 Kn	455.543,56	585.140,39	128
1.1	Own funds	000 Kn	245.750,73	399.059,14	162
1.2	Borrowed assets (current liabilities)	000 Kn %	209.792,83 100,00	186.081,25 100,00	89
2	Long-term assets	000 Kn	569.899,53	689.688,91	121
2.1	Own funds	000 Kn %	284.566,73 49,93	281.065,56 40,75	99
2.2	Borrowed assets	000 Kn %	285.332,80 50,07	408.623,35 59,25	143
3	Prepaid expenses	000 Kn	2.122,79	5.046,86	238
3.1	Own funds	000 Kn %	2.122,79 100,00	5.046,86 100,00	238
4	Loss above capital level	000 Kn			
5	Total assets	000 Kn	1.027.565,88	1.279.876,17	125
5.1	Total own capital (1.1+2.1+3.1)	000 Kn %	532.440,25 51,82	685.171,56 53,53	129
5.2	Borrowed assets-current and long- term liabilities-loss above capital (1.2+2.2+4)	000 Kn %	495.125,63 48,18	594.704,61 46,47	120

The above table shows the total assets degree of indebtedness of 46,47%.

### 8.2 Indicators of assets activity and business profitability

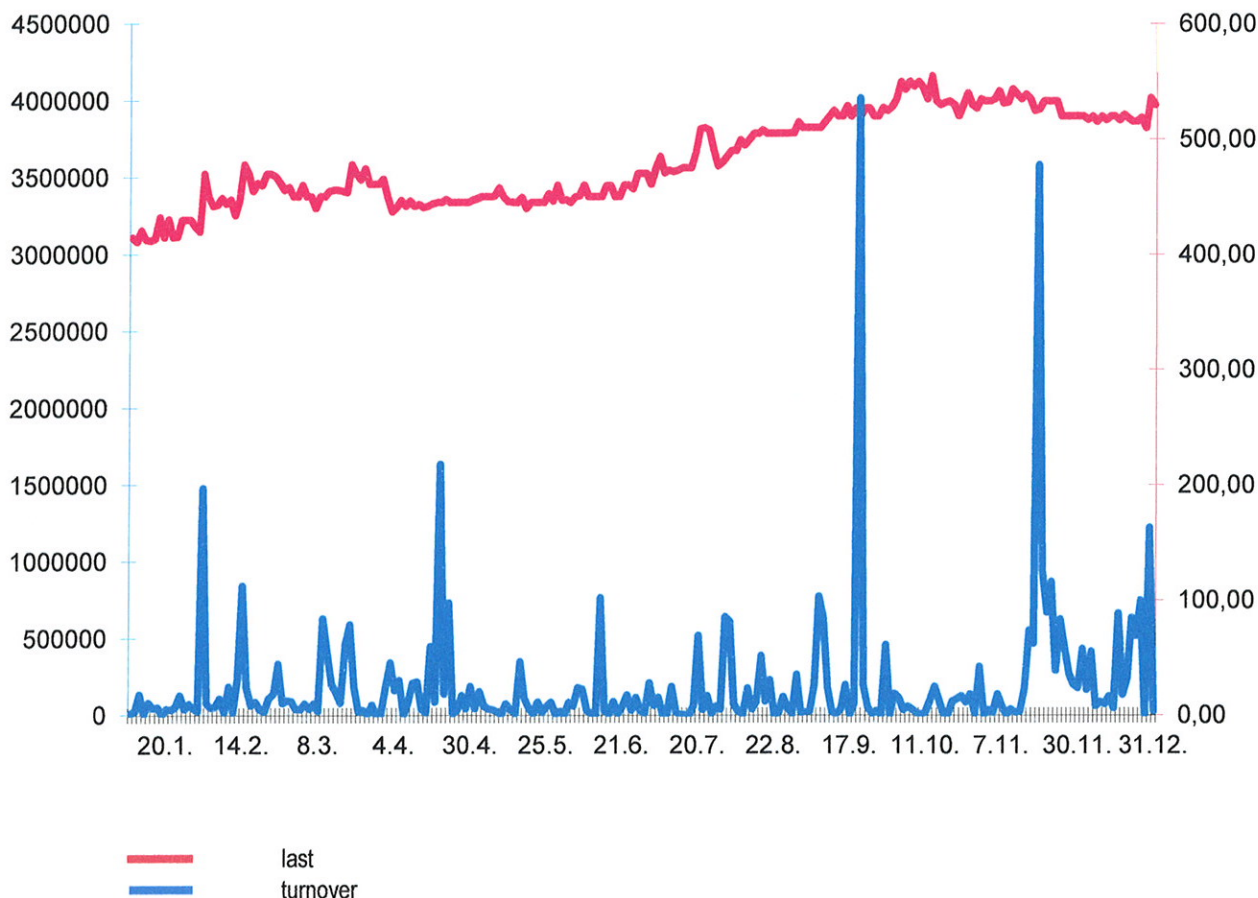
Item	INDICATOR	2011	2012	Index 2012/2011
<b>a) Assets activity</b>				
1	Total assets turnover ratio	0,74	0,96	129
2	Current assets turnover ratio	1,49	2,10	140
3	Current assets binding period (days)	241	172	71
4	Trade receivables			
	- Turnover ratio	5,77	8,65	150
	- Collection period (days)	62	42	67
<b>b) Profitability</b>				
5	Net profit margin	13,97	12,55	90
6	Gross profit margin (operating)	15,61	14,27	91
7	EBITDA margin	19,55	17,65	90
8	ROA	11,93	10,83	91
9	ROE	23,02	20,23	88
10	Net profit per employee	170.275,57	584.257,15	343

## IX OWNERSHIP AND COMPANY SHARES TRADING

Item	SHAREHOLDER	Number of shares	Structure in %
1	EOS-Z D.O.O.	466.500	33,64
2	ROBIĆ D.O.O.	416.100	30,01
3	ZADRO MARINKO	127.936	9,23
4	SOCIETE GENERALE-SPLITSKA BANKA D.D./ AZ OMF	117.069	8,44
5	HYPO ALPE-ADRIA-BANK D.D./ PBZ CROATIA OSIGURANJE OMF	42.181	3,04
6	HYPO ALPE-ADRIA-BANK D.D./ RAIFFEISEN OMF	26.103	1,88
7	HRVATSKA POŠTANSKA BANKA D.D.	23.257	1,68
8	SOCIETE GENERALE-SPLITSKA BANKA D.D./ AZ PROFIT DMF	13.066	0,94
9	ERSTE & STEIERMARKISCHE BANK D.D./CSC	11.021	0,79
10	SOCIETE GENERALE-SPLITSKA BANKA D.D./ ERSTE PLAVI OMF	10.033	0,72
11	ĆORIĆ DANKO	8.400	0,61
12	HRVATSKA POŠTANSKA BANKA D.D./ CLIENTS SUMMARY ACCOUNT	7.216	0,52
13	OTP BANKA D.D./INS683	3.800	0,27
14	OTHER INVESTORS AND SMALL SHAREHOLDERS	113.985	8,22
TOTAL (1 to 14)		1.386.667	100,00

At the end of 2012, the Company does not owe any of its own shares.

At the end of 2012, the stock market price was HRK 530,00 each, and the financial transactions turnover reached HRK 44.574.064,74. Market capitalization in the amount of HRK 734,9 million was achieved in the reported period, and profit amounted to HRK 99,95 per stock.



## X ENVIRONMENTAL PROTECTION

Viro Sugar Factory is a big consumer of natural gas, being the main energy source for the production of sugar. During 2012 for both sugar beet and raw sugar campaigns natural gas consumption reached in total 14.327.679 Nm<sup>3</sup>.

The consumption of natural gas is gradually reduced over the years, due to the reconstruction of production plant and modernization of equipment made during 2009, 2010 and 2011, and thus the emissions to the atmosphere.

Combustion of natural gas in the power plant and combustion of coke in the lime-kiln are the sources of CO<sub>2</sub> emissions to the atmosphere. The level of emission is inspected yearly by an authorized laboratory, and is below prescribed limit, as well as by the Agency and the Ministry of Environmental Protection. By the new Greenhouse gases emission permit, emissions from production of lime are excluded.

Emission of solid particles produced during beet pulp drying process, as well as gases produced by combustion of natural gas in the beet drier, are the second emission being monitored by the authorized company. Test results are within prescribed limits and are submitted to the Agency and the Ministry of Environmental Protection.

Viro Sugar Factory has its own water treatment plant (anaerobic and aerobic section), for treatment of its own waste water (from the process and rainfall waters), as well as municipal waste water from town of Virovitica.

In order to reduce fresh water consumption in various stages of sugar production, water for beet unloading and washing in the factory is recycled, as well as the cooling system water. In this way, considerable amount of fresh water is saved.

Viro has its own boiler house for production of steam necessary for the process, producing at the same time electro energy (co-generation) for own consumption. Periodical surpluses of el. energy are sold to the net, at quantities and prices agreed with the local electro energy distribution company.

During operations of the sugar factory, dangerous and non-dangerous waste is produced, and reported on the prescribed forms to the Environment Protection Agency.

In accordance to law prescriptions, authorized companies specialized for the disposal of waste materials collect all kinds of waste materials from the factory. Records about production, storage and disposal are kept in the factory, in accordance to all regulations on this subject.

Viro Sugar Factory is the first company in Croatian industry which obtained an Environmental Permit in accordance to IPPC Directive. Viro Sugar Factory is certified by ISO 9001, ISO 22000 and ISO 14001.



## XI FUTURE DEVELOPMENT OF THE COMPANY

Future development and operational plan is based on following areas:

- Sugar production and sales plan, and
- Investment plan

Investment plan for 2013 is based on the further increase of energy efficiency of the plant, and keeping up the high level of process safety by reconstruction and improvement of some sections of the plant.

The total investment fund planned for this year will be allocated to following items:

- Annual reparation of process equipment
- Biogas utilization
- Reconstruction of silo and packing room dedusting system
- Replacement of the switch units - transformer TO1 and TO2 and generator
- Extending of the belt conveyer and reconstruction of Object 17
- Replacement of the safety pipeline in anaerobic tank
- Restructing of floors in refinery and sugar drier building
- Gypsum silo and Sladoliq tank repairs

### Sugar beet production and processing

By the production and finance plan for 2013, contracting of beet production on 19.280 acres is planned, which means processing of 429.000 tons of sugar beet, and production of 60.000 tons of white sugar, 17.000 tons of molasses, 13.000 tons of dry pulp and 30.000 tons of pressed pulp.

We would like to mention that the planned acreage is already completely contracted, so with optimal agro climatic conditions, we can expect the realization of good production and financial results.

### Raw sugar processing

Besides sugar beet, during 2013 the processing of 40.700 tons of raw sugar is planned, which means of 39.000 tons of white sugar and 2.500 tons of molasses.



**TVORNICA ŠEĆERA d.d.**  
**VIROVITICA, MATIJE GUPCA 254**

**STATEMENT OF PERSON RESPONSIBLE FOR PRODUCTION OF THE  
ANNUAL FINANCIAL REPORT FOR 1Y 2012**

With this statement, in compliance with article 407, paragraph 2 of the Law on capital market, I state that to the best of our knowledge

- the set of revised financial reports of VIRO TVORNICA ŠEĆERA d.d., Virovitica for 1Y 2012, produced by applying International standards of financial reporting and in compliance with the Croatian Law on Accounting, provides an integral and true overview of assets and liabilities, loss and profit, financial position and operations of the company.
- the Management report contains a true overview of business results and position of the company, with a description of the most significant risks and uncertainties to which the company is exposed.

In Virovitica, on March 21, 2013

RESPONSIBLE PERSON

PRESIDENT OF THE  
MANAGEMENT BOARD:

Željko Zadro, dipl.oec



**ENCLOSURE 1**

Reporting period:

1 January 2012

to

31 December 2012

**Annual Financial Report-GFI-POD**

Tax Number (MB): 01650971

Registration Number (MBS): 010049135

Personal Identification Number (OIB): 04525204420

Issuer: VIRO TVORNICA ŠEĆERA d.d.

Postal Code and Location: 33000

VIROVITICA

Street and number: MATIJE GUPCA 254

e-mail address: viro@secerana.hr

Internet address: www.secerana.hr

Code and name for municipality/city: 491 VIROVITICA

Code and name for county: 10 VIROVITIČKO-PODRAVSKA

Number of employees (at the year's end): 245

Consolidated Report: NO

Business activity code: 1081

Entities in consolidation (according to IFRS)

Registered seat:

Tax number (MB):

Entities in consolidation (according to IFRS)	Registered seat:	Tax number (MB):

Book-keeping firm:

Contact person: ZDENKA SMOJVER

(name and surname of the contact person)

Telephone: 033840100

Telefaks: 033840103

e-mail address: racunovodstvo-viro@secerana.hr

Surname and name: ŽELJKO ZADRO

(authorized representatives)

Documents for publication

1. Revised Annual Financial Statements
2. Statements for persons responsible for composing financial statements
3. Management report



A handwritten signature in blue ink, consisting of several loops and a long horizontal stroke.

(signature of authorized person)

## BALANCE SHEET

as at 31.12.2012

Item	AOP code	Last year (net)	Current year (net)
1	2	3	4
<b>ASSETS</b>			
<b>A) RECEIVABLES FOR SUBSCRIBED BUT NOT PAID-IN CAPITAL</b>	<b>001</b>		
<b>B) LONG-TERM ASSETS (003+010+020+029+033)</b>	<b>002</b>	569.899.534	689.688.914
I. INTANGIBLE ASSETS (004 to 009)	003	531.083	448.027
1. Assets development	004	518.268	395.598
2. Concessions, patents, licences fees, trade and service marks, software and other rights	005	12.815	52.429
3. Goodwill	006		
4. Prepayments for purchase of intangible assets	007		
5. Intangible assets in preparation	008		
6. Other intangible assets	009		
II. TANGIBLE ASSETS (011 to 019)	010	272.801.344	242.167.121
1. Land	011	3.685.749	5.184.243
2. Buildings	012	81.588.110	84.452.874
3. Plant and equipment	013	160.293.587	146.841.067
4. Tools, facility inventory and transport assets	014		
5. Biological assets	015		
6. Prepayments for tangible assets	016	2.587.429	
7. Tangible assets in progress	017	23.411.903	3.007.044
8. Other tangible assets	018	9.300	9.300
9. Investments in buildings	019	1.225.266	2.672.593
III. LONG-TERM FINANCIAL ASSETS (021 to 028)	020	296.542.243	447.073.766
1. Investments (shares) with related parties	021	285.332.803	408.623.353
2. Loans given to related parties	022		
3. Participating interest (shares)	023		
4. Loans to entrepreneurs in whom the entity holds participating interests	024		
5. Investments in securities	025		
6. Loans, deposits and similar assets	026	11.209.440	38.450.413
7. Other long - term financial assets	027		
8. Investments accounted by equity method	028		
IV. RECEIVABLES (030 to 032)	029	24.864	0
1. Receivables from related parties	030		
2. Receivables from based on trade loans	031	24.864	
3. Other receivables	032		
V. DEFERRED TAX ASSETS	033		
<b>C) SHORT TERM ASSETS (035+043+050+058)</b>	<b>034</b>	<b>455.543.559</b>	<b>585.140.394</b>
I. INVENTORIES (036 to 042)	035	211.954.385	247.106.459
1. Raw-material and supplies	036	20.391.554	72.441.728
2. Work in progress	037		
3. Finished goods	038	175.331.477	155.104.394
4. Merchandise	039	2.869.607	7.022.956
5. Prepayments for inventories	040	13.361.747	12.537.381
6. Long - term assets held for sales	041		
7. Biological assets	042		
II. RECEIVABLES (044 to 049)	043	131.418.296	212.312.573
1. Receivables from related parties	044	23.314.628	49.237.692
2. Accounts receivable	045	78.898.405	94.943.658
3. Receivables from participating parties	046		
4. Receivables from employees and members of related parties	047		150
5. Receivables from government and other institutions	048	29.020.843	68.120.065
6. Other receivables	049	184.420	11.008
III. SHORT TERM FINANCIAL ASSETS (051 to 057)	050	85.497.110	121.252.683
1. Shares (stocks) in related parties	051		
2. Loans given to related parties	052	1.506.678	11.781.770
3. Participating interests (shares)	053		
4. Loans to entrepreneurs in whom the entity holds participating interests	054		
5. Investments in securities	055	39.779.361	21.551.755
6. Loans, deposits, etc.	056	44.211.071	87.919.158
7. Other financial assets	057		
IV. CASH AT BANK AND IN CASHIER	058	26.673.768	4.468.679
<b>D) PREPAID EXPENSES AND ACCRUED REVENUE</b>	<b>059</b>	<b>2.122.790</b>	<b>5.046.859</b>
<b>E) TOTAL ASSETS (001+002+034+059)</b>	<b>060</b>	<b>1.027.565.883</b>	<b>1.279.876.167</b>
<b>F) OFF-BALANCE RECORDS</b>	<b>061</b>	<b>10.852.530</b>	<b>225.262.526</b>

<b>LIABILITIES AND CAPITAL</b>			
<b>A) CAPITAL AND RESERVES (063+064+065+071+072+075+078)</b>	<b>062</b>	<b>532.440.254</b>	<b>685.171.561</b>
I. SUBSCRIBED CAPITAL	<b>063</b>	249.600.060	249.600.060
II. CAPITAL RESERVES	<b>064</b>	9.064.213	10.368.101
III. RESERVES FROM PROFIT (066+067-068+069+070)	<b>065</b>	19.389.313	56.346.673
1. Reserves prescribed by law	<b>066</b>	12.480.003	12.480.003
2. Reserves for treasury shares	<b>067</b>	43.866.670	43.866.670
3. Treasury stocks and shares (deduction)	<b>068</b>	36.957.360	0
4. Statutory reserves	<b>069</b>		
5. Other reserves	<b>070</b>		
IV. REVALUATION RESERVES	<b>071</b>	874.338	3.726.291
V. RETAINED EARNINGS OR ACCUMULATED LOSS (073-074)	<b>072</b>	130.952.109	226.526.538
1. Retained earnings	<b>073</b>	130.952.109	226.526.538
2. Accumulated loss	<b>074</b>		
VI. PROFIT/LOSS FOR THE CURRENT YEAR (076-077)	<b>075</b>	122.560.221	138.603.898
1. Profit for the current year	<b>076</b>	122.560.221	138.603.898
2. Loss for the current year	<b>077</b>		
IX. MINORITY INTERESTS	<b>078</b>		
<b>B) PROVISIONS (080 to 082)</b>	<b>079</b>	0	0
1. Provisions for pensions, severance pay, and similar liabilities	<b>080</b>		
2. Reserves for tax liabilities	<b>081</b>		
3. Other reserves	<b>082</b>		
<b>C) LONG - TERM LIABILITIES (084 to 092)</b>	<b>083</b>	<b>142.272.174</b>	<b>84.726.068</b>
1. Liabilities to related parties	<b>084</b>		
2. Liabilities for loans, deposits etc.	<b>085</b>	16.985.496	19.186.058
3. Liabilities to banks and other financial institutions	<b>086</b>	125.286.678	65.540.010
4. Liabilities for received prepayments	<b>087</b>		
5. Accounts payable	<b>088</b>		
6. Liabilities arising from debt securities	<b>089</b>		
7. Liabilities to entrepreneurs in whom the entity holds participating interests	<b>090</b>		
8. Other long-term liabilities	<b>091</b>		
9. Deferred tax liability	<b>092</b>		
<b>D) SHORT - TERM LIABILITIES (094 to 105)</b>	<b>093</b>	<b>350.998.386</b>	<b>506.529.900</b>
1. Liabilities to related parties	<b>094</b>	9.040.876	574.219
2. Liabilities for loans, deposits etc.	<b>095</b>	5.198.874	24.676.690
3. Liabilities to banks and other financial institutions	<b>096</b>	65.505.340	79.804.451
4. Liabilities for received prepayments	<b>097</b>	154.321.367	107.149.234
5. Accounts payable	<b>098</b>	111.464.083	273.859.056
6. Liabilities arising from debt securities	<b>099</b>		
7. Liabilities to entrepreneurs in whom the entity holds participating interests	<b>100</b>		
8. Liabilities to employees	<b>101</b>	1.897.442	1.743.407
9. Liabilities for taxes, contributions and similar fees	<b>102</b>	1.906.090	1.134.550
10. Liabilities to share - holders	<b>103</b>	11.874	16.556.077
11. Liabilities for long-term assets held for sale	<b>104</b>		
12. Other short - term liabilities	<b>105</b>	1.652.440	1.032.216
<b>E) DEFERRED SETTLEMENTS OF CHARGES AND INCOME DEFERRED TO FUTURE PERIOD</b>	<b>106</b>	<b>1.855.069</b>	<b>3.448.638</b>
<b>F) TOTAL – CAPITAL AND LIABILITIES (062+079+083+093+106)</b>	<b>107</b>	<b>1.027.565.883</b>	<b>1.279.876.167</b>
<b>G) OFF-BALANCE RECORDS</b>	<b>108</b>	<b>10.852.530</b>	<b>225.262.526</b>
<b>APPENDIX to balance sheet(to be filled in by entrepreneur that prepares consolidated annual financial report)</b>			
<b>CAPITAL AND RESERVES</b>			
1. Attributed to equity holders of parent company	<b>109</b>		
2. Attributed to minority interest	<b>110</b>		

**PROFIT AND LOSS ACCOUNT**  
for the period 01.01.2012. do 31.12.2012.

**VIRO TVORNICA ŠECERA d.d.**

Item	AOP code	Last year	Current year
1	2	3	4
<b>I. OPERATING REVENUE (112+113)</b>	<b>111</b>	<b>872.654.576</b>	<b>1.090.632.019</b>
1. Sales revenue	112	852.277.165	1.070.259.940
2. Other operating revenues	113	20.377.411	20.372.079
<b>II. OPERATING EXPENSES (115+116+120+124+125+126+129+130)</b>	<b>114</b>	<b>736.396.461</b>	<b>934.989.660</b>
1. Changes in value of work in progress and finished products	115	-94.723.355	20.227.079
2. Material costs (117 to 119)	116	722.660.929	818.384.893
a) Raw material and material costs	117	543.869.035	594.137.875
b) Costs of goods sold	118	137.574.787	183.457.324
c) Other external costs	119	41.217.107	40.789.694
3. Staff costs (121 to 123)	120	28.965.340	31.265.775
a) Net salaries and wages	121	17.586.756	18.748.751
b) Cost for taxes and contributions from salaries	122	7.149.946	8.259.766
c) Contributions on gross salaries	123	4.228.638	4.257.258
4. Depreciation	124	34.312.381	36.803.071
5. Other costs	125	10.135.686	8.227.232
6. Impairment (127+128)	126	0	0
a) Impairment of long-term assets (financial assets excluded)	127		
b) Impairment of short-term assets (financial assets excluded)	128		
7. Provisions	129		
8. Other operating costs	130	35.045.480	20.081.610
<b>III. FINANCIAL INCOME (132 to 136)</b>	<b>131</b>	<b>4.647.860</b>	<b>13.554.162</b>
1. Interest income, foreign exchange gains, dividends and similar income from related parties	132	12.246	744.382
2. Interest income, foreign exchange gains, dividends and similar income from non-	133	4.635.614	12.809.780
3. Share in income from affiliated entrepreneurs and participating interests	134		
4. Unrealized gains (income) from financial assets	135		
5. Other financial income	136		
<b>IV. FINANCIAL EXPENSES (138 do 141)</b>	<b>137</b>	<b>18.345.754</b>	<b>30.592.623</b>
1. Interest expenses, foreign exchange losses, dividends and similar expenses from related parties	138	268.503	260.164
2. Interest expenses, foreign exchange losses, dividends and similar expenses from non-	139	17.469.031	26.023.319
3. Unrealized losses (expenses) on financial assets	140		3.950.000
4. Other financial expenses	141	588.220	359.140
<b>V. INCOME FROM INVESTMENT - SHARE IN PROFIT OF ASSOCIATED ENTREPRENEURS</b>	<b>142</b>		
<b>VI. LOSS FROM INVESTMENT - SHARE IN LOSS OF ASSOCIATED ENTREPRENEURS</b>	<b>143</b>		
<b>VII. EXTRAORDINARY - OTHER INCOME</b>	<b>144</b>		
<b>VIII. EXTRAORDINARY - OTHER EXPENSES</b>	<b>145</b>		
<b>IX. TOTAL INCOME (111+131+142 + 144)</b>	<b>146</b>	<b>877.302.436</b>	<b>1.104.186.181</b>
<b>X. TOTAL EXPENSES (114+137+143 + 145)</b>	<b>147</b>	<b>754.742.215</b>	<b>965.582.283</b>
<b>XI. PROFIT OR LOSS BEFORE TAXATION (146-147)</b>	<b>148</b>	<b>122.560.221</b>	<b>138.603.898</b>
1. Profit before taxation (146-147)	149	122.560.221	138.603.898
2. Loss before taxation (147-146)	150	0	0
<b>XII. PROFIT TAX</b>	<b>151</b>		
<b>XIII. PROFIT OR LOSS FOR THE PERIOD (148-151)</b>	<b>152</b>	<b>122.560.221</b>	<b>138.603.898</b>
1. Profit for the period (148-151)	153	122.560.221	138.603.898
2. Loss for the period (151-148)	154	0	0
<b>APPENDIX to P&amp;L account (to be filled in by entrepreneur that prepares consolidated financial report)</b>			
<b>XIV. PROFIT OR LOSS FOR THE PERIOD</b>			
1. Attributed to equity holders of parent company	155		
2. Attributed to minority interest	156		
<b>STATEMENT OF OTHER COMPREHENSIVE INCOME (IFRS)</b>			
<b>I. PROFIT OR LOSS FOR THE PERIOD (= 152)</b>	<b>157</b>	<b>122.560.221</b>	<b>138.603.898</b>
<b>II. OTHER COMPREHENSIVE INCOME / LOSS BEFORE TAX (159 do 165)</b>	<b>158</b>	<b>3.020.600</b>	<b>2.503.997</b>
1. Exchange differences on translation of foreign operations	159		
2. Movements in revaluation reserves of long-term tangible and intangible assets	160	3.020.600	2.503.997
3. Profit or loss from reevaluation of financial assets available for sale	161		
4. Gains or losses on efficient cash flow hedging	162		
5. Gains or losses on efficient hedge of a net investment in foreign countries	163		
6. Share in other comprehensive income / loss of associated companies	164		
7. Actuarial gains / losses on defined benefit plans	165		
<b>III. TAX ON OTHER COMPREHENSIVE INCOME FOR THE PERIOD</b>	<b>166</b>		
<b>IV. NET OTHER COMPREHENSIVE INCOME OR LOSS FOR THE PERIOD (158-166)</b>	<b>167</b>	<b>3.020.600</b>	<b>2.503.997</b>
<b>V. COMPREHENSIVE INCOME OR LOSS FOR THE PERIOD (157+167)</b>	<b>168</b>	<b>125.580.821</b>	<b>141.107.895</b>
<b>APPENDIX to Statement of other comprehensive income (to be filled in by entrepreneur that prepares consolidated financial report)</b>			
<b>VI. COMPREHENSIVE INCOME OR LOSS FOR THE PERIOD</b>			
1. Attributed to equity holders of parent company	169		
2. Attributed to minority interest	170		



## STATEMENT OF CASH FLOWS - INDIRECT METHOD

for the period

1.1.2012

do

31.12.2012

Item	AOP code	Last year	Current year
1	2	3	4
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>			
1. Profit before tax	001	122.560.221	138.603.898
2. Depreciation	002	34.312.381	36.803.071
3. Increase in short term liabilities	003	118.979.735	121.754.587
4. Decrease in short term receivables	004	22.717.659	
5. Decrease in inventories	005		
6. Other increase in cash flow	006		1.593.569
<b>I. Total increase in cash flow from operating activities (001 to 006)</b>	<b>007</b>	<b>298.569.996</b>	<b>298.755.125</b>
1. Decrease in short term liabilities	008		
2. Increase in short term receivables	009		80.894.277
3. Increase in inventories	010	32.408.919	35.152.074
4. Other decrease in cash flow	011	24.929.446	66.328.880
<b>II. Total decrease in cash flow from operating activities (008 to 011)</b>	<b>012</b>	<b>57.338.365</b>	<b>182.375.231</b>
<b>A1) NET INCREASE IN CASH FLOW FROM OPERATING ACTIVITIES</b>	<b>013</b>	<b>241.231.631</b>	<b>116.379.894</b>
<b>A2) NET DECREASE IN IN CASH FLOW FROM OPERATING ACTIVITIES</b>	<b>014</b>	<b>0</b>	<b>0</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>			
1. Cash inflows from sales of long-term tangible and intangible assets	015	1.530.367	12.475.539
2. Cash inflows from sales of equity and debt instruments	016		
3. Interests receipts	017	1.593.876	2.442.364
4. Dividend receipts	018		191.079
5. Other cash inflows from investing activities	019	41.924	23.154.689
<b>III. Total cash inflows from investing activities (015 to 019)</b>	<b>020</b>	<b>3.166.167</b>	<b>38.263.671</b>
1. Cash outflow for purchase of long-term tangible and intangible assets	021	31.754.969	18.561.331
2. Cash outflow for acquisition of equity and debt financial instruments	022		
3. Other cash outflow for investing activities	023	65.611.568	148.692.208
<b>IV. Total cash outflow for investing activities (021 do 023)</b>	<b>024</b>	<b>97.366.537</b>	<b>167.253.539</b>
<b>B1) NET INCREASE IN CASH FLOW FROM INVESTING ACTIVITIES (020-024)</b>	<b>025</b>	<b>0</b>	<b>0</b>
<b>B2) NET DECREASE IN CASH FLOW FROM INVESTING ACTIVITIES</b>	<b>026</b>	<b>94.200.370</b>	<b>128.989.868</b>
<b>CASH FLOW FROM FINANCIAL ACTIVITIES</b>			
1. Cash inflow from issuing property and debt financial instruments	027		
2. Proceeds from the credit principal, promissory notes, borrowings and other loans	028	230.854.714	198.584.123
3. Other proceeds from financial activities	029	1.194.232	308.815.871
<b>V. Total cash inflows from financial activities (027 to 029)</b>	<b>030</b>	<b>232.048.946</b>	<b>507.399.994</b>
1. Cash outflow for repayment of credit principal and bonds	031	318.196.219	231.481.600
2. Cash outflow for dividends paid	032	49.556.935	27.733.340
3. Cash outflow for financial lease	033	7.417.850	8.635.447
4. Cash outflow for purchase of treasury shares	034	26.106.522	
5. Other cash outflow for financial activities	035	1.045.802	249.144.722
<b>VI. Total cash outflow for financial activities (031 to 035)</b>	<b>036</b>	<b>402.323.328</b>	<b>516.995.109</b>
<b>C1) NET INCREASE IN CASH FLOW FROM FINANCIAL ACTIVITIES</b>	<b>037</b>	<b>0</b>	<b>0</b>
<b>C2) NET DECREASE IN CASH FLOW FROM FINANCIAL ACTIVITIES</b>	<b>038</b>	<b>170.274.382</b>	<b>9.595.115</b>
Total increase in cash flow (013 – 014 + 025 – 026 + 037 – 038)	<b>039</b>		<b>0</b>
Total decrease in cash flow (014 – 013 + 026 – 025 + 038 – 037)	<b>040</b>	23.243.121	22.205.089
Cash and cash equivalents at the beginning of the period	<b>041</b>	49.916.889	26.673.768
Increase of cash and cash equivalents	<b>042</b>	0	0
Decrease of cash and cash equivalents	<b>043</b>	23.243.121	22.205.089
Cash and cash equivalents at the end of the period	<b>044</b>	26.673.768	4.468.679

## CHANGE IN CAPITAL STATEMENT

for the period from 1.1.2010 to 31.12.2010

Item	EDP	Previous year	Current year
1	2	3	4
1. Subscribed capital	001	249.600.060	249.600.060
2. Capital reserves	002	9.064.213	10.368.101
3. Profit reserves	003	19.389.313	56.346.673
4. Retained profit or loss carried forward	004	130.952.109	226.526.538
5. Profit or loss of the current year	005	122.560.221	138.603.898
6. Revaluation of fixed tangible assets	006	4.473.838	3.726.291
7. Revaluation of intangible assets	007		
8. Revaluation of financial property available for sale	008	-3.599.500	0
9. 9. Other revaluation	009		
<b>10. Total capital and reserves (EDP 001 through 009)</b>	<b>010</b>	532.440.254	685.171.561
11. Foreign exchange differences from net investments in foreign operations	011		
12. Current and deferred taxes (part)	012		
13. Cash flow protection	013		
14. Changes in accounting policies	014		
15. Correction of significant mistakes from the previous period	015		
16. Other equity changes	016		
<b>17. Total increase or decrease of capital (EDP 011 through 016)</b>	<b>017</b>	0	0
17 a. Assigned to holders of parent company's capital	018		
17 b. Assigned to minority interest	019		

Items decreasing capital are entered as negative values. Data under EDP 001 through 009 are entered as status on the date of balance.



**Viro tvornica šećera d.d., Virovitica**

Unconsolidated Financial Statements

For the Year Ended

31 December 2012

Together with Independent Auditor's Report

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## Responsibility for the unconsolidated financial statements

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Pursuant to the Accounting Act of the Republic of Croatia, the Management of the Company is responsible for ensuring that unconsolidated financial statements are prepared for each financial year in accordance with International Financial Reporting Standards ("the IFRSs") as published by the International Accounting Standards Board, which give a true and fair view of the financial position and results of operations of Viro tvornica šećera d.d. ("the Company") for that period.

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


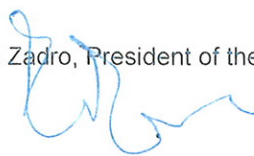
In preparing those unconsolidated financial statements, the responsibilities of the Management Board include ensuring that:

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

The Management 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 unconsolidated financial statements comply with the Accounting Act. The Management 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.

Signed on behalf of the Management of the Company by:

Željko Zadro, President of the Management Board



Viro tvornica šećera d.d.

Matije Gupca 254

33000 Virovitica

Republic of Croatia

1 March 2013

## Independent Auditor's Report

### To the owners of Viro tvornica šećera d.d.

We have audited the unconsolidated financial statements of Viro tvornica šećera d.d. ("the Company"), which comprise the unconsolidated statement of financial position at 31 December 2012, and the related unconsolidated statement of comprehensive income, statement of changes in shareholders' equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes to the unconsolidated financial statements.

#### *Responsibility for the Unconsolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these unconsolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of unconsolidated financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditor's responsibility*

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

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

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

Društvo upisano u sudski registar Trgovačkog suda u Zagrebu: MBS 030022053; uplaćen temeljni kapital: 44.900,00 kuna; članovi uprave: Eric Daniel Olcott and Branislav Vrtačnik; poslovna banka: Zagrebačka banka d.d., Paromlińska 2, 10 000 Zagreb, ž. račun/bank account no. 2360000-1101896313; SWIFT Code: ZABHR2X IBAN: HR27 2360 0001 1018 9631 3; Privredna banka Zagreb d.d., Račkoga 6, 10 000 Zagreb, ž. račun/bank account no. 2340009-1110098294; SWIFT Code: PBZGHR2X IBAN: HR38 2340 0091 1100 9829 4; Raiffeisenbank Austria d.d., Petrinjska 59, 10 000 Zagreb, ž. račun/bank account no. 2484008-1100240905; SWIFT Code: RZBHR2X IBAN: HR10 2484 0081 1002 4090 5

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## Independent Auditor's Report (continued)

### *Opinion*

In our opinion, the accompanying unconsolidated financial statements present fairly, in all material respects, the financial position of the Company at 31 December 2012, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

### *Emphasis of matter*

We draw attention to the fact that the Company has prepared these unconsolidated financial statements under the Croatian laws and regulations and that the investments in subsidiary have been presented in these unconsolidated financial statements at cost. In addition, the Company has prepared separate consolidated financial statements for Viro d.d. and its subsidiaries, dated 01 March 2012. For a better understanding of the Group as a whole, the consolidated financial statements should be read in conjunction with these financial statements. Our opinion is not qualified in respect of this matter.

### **Other matters**

The unconsolidated financial statements of the Company for the year ended 31 December 2011 were audited by another auditor, whose report dated 30 March 2012 expressed unmodified opinion on the unconsolidated financial statements for the year ended 31 December 2011.

**Deloitte d.o.o.**



**Branislav Vrtačnik, Member of the Board, Certified Auditor**

Zagreb, Republic of Croatia

1 March 2013

## Statement of Comprehensive Income

For the year ended 31 December 2012

(All amounts are expressed in thousands of kunas)

	Notes	2012	2011
Sales	5.1	1,070,260	852,277
Other income	5.2	7,540	5,077
<b>Total operating income</b>		<b>1,077,800</b>	<b>857,354</b>
Increase / (decrease) in the value of work in progress and finished products		(20,227)	94,723
Cost of raw material and supplies	7	(594,138)	(543,869)
Cost of goods sold	8	(183,457)	(137,575)
Other external expenses	9	(40,790)	(41,217)
Depreciation and amortisation	15	(36,803)	(34,312)
Staff costs	10	(31,266)	(28,965)
Other expenses	11.1	(8,227)	(10,135)
Other operating expenses	11.2	(7,249)	(19,746)
<b>Total operating expenses</b>		<b>(922,157)</b>	<b>(721,096)</b>
<b>Profit from operations</b>		<b>155,643</b>	<b>136,258</b>
Financial income	12	13,554	4,648
Financial expenses	13	(30,593)	(18,346)
<b>Net financial loss</b>		<b>(17,039)</b>	<b>(13,698)</b>
<b>Profit from operations before taxation</b>		<b>138,604</b>	<b>122,560</b>
Income tax	14	-	-
<b>Profit for the year</b>		<b>138,604</b>	<b>122,560</b>
<b>Other comprehensive income / )loss)</b>			
Change in revaluation reserve for property, plant and equipment		2,504	3,021
Valuation of financial assets available for sale		-	(3,867)
<b>Total comprehensive income for the year</b>		<b>141,108</b>	<b>121,714</b>
<b>Earnings per share</b>			
- Basic and diluted (in kunas and lipas)	23	<b>99,95</b>	<b>94,14</b>

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

# Statement of Financial Position

At 31 December 2012

*(All amounts are expressed in thousands of kunas)*

	Notes	At 31 December 2012	At 31 December 2011
<b>ASSETS</b>			
<b>Non-current assets</b>			
Intangible assets	15	448	531
Property, plant and equipment	15	242,167	272,801
Investments in subsidiaries	16	407,207	283,433
Non-current financial assets	17	39,867	34,194
Receivables		-	25
<b>Total non-current assets</b>		<b>689,689</b>	<b>590,984</b>
<b>Current assets</b>			
Inventories	18	247,106	211,954
Receivables from related companies	19	49,238	23,315
Trade receivables	19	94,943	78,898
Receivables from the State and other institutions	20	68,120	29,021
Current financial assets	21	121,253	64,412
Other receivables		11	184
Cash and cash equivalents	22	4,469	26,674
Prepaid expenses and accrued income		5,047	2,123
<b>Total current assets</b>		<b>590,187</b>	<b>436,581</b>
<b>TOTAL ASSETS</b>		<b>1,279,876</b>	<b>1,027,565</b>

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

Statement of Financial Position (continued)

At 31 December 2012

(All amounts are expressed in thousands of kunas)

	Notes	At 31 December 2012	At 31 December 2011
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Subscribed capital	23	249,600	249,600
Retained earnings		365,131	253,513
Capital reserves		10,368	9,064
Reserves out of profit		56,347	19,389
Revaluation reserves		3,726	874
<b>Total equity</b>		<b>685,172</b>	<b>532,440</b>
<b>Non-current liabilities</b>			
Loans payable and borrowings	25	84,726	142,272
<b>Total non-current liabilities</b>		<b>84,726</b>	<b>142,272</b>
<b>Current liabilities</b>			
Liabilities to related companies	26, 30	574	9,041
Loans payable and borrowings	25	104,481	70,704
Advances received	27	107,149	154,321
Trade payables	26	273,859	111,464
Other current liabilities	28	20,466	5,468
Accrued expenses and deferred income	29	3,449	1,855
<b>Total current liabilities</b>		<b>509,978</b>	<b>352,853</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>1,279,876</b>	<b>1,027,565</b>

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



## Statement of Changes in Shareholders' Equity

For the year ended 31 December 2012

(All amounts are expressed in thousands of kunas)

	Share capital	Capital Reserves	Revaluation Reserves	Profit Reserves	Retained earnings	Total
<b>Balance at 31 December 2010</b>	<b>249,600</b>	<b>9,064</b>	<b>4,741</b>	<b>17,600</b>	<b>205,584</b>	<b>486,589</b>
Profit for the year	-	-	-	-	122,560	122,560
Other comprehensive loss	-	-	(3,867)	-	3,021	(846)
Transfer of retained profits for purchase of own shares	-	-	-	30,000	(30,000)	-
Purchase of own shares	-	-	-	(28,210)	(49,557)	(28,210)
Dividends paid	-	-	-	-	-	(49,557)
Correction of retained earnings	-	-	-	-	1,904	1,904
<b>Balance at 31 December 2011</b>	<b>249,600</b>	<b>9,064</b>	<b>874</b>	<b>19,390</b>	<b>253,512</b>	<b>532,440</b>
Profit for the year	-	-	-	-	138,604	138,604
Other comprehensive income	-	-	1,096	-	2,504	3,600
Disposal of treasury shares	-	1,304	-	36,957	-	38,261
Dividends paid	-	-	-	-	(27,733)	(27,733)
Correction of retained earnings	-	-	1,756	-	(1,756)	-
<b>Balance at 31 December 2012</b>	<b>249,600</b>	<b>10,368</b>	<b>3,726</b>	<b>56,347</b>	<b>365,131</b>	<b>685,172</b>

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

## Statement of Cash Flows

For the year ended 31 December 2012

*(All amounts are expressed in thousands of kunas)*

	2012	2011
<b>Cash flows from operating activities</b>		
<b>Profit for the year</b>	<b>138,604</b>	<b>122,560</b>
Income tax expense	-	-
Depreciation and amortisation	36,803	34,312
Foreign exchange differences per loans, net	59	593
Interests expenses	11,506	8,943
Interests income	(5,173)	(1,594)
Net book value of disposed fixed assets	12,833	15,272
Impairment of financial assets available for sale	3,950	-
Value adjustment of trade receivables	1,462	4,513
Other non-cash items	(147)	-
<b>Operating profit before changes in working capital</b>	<b>199,897</b>	<b>184,599</b>
Increase in inventories	(35,152)	(32,408)
(Increase) / decrease in trade receivables	(43,430)	13,526
(Increase) / decrease in other receivables	(41,850)	3,694
(Increase) / decrease in advances received	(47,172)	153,792
Increase / (decrease) in trade payables	153,928	(37,134)
(Decrease) / increase in other liabilities	(1,425)	6,264
(Decrease) / increase in accrued expenses	1,594	(13,355)
<b>Cash generated from operating activities</b>	<b>186,390</b>	<b>278,978</b>
Interests paid	(11,639)	(12,886)
Dividends paid	(11,204)	(49,557)
<b>Net cash generated from operating activities</b>	<b>163,574</b>	<b>216,535</b>

## Statement of Cash Flows

For the year ended 31 December 2012

*(All amounts are expressed in thousands of kunas)*

---

	2012	2011
<b>Cash flows from investing activities</b>		
Given loans and deposits, net	(57,666)	(73,308)
Purchases of property plant and equipment and intangible assets	(18,772)	(45,496)
Increase of share in Sladorana d.d., net of cash paid	(105,964)	-
<b>Net cash used in investing activities</b>	<b>(182,402)</b>	<b>(118,804)</b>
<b>Cash flows from financing activities</b>		
Proceeds from borrowings and finance leases	125,975	145,000
Repayment of borrowings	(171,481)	(256,626)
Proceeds from finance leases	3,868	18,862
Disposal / (purchase) of treasury shares	38,261	(28,210)
<b>Net cash used in financing activities</b>	<b>(3,377)</b>	<b>(120,974)</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(22,205)</b>	<b>(23,243)</b>
Cash and cash equivalents at the beginning of the year	26,674	49,917
Cash and cash equivalents at the end of year	4,469	26,674

## Notes to the financial statements

For the year ended 31 December 2012

*(All amounts are expressed in thousands of kunas)*

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### 1. GENERAL INFORMATION

#### 1.1 Introduction

Viro tvornica šećera d.d., Virovitica, Matije Gupca 254, was entered in the registry of the Commercial Court in Bjelovar on 23 July 2002. The founders of the company were EOS-Z d.o.o. Zagreb and Robić d.o.o., Velika Gorica. In 2005 the Company was transformed from a limited liability company into a public limited company. The Company's share capital amounts to HRK 249,600,060 (2011: HRK 249,600,060) and consists of 1,386,667 (2010: 1,386,667) ordinary bearer shares, with no par value.

The Company has acquired and holds 3,306,002 (2011: 2,532,538) ordinary shares of Sladorana d.d., Županja, representing 100% (2011: 76.60%) of the equity of the subsidiary.

#### 1.2 Principal activity

The principal activity of the Company comprises production of sugar.

#### 1.3 The Management Board of the Parent

The members of the Company's Management Board are as follows:

1 Željko Zadro	<i>President of the Management Board</i>
2 Ivan Škorić	<i>Member of the Management Board</i>

#### 1.4 Supervisory Board

Members of the Supervisory Board of the Parent:

1 Marinko Zadro	<i>President of the Supervisory Board</i>
2 Boris Šimunović	<i>Deputy President of the Supervisory Board</i>
3 Dražen Robić	<i>Member of the Supervisory Board</i>
4 Ivan Mišetić	<i>Member of the Supervisory Board</i>
5 Krešimir Mostovac	<i>Member of the Supervisory Board</i>

## 2 ADOPTION OF NEW AND REVISED STANDARDS AND INTERPRETATIONS

### 2.1 Standards and Interpretations effective in the current period

The following amendments to the existing standards issued by the International Accounting Standards Board and interpretations issued by the International Financial Reporting Interpretations Committee are effective for the current period:

- **Amendments to IFRS 1 *First-time Adoption of IFRS*** – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (effective for annual periods beginning on or after 1 July 2011),
- **Amendments to IFRS 7 *Financial Instruments - Disclosures*** – Transfer of Financial Assets (effective for annual periods beginning on or after 1 July 2011),
- **Amendments to IAS 12 *Income tax*** - Deferred tax: Recovery of Underlying Assets (effective for annual periods beginning on or after 1 January 2012),

The adoption of the amended and revised Standards and Interpretations has not lead to any changes in the Company's accounting policies.

### 2.2 Standards and Interpretations in issue not yet adopted

At the date of authorization of these financial statements the following Standards, revisions and Interpretations were in issue but not yet effective:

- **IFRS 9 *Financial Instruments***, as amended in 2010, (effective for annual periods beginning on or after 1 January 2015),
- **IFRS 10 *Consolidated Financial Statements***, published in May 2011, supersedes the previous version of IAS 27 (2008) *Consolidated and Separate Financial Statements*, (effective for annual periods beginning on or after 1 January 2013),
- **IFRS 11 *Joint Arrangements***, published in May 2011, supersedes IAS 31 *Interests in Joint Ventures* (effective for annual periods beginning on or after 1 January 2013),
- **IFRS 12 *Disclosure of Interests in Other Entities***, published in May 2011 (effective for annual periods beginning on or after 1 January 2013),

## 2 ADOPTION OF NEW AND REVISED STANDARDS AND INTERPRETATIONS

### 2.2 Standards and Interpretations in issue not yet adopted (continued)

- **IFRS 13 Fair Value Measurement**, published in May 2011 (effective for annual periods beginning on or after 1 January 2013),
- **IAS 27 Separate Financial Statements (as amended in 2011)**, consolidation requirements previously forming part of IAS 27 (2008) have been revised and are now contained in IFRS 10 *Consolidated Financial Statements*, (effective date of IAS 27 (as amended in 2011) for annual periods beginning on or after 1 January 2013),
- **IAS 28 Investments in Associates and Joint Ventures (as amended in 2011)**. This version supersedes IAS 28 (2003) *Investments in Associates* (effective date of IAS 28 (as amended in 2011) for annual periods beginning on or after 1 January 2013).
- **Amendments to IFRS 1 First-time Adoption of IFRS**, published in March 2012, amendments for government loan with a below market rate of interest when transitioning to IFRS, (effective for annual periods beginning on or after 1 January 2013),
- **Amendments to IFRS 7 Financial Instruments: Disclosures**, published in December 2011, amendments enhancing disclosures about offsetting of financial assets and financial liabilities (effective for annual periods beginning on or after 1 January 2013) and amendments requiring disclosures about the initial application of IFRS 9 (effective for annual periods beginning on or after 1 January 2015),
- **Amendments to IAS 1 Presentation of Financial Statements** - Revising the way of presenting the other comprehensive income (effective for annual periods beginning on or after 1 July 2012).
- **Amendments to IAS 19 Employee Benefits** - Improvements to the Accounting for Post-Employment Benefits (effective for annual periods beginning on or after 1 January 2013),
- **Amendments to IAS 32 Financial Instruments: Presentation and IFRS 7 Financial Instruments: Disclosures**, published in December 2011, amendments to application guidance on the offsetting of financial assets and financial instruments (effective for annual periods beginning on or after 1 January 2014),
- **IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine**, (effective for annual periods beginning on or after 1 January 2013).

## Notes to the financial statements

For the year ended 31 December 2012

*(All amounts are expressed in thousands of kunas)*

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### 2 ADOPTION OF NEW AND REVISED STANDARDS AND INTERPRETATIONS

#### 2.2 *Standards and Interpretations in issue not yet adopted (continued)*

- **Annual improvements 2009 – 2011 Cycle**, published in May 2012, a collection of amendments to IFRSs, in response to issues addressed during the 2009–2011 cycle. Five standards (IFRS 1, IAS 1, IAS 16, IAS 32, IAS 34) are primarily affected by the amendments, with consequential amendments to numerous others (effective for annual periods beginning on or after 1 January 2013).
- **Transition guidance**, published in June 2012, amendment to IFRS 10, IFRS 11 and IFRS 12., (effective for annual periods beginning on or after 1 January 2013)
- Amendments to investment entities for IFRS 10, IFRS 12, IAS 27 published in October 2012 (effective for annual periods beginning on or after 1 January 2014)

The Company has elected not to adopt these Standards, revisions and Interpretations in advance of their effective dates and The Company anticipates that the adoption of these standards, revisions and interpretations will have no material impact on the financial statements of the Company in the period of initial application.

## Notes to the financial statements

For the year ended 31 December 2012

*(All amounts are expressed in thousands of kunas)*

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### 3 SIGNIFICANT ACCOUNTING POLICIES

#### 3.1 Basis of presentation and preparation of the financial statements

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 financial statements of the Company are prepared under the cost convention, except for financial assets available for sale which are carried at fair value, and in accordance with International Financial Reporting Standards, as published by the International Accounting Standards Board, and Croatian law.

The accompanying financial statements have been prepared under the going-concern assumption and accrual basis of accounting.

Estimates are based on the information available as at the date of the financial statements, and actual results could differ from those estimates.

At 31 December, the exchange rate of Croatian kuna against the euro (EUR) was as follows:

	EUR 1	USD 1
2012	7.545624	5.726794
2011	7.530420	5.568252

The financial statements of the Company represent aggregate amounts of assets, liabilities, capital and reserves of the Company as of 31 December 2012, and the results of its operations for the year then ended.



## Notes to the financial statements

For the year ended 31 December 2012

*(All amounts are expressed in thousands of kunas)*

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### **3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **3.2 Revenue recognition**

Revenue is recognised when it is probable that economic benefits associated with the transaction will flow into the Company and when the amount of the revenue can be measured reliably. Sales are recognised upon delivery of goods and provision of services, net of taxes and discounts and when the related risks and benefits have passed onto the buyer. Interest income is accrued on a time basis, by reference to the principal outstanding and at the applicable effective interest rates.

#### **3.3 Borrowing costs**

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

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation. All other borrowing costs are included in profit or loss in the period in which they are incurred.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

#### **3.4 Foreign currency transactions**

Transactions in foreign currencies are translated into Croatian kunas at the rates of exchange in effect at the dates of the transactions. Cash, receivables and payables denominated in foreign currencies are retranslated at the rates of exchange in effect at the date of the statement of financial position. Gains and losses arising on translation are included in the statement of comprehensive income for the year.

#### **3.5 Income tax expense**

The tax currently payable is based on taxable profit for the year. Taxable profit differs from the net profit reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are not taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting date.

## Notes to the financial statements

For the year ended 31 December 2012

*(All amounts are expressed in thousands of kunas)*

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### **3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **3.5 Income tax expense (continued)**

##### *Deferred tax*

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which the deductible temporary differences can be utilised.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or a part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by date of the statement of financial position. The measurement of deferred tax liabilities and assets reflects the amount that the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

##### *Current and deferred taxes for the period*

Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity, or where it arises from the initial accounting of a business combination.

##### *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 statement of the financial position on a net basis. If a trade debtor is impaired, the related impairment loss is included in the gross amount of the debtor, which includes VAT.

## Notes to the financial statements

For the year ended 31 December 2012

(All amounts are expressed in thousands of kunas)

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### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 3.6 Property, plant and equipment

Tangible fixed assets are recognised initially at cost less accumulated depreciation. Cost of property, plant and equipment comprises purchase price, including import duties and non-refundable sales taxes and any directly attributable costs of bringing an asset to its working condition and location for its intended use.

Maintenance and repairs, replacements and improvements of minor importance are expensed as incurred. Where it is obvious that expenses incurred resulted in increase of expected future economic benefits to be derived from the use of an item of tangible fixed assets in excess of the originally assessed standard performance of the asset, they are added to the carrying amount of the asset. Gains or losses on the retirement or disposal of tangible fixed assets are recognised as income and expense, respectively, in the period they occur. Depreciation commences on putting an asset into use. Depreciation is provided so as to write down the cost or revalued amount of an asset over the estimated useful life of the asset using the straight-line method as follows:

Type of assets	Useful life	Annual rate in %
Buildings	20 yrs	5%
Vehicles	5 yrs	20%
Intangible assets, equipment, vehicles, machinery	4 yrs	25%
Computers, IT equipment, mobile phones and IT network equipment	2 yrs	50%
Other assets not specified above	10 yrs	10%

In 2012 there were no changes in the depreciation rates versus comparative period.

## Notes to the financial statements

For the year ended 31 December 2012

*(All amounts are expressed in thousands of kunas)*

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### **3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **3.7 Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable direct labour costs and those overhead costs that have been incurred in bringing inventories to their present location and condition.

Where the carrying amount of inventories is to be written down to their net realisable value, an allowance is recognised and charged to expenses for the year.

Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Small inventory includes items of tangible fixed assets with a useful life over one year, but the unit cost of which is below HRK 3,500 (2011: HRK 3,500).

#### **3.8 Trade receivables and prepayments**

Trade debtors and prepayments are carried at nominal amounts less an appropriate allowance for impairment for uncollectible amounts. Management provides for doubtful receivables based on a review of the overall ageing of all receivables and a specific review of significant individual amounts receivable. An allowance is recognised for amounts doubtful of collection and charged to expenses for the year.

#### **3.9 Cash and cash equivalents**

Cash comprises account balances with banks, cash in hand, deposits and securities at call or with maturities of less than three months.

### **3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **3.10 Provisions**

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event and it is probable (i.e. more likely than not) that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Provisions are reviewed at each date of the statement of financial position and adjusted to reflect the current best estimate. Where the effect of discounting is material, the amount of the provision is the present value of the expenditures expected to be required to settle the obligation, determined using the estimated risk free interest rate as the discount rate. Where discounting is used, the reversal of such discounting in each year is recognised as a financial expense and the carrying amount of the provision increases in each year to reflect the passage of time.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the date of the statement of financial position, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

A restructuring provision is recognised when the Company has developed a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it. The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring, which are those amounts that are both necessarily entailed by the restructuring and not associated with the ongoing activities of the entity.

## **2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

### **3.11 Contingent liabilities**

Contingent liabilities have not been recognised in these financial statements. They are not disclosed unless the possibility of outflow of resources embodying economic benefits is remote. A contingent asset is not recognised in the financial statements but it is disclosed when the inflow of economic benefits becomes probable.

### **3.12 Events after the reporting period**

Events after the end of the reporting period that provide additional information about the Company's position at the reporting date (adjusting events) are reflected in the financial statements. Post-year-end events that are not adjusting events are disclosed in the notes when material.

### **3.13 Financial instruments**

Financial assets and financial liabilities included in the accompanying financial statements consist of cash and cash equivalents, marketable securities, trade and other receivables, trade and other payables, long-term receivables, loans, borrowings and investments. The details of the recognition and measurement of those items are presented in the corresponding policies.

Investments are recognised and derecognised on a trade date where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, net of transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

#### ***Effective interest method***

The effective interest method is a method of calculating the amortised cost of a financial asset or liability, and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial asset or liability, or, where appropriate, a shorter period.

## Notes to the financial statements

For the year ended 31 December 2012

*(All amounts are expressed in thousands of kunas)*

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### **3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **3.13 Financial instruments (continued)**

##### ***Loans and receivables***

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables 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 recognition of interest would be immaterial.

##### ***Available-for-sale investments***

Investments available for sale comprise of equity shares of up to 20 percent of the share capital or voting power of the investee. Gains and losses arisen from changes in the fair value of available-for-sale investments are recognized directly in equity, until the security is disposed of or determined to be impaired, at which time the cumulative gain or loss previously recognized in equity is included in the net profit or loss for the period.

The fair value represents the market value on a regulated securities market, observed by reference to the official quotation of the Central Depository Agency, taking into account of the trading volume.

Unlisted equities are recognised at nominal amounts or values estimated by the management on the basis of observable public data.

##### ***Impairment of financial assets***

Financial assets are assessed for indicators of impairment at each date of the statement of financial position. Financial assets are impaired where 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 impacted. For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

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

### **3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **3.13 Financial instruments (continued)**

##### ***Impairment of financial assets (continued)***

Changes in the carrying amount of the allowance account are recognised in profit or loss. Financial instruments are classified as assets, liabilities or equity instruments in accordance with applicable contracts. Interest, dividends, gains and losses on financial instruments classified as financial liabilities are recognised as income or expense when they arise. Financial assets and liabilities are offset when the Company has a legally enforceable right to set off the net amounts reported, or realise the asset and settle the liability simultaneously.

##### ***Derecognition of financial assets***

The Company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. 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.



## Notes to the financial statements (continued)

For the year ended 31 December 2012

*(All amounts are expressed in thousands of kunas)*

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### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 3.15 Critical accounting judgements and key sources of estimation uncertainty

In the application of the Company's accounting policies, which are described above, the directors 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 past experience and other factors that are considered to be relevant. Actual results may differ from those estimates.

The estimates and underlying assumptions are continually reviewed. 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 revision and future periods if the revision affects both current and future periods.

Areas of estimation include, but are not limited to, depreciation periods and residual values of property, plant and equipment, and of intangible assets, value adjustment of inventories, impairment of receivables, provisions for legal actions and provisions made in accordance with actuarial calculations. The key areas of estimation in applying the Company's accounting policies that had a most significant impact on the amounts recognized in the financial statements were as follows:

- *Useful life of property, plant and equipment*

As described in the Note 3.6, the Company reviews the estimated useful lives of property, plant and equipment and intangible assets at the end of each annual reporting period. Property, plant and equipment and intangible assets are recognised initially at cost, less accumulated depreciation.

- *Impairment allowance on trade receivables*

Management provides for doubtful receivables based on a review of the overall ageing of all receivables and a specific review of significant individual amounts receivable. The allowance for amounts doubtful of collection is charged to the statement of comprehensive income for the year.

- *Consequences of certain legal actions*

The Parent and its subsidiaries are involved in legal actions and proceedings, which have arisen from the regular course of their operations. The management makes estimates when the probable outcome of a legal action has been assessed, and the provisions are recognised on a consistent basis.

#### 3.16 Comparative information

Where necessary, comparative information has been reclassified to conform to the current year's presentation.

Notes to the financial statements (continued)

For the year ended 31 December 2012

(All amounts are expressed in thousands of kunas)

**5. SALES AND OTHER INCOME**

5.1 Sales

	2012	2011
Foreign sales	536,478	325,715
Domestic sales	533,782	526,562
	<u>1,070,260</u>	<u>852,277</u>

5.2 Other income

	2012	2011
Gain on disposal of property, plant and equipment and intangible assets	4,437	-
Damages collected	1,263	1,978
Subsequently approved rebates	963	483
Material sales	218	817
Surplus	-	528
Other extraordinary income	659	1,271
	<u>7,540</u>	<u>5,077</u>

**6. SEGMENT INFORMATION**

The operating segments were determined based on the similarity in the nature of individual product groups

Two operating segments were identified: Sugar and Molasses and noodles.

The operating segments are included in internal reports. The internal reports are regularly reviewed by the Management Board in order to assess the performance of the segments and to make business decisions.

Notes to the financial statements (continued)

For the year ended 31 December 2012

(All amounts are expressed in thousands of kunas)

**6. SEGMENT INFORMATION (CONTINUED)**

**Segment revenue and results**

Set out below is a breakdown of revenue and results of the Company by its reporting segments presented in accordance with IFRS 8. The presented sales comprise sales to third parties.

	<b>Segment revenue</b>	
	<b>2012.</b>	<b>2011.</b>
Sugar	801,825	718,638
Molasses and noodles	275,975	138,716
	<b>1,077,800</b>	<b>857,354</b>

	<b>Segment expenses</b>		<b>Segment profit</b>	
	<b>2012.</b>	<b>2011.</b>	<b>2012.</b>	<b>2011.</b>
Sugar	686,035	604,426	115,790	114,212
Molasses and noodles	236,122	116,670	39,853	22,046
	<b>922,157</b>	<b>721,096</b>	<b>155,643</b>	<b>136,258</b>

	<b>2012.</b>	<b>2011.</b>
Operating profit	155,643	136,258
Financial income	13,554	4,648
Financial expenses	(30,593)	(18,346)
<b>Profit before tax</b>	<b>138,604</b>	<b>122,560</b>

The Sugar segment comprises sugar production.

The Molasses and noodles segment comprises production of molasses and noodles.

The accounting policies of the reportable segments are identical to those of the Company, which are set out in Note 3. Segment profit represents the profit earned by each segment without allocation of financial income and expenses, and it is the measure reported to the chief executive officer for the purposes of resource allocation and assessment of segment performance.

Notes to the financial statements (continued)

For the year ended 31 December 2012

(All amounts are expressed in thousands of kunas)

**6. SEGMENT INFORMATION (CONTINUED)**

**Segment assets and liabilities**

	<u>31/12/2012</u>	<u>31/12/2011</u>
<b>Segment assets</b>		
Sugar	529,354	541,083
Molasses and noodles	182,195	104,443
<b>Total segment assets</b>	<b>711,549</b>	<b>645,526</b>
Unallocated	568,327	382,039
<b>Total assets</b>	<b>1,279,876</b>	<b>1,027,565</b>
	<u>31/12/2012</u>	<u>31/12/2011</u>
<b>Segment liabilities</b>		
Sugar	442,428	415,016
Molasses and noodles	152,276	80,109
<b>Total segment liabilities</b>	<b>594,704</b>	<b>495,125</b>
Unallocated	-	-
<b>Total liabilities</b>	<b>594,704</b>	<b>495,125</b>

For the purposes of monitoring segment performance, all assets other than non-current and current financial assets (investments in subsidiaries, long term financial assets and given loans and deposits – see Notes 16, 17 and 21).

All liabilities are allocated to the segments. Liabilities are allocated to reportable segments in proportion to segment asset.

Notes to the financial statements (continued)

For the year ended 31 December 2012

(All amounts are expressed in thousands of kunas)

**6. SEGMENT INFORMATION (CONTINUED)**

**Other segment information**

	Depreciation and amortisation		Additions	
	2012	2011	2012	2011
Sugar	27,379	28,822	13,965	38,135
Molasses and noodles	9,424	5,490	4,807	7,361
<b>Total</b>	<b>36,803</b>	<b>34,312</b>	<b>18,772</b>	<b>45,496</b>

**Geographical information**

The Company operates in three main geographical areas serving as the basis for sales reporting, whereas all non-current assets are on the Croatian market.

	Sales revenue	
	2012	2011
Croatian market	541,322	531,192
EU market	533,628	272,601
Other	2,850	53,561
<b>Total</b>	<b>1,077,800</b>	<b>857,354</b>

**Information about major customers**

Included in the sales in the amount of HRK 1,077,800 thousand (2011: HRK 857,354 thousand) are sales of HRK 218,456 thousand (2011: HRK 207,324 thousand) generated from the major customer of the Company.

Notes to the financial statements (continued)

For the year ended 31 December 2012

(All amounts are expressed in thousands of kunas)

**7 COST OF RAW MATERIAL AND SUPPLIES**

	<b>2012</b>	<b>2011</b>
Raw material and supplies	521,022	475,045
Energy	63,164	61,220
Spare parts	9,189	7,079
Expensed small items	753	521
Other material costs	10	4
	<u><b>594,138</b></u>	<u><b>543,869</b></u>

The cost of raw material and supplies rose significantly in 2012 because of a higher volume of raw sugar processed compared to 2011

**8. COST OF GOODS SOLD**

Cost of goods sold in the amount of HRK 183,457 thousand (2011: 137,575 thousand) represent expenses to the extent of costs of goods sold, i.e. goods delivered by the Company during the reporting year to customers.

**9. OTHER EXTERNAL CHARGES**

	<b>2012</b>	<b>2011</b>
Transportation	11,563	4,727
Maintenance	7,543	13,074
Bank and payment operation charges	4,956	7,647
Insurance premiums	4,607	4,600
Rentals and leases	4,142	4,331
Outsourced service costs	2,214	2,279
Intellectual services	2,020	1,590
Municipal utility services and fees	1,139	1,012
Handling costs	895	-
Market research services	170	185
Promotion, advertising and fairs	95	133
Other services	1,446	1,639
	<u><b>40,790</b></u>	<u><b>41,217</b></u>

Notes to the financial statements (continued)

For the year ended 31 December 2012

(All amounts are expressed in thousands of kunas)

**10. STAFF COSTS**

	<b>2012</b>	<b>2011</b>
Net wages and salaries	18,749	17,587
Taxes and contributions out of salaries	8,260	7,150
Contributions on salaries	4,257	4,228
	<u>31,266</u>	<u>28,965</u>

At 31 December 2012, there were 245 persons employed at the Company (2011: 250 employees).

**11. OTHER COSTS AND OPERATING EXPENSES**

**11.1 Other costs**

	<b>2012</b>	<b>2011</b>
Jubilee awards and gifts to employees	1,514	1,541
Transportation (employees)	1,342	1,609
Mandatory fees, contributions and membership fees	1,336	2,789
Entertainment	1,208	1,206
Supervisory board fees	1,049	850
Employee benefits (per diems, accommodation, support)	753	457
Retirement / termination benefits	539	1,254
Professional education and literature	132	143
Other taxes and fees to the fund	17	14
Field-work allowance	4	53
Other	333	219
	<u>8,227</u>	<u>10,135</u>

Notes to the financial statements (continued)

For the year ended 31 December 2012

(All amounts are expressed in thousands of kunas)

**11. OTHER COSTS AND OPERATING EXPENSES**

**11.2 Other operating expenses**

	<b>2012</b>	<b>2011</b>
Donations	2,147	1,332
Deficits	2,055	703
Receivables written off	1,462	4,513
Impairment of goodwill on acquisition of Slavonija nova d.d.	380	2,194
Subsequently granted discounts	68	1,269
Fines, penalties, damages	14	39
Other	1,123	9,696
	<u><b>7,249</b></u>	<u><b>19,746</b></u>

**12. FINANCIAL INCOME**

	<b>2012</b>	<b>2011</b>
Foreign exchange gains	8,135	3,054
Interest income – unrelated parties	4,429	1,582
Interest income – related parties	744	12
Realised gains on sale of financial assets	55	-
Other financial income	191	-
	<u><b>13,554</b></u>	<u><b>4,648</b></u>

**13. FINANCIAL EXPENSES**

	<b>2012</b>	<b>2011</b>
Foreign exchange losses	14,294	8,815
Interest expense - unrelated companies	11,246	8,654
Impairment of financial assets	3,950	-
Interest expense - related companies	260	289
Other financial expenses	843	588
	<u><b>30,593</b></u>	<u><b>18,346</b></u>

The impairment on financial assets available for sale in the amount of HK 3,950 thousand (2001: nil) relates to shares purchased in 2008 that were determined to be permanently impaired. The related losses initially accumulated in equity were transferred to profit or loss for the year.



## Notes to the financial statements (continued)

For the year ended 31 December 2012

(All amounts are expressed in thousands of kunas)

### 14. INCOME TAX

The Company is a beneficiary of incentives provided in the Investment Promotion Act (Official Gazette No. 73/2000) and hence exempt from corporate income tax. The Company possesses the following evidence for the purposes of the Act: Confirmation of the Ministry of Economy of 5 November 2003 (Class 404-01/03-01/42; Reg. No. 526-01/03-04) and a Letter from the Ministry of Economy, Labour and Entrepreneurship of 28 February 2007 (Class 404-01/06-01/63; Reg. No.: 526-07-01/1-07-2).

	2012.	2011.
Current tax	-	-
Deferred tax credit/(deferred tax assets)	-	-
Income tax recognised in the statement of comprehensive income	<u>-</u>	<u>-</u>

At 31 December 2012, the Company reported a net profit i.e. profit after tax for the period in the amount of HRK 109,612 thousand (2011: HRK 27,168 thousand). The reconciliation between the accounting profit and taxable profits is set out below:

	2012.	2011.
<b>Profit before taxation</b>	<u>138,604</u>	<u>122,560</u>
Income tax – 20%	27,721	24,512
Non-deductible income and expense items	2,155	3,023
Effect of tax relief (incentives provided in the Investment Promotion Act)	<u>(29,876)</u>	<u>(27,535)</u>
<b>Income tax</b>	<u>-</u>	<u>-</u>

The tax rate applicable to taxable profit in the Republic of Croatia is 20 % (2011 20%).

Notes to the financial statements (continued)

For the year ended 31 December 2012

(All amounts are expressed in thousands of kunas)

**15 INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT**

Cost	Intangible assets	Land	Buildings	Plant and equipment	Works of fine arts	Assets under development	Other tangible assets	Total
<b>Balance at 31 December 2010</b>	<b>2,846</b>	<b>3,686</b>	<b>103,556</b>	<b>269,871</b>	<b>9</b>	<b>12,202</b>	<b>1,441</b>	<b>393,611</b>
Additions	355	-	118	17,443	-	27,007	573	45,496
Disposals, retirements, shortage	-	-	-	(16,276)	-	-	(573)	(16,849)
Assets put into use	-	-	3,270	34,631	-	(37,948)	47	-
<b>Balance at 31 December 2011</b>	<b>3,201</b>	<b>3,686</b>	<b>106,944</b>	<b>305,669</b>	<b>9</b>	<b>1,261</b>	<b>1,488</b>	<b>422,258</b>
Additions	143	1,498	7,862	6,021	-	1,746	1,502	18,772
Disposals, retirements, shortage	(210)	-	-	(18,717)	-	-	-	(18,927)
<b>Balance at 31 December 2012</b>	<b>3,134</b>	<b>5,184</b>	<b>114,806</b>	<b>292,973</b>	<b>9</b>	<b>3,007</b>	<b>2,990</b>	<b>422,103</b>

Intangible assets consist of computer software and licences.

Notes to the financial statements (continued)

For the year ended 31 December 2012

(All amounts are expressed in thousands of kunas)

	Intangible assets	Land	Buildings	Plant and equipment	Works of fine arts	Assets under development	Other tangible assets	Total
<b>Accumulated depreciation/amortisation</b>								
<b>Balance at 31 December 2010</b>	<b>2,020</b>	-	<b>19,725</b>	<b>92,636</b>	-	<b>1,667</b>	<b>143</b>	<b>116,191</b>
Charge for the year	650	-	5,190	26,249	-	2,141	82	34,312
Disposals, retirements, shortage	-	-	-	(1,567)	-	-	(10)	(1,577)
Assets put into use	-	-	-	3,910	-	(3,910)	-	-
<b>Balance 31 December 2011</b>	<b>2,670</b>	-	<b>24,915</b>	<b>121,228</b>	-	<b>(102)</b>	<b>215</b>	<b>148,926</b>
Charge for the year	226	-	5,438	31,037	-	-	102	36,803
Correction of beginning balance	-	-	-	(249)	-	102	-	(147)
Disposals, retirements, shortage	(210)	-	-	(5,884)	-	-	-	(6,094)
<b>Balance 31 December 2012</b>	<b>2,686</b>	-	<b>30,353</b>	<b>146,132</b>	-	-	<b>317</b>	<b>179,488</b>
<b>Net book values</b>								
<b>At 31 December 2012</b>	<b>448</b>	<b>5,184</b>	<b>84,453</b>	<b>146,841</b>	<b>9</b>	<b>3,007</b>	<b>2,673</b>	<b>242,615</b>
<b>At 31 December 2011</b>	<b>531</b>	<b>3,686</b>	<b>81,588</b>	<b>160,294</b>	<b>9</b>	<b>25,998</b>	<b>1,226</b>	<b>273,332</b>

Notes to the financial statements (continued)

For the year ended 31 December 2012

(All amounts are expressed in thousands of kunas)

**16. INVESTMENTS IN SUBSIDIARIES**

	At 31 December 2012	At 31 December 2011
Sladorana d.d.	407,187	283,433
VIRO – kooperacija d.o.o.	20	-
	<u>407,207</u>	<u>283,433</u>

Investments in subsidiaries in the amount of HRK 407,187 thousand (2011: HRK 285,433 thousand) relates to an ownership share in Sladorana d.d. The increase of the share in the amount of HRK 123,754 thousand relates to additional 23.3957% Sladorana shares purchased in 2012, as a result of which the Company became the sole owner of Sladorana d.d. (2011: the ownership interest was 76.60%).

In 2012 the Company established a wholly owned subsidiary, VIRO-kooperacija d.o.o., with an initial capital of HRK 20 thousand (2011: nil), which was fully paid in.

**17. NON-CURRENT FINANCIAL ASSETS**

	At 31 December 2012	At 31 December 2011
Given deposits, loans and down payments	38,451	32,294
Investments in related companies	1,416	1,900
	<u>39,867</u>	<u>34,194</u>

Given deposits, loans and down payments in the amount of HRK 38,451 thousand (2011: HRK 32,294 thousand) comprise deposit in Raiffeisenbank in amount of HRK 12,073 thousand (2011: HRK 21,085 thousand), loans to the employees of Sladorana d.d. for purchase of shares in the amount of HRK 240 thousand (2011: HRK 10,620 thousand), given loans to Poljoprivredno poduzeće Orahovica d.d. in the amount of HRK 13.333 thousand (2011.; HRK nil), Grudska pivovara d.o.o., Grude in the amount of HRK 12,321 thousand (2011: HRK nil) and to Senjanović Ivan in the amount of HRK 151 thousand (2011: HRK 150 thousand) and down payments for operating lease arrangements in the amount of HRK 333 thousand (2011: HRK 589 thousand).

HRK 12,073 thousand (2011: HRK 21,085 thousand) of given loans and deposits represent term deposits with Raiffeisenbank d.d. made under a cash deposit pledge agreement concluded on 29 October 2008. The deposit expires on 15 July 2015 and bears interest at a rate of 6.7 percent. The interest rate is variable and the interest is added to the deposit upon the expiry of the deposit term. Decrease of deposits in comparison to the balance as at 31 December 2011 refers to deposit withdrawal as of 4 January 2012 in the amount of EUR 1,200 thousand.

Notes to the financial statements (continued)

For the year ended 31 December 2012

*(All amounts are expressed in thousands of kunas)*

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**18. INVENTORIES**

	<b>At 31 December 2012</b>	<b>At 31 December 2011</b>
Finished products	155,104	175,331
Raw material and supplies	72,442	20,392
Prepayments for inventories	12,537	13,362
Merchandise	7,023	2,869
	<u><b>247,106</b></u>	<u><b>211,954</b></u>

Notes to the financial statements (continued)

For the year ended 31 December 2012

(All amounts are expressed in thousands of kunas)

**19. TRADE RECEIVABLES**

At 31 December 2012, trade receivables amounted to HRK 144,181 thousand (2011: HRK 102,213 thousand).

The structure of receivables is as follows:

	At 31 December 2012	At 31 December 2011
Domestic trade receivables	61,662	64,735
Receivables from related companies	49,238	23,315
Foreign trade receivables	36,375	17,232
Impairment allowance on trade receivables	(3,094)	(3,039)
	<u>144,181</u>	<u>102,213</u>

Maturity analysis of receivables not impaired

	At 31 December 2012	At 31 December 2011
Not yet due	77,408	61,889
0-90 days	53,468	27,723
90-120 days	1,152	4,586
Over 120 days	12,153	8,015
	<u>144,181</u>	<u>102,213</u>

Movements in impairment allowance for doubtful accounts

	2012	2011
<b>Balance at 1 January</b>	<b>3,039</b>	<b>1,661</b>
New allowances	138	1,394
Recovery of receivables previously provided against	(83)	(16)
<b>Balance at 31 December</b>	<b><u>3,094</u></b>	<b><u>3,039</u></b>

Total allowance recognised in the income statement and charged directly to expenses for the period amounted to HRK 1,462 thousand (2011: HRK 4,513 thousand; Note 11.2). All receivables provided against were past due beyond 120 days.

Notes to the financial statements (continued)

For the year ended 31 December 2012

(All amounts are expressed in thousands of kunas)

**20. RECEIVABLES FROM THE STATE AND OTHER INSTITUTIONS**

	At 31 December 2012	At 31 December 2011
VAT receivable	68,056	28,948
Other amounts due from the state	64	73
	<u>68,120</u>	<u>29,021</u>

**21. CURRENT FINANCIAL ASSETS**

	At 31 December 2012	At 31 December 2011
Given loans and deposits	79,994	23,126
Investments in securities - received bills of exchange	21,552	39,779
Loans to related companies	11,782	1,507
Given deposits	7,925	-
	<u>121,253</u>	<u>64,412</u>

An overview of given loans at 31 December 2012 is provided in the table below:

	Interest rate	Balance at 31/12/2012	Balance at 31/12/2012
<b>Legal persons</b>			
Konzum d.d.	7%	70,000	-
Dubrovački podrumi d.d.	6%	2,487	2,023
Volones d.o.o.	6%	1,503	2,023
Visus d.o.o.	8%	1,141	763
Agrokontrola d.o.o.	6%	-	4,183
Hospitalija d.o.o.	6%	-	4,105
Autoprijevoznik Romić Robert	8%	-	2,000
Others	6%-9%	1,578	5,916
<b>Total</b>		<u>76,709</u>	<u>19,990</u>
<b>Individuals</b>			
Others	6%-8%	3,285	3,136
<b>Total individuals</b>		<u>3,285</u>	<u>3,136</u>
<b>Total</b>		<u>79,994</u>	<u>23,126</u>

Notes to the financial statements (continued)

For the year ended 31 December 2012

(All amounts are expressed in thousands of kunas)

**22. CASH AND CASH EQUIVALENTS**

	At 31 December 2012	At 31 December 2011
Foreign currency account balance	2,786	6,343
Gyro account balance	1,683	20,331
	<u>4,469</u>	<u>26,674</u>

**23. SHARE CAPITAL**

At 31 December 2012 the share capital amounts to HRK 249,600 thousand and consists of 1,386,667 shares (2011: HRK 249,600 thousand, consisting of 1,386,667 shares).

The ownership structure of the Company is set out below:

	Number of shares		Ownership in %	
	2012	2011	2012	2011
EOS-Z d.o.o.	466,500	465,483	33.64%	33.57%
Robić d.o.o.	416,100	416,100	30.01%	30.01%
Zadro Marinko	127,936	34,417	9.23%	2.48%
Societe Generale Splitska banka d.d. / AZ OMF	117,069	88,811	8.44%	6.40%
Hypo Alpe Adria Bank d.d. / PBZ Croatia Osiguranje OMF	42,181	42,181	3.04%	3.04%
Viro tvornica šećera d.d.	-	84,836	-	6.12%
Other	216,881	254,839	15.64%	18.38%
	<u>1,386,667</u>	<u>1,386,667</u>	<u>100.00</u>	<u>100.00</u>



Notes to the financial statements (continued)

For the year ended 31 December 2012

(All amounts are expressed in thousands of kunas)

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**24. EARNINGS PER SHARE**

**Basic and diluted earnings per share**

Basic earnings per share are determined, by dividing the Company's net profit by the weighted average number of ordinary shares in issue during the year, excluding the average number of ordinary shares redeemed and held by the Company as treasury shares.

	<b>2012</b>	<b>2011</b>
Net profit attributable to the shareholders (in HRK'000)	138,604	122,560
Weighted average number of shares	1,386,667	1,301,831
Basic earnings per share (in kunas and lipas):	<b>99.95</b>	<b>94.14</b>

Diluted earnings per share are equal to basic earnings per share, as there is no basis for adjusting the weighted average number of ordinary shares.

Notes to the financial statements (continued)

For the year ended 31 December 2012

(All amounts are expressed in thousands of kunas)

**25. LIABILITIES UNDER BORROWINGS AND FINANCIAL LEASES**

	At 31 December 2012	At 31 December 2011
<b>Long-term borrowings</b>		
Bank borrowings	65,540	125,287
Financial lease obligations	19,186	16,985
	<u>84,726</u>	<u>142,272</u>
<b>Short-term borrowings</b>		
Banks – current portion of long term loans (due within 1 year)	59.805	65.606
Banks	20.000	-
Finance lease	17.810	-
Finance lease – current portion of long term finance lease (due within 1 year)	6.866	5.199
	<u>104,481</u>	<u>70,704</u>
	<u>189,207</u>	<u>212,976</u>

Bank borrowings in the amount of HRK 189,207 thousand (2011: HRK 212,976 thousand) are secured by pledge over the property and movables of the Company.

Financial loan in the amount of HRK 17,810 thousand (2011: HRK nil) relates to the liability towards the employees of Sladorana d.d. who sold their shares to the Company in two installments. The first installment was paid at 31 May 2012, while the second one is due on 1 June 2013.

	2012	2011
<b>Balance at 1 January</b>	<b>190,792</b>	<b>303,729</b>
New loans raised	125,975	145,000
Amounts repaid	(171,481)	(258,530)
Exchange differences	59	593
<b>Balance at 31 December</b>	<u><b>145,345</b></u>	<u><b>190,792</b></u>

Notes to the financial statements (continued)

For the year ended 31 December 2012

(All amounts are expressed in thousands of kunas)

**25. LIABILITIES UNDER BORROWINGS AND FINANCIAL LEASES (continued)**

An overview of bank borrowings (maturities, interest rates, balances and currencies) is provided below

Creditor	Ultimate repayment date	Interest rate	Currency	Balance at 31/12/2012
<b>Long-term</b>				
Privredna banka d.d.	31/12/2014	5.40%+ 2.80%	HRK	50,000
Raiffeisenbank d.d.	31/12/2014	5.40%+2.80%	HRK	46,667
Raiffeisenbank d.d.	30/06/2015	4.00%	EUR	28,678
<b>Short-term</b>				
Slatinska banka d.d.	31/01/2013	4.6%	HRK	20,000
				<b>145,345</b>
<b>Total short term and long term loans</b>				

Present value of minimum lease payments per financial leases

	Minimum lease payments		Finance charges		Present value of minimum lease payments	
	2012	2011	2012	2011	2012	2011
Not later than 1 year	6,866	5,199	859	720	6,007	4,479
Payable from two to five years	19,186	15,465	1,241	1,278	17,945	14,187
Payable after five years	-	1,520	-	5	-	1,515
	<b>26,052</b>	<b>22,184</b>	<b>2,100</b>	<b>2,003</b>	<b>23,952</b>	<b>20,181</b>
Less: future finance charges	<b>(2,100)</b>	<b>(2,003)</b>				-
Present value of minimum lease payments	<b>23,952</b>	<b>20,181</b>	-	-	<b>23,952</b>	<b>20,181</b>

Notes to the financial statements (continued)

For the year ended 31 December 2012

(All amounts are expressed in thousands of kunas)

**26. TRADE PAYABLES**

	At 31 December 2012	At 31 December 2011
Domestic trade payables	89,316	77,111
Foreign trade payables	184,543	34,353
	<u>273,859</u>	<u>111,464</u>

**27. ADVANCES RECEIVED**

At 31 December 2012, advances received amounted to HRK 107,149 thousand (2011: HRK 154,321 thousand) and comprise amounts advanced by foreign entities for purchases of sugar.

**28. OTHER CURRENT LIABILITIES**

	At 31 December 2012	At 31 December 2011
Liabilities for dividends	16,556	12
Amounts due to employees	1,743	1,898
Taxes, contributions and similar duties payable	1,135	1,906
Other current liabilities	1,032	1,652
	<u>20,466</u>	<u>5,468</u>

On 27 December 2012 the Company's Assembly adopted a decision to pay dividends in the amount of HRK 20.00 per share out of the retained earnings. The total dividend to be distributed amounted to HRK 27,733 thousand, of which HRK 11,177 thousand was paid on 31 December, and the difference of HRK 16,556 thousand was paid until 26 January 2013.

Notes to the financial statements (continued)

For the year ended 31 December 2012

(All amounts are expressed in thousands of kunas)

**29. ACCRUED EXPENSES AND DEFERRED INCOME**

	At 31 December 2012	At 31 December 2011
Accrued direct sugar beats costs	3,294	1,652
Accrued water protection fee	78	37
Accrued sugar beet incentives	-	29
Other accrued expenses	77	137
	<u>3,449</u>	<u>1,855</u>

**30. RELATED-PARTY TRANSACTIONS**

Balances and transactions between the Company and its related parties are disclosed below.

**Trading transactions**

Transactions entered into by and between the Company and its related parties during the year are as follows:

**Operating income**

	Sales		Other income	
	2012	2011	2012	2011
SLADORANA d.d.	167,906	153,384	16,458	520
VIRO-KOOPERACIJA d.o.o.	7,863	-	63	-
EOS-Z d.o.o.	7,660	22,082	-	493
ROBIĆ d.o.o.	257	25,786	-	8
SLAVONIJA NOVA d.d.	-	2,696	-	-
	<u>183,686</u>	<u>203,948</u>	<u>16,521</u>	<u>1,021</u>

**Operating expenses**

	Selling expenses		Other expenses	
	2012	2011	2012	2011
SLADORANA d.d.	158,224	137,382	12,649	463
VIRO-KOOPERACIJA d.o.o.	7,029	-	63	-
EOS-Z d.o.o.	7,645	22,045	-	450
ROBIĆ d.o.o.	220	23,806	-	55
SLAVONIJA NOVA d.d.	-	2,817	-	-
	<u>173,118</u>	<u>186,050</u>	<u>12,712</u>	<u>968</u>

Notes to the financial statements (continued)

For the year ended 31 December 2012

(All amounts are expressed in thousands of kunas)

**30. RELATED-PARTY TRANSACTIONS (CONTINUED)**

**Financial income and expenses**

	Financial income		Financial expenses	
	2012	2011	2012	2011
SLADORANA d.d.	91	-	-	289
SLAVONIJA NOVA d.d.	587	7	-	-
VIRO-KOOPERACIJA d.o.o.	66	-	-	-
EOS-Z d.o.o.	-	-	260	-
ROBIĆ d.o.o.	-	5	-	-
	<u>744</u>	<u>12</u>	<u>260</u>	<u>289</u>

**Outstanding balances from trading transactions at the end of the reporting period:**

	Amounts owed by related companies		Amounts owed to related parties	
	2012	2011	2012	2011
SLADORANA d.d.	37,411	-	-	8,775
VIRO-KOOPERACIJA d.o.o.	8,454	-	574	-
SLAVONIJA NOVA d.d.	2,570	2,709	-	-
ROBIĆ d.o.o.	803	12,534	-	266
EOS-Z d.o.o.	-	8,072	-	-
	<u>49,238</u>	<u>23,315</u>	<u>574</u>	<u>9,041</u>

**Loans to related parties:**

	Loan receivables		Borrowings	
	2012	2011	2012	2011
SLAVONIJA NOVA d.d.	8,716	1,507	-	-
VIRO-KOOPERACIJA d.o.o.	3,066	-	-	-
	<u>11,782</u>	<u>1,507</u>	<u>-</u>	<u>-</u>

**Remuneration paid to key management personnel:**

	2012	2011
Salaries	1,771	1,030
Other	970	820
	<u>2,741</u>	<u>1,850</u>

### 31. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

#### Capital risk management

The Company manages its capital to ensure that it will be able to continue as a going concern, while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Company's overall strategy has remained unchanged since 2011.

The Company's capital consists of debt, which includes borrowings disclosed in Note 24, less cash and cash equivalents and balances with banks (the so-called net debt), and equity, which comprises share capital, reserves and retained earnings.

The Treasury of the Company reviews the capital structure of the Company. As part of this review, the Treasury considers the cost of capital and the risks associated with each class of capital. The gearing ratio at the reporting date was as follows:

#### Gearing ratio

	2012	2011
Debt (i)	189,207	212,976
Cash and cash equivalents	(4,469)	(26,674)
Net debt	<u>184,738</u>	<u>186,302</u>
Equity (ii)	685,172	532,440
Net debt-to-equity ratio (in %)	26,96	34,99

(i) Debt consists of long- and short-term borrowings, as described in Note 25.

(ii) Equity consists of share capital, retained earnings, profit for the year and reserves managed by the Company as capital.

Notes to the financial statements (continued)

For the year ended 31 December 2012

(All amounts are expressed in thousands of kunas)

**31. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)**

**Categories of financial instruments**

	2012	2011
<b>Financial assets</b>		
Non-current financial assets	447,074	317,627
Non-current receivables	-	25
Receivables from related companies	49,238	23,315
Trade receivables	94,943	78,898
Current financial assets	121,253	64,412
Other receivables	11	184
Cash and cash equivalents	4,469	26,674
Prepaid expenses and accrued income	5,047	2,123
	<u>722,035</u>	<u>513,258</u>
<b>Financial liabilities</b>		
Loans payable and borrowings	84,726	142,272
Liabilities to related companies	574	9,041
Borrowings and financial lease obligations	104,481	70,704
Advances received	107,149	154,321
Trade payables	273,859	111,464
Other current liabilities	19,331	3,562
Accrued expenses and deferred income	3,449	1,855
	<u>593,569</u>	<u>493,219</u>

At the reporting date there are no significant concentrations of credit risk for loans and receivables designated at fair value through the statement of comprehensive income. The carrying amount reflected above represents the Company's maximum exposure to credit risk for such loans and receivables.



## Notes to the financial statements (continued)

For the year ended 31 December 2012

*(All amounts are expressed in thousands of kunas)*

### 31. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

#### Financial risk management objectives

The Treasury function of the Company provides services to the business, co-ordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Company through internal risk reports which analyse exposures by degree and magnitude of risks.

These risks include market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk.

The Company seeks to minimise the effects of these risks. The Company does not enter into, or trade in financial instruments, including derivative financial instruments, for speculative purposes. The Treasury function periodically reports to the Company's management on the risk exposures.

#### Market risk

The Company's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates, as disclosed below.

#### Foreign currency risk management

The Company undertakes certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise.

The carrying amounts of the Company's foreign-currency denominated monetary assets and liabilities at the reporting date are provided in the table below:

	Liabilities		Assets	
	2012	2011	2012	2011
European Union (EUR)	347,522	246,896	67,999	47,922
USD	-	-	4,038	3,855

**31. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)****Foreign currency risk management***Foreign currency sensitivity analysis*

The Company is mainly exposed to the fluctuations in the exchange rate of the Croatian kuna against the euro and the US dollar because these are the currencies in which the majority of sugar sales (EUR) and purchases of raw sugar (USD) on international markets are carried out.

The following table details the Company's sensitivity to a 10 % decrease of the Croatian kuna against the relevant currencies. 10% is the sensitivity rate used when reporting foreign currency risk internally to the Management Board and represents the Board's assessment of the reasonably possible change in foreign exchange rates. 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. The sensitivity analysis includes external borrowings, as well as loans to foreign operations of the Company denominated in a currency that is not the currency of the lender or the borrower. A positive number below indicates an increase in profit and other equity where the Croatian kuna strengthens 10 percent against the relevant currency. For a 10-percent weakening of the Croatian kuna against the relevant currency, there would be an equal and opposite impact on the profit, and the balances below would be negative.

	EUR impact		USD impact	
	2012	2011	2012	2011
Profit or loss	27,952	19,897	403	385

The exposure to the 10-percent change for the relevant currencies is mainly related to the balance of borrowings, trade payables and receivables from related companies denominated in euro (EUR) and the balance of trade payables denominated in US dollars (USD).

**Interest rate risk management**

The Company is exposed to interest rate risk because entities in the Company borrow funds at both fixed and floating interest rates. The risk is managed by the Company by maintaining an appropriate mix between fixed and floating rate borrowings. The Company's exposures to interest rates on its financial assets and financial liabilities are detailed in the liquidity risk management section of this note.

### **31. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)**

#### **Interest rate risk management**

##### Interest rate sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative instruments at the end of the reporting period. For floating rate liabilities, the analysis is prepared assuming the amount of liability outstanding at the end of the reporting period was outstanding for the whole year. A 50 basis point increase is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Company's:

profit for the year ended 31 December 2012 would decrease/increase by HRK 575 thousand (2011: decrease/increase by HRK 447 thousand). This is mainly attributable to the Company's exposure to interest rates on its variable rate borrowings.

The Company's sensitivity to interest rates has decreased during the current year mainly due to the reduction in variable rate debt instruments.

### **31. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)**

#### **Credit risk management**

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Company. The Company has adopted a policy of dealing with creditworthy counter parties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from default. The exposure of the Company and the credit ratings of its counterparties are continuously monitored, and the total value of transactions entered into is spread across accepted customers. Credit exposure is managed by setting limits to customers.

Ongoing credit evaluation is performed on the financial condition of accounts receivable and, where appropriate, credit guarantee insurance cover is purchased.

The Company has no significant credit risk exposures, either to a single customer, or a group of customers with similar characteristics.

#### *Collateral held as security and other credit enhancements*

The Company commonly accepts bank guarantees, debentures and bills of exchange of its customers.

**31. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)****Liquidity risk management**

Prudent liquidity management implies maintaining sufficient levels of cash, obtaining adequate funding using credit lines and facilities and the ability to settle the liabilities on a timely basis. It also involves matching the maturities of liabilities and maintaining appropriate levels of liquid assets. Ultimate responsibility for liquidity risk management rests with the Management Board. The Company manages its liquidity by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. The cash flow forecasts are prepared on a monthly basis (by day) and departures are monitored daily.

Liquidity and interest rate risk tables

The following tables detail the Company's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Company can be required to pay. The tables include both principal and interest cash flows. The discounted cash outflow on interest at variable rates has been derived from interest rate curves at the end of the reporting period. The contractual maturity has been defined as the earliest date on which the Company can be required to pay.

	Weighted average effective interest rate	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Total
<b>2012</b>						
Non-interest bearing liabilities	-	120,543	6,980	276,839	-	404,362
Interest bearing liabilities		21,549	14,092	73,839	87,929	197,409
	4,17%	<u>142,092</u>	<u>21,072</u>	<u>350,678</u>	<u>87,929</u>	<u>601,771</u>
<b>2011</b>						
Non-interest bearing liabilities	-	265,201	15,042	-	-	280,243
Interest bearing liabilities	5%	-	13,870	64,792	157,783	236,445
		<u>265,201</u>	<u>28,912</u>	<u>64,792</u>	<u>157,783</u>	<u>516,688</u>

## Notes to the financial statements (continued)

For the year ended 31 December 2012

(All amounts are expressed in thousands of kunas)

### 31. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

#### Liquidity risk management (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 of financial assets based on the earliest date on which the Company can require payment.

	Weighted average effective interest rate	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Total
<b>2012</b>						
Non-interest bearing assets	-	116,197	19,387	42,573	408,956	587,113
Interest bearing assets	6,69%	2,643	280	98,064	41,018	142,005
		<b>118,840</b>	<b>19,667</b>	<b>140,637</b>	<b>449,974</b>	<b>729,118</b>
<b>2011</b>						
Non-interest bearing assets	-	93,676	66,301	12,504	296,566	469,047
Interest bearing assets	6,56%	130	260	41,048	4,728	46,166
		<b>93,806</b>	<b>66,561</b>	<b>53,552</b>	<b>301,294</b>	<b>515,213</b>

#### Fair value of financial instruments

The fair values of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets is determined with reference to quoted market prices;
- the fair value of other financial assets and financial liabilities (excluding derivative instruments) is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments;

At 31 December 2012, the carrying amounts of cash, short-term deposits, receivables and short-term liabilities, accrued expenses and other financial instruments approximate their fair values due to the short-term maturity of these financial instruments.

Notes to the financial statements (continued)

For the year ended 31 December 2012

(All amounts are expressed in thousands of kunas)

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**31. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)**

**Fair value of financial instruments (continued)**

**Fair value measurements recognised in the statement of financial position**

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that is not based on observable market data (unobservable inputs).

<b>At 31 December 2012</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
		<i>(HRK'000)</i>		
<i>Financial assets available for sale</i>	1,050	1,416	-	2,466
<b>Total</b>	<b>1,050</b>	<b>1,416</b>	<b>-</b>	<b>2,466</b>
<b>At 31 December 2011</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
		<i>(HRK'000)</i>		
<i>Financial assets available for sale</i>	1,400	1,901	-	3,301
<b>Total</b>	<b>1,400</b>	<b>1,901</b>	<b>-</b>	<b>3,301</b>

Notes to the financial statements (continued)

For the year ended 31 December 2012

(All amounts are expressed in thousands of kunas)

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**32. ACQUISITION OF SUBSIDIARY**

**Increase of investment in Sladorana d.d.**

During 2012, the Company increased the investment in the subsidiary Sladorana d.d. for a few times up to the final 100% share. In the table below there is presented increase of share chronologically:

<b>Date</b>	<b>Number of shares</b>	<b>Paid amount in HRK 000</b>	<b>% of ownership</b>
31.03.2012.	86,891	9,645	79.232529
16.05.2012.	521,449	87,690	95.005327
04.06.2012.	2,000	320	95.065823
29.06.2012.	153	24	95.070451
10.12.2012.	162,971	26,075	100.000000



Notes to the financial statements (continued)

For the year ended 31 December 2012

(All amounts are expressed in thousands of kunas)

**33. OPERATING LEASES**

**The Company as lessee**

Operating lease agreements

Operating lease agreements comprise leases of personal cars over a term of five years. The Company has no option to purchase the leased assets upon the expiry of the lease term.

Lease payments recognised as an expense

	2012	2011
Minimum lease payments	537	416

Non-cancellable operating lease commitments

	2012	2011
Not later than 1 year	387	533
1-5 years	916	1,300
	<u>1,303</u>	<u>1,833</u>

**34. MANAGEMENT AUTHORISATION OF THE ISSUE OF THE UNCONSOLIDATED FINANCIAL STATEMENTS**

These financial statements were adopted by the Management Board and authorized for issue on 1 March 2013.

Signed on behalf of the Management Board on 1 March 2013 by:

Željko Zadro

President of the Management Board

