Granolio d.d., Zagreb

Annual Management Board Report on the business performance and position of the Company and unconsolidated financial statements for the year 2017, together with Independent Auditor's Report

Contents

Annual Management Board report on the business performance and position of the Company for the year 2017

General information about Granolio d.d.

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

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

The members of its Management Board are as follows:
Hrvoje Filipović, Chairman
Drago Šurina, Member
Vladimir Kalčić, Member
Tomislav Kalafatić, Member until July 24, 2017

Members of the Supervisory Board are as follows:
Franjo Filipović, President
Jurij Detiček, Deputy President
Braslav Jadrešić, Member
Davor Štefan, Member
Josip Lasić, Member until June 16, 2017

At 31 December 2017 the total share capital of the Company amounts to HRK 19,016,430 and is divided into 1,901,643 ordinary shares, with a nominal value of HRK 10.00 each. The shares are traded under the ticker GRNL and have been listed on the Official Market of the Zagreb Stock Exchange since 23 March 2015.
The majority shareholder of the company is Mr. Hrvoje Filipović, who holds 58.11 percent of the shareholders' equity.
At 31 December 2017 the ten largest shareholders of Granolio held a total ownership interest of 95.22 percent.

The principal activity of the Company comprises the production of and trade in agricultural products and cattle. At 31 December 2017 the business system of the Company comprised five active operations, of which two are production centres: grain mills Farina and Kopanica engaged in the production, packaging, warehousing and dispatch of grain mill products.

The business unit Bjeliš is a grain drying and storage silo.
The Osijek location is responsible for the storage, sale and dispatch of seed material, sale of grains and oleaginous plants and sales platform management.
The Granolio unit in Zagreb provides logistic, management, accounting and IT support to the Company's business.

Farina and Kopanica mills are subject to International Food Standards (IFS), which enables the Company to export its flour to EU Member States.
The Company sells five own flour brands on the market: Farina, Mlin Kopanica, Ekoklas, Mlineta, and Belje.

farina mlin Kopanica ekoklas

Mlineta

Annual Management Board report on the business performance and position of the Company for the year 2017 (continued)

Because of Granolio's focus on the product and delivery quality as well as on building long-term relationships with customers, Granolio is engaged in the production of private labels for a majority of retail chains in Croatia. Currently, flour is produced for 15 private labels.

The output capacities of the Company's mills at 31 December 2017 are presented in the following table.

Mill output capacities at 31 December 2017:

Mill	ton/24h
Farina	320
Kopanica	230
	550

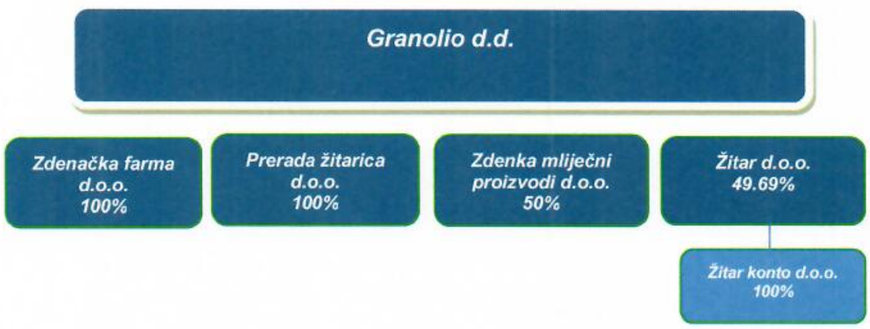
Subsidiaries

The Company holds the entire equity interest in Zdenačka farma d.o.o. and Prerada Žitarica d.o.o. It exercises the controlling influence in the decision-making process at Zdenka - mliječni proizvodi d.o.o. and Žitar d.o.o. These companies have been consolidated as part of the Granolio Group since 2011. Žitar d.o.o., as the sole owner, has established another company, Žitar konto d.o.o., whose financial statements have been included in consolidated financial statements for 2016 and 2017.

In addition, the Company has a minority interest in Žitozajednica d.o.o.(1.28%), Zagrebačke pekarne Klara d.d.(18.25%), and Prehrana trgovina d.d. (11.48%).

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

Granolio Group Structure



Annual Management Board report on the business performance and position of the Company for the year 2017 (continued)

Significant business events in financial period

On 17 July 2017, the Company requested the initiation of a pre-bankruptcy settlement procedure, and a non-enforceable ruling on established and disputed claims was issued on 19 October 2017. Once the ruling becomes final, the court will determine a vote for the restructuring plan.

At the beginning of September 2017, Privredna banka Zagreb sent a Declaration of Cancellation of the Long Term Club Credit Agreement, whereby the total principal and interest liability determined on that day became due three working days from the date of the Statement. The total loan principal amount amounts to HRK 278,5m and is stated at short-term liabilities.

On 10 October 2017, Privredna banka Zagreb transferred its claims to Granolio d.d., which on 31 August 2017 amounted to a total of HRK 116,6m, on the company B2 KAPITAL d.o.o.

On November 27, 2017, the company recapitalized the related company Prerada žitarica d.o.o. in the total amount of HRK 40,7m. Capitalization was made by converting debt into equity.

In the financial statements on December 31, 2017, the Company had a value of HRK 163 million in value impairment, of which over HRK 140 million was generated from operations with the Agrokor Group.

The Company leases business premises in Osijek from affiliated persons. Annual rental value amounted to HRK 331 thousand in 2017 (2016: HRK 331 thousand).

Annual Management Board report on the business performance and position of the Company for the year 2017 (continued)

Analysis of the 2017 business performance

In 000 HRK

	1-12 2017	1-12 2016	change	
Operating income	**397,875**	**595,310**	**(197,434)**	**(33%)**
EBIT	**(180,218)**	**29,013**	**(209,231)**	**721%**
margin %	(45%)	5%		
EBITDA	**(6,892)**	**39,626**	**(46,211)**	**(118%)**
margin %	(2%)	7%		
Net financial result	**(17,969)**	**(24,517)**	**6,548**	**27%**
Net result	**(198,187)**	**2,507**	**(200,693)**	**8007%**
margin %	(49.8%)	0.4%		

Net debt/EBITDA

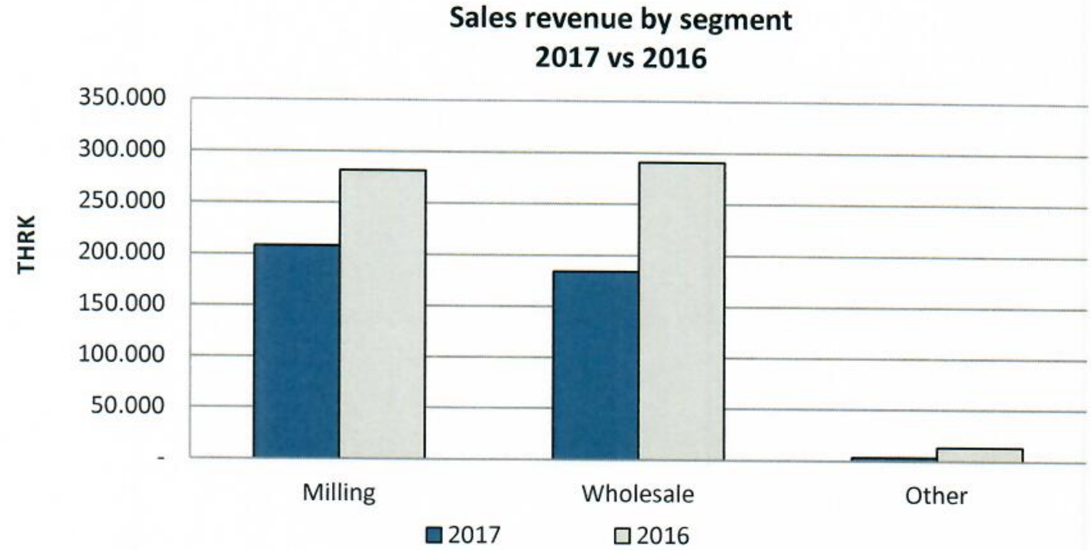
In 000 HRK

	31.12.2017	31.12.2016	change	
Total debt	**389,977**	**402,444**	**(12,467)**	**-3%**
Cash and cash equivalents	2,801	9,300	(6,499)	-70%
Financial assets	41,620	47,772	(6,152)	-13%
Net debt	**345,556**	**345,372**	**184**	**0%**
EBITDA	(6,891)	39,626	(46,517)	-117%
Net debt/EBITDA	**(50.15)**	**8.72**	**(59)**	**-675%**

Total debt to financial institutions does not include reimbursement obligations as part of other short-term liabilities, worth HRK 65 million (31 December 2016: HRK 100 million).

Annual Management Board report on the business performance and position of the Company for the year 2017 (continued)

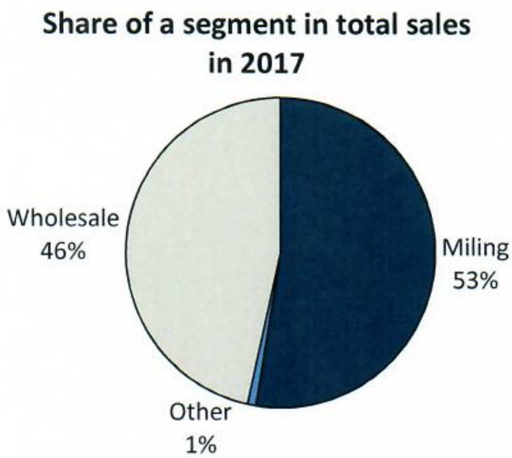
The total product and service sales for 2017 are more than 30 percent lower than the prior-year sales. The decline was recorded in all business segments. The reason for this is the lack of working capital in 2017 as a result of the situation with the Agrokor Group, as the largest single business partner and the initiation of the pre-bankruptcy settlement procedure.



In 2016, the company sold 125,000 tons of flour, which is 24% less than in the previous year. The average sales price of flour achieved in 2017 remained at approximately the same level as the average sales price in the previous year.

About 40% of the total sales of merchandise goods in the domestic market refers to export. About 70% of the total sales on domestic market refers to sales of raw materials. Decrease in sales of cereals and oilseeds is 47%, while sales of raw material for sowing are lower by 14% compared to the previous year.

Segment Other represents the largest part the revenues from providing drying services, storage, revenue from prefactoring sales costs to customers and income from livestock sales.



Annual Management Board report on the business performance and position of the Company for the year 2017 (continued)

The cost of employees is lower than the previous year by 10% due to staff reductions and reduction of part of wages.

During 2017, the Company adjusted the value of receivables from customers, which were estimated to be non-performing in the total value of HRK 14,6 million. In addition to the receivables, the company has also matched the value of intangible assets worth HRK 60,3 million and financial assets (including claims on regress bills) totaling HRK 88 million.
Assets that are value adjusted as a result of the situation in the Agrokor Group during 2017 account for 88% of the total cost of the adjustment.

Out of the total amount of receivables that were adjusted in value in the previous years, around HRK 0,5 million was collected in 2017 (2016: HRK 1 million).

Total capital investments in tangible assets in 2017 amounted to HRK 2,2 million (2016: HRK 4,4 million). Procurement refers to procurement of equipment for production facilities, the purchase of land and the purchase of a car.

Net financial result in 2017 was HRK (18) million (2016: (25) million).
Interest expense was not calculated in the last quarter of 2017 and will not be calculated until the end of the pre-bankruptcy settlement procedure.

Annual Management Board report on the business performance and position of the Company for the year 2017 (continued)

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

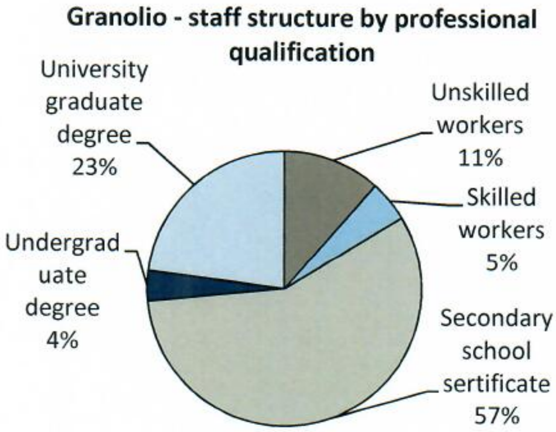
On January 29, 2018, notification was received about the acquisition of 150,000 shares by HOK Insurance Company (representing 7,89% of the ownership stake). HOK Company acquired shares through OTC transaction with seller PBZ Croatia Insurance Mandatory Pension Fund. After this transaction, HOK Insurance Company became the owner of a total of 19.49% of the shareholding in the company Granolio d.d.

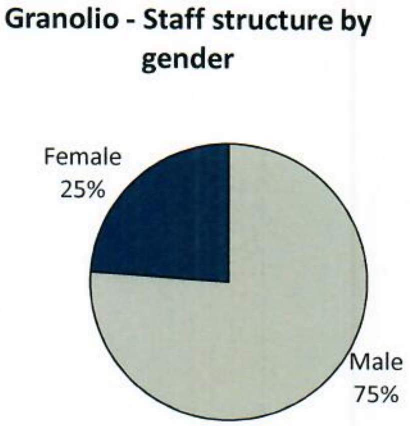
The Agreement on the merger of the related company Prerada žitarica d.o.o. to the company Granolio d.d. was made on March 14, 2018. The formal merger procedure is expected to be completed by the end of April 2018.

The Company expects to successfully complete the pre-bankruptcy settlement procedure in 2018.

Employees

Based on the total hours of work, the Company had 175 employees in 2017 (2016: 160 employees), structured by formal qualification levels and gender as presented in the following charts:





Research and development

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

Purchase of own shares

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

Environmental protection

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

Risks

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

Corporate Governance Statement

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

As a company whose shares are listed in the Official Market of the Zagreb Stock Exchange, in 2016 and 2017 the Company voluntarily applied the recommendations provided in the Code of Corporate Governance developed by the Croatian Financial Services Supervisory Agency (CFSSA) and Zagrebačka burza d.d., with departures from certain recommendations and guidelines provided therein. The Code was adopted by the resolution of CFSSA, Class.: 011-02/07-04/28, Reg. no.: 326-01-07-02 of 26 April 2007. The resolution adopting the Code of Corporate Governance was published in the Croatian Official Gazette "Narodne novine" no. 46/2007, and the Code is published on the website of Zagrebačka burza d.d..

The Supervisory Board of Granolio d.d. has not established any appointment, bonus or audit board because, according to the Statute, it consists of three to five members and as such the Board discharges the duties and responsibilities of those bodies itself, except for those of the audit committee the function of which, according to the Auditing Act, is discharged by the appointed Audit Committee. There are also departures concerning the proxies for the shareholders not being able to vote in person, the date defined as the relevant reference date for establishing the right to vote in the General Shareholders' Meetings, the contents of the decisions to pay dividends, remote voting in General Shareholder Meetings by means of modern communication technologies, the exercise of the voting rights in General Shareholder Meetings, public disclosure of information about any legal actions and rebutting any such disputes, a long-term succession plan, rules for determining bonuses for the supervisory board members, public disclosure of all remuneration and other benefits provided by the company or its related parties to each individual supervisory board member, the internal audit system, the audit commission and the audit committee, the statement of bonus for the members of the management and supervisory board members, details about all remuneration and benefits of the management board members or executive directors received from the Company, transactions involving the members of the management board or executive directors and their related parties, a public disclosure of fees for external auditors for the audit and other services provided by them, or the existence of internal auditors and internal control systems.

Further explanations regarding the 2017 departures from individual recommendations provided in the Code are presented in the Annual Questionnaire, which is an inseparable part of the Code and submitted to Zagrebačka burza d.d. for public disclosure, together with the annual financial statements. In addition to the recommendations from the Code, the Company's Management and Supervisory Boards invest increasing efforts to establish adequate corporate governance taking into account the structure and organisation of the Company, its strategy and business objectives, the allocation of duties and responsibilities, with a particular emphasis on effective procedures for identifying, measuring and monitoring operational risks and reporting on those risks, as well as the establishment of appropriate internal control mechanisms.

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

Significant Shareholders and Restrictions on the Rights Arising from the Shares

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

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

Rules for the Appointment and Revocation of the Supervisory Board

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

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

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

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

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

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

Members and Activities of the Supervisory Board

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

Members and Activities of the Management Board

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

Description of the Work of the General Assembly

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

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

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

The members of the Management Board of Granolio d.d. in 2017 were the following:

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

Members of the Management Board are as follows:
Drago Šurina (re-appointed on 23 February 2016)
Vladimir Kalčić (re-appointed on 23 February 2016)
Tomislav Kalafatić (re-appointed on 19 April 2016, resignation as of 24 July 2017)

The members of the Supervisory Board of Granolio d.d. in 2017 were the following:

Chairperson of the Supervisory Board: Franjo Filipović (re-appointed 09 June 2016)

Members of the Supervisory Board:
Braslav Jadrešić (re-appointed 09 June 2016)
Davor Štefan (re-appointed 09 June 2016)
Jurij Detiček (re-appointed 09 June 2016)
Josip Lasić (re-appointed 09 June 2016, resignation as of 16 June 2017)

This Corporate Governance Statement is an inseparable part of the Company's Annual Report for the year 2017.

Responsibility for the unconsolidated financial statements

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

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

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

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

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

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

Signed on behalf of the Management Board:

27 April 2018

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

Drago Šurina dipl.oec.
Member of the Management Board

Vladimir Kalčić dipl.oec.
Member of the Management Board

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Granolio d.d.:

Opinion

We have audited the unconsolidated financial statements of Granolio d.d. (the Company), which comprise the unconcolidated statement of financial position as at December 31, 2017, and the unconcolidated statement of profit or loss and other comprehensive income, unconcolidated statement of changes in equity and unconcolidated statement of cash flows for the year then ended, and notes to the unconcolidated financial statements, including a summary of significant accounting policies.

In our opinion, except for the effects of the matter described in the *Basis for qualified opinion* section of our report, the accompanying unconcolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs).

Basis for qualified opinion

On acquiring the mill operations, the Company has recognised goodwill on the Mlineta and Belje brands, as disclosed in Note 14 which purchase value amounted to HRK 120,000 thousand as of 31 December 2017. According to International Accounting Standard 36 "Impairment of Assets", the Company must review annually whether there are any indications that assets may be impaired. Based on the current economic situation, impairment indications are identified as existing. Significant assumptions underlying the estimated impairment loss for those assets include the realisation of the revenue from those brands on the market of the Republic of Croatia. Considering the current economic situation and the availability of information, the Management Board of the Company was not able to obtain sufficient information for making an estimate of the impairment of those assets. Therefore, we were not able to obtain sufficient appropriate audit evidence in support of the potential impairment of goodwill and the brands and we could not identify whether any of the amounts should be adjusted.

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

Deloitte.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Emphasis of Matter

Material Uncertainty Related to Going concern

We draw attention to note 3.2. in the unconsolidated financial statements, which indicates that the Company incurred a net loss of HRK 198,187 thousand during the year ended December 31, 2017 and, as of that date, the total liabilities of the Company exceeded its total assets for the amount of HRK 23,855 thousand. Furthermore, as a result of the insolvency of the Company, a pre-bankruptcy settlement was filled to the Commercial Court in Zagreb on 27 July 2017. As noted in Note 3.2, these events or conditions, along with other matters, indicate that material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key Audit Matters

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

Key Audit Matters	***How our audit addressed the key audit matter***
Revenue Revenue is measured at the fair value of the consideration received or receivable for products, goods or services sold in the ordinary course of the Company's business. Revenue is recognised net of value-added tax, volume and cash discounts. The Company recognises revenue when the amount of the revenue can be measured reliably, when future benefits will flow into the Company and when the specific requirements, set out below, applicable to all the activities of the Company are met. *(i) Income from the wholesale of products and trading* The Company produces and distributes own products and third-party trading (wholesale services). Wholesale revenue is recognised when the Company has delivered the goods to the wholesaler, when it no longer controls the management of the goods and when there is no outstanding liability that could affect the acceptance of the products by the wholesaler.	The procedures applied by us included inquiries of the management, testing the structure and efficiency of internal control procedures as well as tests of details to satisfy ourselves with the accuracy of the revenue transactions. >> We assessed the relevant IT systems and the design and operational effectiveness of controls over capturing and recording of revenue transactions. We involved our IT specialists to assist in the audit of the automated controls. >> We assessed the existing controls over the authorisation of sales booking and recognition. >> We tested the accuracy on a sample of invoices issued to customers. >> We tested significant adjustments made by the management in order to assess the completeness and accuracy of the revenue. >>We tested the evidence supporting journal entries made manually to revenue accounts in order to identify any unusual items.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Key audit matters (continued)

Key Audit Matters	*How our audit addressed the key audit matter*
A delivery is considered completed upon the delivery of the products to a specific location, when the risk of loss is transferred to the wholesaler and when one of the following conditions is met: Products are sold at the agreed volume discounts, with the right of the customers to return faulty products and goods. Sales are recognised at prices defined in the underlying sales contracts, less any estimated volume discounts, cash discounts and returns. The discounts and returns are estimated based on past experience. Volume discounts are estimated based on the anticipated annual sales. Amounts receivable for sales made under terms and conditions that involve financing elements, i.e. where the collection period is longer than 60 days, are classified as current financial assets.	We confirmed the validity of the assumptions and key estimates made by the management in accounting for the revenue.

Deloitte.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Key audit matters (continued)

Key Audit Matters	*How our audit addressed the key audit matter*
Impairment of receivables from companies within Agrokor Group: The significant risk is collection of receivables from companies in the Agrokor Group incurred before April 9, 2017 that still remain unpaid since the adoption of the"Act on the Procedure for Extraordinary Management in Enterprises of Systematic Importance for the Republic of Croatia" up to the date when financial statements are published. Total receivables from Agrokor companies amounted to HRK 101,448 thousand, of which HRK 81,448 thousand was value adjusted as of December 31, 2017. Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, if significant, using the effective interest method. Otherwise, they are measured at nominal amounts, less an allowance for impairment. An impairment loss is recognized when there is objective evidence that the Company will not be able to collect all its receivables in accordance with agreed terms. The Management regularly evaluates the probability of receivable collection from companies within Agrokor group by analyzing the maturity of receivables and the financial position of a particular customer.	The procedures applied by us included folowing: >> we obtained understanding of business processes in the Company relating to calculation and recording of value adjustments >> we reviewed aging structure of receivables from companies within Agrokor group and confirmed wether relate to the debt incurred before April 9, 2017. >> we have gained an understanding of the processes in the Company that relate to the calculation of estimated future inflows and their approximation to their present value. >> we evaluated the adequacy of the amount of the adjustment of the value of the receivables and evaluated the significance of the remainder of the impaired receivables on the financial statements

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INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Other Information

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

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

In connection with our audit of the unconsolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the unconsolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. With respect to the Management Report and the Corporate Governance Statement, which are included in the "Annual Management Board report on the business performance and position of the Company for the year 2017" and "Corporate Governance Statement", we have also performed the procedures prescribed by the Accounting Act. These procedures include examination of whether the Management Report and Corporate Governance Statement" includes required disclosures as set out in the Article 21, 22 of the Accounting Act and whether the Corporate Governance Statement includes the information specified in the Article 22 of the Accounting Act.

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

1) Information included in the other information is, in all material respects, consistent with the attached annual financial statements.
2) Management Report for the year 2017 has been prepared, in all material respects, in accordance with Article 21 of the Accounting Act.
3) Corporate Governance Statement has been prepared, in all material aspects, in accordance with the Article 22, paragraph 1, items 3 and 4 of the Accounting Act, and includes also the information from Article 22, paragraph 1, point 2, 5, 6 and 7 of the noted Act.

Based on the knowledge and understanding of the Company and its environment, which we gained during our audit of the financial statements, we have not identified material misstatements in the other information.

Responsibilities of Management and those Charged with Governance for the Financial Statements

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

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

Those charged with governance are responsible for overseeing the Company's financial reporting process.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.

- Conclude on the appropriateness of Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

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INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Other reporting obligations as required by Regulation (EU) No. 537/2014 of the European Parliament and the Council and the Audit Act

We were appointed as the statutory auditor of the Company by the shareholders on General Shareholders' Meeting held on 6 June 2017 to perform audit of accompanying financial statements. Our total uninterrupted engagement has lasted 3 years and covers period 31 December 2015 to 31 December 2017.

We confirm that:

- *our audit opinion on the accompanying financial statements is consistent with the additional report issued to the Audit Committee of the Company on 27 April 2018 in accordance with the Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and the Council;*
- *no prohibited non-audit services referred to in the Article 5(1) of Regulation (EU) No. 537/2014 of the European Parliament and the Council were provided.*

There are no services, in addition to the statutory audit, which we provided to the Company and its controlled undertakings, and which have not been disclosed in the Annual Report.

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

Branislav Vrtačnik,
President of the Board and Certified Auditor

Deloitte d.o.o.

Zagreb, 27 April 2018.
Radnička cesta 80,
10 000 Zagreb,
Croatia

Unconsolidated statement of profit or loss and comprehensive income

For the year ended 31 December 2017

in thousands of HRK

	Notes	2017	2016
Income			
Sales income	5	395,713	585,657
Other income	6	2,163	9,652
Total operating income		**397,876**	**595,309**
Changes in inventories		(10)	(1,447)
Material expenses	17	(371,426)	(520,821)
Staff expenses	7	(20,200)	(22,359)
Depreciation and amortisation	8	(10,872)	(10,306)
Other expenses	14, 15	(5,330)	(4,291)
Value adjustment	10	(162,454)	(247)
Other operating expenses	9	(7,801)	(6,765)
Total operating expenses	11	**(578,093)**	**(566,236)**
Profit/ (loss) from operations		**(180,217)**	**29,073**
Financial income	12	4,001	3,700
Financial expenses	12	(21,971)	(28,277)
Net financial result		**(17,970)**	**(24,577)**
Result before taxation		**(198,187)**	**4,496**
Income tax	13	-	(1,989)
Profit after taxation		**(198,187)**	**2,507**
Other comprehensive income			
Financial assets held for sale, reclassification to profit or loss		-	
Total comprehensive income		**(198.187)**	**2,507**
Earnings per share			
Basic and diluted earnings per share (in Croatian kunas and lipas)	***27***	***(104,22)***	***1,32***

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

Unconsolidated statement of financial position

At 31 December 2017

	Notes	31 December 2017	31 December 2016
			in thousands of HRK
I NON-CURRENT ASSETS			
Intangible assets			
1. Goodwill		-	60,379
2. Trademarks, concessions, licenses		120,000	120,000
3. Customer list		4,030	5,696
4. Software and other intangible assets		331	400
	14	**124,361**	**186,475**
Property, plant and equipment			
1. Land		8,303	8,182
2. Buildings		108,954	110,566
3. Plant, equipment and tools		15,029	17,635
4. Other tangible assets		76	77
5. Plant and equipment under construction		24	2,729
	15	**132,386**	**139,189**
Financial assets			
1. Investments in subsidiaries	16a	155,964	115,255
2. Investments at fair value through profit or loss	16b	13,486	20,462
3. Given loans, deposits and similar	16c	259	667
		169,709	**136,384**
Long-term receivables		**15**	**25**
II CURRENT ASSETS			
Inventories	17	**20,567**	**32,554**
Receivables			
1. Receivables from related parties	26	3,605	27,584
2. Trade receivables	18a	55,779	100,499
3. Receivables from the State and other institutions	18b	3,336	1,748
4. Other receivables	18c	23,758	104,915
		86,478	**234,746**
Financial assets			
1. Loans to related parties	19	28,150	39,919
2. Investments in securities	19a	178	882
3. Given loans, deposits and similar	19b	13,032	6,303
		41,360	**47,104**
Cash and cash equivalents	20	**2,801**	**9,300**
Prepaid exenses and accrued income	21	**617**	**4,370**
TOTAL ASSETS		**578,294**	**790,147**

Unconsolidated statement of financial position
At 31 December 2017 (continued)

	Notes	31 December 2017	31 December 2016
		in thousands of HRK	
I EQUITY			
1. Subscribed capital		19,016	19,016
2. Premium for issued shares		84,187	84,187
3. Revaluation reserves		60,117	61,562
4. Legal reserves		409	283
5. Own shares reserves		800	800
6. Retained earnings /(Accumulated loss)/		9,803	3,784
7. Profit or loss for the year		(198,187)	2,507
	22	**(23,855)**	**172,139**
II LONG-TERM LIABILITIES			
1. Deferred tax liabilities	13	13,196	15,390
2. Liabilities to banks and other financial institutions	23	757	267,783
		13,953	**283,173**
III SHORT-TERM LIABILITIES			
1. Liabilities to related companies	26	39,164	13,969
2 Liabilities to banks and other financial institutions	23	341,369	94,891
3. Advances received		2,948	3,616
4. Trade payables	24a	77,540	73,823
5. Liabilities for securities	24b	47,551	39,770
6. Taxes, contributions and similar duties payable	24c	738	4,145
7. Accrued expenses and deferred income		671	479
8. Other short-term liabilities	24d	78,215	104,142
		588,196	**334,835**
TOTAL EQUITY AND LIABILITIES		**578,294**	**790,147**

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

Unconsolidated statement of changes in shareholders' equity

For the year ended 31 December 2017

	Share capital	Capital reserves	Legal reserves	Own shares reserves	Revaluation reserves	(Accumulated loss) / retained earnings	Profit / (loss) for the year	Total
Balance at 31 December 2015	**19,016**	**84,187**	**183**		**64,473**	**(7,077)**	**9,073**	**169,855**
Net profit for the year	-	-	-	-	-	-	2,507	**2,507**
Transfer of revaluation reserves to retained earnings	-	-	-	-	(2,911)	2,911	-	-
Total other comprehensive income for the year	-	-	-	-	**(2,911)**	**2,911**	**2,507**	**2,507**
Reversal of deferred tax liabilities	-	-	100	-	-	-	(100)	-
Reversal for own shares	-	-	-	800	-	-	(800)	-
Reversal of deferred tax liabilities	-	-	-	-	-	728	-	**728**
Dividends paid	-	-	-	-	-	-	(951)	**(951)**
Allocation of the result for the year 2015	-	-	-	-	-	7,222	(7,222)	-
Balance at 31 December 2016	**19,016**	**84,187**	**283**	**800**	**61,562**	**3,784**	**2,507**	**172,139**
Net profit for the year	-	-	-	-	-	-	(198,187)	**(198,187)**
Transfer of revaluation reserves to retained earnings	-	-	-	-	(2,984)	2,984	-	-
Total other comprehensive income for the year	-	-	-	-	**(2,984)**	**2,984**	(198,187)	**(198,187)**
Reversal of deferred tax liabilities								
Reversal of deferred tax liabilities	-	-	-	-	1,539	-	-	**1,539**
Dividends paid	-	-	-	-		654	-	**654**
Allocation of the result for the year 2016	-	-	126	-	-	2,381	(2,507)	-
Balance at 31 December 2017	**19,016**	**84,187**	**409**	**800**	**60,117**	**9,804**	**(198,187)**	**(23,855)**

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

Unconsolidated statement of cash flows

For the year ended 31 December 2017

	Note	2017	2016
		in thousands of HRK	
Result before taxation		**(198,187)**	**4,496**
Adjusted by:			
Depreciation and amortisation	14,15	10,872	10,306
The cost of provision		2,273	697
Profit on the disposal and retirement of fixed assets, net		(94)	(187)
Value adjustment of trade receivables	9	14,639	247
Value adjustment of goodwill	9	60,379	-
Value adjustment of other receivables	9	65,000	-
Receivables write off		-	20
Value adjustment of financial assets	9	23,339	60
Liability write off		-	(9)
Inventory surplus	6	(540)	(3,121)
Dividend income		-	(20)
Net interest expense	12	18,827	24,408
Net loss from other financial activities		(106)	(153)
Net gain from investing		(796)	262
Operating result before changes in working capital		**(4,394)**	**37,006**
Decrease in inventories	17	12,527	25,266
Decrease in short-term receivables		19,652	6,726
Increase/(Decrease) in short-term liabilities		1,658	(25,303)
Advances (made)/received		(1,655)	1,037
Increase/(Decrease) accrued expenses		418	(275)
Increase in prepaid expenses		(467)	(47)
Operating result after changes in working capital		**27,739**	**44,410**
Income tax paid		(2,002)	(5,200)
Cash generated from operations		**25,737**	**39,210**
Interest received		1,446	2,435
Payments to acquire property, plant, equipment and intangibles		(2,355)	(4,607)
Proceeds from the sale of property, plant and equipment		114	187
Proceeds from dividends		-	20
Deposits paid/received		(15)	159
Net proceeds from received bills of exchange		-	(27)
Payments for given loans	19	(29,829)	(96,222)
Proceeds from sale of financial instrument		1,490	-
Repayments of given loans	19	15,901	91,911
Cash generated from investing activities		**(13,248)**	**(6,144)**

Unconsolidated statement of cash flows (continued)

For the year ended 31 December 2017

	Note	2017	2016
		in thousands of HRK	
Repayment of borrowings	23	(98,272)	(333,073)
Proceeds from borrowings	23	100,178	361,876
Net payments of securities	24b	(12,219)	(41,118)
Interest paid		(8,745)	(27,325)
Repayment of finance leases	23	(904)	(736)
Proceeds from finance lease	23	974	728
Dividends paid		-	(951)
Other net payments from financing activities		-	(140)
Net cash generated from financing activities		**(18,988)**	**(40,739)**
Net (decrease)/ increase in cash and cash equivalents		**(6,499)**	**(7,673)**
Cash at the beginning of the year		9,300	16,973
Cash at the end of the year	**21**	**2,801**	**9,300**

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

Notes to the unconsolidated financial statements

For the year ended 31 December 2017

1. GENERAL INFORMATION

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

Based on Decision No. 48. St-2021/2017 dated 27 July 2018, Commercial Court in Zagreb has opened a pre-bancrupcy procedure against Granolio d.d. and nominated Nada Reljic for the commissioner. No final court judgment was delivered until the publication of the annual report.

Subsidiaries constituting the Granolio Group are the following:

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

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

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

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

Around the middle of 2008 the Company acquired the entire equity share in Prerada žitarica d.o.o., Grubišno Polje, for HRK 5,206 thousand. The subsidiary is engaged in grains warehousing and drying activities. At 27 November 2017 the share capital of Prerada Žitarica was increased from HRK 23,121 thousand to HRK 63,821 thousand by the amount of HRK 40,700 thousand.

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

At 31 December 2017 and at 31 December 2016 the Management Board of Granolio d.d. consisted of the following members:

Hrvoje Filipović - President (since 23 February 2011),
Vladimir Kalčić - Member (since 23 February 2011),
Drago Šurina - Member (since 23 February 2011) and
Tomislav Kalafatić – Member (from 19 April 2011 to 25 July 2017).

At 31 December 2017 and at 31 December 2016 the Supervisory Board of Granolio d.d. consisted of the following members:

Franjo Filipović – Chairman (since 23 February 2011),
Jurij Detiček – Member (since 23 February 2011),
Braslav Jadrešić – Member (since 23 February 2011),
Josip Lasić – Member (from 16 January 2015 to 16 June 2017).
Davor Štefan – Member (since 16 January 2015)

2 ADOPTION OF NEW AND REVISED INERNATIONAL FINANCIAL REPORTING STANDARDS

2.1. Initial application of new amendments to the existing standards effective for the current reporting period

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

- **Amendments to IAS 7 "Statement of Cash Flows"** - Disclosure Initiative (effective for annual periods beginning on or after 1 January 2017),
- **Amendments to IAS 12 "Income Taxes"** - Recognition of Deferred Tax Assets for Unrealised Losses (effective for annual periods beginning on or after 1 January 2017),
- **Amendments to various standards "Improvements to IFRSs (cycle 2014-2016)"** resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording (amendments to IFRS 12 are to be applied for annual periods beginning on or after 1 January 2017 and amendments to IFRS 1 and IAS 28 are to be applied for annual periods beginning on or after 1 January 2018),

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

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

At the date of authorisation of these financial statements, the following new standards and amendments to standards issued by IASB and adopted by the EU are not yet effective:

- ***IFRS 9 "Financial Instruments"** - adopted by the EU on 22 November 2016 (effective for annual periods beginning on or after 1 January 2018),*
- ***IFRS 15 "Revenue from Contracts with Customers"** and amendments to IFRS 15 "Effective date of IFRS 15" - adopted by the EU on 22 September 2016 (effective for annual periods beginning on or after 1 January 2018).*
- **IFRS 16 "Leases"** (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to IFRS 4 "Insurance Contracts"** - Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (effective for annual periods beginning on or after 1 January 2018 or when IFRS 9 "Financial Instruments" is applied first time),
- **Amendments to IFRS 15 "Revenue from Contracts with Customers"** - Clarifications to IFRS 15 Revenue from Contracts with Customers (effective for annual periods beginning on or after 1 January 2018),

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

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

- **Amendments to various standards "Improvements to IFRSs (cycle 2014-2016)"** resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording (amendments to IFRS 12 are to be applied for annual periods beginning on or after 1 January 2017 and amendments to IFRS 1 and IAS 28 are to be applied for annual periods beginning on or after 1 January 2018),

The Company has elected not to adopt these new standards and amendments to existing standards in advance of their effective dates. IFRS 9 and IFRS 15 will be applied from 1 January 2018. The Compans has not assessed the possible effects of the application of IFRS 9 and IFRS 15 in its financial statements.

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

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

At present, IFRS as adopted by the EU do not significantly differ from regulations adopted by the International Accounting Standards Board (IASB) except for the following new standards, amendments to the existing standards and new interpretation, which were not endorsed for use in EU as at 28 April 2017 (the effective dates stated below is for IFRS in full):

- **IFRS 14 "Regulatory Deferral Accounts"** (effective for annual periods beginning on or after 1 January 2016) - the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard,
- **IFRS 17 "Insurance Contracts"** (effective for annual periods beginning on or after 1 January 2021),
- **Amendments to IFRS 2 "Share-based Payment"** - Classification and Measurement of Share-based Payment Transactions (effective for annual periods beginning on or after 1 January 2018),
- ***IFRS 9 "Financial Instruments"*** *- adopted by the EU on 22 November 2016 (effective for annual periods beginning on or after 1 January 2018),*
- **Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures"** - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded),
- **Amendments to IAS 19 "Employee Benefits"** - Plan Amendment, Curtailment or Settlement (effective for annual periods beginning on or after 1 January 2019),
- **izmjene MRS-a 28 „Udjeli u pridruženim subjektima i zajedničkim pothvatima"** –„Dugoročna ulaganja u pridružene subjekte i zajedničke pothvate" (na snazi za godišnja razdoblja koja započinju na dan ili nakon 1. siječnja 2019.),
- **Amendments to IAS 40 "Investment Property"** - Transfers of Investment Property (effective for annual periods beginning on or after 1 January 2018),
- **Amendments to various standards "Improvements to IFRSs (cycle 2014-2016)"** resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording (amendments to IFRS 12 are to be applied for annual periods beginning on or after 1 January 2017 and amendments to IFRS 1 and IAS 28 are to be applied for annual periods beginning on or after 1 January 2018),
- **Amendments to various standards due to "Improvements to IFRSs (cycle 2015-2017)"** resulting from the annual improvement project of IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23) primarily with a view to removing inconsistencies and clarifying wording (effective for annual periods beginning on or after 1 January 2019),

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

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

At present, IFRS as adopted by the EU do not significantly differ from regulations adopted by the International Accounting Standards Board (IASB) except for the following new standards, amendments to the existing standards and new interpretation, which were not endorsed for use in EU as at date of publication of financial statements (the effective dates stated below is for IFRS in full):

- **IFRIC 22 "Foreign Currency Transactions and Advance Consideration"** (effective for annual periods beginning on or after 1 January 2018).
- **IFRIC 23 "Uncertainty over Income Tax Treatments"** (effective for annual periods beginning on or after 1 January 2019).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Statement of compliance

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

3.2 Basis of preparation

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

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

Consolidated financial statements in accordance with IFRS for Granolio d.d. and its subsidiaries (The "Group") are still unpublished. Consolidated financial statements will be issued at the same date as unconsolidated financial statements as at 27 April 2018.

As at 31 December 2017, current assets of the Company exceeds short-term liabilities in amount of HRK 436,373 thousand. The total assets of the Company in 2017 were lower than the total liabilities for HRK 23,855 thousand. The Company realized negative operating result in amount of HRK 198,187 thousand. Due to the inability to pay due liabilities, the Company's Management Board, in accordance with The Financial Operations and Pre-Bankruptcy Settlement Act, filed a proposal for the initiation of a pre-bancrupcy settlement which was approved by the Commercial Court in Zagreb on July 27, 2017. Pre/bancrupcy settlement has not been concluded until the date when financial statements were published. The restructuring plan of the company was submitted to Fina on January 17, 2018.

The Management Board of the Company considers that the restructuring plan will be accepted and that the pre-bancrupcy settlement will be successfully concluded, which means that the continuation of the Company's business is not questionable and therefore these financial statements are prepared on a going concern basis.

3.3 Interests in associates and joint ventures

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

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

The results, assets and liabilities of associates or joint ventures are incorporated in financial statements using the equity method of accounting, except when the investment, or a portion thereof, is classified as held for sale, in which case it is accounted for in accordance with IFRS 5.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.4 Interests in joint operations

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

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

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

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

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

3.5 Udjeli u povezanim društvima

Subsidiary is an entity in which the Company has significant influence in making financial and business policy decisions and controlling such policies. The assumption is that control exists when a parent owns, directly or indirectly through a subsidiary, more than half of the voting power of the entity, unless in exceptional cases when can be clearly proven that such ownership is not control. Control also exists when the parent company has half or less than half the voting power of the entity when there is:

a) the power over more than half of the voting rights under agreements with other investors

b) the power to manage the financial and business policies of the entity on the basis of a statute or agreement

c) the power to appoint or dismiss most of the members of the management or equivalent administrative body or

d) the power to give a decisive vote at the meetings of the management or the equivalent administrative body.

Investments in companies over which the Company has control and significant impact in these financial statements are stated at cost, less any impairment losses, if necessary.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.6 Functional and presentation currency

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

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

3.7 Use of estimates and judgments

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

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

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

3.8 Revenue recognition

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

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

(i) Income from the wholesale of products and trading

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

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.8 Revenue recognition (continued)

(iii) Service income

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

(iv) Financial income

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

3.9 Leasing

The Company as lessor

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

The Company as lessee

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

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

3.10 Foreign currencies

Foreign-currency transactions and balances

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

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

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

At 31 December 2017 the official exchange rate of the Croatian kuna against 1 euro (EUR) was HRK 7.513648, and at 31 December 2016 it was HRK 7.557787, respectively.

3.11 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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.11 Borrowing costs (continued)

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

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

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

3.12 Employee benefits

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

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

(ii) Long-term employee benefits

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

(iii) Short-term employee benefits

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

(iv) Share-based payments

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

3.13 Dividends

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

3.14 Operating segment reporting

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.15 Taxation

(i) Income tax

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

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

(ii) Deferred tax assets and liabilities

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

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

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

(iii) Tax exposure

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

(iv) Value-added tax (VAT)

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.16 Property, plant and equipment

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

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

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

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

Freehold land is not depreciated.

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

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

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

	2017	2016
Buildings	40 years	40 years
Plant and equipment	10 years	10 years
Office equipment and delivery vans	4 years	4 years
Telecommunication equipment	2 years	2 years
Personal vehicles	2,5 years	2,5 years
Delivery vehicles	4 years	4 years

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.17 Intangible assets

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

(i) Brands and contracts with customers

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

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

(ii) Computer software

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

(iii) Goodwill

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

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

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

Goodwill is tested for impairment at each reporting date, as already disclosed in note *Impairment test of intangible assets. (Note 4. iv).* During the 2017 the goodwill is value adjusted in full.

3.18 Impairment of property, plant and equipment and intangible assets

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

3.19 Inventory

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

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

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

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

3.20 Trade receivables

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

3.21 Cash and cash equivalents

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

3.22 Equity

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

3.23 Financial instruments

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.24 Financial assets

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

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

Financial assets at FVTPL

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

A financial asset is classified as held for trading if:

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

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

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

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

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.24 Financial assets (continued)

Loans and receivables

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

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

Impairment of financial assets

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

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

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

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

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

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

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.24 Financial assets (continued)

Impairment of financial assets (continued)

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

Derecognition of financial assets

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

Classification as debt or equity

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

Equity instruments

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

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

3.25 Financial liabilities

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

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

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

A financial liability is classified as held for trading if:

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.25 Financial liabilities (continued)

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

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

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

Other financial liabilities

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

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

Financial guarantee contracts

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

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

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

Derecognition of financial liabilities

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

4. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

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

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

Critical judgements in applying accounting policies

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

(i) Revenue recognition

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

(ii) Consequences of certain legal actions

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

(iii) Recoverable amount of trade and other receivables

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

(iv) Impairment test of intangible assets

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

		in thousands of HRK
	31 December 2017	**31 December 2016**
Goodwill	-	60,379
Trademarks	120,000	120,000
Customer list	4,029	5,696
Software and other intangible assets	332	400
	124,361	**186,475**

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

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

At 31 December 2017 the carrying amount of goodwill was HRK 0 million (31 December 2016: HRK 60 million).

4. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (CONTINUED)

(iv) Impairment test of intangible assets (continued)

Goodwill impairment test

The Company tests annually whether goodwill has suffered any impairment, in accordance with its accounting policy. The recoverable amounts of cash-generating units are determined based on value-in-use. These calculations require the use of assumptions (Note 14).
If the discount and long-term growth rate were different than the management's estimates as at 31 December 2017 and 2016, the impact on recognition of impairment of goodwill would be as follows:

Discount rate – Future cash flows of cash-generating units are discounted using the discount rate of 15 percent. Constant expected future cash flows were used as calculation inputs.

Intangible assets other than software and other intangible assets are those on the acquisition of the milling segment. At 31 December 2017 the Company performed impairment tests for goodwill and trademarks.
The tests did not show any indication of impairment of the intangible assets.

(v) Useful life of property, plant and equipment

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

(vi) Fair value of assets

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

5. SALES INCOME

in thousands of HRK

	2017	2016
Sales income - domestic	301,469	438,098
Sales income - foreign	90,778	135,095
Service income	3,466	12,464
	395,713	**585,657**

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

The Company monitors its performance through the following operating segments:

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

Segment information – industry analysis:

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

in thousands of HRK

	2017	2016
Wholesale	196,434	297,708
Milling	195,131	274,188
Other	4,148	13,761
	395,713	**585,657**

Geographic analysis

in thousands of HRK

	2017	2016
Croatia	304,317	450,531
Serbia	58,960	17,892
Bosnia and Herzegovina	9,083	8,727
Slovenia	8,260	13,088
Italy	7,693	66,552
Hungary	7,400	26,882
Romania	-	1,985
	395,713	**585,657**

6. OTHER INCOME

in thousands of HRK

	2017	2016
Inventory surplus	540	3,121
Income from the collection of corrected claims	454	972
Subsequent credit notes from suppliers	303	4,521
Income from grants	227	70
Other income	639	968
	2,163	**9,652**

7. MATERIAL EXPENSES

The structure of material expenses is as follows:

in thousands of HRK

	2017	2016
Cost of raw material	151,290	197,974
Energy used	6,306	13,250
Inventory spillage, breakage and similar costs	5,209	2,990
Cost of inventories for sold livestock	659	1,216
Cost of small inventory	288	322
Other material expenses	311	348
Cost of raw material	**164,063**	**216,100**
Cost of goods sold	**181,918**	**264,905**
Telecommunication and transportation expenses	15,102	24,610
Rental costs	2,410	2,412
Intellectual services	1,867	1,817
Maintenance and security services	1,598	2,263
Promotions and sponsorships	977	719
Quality control costs	937	1,113
Selling costs (freight-forwarding, goods handling, etc.)	811	1,785
External milling costs	-	3,013
Other external costs	1,743	2,084
Other external costs	**25,445**	**39,816**
	371,426	**520,821**

Inventory spillage, breakage and similar costs comprise mostly the standard spillage and breakage in the production in the amount of HRK 5,089 thousand (2016: HRK 2,847 thousand).

In the course of 2017, a total of HRK 446 thousand (2016: 383 thousand) was paid to the auditing company.

8. STAFF EXPENSES

	in thousands of HRK	
	2017	**2016**
Salaries	12,302	12,725
Income tax and contributions from salaries costs	4,974	6,391
Contributions on salaries costs	2,924	3,243
	20,200	**22,359**

The Company has 176 employees as of 31 December 2017 (31 december 2016: 170).

9. VALUE ADJUSTMENT

	In thousands of HRK	
	2017	**2016**
Value adjustments of other receivables (Note 18c)	65,000	-
Value adjustments of intangible assets (Note 14)	60,379	-
Value adjustments of given loans (Note 16c i 19b)	16,370	60
Value adjustments of receivables (Note 18a)	13,525	247
Value adjustments of investments (Note 16)	6,976	-
Other value adjustments	203	-
	162,454	**307**

The entire value adjustment charge for 2017 consists of impairment losses on trade receivables and receivables from cooperative farms, determined on the basis of impairment test of the receivables.

A significant part of value adjustments is the result of the current unfavorable situation in the Agrokor Group, which was a significant business partner of the Company.

10. OTHER EXPENSES

	in thousands of HRK	
	2017	**2016**
Bank services	2,817	1,499
Reimbursement of expenses to employees	761	938
Contributions, membership fees and similar	513	675
Insurance premiums	492	609
Daily allowances	249	274
Taxes independent of the result	157	99
Other expenses	340	197
	5,330	**4,291**

Reimbursement of costs to employees consists mainly of commutation allowances and termination benefits in the amount of HRK 46 thousand (2016: termination benefits in the amount of HRK 8 thousand).

11. OTHER OPERATING EXPENSES

	in thousands of HRK	
	2017	**2016**
Subsequently approved cassa sconto	2,861	5,058
Spillage, breakage and similar damage on goods	1,983	188
Write-offs	958	20
Entertainment and hospitality	479	641
Fines, penalties and damages	441	424
Donations and sponsorships	24	178
Other operating expenses	1,055	257
	7,801	**6,765**

12. FINANCIAL INCOME AND EXPENSES

Financial income

	in thousands of HRK	
	2017	**2016**
Interest on given loans	1,962	2,489
Gains from stock transactions	796	160
Exchange differences	718	566
Other financial income	344	-
Late-payment interest	181	465
Gains from participating interest	-	20
	4,001	**3,700**

Financial expenses

	in thousands of HRK	
	2017	**2016**
Interest expense	16,186	21,964
Discount on bills of exchange	2,738	4,494
Default interest	2,046	904
Exchange differences	968	808
Other financial expenses	31	46
	21,971	**28,217**

13. INCOME TAX

The tax expense/ (income) comprises the following:

in thousands of HRK	2017	2016
Current tax	-	1,989
	-	**1,989**

Adjustment by the effective tax rate

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

in thousands of HRK	2017	2016
Profit before taxation	(198,187)	4,496
Income tax at the rate of 18% (2016: 20%).	(35,674)	899
Effect of non-taxable income	(10)	-
Effect of tax non-deductible expenses	28,733	1,090
Effect of unused tax losses and tax offsets not recognised as deferred tax assets	6,951	-
Income tax	**-**	**1,989**
Effective tax rate	**-**	**44,2%**

13. INCOME TAX (CONTINUED)

Unused tax losses

Under the applicable tax legislation, the Company has deferred tax losses of HRK 38,615 thousand as at 31 December 2017 (as at 31 December 2016 there were no deferred tax losses).

Deferred tax assets are not recognized in the Company's books due to the uncertainty of achieving sufficient future tax gains that would be deducted for the transferred tax losses.

Deferred tax liabilities are arising from:

in thousands of HRK

2017	**Opening balance**	**Recognised in profit or loss**	**Closing balance**
Non-current asset adjustments	15,390	(2,194)	13,196
Deferred tax liabilities	**15,390**	**(2,194)**	**13,196**

in thousands of HRK

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

Movements in deferred tax liabilities:

in thousands of HRK

	31 December 2017	**31 December 2016**
Balance at 1 January	15,390	16,118
Decrease	(2,194)	(728)
	13,196	**15,390**

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

14. INTANGIBLE ASSETS

Movements in intangible assets in 2017

in thousands of HRK

	Goodwill	Trademarks, concessions, licenses	Customer list	Software	TOTAL
Cost					
Balance at 1 January 2017	60,379	120,000	10,000	2,074	**192,453**
Additions	-	-	-	163	**163**
Disposals	-	-	-	(67)	**(67)**
Balance at 31 December 2017	**60,379**	**120,000**	**10,000**	**2,170**	**192,549**
Accumulated amortisation					
Balance at 1 January 2017	-	-	4,304	1,674	**5,978**
Charge for the year	-	-	1,666	232	**1,898**
Disposals	-	-	-	(67)	**(67)**
Reduction of value	60,379	-	-	-	**60,379**
Balance at 31 December 2017	**60,379**	**-**	**5,970**	**1,839**	**68,188**
Net book value at 1 January 2017	**60,379**	**120,000**	**5,696**	**400**	**186,475**
Net book value at 31 December 2017	**-**	**120,000**	**4,030**	**331**	**124,361**

Intangible assets in the amount of HRK 120,000 thousand (2016: 120,000) have been pledged as collateral for the Company's borrowings (Note 23).

14. INTANGIBLE ASSETS (continued)

Movements in intangible assets in 2016

in thousands of HRK

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

15. PROPERTY, PLANT AND EQUIPMENT

Movements in property, plant and equipment in 2017

in thousands of HRK

	Land	Buildings	Plant, equipment and tools	Other tangible assets	Assets under construction	TOTAL
Cost						
Balance at 1 January 2017	8,182	163,572	91,406	172	2,729	**266,061**
Additions	121	97	1,957	-	17	**2,192**
Transfers	-	2,411	311	-	(2,722)	**-**
Disposals	-	-	(913)	-	-	**(913)**
Retirement	-	-	(386)	-	-	**(386)**
Balance at 31 December 2017	**8,303**	**166,080**	**92,375**	**172**	**24**	**266,954**
Accumulated depreciation						
Balance at 1 January 2017	-	53,006	73,771	95	-	**126,872**
Depreciation of revaluation	-	2,165	1,472	-	-	**3,637**
Charge for the year	-	1,955	3,383	2	-	**5,340**
Disposals	-	-	(1,277)	-	-	**(1,277)**
Write-off	-	-	(3)	-	-	**(3)**
Balance at 31 December 2017	**-**	**57,126**	**77,346**	**95**	**-**	**134,567**
Net book value at 1 January 2017	**8,182**	**110,566**	**17,635**	**77**	**2,729**	**139,189**
Net book value at 31 December 2017	**8,303**	**108,954**	**15,029**	**76**	**24**	**132,386**

Tangible assets in the amount of HRK 117,847 thousand (2016: HRK 124,876 thousand) have been pledged as collateral for the Company's borrowings (Note 23).

15. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Movements in property, plant and equipment in 2016

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

16. NON-CURRENT FINANCIAL ASSETS

(a) Investment in subsidiaries

in thousands of HRK

	Ownership and voting rights	31 December 2017	31 December 2016
Zdenka mliječni proizvodi d.o.o., Veliki Zdenci		42,767	42,767
Prerada žitarica d.o.o., Grubišno Polje		45,915	5,206
Žitar d.o.o., Donji Miholjac		39,621	39,621
Zdenačka farma d.o.o., Veliki Zdenci		27,661	27,661
		155,964	**115,255**

(b) Investments at fair value through profit or loss

in thousands of HRK

	31 December 2017	31 December 2016
Zagrebačke pekarne Klara d.d., Zagreb	12,949	19,925
Prehrana trgovina d.d., Zagreb	536	536
Žitozajednica d.o.o., Zagreb	1	1
	13,486	**20,462**

Ownership interest

	31 December 2017	31 December 2016
Zdenačka farma d.o.o., Veliki Zdenci	100.00%	100.00%
Prerada žitarica d.o.o., Grubišno Polje	100.00%	100.00%
Zdenka mliječni proizvodi d.o.o., Veliki Zdenci	50.00%	50.00%
Žitar d.o.o., Donji Miholjac	49.69%	49.69%
Zagrebačke pekarne Klara d.d., Zagreb	18.25%	18.25%
Prehrana trgovina d.d., Zagreb	11.48%	11.48%
Žitozajednica d.o.o., Zagreb	1.28%	1.28%

Based on the impairment test conducted in 2017, the investment in Zagrebačke pekarne Klara d.d. was decreased by HRK 6,976 thousand (Note 9).

Voting rights are the same as property rights.

(c) Given loans, deposits and similar

in thousands of HRK

	31 December 2017	31 December 2016
Loans to individuals	259	479
Guarantee deposits	-	188
	259	**667**

Movements in long-term given loans are presented in Note 19. Guarantee deposits were value adjusted in 2017.

17. INVENTORY

	31 December 2017	in thousands of HRK 31 December 2016
Raw materials	11,957	8,359
Trading	6,373	21,841
Finished products	1,629	1,783
Work in progress	608	571
	20,567	**32,554**

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

a) Trade receivables

	31 December 2017	in thousands of HRK 31 December 2016
Domestic	73,976	82,919
Cooperators	7,968	17,586
Foreign	7,452	21,419
Value adjustment	(33,617)	(21,425)
	55,779	**100,499**

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

Value adjustment of trade receivables

	2017	in thousands of HRK 2016
Balance at 1 January	**21,425**	**22,583**
Value adjustment of receivables	13,525	247
Write off receivables	(879)	(433)
Subsequent recovery of impaired trade receivables	(454)	(972)
Balance at 31 December	**33,617**	**21,425**

Maturity analysis of receivables not impaired:

	31 December 2017	in thousands of HRK 31 December 2016
Not yet due	39,080	56,390
0 - 90 days past due	12,057	34,775
91 - 180 days past due	4,180	3,149
181 - 360 days past due	412	1,400
> 360 days past due	50	4,785
	55,779	**100,499**

All the trade receivables and receivables from cooperative farmers were tested for impairment, and the Company assessed that all the receivables grouped as at 31 December 2017 as past due beyond 360 days are recoverable.

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

b) Receivables from the State and other institutions

in thousands of HRK

	31 December 2017	31 December 2016
Overpaid income tax	2,189	186
VAT refund	1,123	1,553
Other receivables from the State and other institutions	24	9
	3,336	**1,748**

c) Other receivables

in thousands of HRK

	31 December 2017	31 December 2016
Receivables under factoring with recourse	20,000	100,000
Prepayments made	2,671	1,684
Interest receivable	985	1,472
Other receivables	102	112
Receivables under assignment and offsetting arrangements	-	1,647
	23,758	**104,915**

Receivables under factoring with recourse, which amount to HRK 20,000 thousand, represent amounts receivable under bills of exchange with recourse, discounted at the factoring companies. The nominal value of the obligations on issued bills of exchange is stated in the Securities Liabilities item. Movements in receivables by regressive factor are shown in the following table:

Receivables under factoring with recourse

In thousands of HRK

	2017	2016
Opening balance at 1 January 2017	**100,000**	-
Increase receivables	-	100,000
Recovery of receivables	(15,000)	-
Value adjustments of receivalbes	(65,000)	-
Closing balance at 31 December 2017	**20,000**	**100,000**

19. CURRENT FINANCIAL ASSETS

a) Investments in securities

	31 December 2017	in thousands of HRK 31 December 2016
Investments in bills of exchange	178	182
Investments in stocks at fair value through profit or loss	-	700
	178	**882**

b) Given loans, deposits and similar

	31 December 2017	in thousands of HRK 31 December 2016
Loans to legal entities	12,913	5,637
Short-term loans to individuals	64	626
Deposits	55	40
	13,032	**6,303**

19. CURRENT FINANCIAL ASSETS (CONTINUED)

Movement in given loans in 2017

	Opening balance at 1 January 2017	Increase in receivables	Transfer from receivables to financial assets	Write off/ value adjustment of given loans	Principal repaid	Transfer of a portion of long-term receivables to short-term	Exchange differences	Closing balance at 31 December 2017
Given long-term loans								
Loans to individuals	479	-	-	(147)	-	(71)	(2)	259
Total long-term loans	**479**	**-**	**-**	**(147)**	**-**	**(71)**	**(2)**	**259**
Short-term loans								
Loans to individuals	626	544	-	(554)	(621)	71	(2)	64
Loans to related parties	39,919	8,010	(2,834)	(5,793)	(11,152)	-	-	28,150
Loans to third parties	5,637	21,276	-	(9,876)	(4,124)	-	-	12,913
Total short-term loans	**46,182**	**29,830**	**(2,834)**	**(16,223)**	**(15,897)**	**71**	**(2)**	**41,127**
TOTAL	**46,661**	**29,830**	**(2,834)**	**(16,370)**	**(15,897)**	**-**	**(4)**	**41,386**

Movement in given loans in 2016

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

20. CASH AND CASH EQUIVALENTS

	31 December 2017	31 December 2016
	in thousands of HRK	
Cash in bank	2,775	8,411
Foreign currency accounts	24	887
Cash on hand	2	2
	2,801	**9,300**

21. PREPAID EXPENSES AND ACCRUED INCOME

	31 December 2017	31 December 2016
	in thousands of HRK	
Prepaid expenses	617	4,370
	617	**4,370**

Movement of prepaid expenses in 2017 is shown below:

	2017	2016
	in thousands of HRK	
Opening balance at 1 January 2017	**4,370**	**4.751**
Increase of prepaid expenses	660	72
Decrease of prepaid expenses	(4,413)	(453)
Closing balance at 31 December 2017	**617**	**4.370**

22. EQUITY

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

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

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

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

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

As of 31 December 2016, the Company's subscribed capital, as registered in the court registry, amounts to HRK 19,016 thousand. The total number of shares is 1,901,643, and the nominal value per share amounts to HRK 10. The outcome of the public share offering includes a capital gain in the amount of HRK 87,004 thousand, which was reduced in the period from 1 January 2014 to 31 December 2015 by the costs of the share capital increase incurred in that period which amounted to a total of HRK 2,817 thousand.

22. EQUITY (Continued)

The ownership structure of the share capital at 31 December 2017 is presented below, with the largest 10 shareholders holding 95.22 percent of the shares at that date:

	31 December 2017		31 December 2016	
	No. of shares in thousands	Ownership in %	No. of shares in thousands	Ownership in %
Hrvoje Filipović	1,105	58,11%	1,105	58,11%
HOK - osiguranje d.d.	221	11,61%	67	3,53%
Addiko d.d./PBZ.CO. B-Category mandatory pension fund	150	7,89%	150	7,89%
Societe Generale-Splitska banka d.d./Erste plavi B-Category mandatory pension fund	149	7,83%	149	7,85%
C.I.M. banque	100	5,26%		
Primorska banka d.d. Rijeka/Joint account of private banking customers - DF	38	2,00%	61	3,21%
Capturis d.o.o.	25	1,31%		
Addiko-bank d.d./SZAIF d.d.	9	0,47%	27	1,42%
Splitska banka d.d./KD Viktoria fond	7	0,37%	-	-
HPB d.d./ HPB Global – OIF with public offering	7	0,37%	-	-
Others	91	4,78%	343	18%
	1,902	**100,00%**	**1,902**	**100,00%**

23. LIABILITIES TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	31 December 2017	in thousands of HRK 31 December 2016
Long-term liabilities		
Bank loans	-	267,110
Finance lease	757	673
	757	**267,783**
Short-term liabilities		
Bank loans	340,861	92,864
Finance lease	508	527
Liabilities under assumed payment obligations (cession, assignment and debt assumption contracts)	-	1,500
	341,369	**94,891**
	342,126	**362,674**

Summary of borrowing arrangements

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

The long-term Club facility was granted in Croatian kunas, with certain covenants imposed to the Company. At 31 December 2017 the Company complied with all the covenants.

The portion of the long-term debt, including the finance lease obligations, falls due between 1 January 2017 and December 2021.

At 31 December 2017 non-current assets mortgaged as collateral for the bank loans amount to HRK 320,235 thousand (31 December 2016: HRK 327,264 thousand).

23 LIABILITIES TO BANKS AND OTHER FINANCIAL INSTITUTIONS (CONTINUED)

Liabilities to banks and other financial institutions in 2017

	Opening balance at 1 January 2016	Increase in liabilities	Principal repaid	Transfer of a portion of long-term loans to short-term loans	Exchange differences	Closing balance at 31 December 2016
Long-term loans						
Long-term bank loans	267,110	-	-	(267,110)	-	-
Long-term finance lease obligations	673	974	(244)	(638)	(8)	757
Total long-term loans	**267,783**	**974**	**(244)**	**(267,748)**	**(8)**	**757**
Short-term loans						
Short-term bank loans	92,864	25,873	(44,883)	267,110	(103)	340,861
Liabilities under assumed payment obligations (cession, assignment and debt assumption contracts)	1,500	3,438	(4,938)	-	-	-
Current portion of the lease obligations	527		(660)	638	3	508
Total short-term loans	**94,891**	**29,311**	**(50,481)**	**267,748**	**(100)**	**341,369**
TOTAL	**362,674**	**30,285**	**(50,725)**	**-**	**(108)**	**342,127**

Liabilities to banks and other financial institutions in 2016

	Opening balance at 1 January 2016	Increase in liabilities	Principal repaid	Transfer of a portion of long-term loans to short-term loans	Exchange differences	Closing balance at 31 December 2016
Long-term loans						
Long-term bank loans	282,290	-	-	(15,180)	-	267,110
Long-term finance lease obligations	715	728	(200)	(554)	(16)	673
Total long-term loans	**283,005**	**728**	**(200)**	**(15,734)**	**(16)**	**267,783**
Short-term loans						
Short-term bank loans	60,647	136,907	(120,008)	15,180	138	92,864
Liabilities under assumed payment obligations (cession, assignment and debt assumption contracts)	1,500	12,268	(12,268)	-	-	1,500
Current portion of the lease obligations	510	-	(536)	554	(1)	527
Total short-term loans	**62,657**	**149,175**	**(132,812)**	**15,734**	**137**	**94,891**
TOTAL	**345,662**	**149,903**	**(133,012)**	**-**	**121**	**362,674**

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

The bank loans and finance leases mature as follows:

in thousands of HRK

	Balance 31 December 2017	2018	2019	2020	2021	From 2022
Domestic banks	340,861	340,861	-	-	-	-
Finance lease	1,265	508	463	212	82	-
	342,126	**341,369**	**463**	**212**	**82**	**-**

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

	31 December 2017	31 December 2016
Total liabilities to financial institutions, in thousands of EUR	2,497	2,487

24. SHORT-TERM LIABILITIES

(a) Trade payables

in thousands of HRK

	31 December 2017	31 December 2016
Domestic	70,493	70,188
Foreign	7,047	3,597
Amounts not yet billed	-	38
	77,540	**73,823**

The maturity structure of trade payables at 31 December 2017:

in thousands of HRK

	31 December 2017	31 December 2016
Not yet due	10,490	23,875
0 - 90 days past due	18,075	43,102
91 - 180 days past due	12,432	3,887
181 - 360 days past due	32,717	1,698
> 360 days past due	3,826	1,261
	77,540	**73,823**

24. SHORT-TERM LIABILITIES (CONTINUED)

(b) Liabilities for securities

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

(c) Taxes, contributions and similar duties payable

		in thousands of HRK
	31 December 2017	**31 December 2016**
Taxes and contributions from and on salaries	541	770
Other taxes and contributions	265	162
VAT payable	(68)	3,213
	738	**4,145**

(d) Other short-term liabilities

		in thousands of HRK
	31 December 2017	**31 December 2016**
Liabilities due to recourse factoring	65,000	100,000
Interest – liabilities towards banks	11,583	2,958
Liabilities to employees	1,012	1,173
Liabilities – default interest	605	-
Other short-term liabilities	15	11
	78,215	**104,142**

Bills receivable	Disscounted bills of exchange	31 December 2017	31 December 2016
Agrokor-trgovina d.o.o.	Erste factoring d.o.o.	65,000	65,000
Velpro-centar d.o.o.	C.I.M. Banque, Geneva, CH	-	20,000
Agrokor-trgovina d.o.o.	Erste factoring d.o.o.	-	15,000
		65,000	**100,000**

Bills of exchange in the amount of HRK 15,000 thousand, received from Agrokor trgovina d.o.o and discounted by Erste factoring d.o.o., were redeemed by the date of issue of the financial statements. Of the remaining liabilities, HRK 20,000 thousand was repaid by Granolio in a way that the company issued its own bills of exchange of HRK 20,000 thousand. The obligation for issued bills of exchange is shown in the balance sheet item Liabilities on Securities.

25. COMMITMENTS

At 31 December 2017 the Company has commitments under operating lease arrangements entered into for tangible fixed assets in the total amount of HRK 1,079 thousand and rent agreements in the total amount of HRK 2,623 thousand which are not yet active or disclosed in the statement of financial position.

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

in thousands of HRK

	31 December 2017	2018	2019	2020	2021	From 2022
Operating leases	1,079	561	267	142	91	18
Rentals	2,623	962	532	532	201	396
	3,702	**1,523**	**799**	**674**	**292**	**414**

26. RELATED-PARTY TRANSACTIONS

in thousands of HRK
31 December 2017

	Assets		Liabilities	
	Trade and other receivables	Given loans	Long-term liabilities	Short-term liabilities
Žitar d.o.o., Donji Miholjac	-	-	-	41
Zdenačka farma d.o.o., Veliki Zdenci	3,112	13,474	-	14
Zdenka- mliječni proizvodi d.o.o., Veliki Zdenci	-	-	-	6
Prerada žitarica d.o.o., Grubišno Polje	-	-	-	50,202
Stan arka d.o.o., Zagreb	160	8,867	-	-
Key management personnel	333	5,809	-	-
	3,605	**28,150**	**-**	**50,263**

in thousands of HRK
31 December 2016

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

Income and expenses arising from transactions with related parties for the years ended 31 December 2017 and 31 December 2016 were as follows:

in thousands of HRK

	2017		2016	
	Income	Expenses	Income	Expenses
Žitar d.o.o., Donji Miholjac	417	740	20,327	24,396
Zdenačka farma d.o.o., Veliki Zdenci	3,954	113	2,538	1,012
Zdenka- mliječni proizvodi d.o.o., Veliki Zdenci	-	5	-	33
Prerada žitarica d.o.o., Grubišno polje	11,215	10,517	19,803	1,324
Stan arka d.o.o., Zagreb	78	-	81	-
Key management	174	-	165	-
	15,838	**11,375**	**42,914**	**26,765**

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

Remuneration paid to the key management personnel in 2017 amounts to 2.158 HRK thousand (2016: HRK 2.896 thousand).

The total remuneration paid to the members of the Supervisory Board in 2017 amounts to HRK 252 thousand (2016: HRK 252 thousand).

27. EARNINGS PER SHARE

in thousands of HRK

	31 December 2017	31 December 2016
(Loss)/profit	(198,187)	2,507
(Loss)/profit attributable to the shareholders	(198,187)	2,507
The weighted average number of ordinary shares used in the calculation of the basic earnings per share	1,901,643	1,901,643
(Loss)/Earnings per share (in kunas and lipas)	**(104,22)**	**1.32**

28. RISK MANAGEMENT

28.1 Financial risks

Equity risk management

Net debt-to-equity (Gearing ratio)

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

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

		in thousands of HRK
	31 December 2017	**31 December 2016**
Debt (long-term and short-term loans and liabilities for securities)	388,412	401,244
Lease liabilities (long-term and short-term)	1,265	1,200
Cash and cash equivalents	(2,801)	(9,300)
Net debt	**386,876**	**393,144**
Equity	(23,855)	172,138
Net debt-to-equity ratio	**-**	**228%**

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

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

Categories of financial instruments

		in thousands of HRK
	31 December 2017	**31 December 2016**
Financial assets		
Cash	2,801	9,300
Loans and receivables	125,393	285,165
Financial liabilities at amortized cost		
Loans received and liabilities for securities	389,677	402,444
Trade payables	77,540	73,823
Other liabilities	120,998	122,206

Financial risk management objectives

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

The Company seeks to minimise the effects of these risks.

28. RISK MANAGEMENT (CONTINUED)

28.1 Financial risks (continued)

Market risk management

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

Currency risk

The Company is exposed to the risk of changes in foreign exchange rates. The exchange rate risk arises from the portion of the Company's loan debt tied to the movements in the exchange rate of the Croatian kuna against the euro. Significant fluctuations in the HRK/EUR exchange rate could affect the value of the Company's foreign-currency denominated assets and liabilities. In addition, according to the 2017 data, the Company generates around 23 percent of its total revenue on foreign markets and in euros, which is another aspect of the Company's performance being subject to the fluctuations in the EUR/HRK exchange rate.

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

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

In thousands of the original currency

	Assets		Liabilities	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
European Union (EUR)	729	3,061	7,880	2,963

Foreign currency sensitivity analysis

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

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

in thousands of HRK

	Increase / decrease of exchange rate	Effect on profit before taxes
2017		
EUR	+5%	2,687
	-5%	(2,687)
2016		
EUR	+5%	37
	-5%	(37)

28. RISK MANAGEMENT (CONTINUED)

28.1 Financial risks (continued)

Credit risk

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

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

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

In the course of its operations, the Company enters into factoring contracts and/or discounted bills. The risk arising from the recoverability of the amounts owed by principal debtors is borne ultimately by the Company. At the reporting date, the Company has liabilities arising from the right of recourse under factoring in the amount of HRK 85 million, which relate to a group of customers under potential reorganisation and change of the business model initiated subsequent to the reporting date.

Interest rate risk

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

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

The sensitivity analysis below is based on the risk of changes in interest rates at the date of the statement of financial position. For variable-rate debt, the analysis is prepared assuming the amount of the liability outstanding at the date of the statement of financial position was outstanding for the whole year. If the interest rates would change by 0.5 percent, and all other variables remained constant, there would be a change in the interest expense of the Company in the amount of HRK 1,499 thousand at 31 December 2017 (2016: HRK 1,580 thousand).

28. RISK MANAGEMENT (CONTINUED)

28.1 Financial risks (continued)

Liquidity risk

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

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

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

	Weighted average effective interest rate %	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
31 December 2017							
Non-interest bearing liabilities		8,694	3,947	69,392	-	-	82,032
Interest bearing liabilities	5,67%	45	48	501,612	780	-	502,484
		8,738	**3,994**	**571,004**	**780**	**-**	**584,516**
31 December 2016							
Non-interest bearing liabilities	-	29,492	39,414	11,824	-	-	80,730
Interest bearing liabilities	5.23%	7,376	65,779	93,272	150,439	192,875	509,741
		36,868	**105,193**	**105,096**	**150,439**	**192,875**	**590,471**

28.. RISK MANAGEMENT (CONTINUED)

28.1 Financial risks (continued)

Liquidity risk (continued)

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

	Weighted average effective interest rate %	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
31 December 2017							
Non-interest bearing assets		25,383	15,739	43,882	15	-	85,019
Interest bearing assets	3,82%	73	356	42,488	203	40	43,161
		25,454	**16,095**	**86,370**	**218**	**40**	**128,180**
31 December 2016							
Non-interest bearing assets	-	32,182	67,744	41,704	-	-	141,630
Interest bearing assets	3.41%	965	1,360	46,506	255	219	49,305
		33,147	**69,104**	**88,210**	**255**	**219**	**190,935**

28. RISK MANAGEMENT (CONTINUED)

28.1 Financial risks (continued)

Fair value measurement

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

Financial assets and financial liabilities	**Fair value as at**		**Fair value hierarchy**	**Valuation technique(s) and key input(s)**	**Significant unobservable input(s)**	**Relationship of unobservable inputs to fair value**
	31.12.2017	31.12.2016				
Shares and units in private equity firms (Note 20).	18.25 % shares of Zagrebačke pekarne Klara d.d., a company from the bakery industry (bread, pastry and other related food products): HRK 12,949 thousand; and 11.48 % shares of Prehrana trgovina d.d., a trade company: HRK 536 thousand	18.25 % shares of Zagrebačke pekarne Klara d.d., a company from the bakery industry (bread, pastry and other related food products): HRK 19,925 thousand; and 11.48 % shares of Prehrana trgovina d.d., a trade company: HRK 536 thousand	Level 3	Income approach – in this approach, the discounted cash flow method was used to capture the present value of the expected future economic benefits to be derived from the ownership of these investees.	Based on the management's experience and knowledge of market conditions of the specific industries, a long-term revenue growth rate of 3 percent (2016: 3 %).	A slight increase in the long-term revenue growth rates used in isolation would result in a significant increase in the fair value (see under 1 above).
					Long-term pre-tax operating margin, based on the management's experience and knowledge of market conditions of the specific industries, ranging from 8 to 11 percent.	A significant increase in the long-term pre-tax operating margin used in isolation would result in a significant increase in the fair value.
					A weighted average cost of capital (WACC), determined using a Capital Asset Pricing Model (CAPM), of 12 percent.	A slight increase in the WACC used in isolation would result in a significant decrease in the fair value.

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

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

28. RISK MANAGEMENT (CONTINUED)

28.2 Industry risk

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

Flour production

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

28.3 Risks arising from the ordinary course of business

Market risk

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

Input commodity and product delivery risks

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

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

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

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

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

Competition risk

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

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

28. RISK MANAGEMENT (CONTINUED)

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

Key supplier and key customer concentration risk

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

The risk of change of the owner

The majority shareholder of the Company is Mr Hrvoje Filipović, who holds an ownership interest of 58.11 percent. As the majority shareholder, Mr Hrvoje Filipović has the controlling influence over the shareholders of the Company, by means of the rights and powers pertaining to him as a Company shareholder. The majority share enables Mr Filipović to exercise his influence in all decisions made in a General Shareholders' Meeting.

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

28. RISK MANAGEMENT (CONTINUED)

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

Working capital risk

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

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

The input commodity price risk

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

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

Dependence on the management and key personnel

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

IT risks

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

Antitrust and competition law non-compliance risk

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

28. RISK MANAGEMENT (CONTINUED)

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

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

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

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

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

Litigation risk

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

The risk of obligations or losses not covered by insurance

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

28.4 General risks

Business environment risk

The business environment risk includes political, legal and macroeconomic risks prevailing in the business environment of the Company, which is primarily the Croatian market on which the Company generates 77 percent of its total revenue (according to the 2017 data), followed by the markets of Serbia, Italy, Bosnia and Herzegovina, Slovenia, Hungary and Romania. The governments in power so far have introduced economic reforms to develop and stabilise free market economy by privatising state-owned companies, attracting foreign direct investments and implemented reforms required in the pre-accession stage. Despite the significant progress towards establishing a full market economy, reaching the level of infrastructure of West European countries will take several more years and additional investments. The Company cannot warrant that Croatia will fully implement the intended reforms or that the political environment will favour their implementation. In addition, the Company cannot warrant that the Government in power will not introduce new regulations, fiscal or monetary policies, including taxation, environmental and public procurement policy, an indemnity policy for nationalised property or a new foreign exchange policy.

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

28. RISK MANAGEMENT (CONTINUED)

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

Business environment risk (continued)

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

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

The risk of changes in the legal framework

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

29. CONTINGENT LIABILITIES

The Company as guarantor or co-debtor

	Amount	Balance in original currency at 31 December 2015	Balance in HRK at 31 December 2015	Maturity
Žitar d.o.o.- Loan 1	EUR 6,190,000	EUR 2,283,325	17,156,100	1.9.2020
Žitar d.o.o.- Loan 2	EUR 5,980,000	EUR 2,241,014	16,838,190	1.9.2020
Žitar d.o.o.- Loan 3	HRK 4,100,000	EUR 600,000	4,508,189	3.5.2017
Zdenka-mliječni proizvodi d.o.o. - Loan 1	EUR 3,294,190	EUR 1,408,797	10,585,205	31.12.2024
Zdenka-mliječni proizvodi d.o.o. – Loan 2	HRK 40,000,000	20,469,882 kn	20,469,882	30.4.2024
Zdenka- mliječni proizvodi d.o.o. – Loan 3	EUR 1,395,751	EUR 925,701	6,955,391	31.10.2023
Prerada žitarica – debenture loan	HRK 42,000,000	HRK 20,469,882	20,469,882	31.10.2017
Bills of exchange issued to CERP	HRK 40,500,000	HRK 40,500,000	40,500,000	31.12.2016+ 60 days respiro
Corporate guarantee issued to CERP	HRK 40,700,000	HRK 40,700,000	40,700,000	31.12.2016+ 60 days respiro
Total			**178,182,840**	

The bills of exchange and corporte guarantees issued to the Restructuring and Sale Centre (CERP; former Croatian Privatisation Fund) were furnished under the contract on the acquisition of Prerada žitarica d.o.o. and the annex to the contract dated 19 November 2009. The company increased the capital in Prerada žitarica d.o.o. as of 27 November 2017 and was noticed that the Governing Council of CERP made a decision to accept the Company's report on the performance of contractual obligations under the contract on the transfer of the shares in Prerada žitarica d.o.o.

Legal cases

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

30. EVENTS AFTER THE REPORTING DATE

On the 15th of March 2018 a contract on acquisition of affiliated company Prerada žitarica d.o.o. was filed to the Commercial Court in Zagreb. One month afterwards, application for registration of acquisition will be filed to the court after which the court will make a decision on the acquisition of the stated company.

31. MANAGEMENT AUTHORISATION OF FINANCIAL STATEMENTS FOR ISSUE

The financial statements were approved by the Management Board and authorized for issue on 27 April 2018.

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

Drago Šurina, dipl.oec.
Management Board member

Vladimir Kalčić dipl.oec.
Management Board member

Granolio d.d.
Supervisory Board
Number: 30-04-01/2018

Pursuant to Article 263. of the Companies Act and Article 39. of the Statute of the Company Granolio d.d. (hereon in the text: the Company), the Supervisory Board at its meeting held on April 30, 2018, adopted

THE DECISION
ON ESTABLISHING THE FINANCIAL STATEMENTS FOR 2017

Pursuant to Article 300.c of the Companies Act the Supervisory Board has examined the Company's Annual financial statements for 2017 together with the Audit Report, the consolidated Annual financial statements of the Granolio Group for 2017 together with the Audit Report, the Management Report for the Company and affiliated Companies for 2017 as well as the proposal of the decision on business year 2017 loss covering.

It is the opinion of the Supervisory Board that the Company's Annual financial statements for 2017 have been prepared in line with the Company's business books and that they reflect the true financial and business standing of the Company. Also, the Supervisory Board does not have any objections regarding the consolidated Annual financial statements of the Granolio Group for 2017. Therefore, the Supervisory Board approves the Company's Annual financial statements for 2017 and the consolidated Annual financial statements of the Granolio Group for 2017 which are thereby established by the Management Board and Supervisory Board in line with Article 300 d of the Companies Act.

The Supervisory Board has no objections concerning the Auditor's Audit Report regarding the Company's Annual financial statements for 2017 and the Auditor's Report regarding the consolidated Annual financial statements of the Granolio Group for 2017.

Article 2.

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

Franjo Filipović
(the president of the Supervisory Board)

Zagreb, April 30, 2018

Granolio
d.d., Budmanijeva 5
Zagreb

Granolio d.d.
Supervisory Board
Number: 30-04-01/2017

Pursuant to Article 263. of the Companies Act and Article 39. of the Statute of the Company Granolio d.d. (hereon in the text: the Company), the Supervisory Board at its meeting held on April 30, 2018, adopted

THE DECISION
ON PROPOSAL FOR BUSINESS YEAR 2017 LOSS COVERING

Article 1.

Pursuant to Article 300.c of the Companies Act the Supervisory Board has examined the Company's Annual financial statements for 2017 together with the Audit Report, the consolidated Annual financial statements of the Granolio Group for 2017 together with the Audit Report, the Management Report for the Company and affiliated Companies for 2017, as well as the proposal of the decision on business year 2017 loss covering.

The Supervisory Board agrees with the Management Board's proposal that the 2017 business year loss in the amount of HRK 198.186.627,91 is to be covered from the retained earnings in the amount of HRK 9.803.142,30 and partly carried forward to the next business year in the amount of HRK 188.383.485,61.

Article 2.

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

Franjo Filipović
(the president of the Supervisory Board)

Zagreb, April 30, 2018

F. Filipović

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d.d., Budmanijeva 5
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