Viro tvornica šećera d.d. and its subsidiaries

Consolidated Financial Statements

For the Year Ended

31 December 2016

Together with Independent Auditor's Report

Consolidated Annual Report
on the State of Affairs of the Group Companies for 2016

Zagreb, March 2017

Content

1 INTRODUCTION

Viro tvornica ġeĺera d.d. and its subsidiaries comprise a group of the following companies: Viro tvornica ġeĺera d.d., Zagreb, Ulica grada Vukovara 269g, as the parent company, and subsidiaries Viro kooperacija d.o.o. Sladorana d.o.o. and Slavonija Ęupanja d.d..

Viro tvornica ġeĺera d.d. was entered into the register of the Commercial Court in Bjelovar on 19 July 2002 as Viro druġtvo s ograniļenom odgovornoġĺu za proizvodnju i trgovinu (a Croatian production and trade limited liability company). The founders of the company were EOS-Z d.o.o. Zagreb and Robiĺ d.o.o., Velika Gorica. In 2005 the Company was transformed from a Croatian limited liability company (druġtvo s ograniļenom odgovornoġĺu) into a joint-stock company (dioniļko druġtvo). The share capital of the Company amounts to HRK 249,600,060 and consists of 1,386,667 registered shares, with no par value.

In 2012 the Company acquired additional shares in Sladorana d.d. and held at 31 December 2012 3,306,002 (2011: 2,532,260) ordinary shares of Sladorana d.d., Ęupanja, representing one hundred percent (100.00%) (2011: 76.60%) of the total equity of the subsidiary. Following the transformation of Sladorana from a joint-stock company into a limited liability company in 2014, Viro d.d. became the sole shareholder (member) of the company.

In 2013 Viro d.d. acquired shares in Slavonija Nova d.d. in the amount of HRK 11.343 million, representing 17.58 percent of the share capital.

In January 2015 Viro d.d. changed its registered seat to: Zagreb, Ulica grada Vukovara 269 g.

In 2012 Sladorana d.d. acquired additional shares in Slavonija Nova d.d. and held at 31 December 2012 77.94 percent (2011: 77.36 %) of the shares in the latter. In 2013 the share of Sladorana in the share capital of Slavonija Nova d.d. decreased to 67.05 percent as a result of the decrease in the share capital of the investee in order to cover its accumulated losses, which was performed by reducing the nominal per-share amount (from HRK 400.00 to HRK 250.00). In 2014 and 2015 the ownership interest remained the same, while in 2016 it was increased to 68.64 percent.

The share capital of Sladorana d.d. changed in 2013 based on a decision of the companyôs shareholders of 4 June 2013, by increasing the share capital from HRK 330,600,200.00 to HRK 345,570.200.00 through a transfer of the companyôs profit.

In February 2014 Sladorana tvornica ġeĺera was transformed from a joint-stock company to a limited liability company, in accordance with the underlying resolution of the Commercial Court in Osijek.

In 2015 Sladorana d.o.o. invested in its subsidiary Slavonija Ęupanja d.d. a total of HRK 3,271 thousand under a contract pursuant to which it committed to invest HRK 10,000 thousand in total by 31 December 2015; as a result, Sladorana fulfilled its contractual commitment. The Restructuring Centre acknowledged and accepted the investments, and the increase in the share capital of Slavonija Ęupanja d.d. was registered at the Central Clearing and Depositary Company Inc as of 16 February 2016, the date when Sladoranaôs ownership interest in the subsidiary was increased. At 31 December 2015 the investment was presented as a long-term receivable. The total additional capital paid in by Sladorana amounts to HRK 17,299 thousand. At 16 February 2016, Sladorana d.o.o. held 68.64 percent of the shares of Slavonija Ęupanja d.d. As a result of the additional capital paid in, the ownership interest of Viro d.d. in Slavonija Ęupanja d.d. amounts to 16.72 percent in 2016.

On 26 April 2013, based on a decision of the General Assembly of Slavonija Nova d.d., Article 12 of the Articles of Association was amended, and the share capital was reduced by HRK 26.999 million in order to cover the 2011 and 2012 losses of the company. The share capital was decreased by reducing the nominal per-share value by HRK 150.00, from HRK

400.00 to HRK 250.00. The decrease was registered at the Commercial Court in Osijek on 22 May 2013.
Based on the decision adopted in the General Shareholders' Meeting of Slavonija Nova d.d. of 5 September 2013, the share capital was increased by HRK 19.541 million, from HRK 44.998 million to HRK 64.539 million. The share capital was increased by contributing the claims of the creditors of Sladorana d.d. and Viro tvornica šećera d.d., comprising outstanding loan receivables and the related accrued interest based on the underlying contracts and the issued but not paid invoices for delivered wheat, i.e. by a conversion of the rights into a share in the investees share capital, as a result of which the contributing shareholder acquired an appropriate interest.
The decision on the increase of the share capital of Slavonija Nova d.d. was registered at the Commercial Court in Osijek on 4 October 2013 under Entry number: Tt-13/4399-2.
In 2015 the share capital was increased to HRK 67.810 million based on the underlying decision adopted in the General Shareholders' Meeting of 18 December 2015. The change was registered at the Commercial Court in Osijek on 21 January 2016.
In January 2014 the company changed its name from Slavonija Nova d.d. to Slavonija Županja d.d.

In 2016 Viro tvornica šećera d.d. and the consolidated companies ("the Group") generated a consolidated income in the total amount of HRK 1,188,576 million. Total operating income amounts to HRK 1,175,315 million, and financial income amounts to HRK 13,262 million.

The total consolidated expenses for the business year 2016 amount to HRK 1,131,042 million. Operating expenses amount to HRK 1,096,570 million and represent 97 percent of the total expenses.

In the business year 2016 the Group generated a profit in the amount of HRK 57,535 million.

President of the Management Board
Željko Zadro, dipl.oec.

Viro
TVORNICA ŠEĆERA d.d. 7
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2 ABOUT THE GROUP COMPANIES

2.1 Viro tvornica šećera d.d.

Viro d.o.o., a production and trade company, was established on 19 July 2002 by means of becoming entered into the court register of the Commercial Court in Bjelovar, with companies EOS-Z d.o.o. and Robiĺ d.o.o. as the founders, with the respective initial capital contributions of 51 percent and 49 percent Following the share capital increase in 2003, the share capital of the company was increased to HRK 104,000,000.00.

Based on the Decision adopted in the General Shareholdersô Meeting of 21 July 2005 and the entry into the registry of the Bjelovar Commercial Court of 1 September 2005, the Company was transformed from a Croatian limited liability company (d.o.o.) into a Croatian public limited company (dioniļko druġtvo) and changed its name to Viro tvornica ġeĺera, dioniļko druġtvo za proizvodnju i trgovinu (abbreviated firm: ñViro tvornica ġeĺera d.d.ò), with the business shares in the amount of HRK 104,000.000.00 being replaced by a total of 1,040,000 registered dematerialised ordinary A-series shares, with a nominal value of HRK 100.00 per share.

In early 2006 the companyôs share capital was increased by issuing 346,667 new shares in an Initial Public Offering through the Zagreb Stock Exchange trading system, as a result of which HRK 126,533,455.00 were raised. Pursuant to the Ruling of the Bjelovar Commercial Court of 17 March 2006, the increase was entered into the Court registry, along with the increase in the share capital from HRK 104,000,000.00 to HRK 138,666,700.00.
Following the successfully finalised share capital increase, the companyôs shares were listed on the official market of the Zagreb Stock Exchange on 20 April 2006, for the purpose of transparency of the operations and allowing maximum insight into the operations of the company to all current as well as future shareholders of the company.

On 14 December 2006 a General Shareholdersô Meeting was held in which a decision was adopted to increase the share capital of the company by HRK 110,933,360.00, from HRK 138,666,700.00 to HRK 249,600,060.00, by transferring portions of the companyôs capital gains and retained earnings. The share capital increase was effected without issuing any new shares, and the share capital was divided into 1,386,667 registered ordinary shares with no par value.
Based on the Decision of the Company Shareholders of 29 August 2014, the registered seat of the Company was changed to: Zagreb, Ulica grada Vukovara 269 g. The change was registered at the Commercial Court in Osijek on 20 January 2015.
In July 2016 Draġen Robiĺ ceased to be a member of the Management Board, and Darko Krstiĺ and Ivo Reġiĺ were appointed members of the Management Board based on the decision of the Supervisory Board of 23 September 2016. The decision was registered at the Commercial Court in Zagreb on 27 October 2016.
Since August 2016, Cristal Union, France, a leading sugar producer in Europe, has been the second largest individual shareholder of Viro tvornica ġeĺera d.d., with an ownership interest of 17 percent, providing the Company a greater opportunity to access the global markets.

2 ABOUT THE GROUP COMPANIES

2.2 Viro-kooperacija d.o.o.

Viro-kooperacija d.o.o. was registered in late January 2012 with the aim to negotiate agricultural production of sugar beet, wheat, soybean, sunflower and corn for the following related companies: Viro tvornica ġeĺera d.d., Sladorana d.d. and Slavonija Nova d.d.
In 2013 the intensity of the companyôs business decreases, and the workers employed at Viro-kooperacija returned to their home companies. Since 1 May 2013 the company has been operating without any employees.

2.3 Sladorana tvornica šećera d.o.o.

Sladorana has a 70-year long tradition in sugar production. The company was established as Sladorana d.d., Zagreb, in 1942 with the purpose of constructing three sugar refineries in the territory of the Republic of Croatia and on 28 September of the same year a decision was made to construct a sugar refinery in Ņupanja. The construction was finalised, with periods of discontinuation, in 1947. It was the most advanced and the largest sugar refinery in this part of Europe, with a daily sugar beet processing capacity of 1,350 tons. The first campaign started on 11 September 1947. As a result of permanent investments in the infrastructure, the processing capacity has been continuously increased and currently amounts to 7,000 tons a day.

The ownership form of the factory changed several times during its history. The first privatisation took place in the 1990s, resulting in the factory being returned to the state as its majority shareholder based on the assumed debt.
On 10 July 2008 the Government of the Republic of Croatia adopted a decision to publish an invitation to tender for the purchase of the shares of Sladorana d.d., Ņupanja.
In the session of 10 October 2008 the Government adopted a decision to accept the share-purchase bid submitted by Viro tvornica ġeĺera d.d., Virovitica.

Pursuant to the Agreement on the Sale and Transfer of Shares of Sladorana d.d., Ņupanja, concluded on 28 November 2008 between Viro tvornica ġeĺera d.d., Virovitica and State Agency for Bank Rehabilitation (DAB), represented by the Croatian Privatisation Fund, Viro tvornica ġeĺera d.d. became the owner of 1,017,010 shares representing 38.115 percent of the total value of Sladoranaôs share capital.

Pursuant to the provisions of the Articles of Association and the decision of the General Assembly to grant powers to increase the share capital through the authorised share capital, the Management Board adopted on 23 December 2009 a decision to increase the share capital (the authorised share capital). The share capital was increased by issuing 637,755 new ordinary shares, with a nominal amount of HRK 100,00 per share. As a result, the share capital was increased from HRK 266,824,700.00 to HRK 330,600,200.00 and divided into 3,306,002 ordinary shares, with a nominal amount of HRK 100.00 per share. At 31 December 2012 the ownership interest of Viro tvornica ġeĺera d.d. in Sladorana d.d. was 100 percent and did not change in 2013. The share capital of Sladorana d.d. changed in 2013 based on a decision of the companyôs shareholders of 4 June 2013, by increasing the share capital from HRK 330,600,200.00 to HRK 345,570.200.00 through a transfer of the companyôs profit. The number of shares without par value remained the same, i.e. 3,306,002 shares.

2 ABOUT THE GROUP COMPANIES

2.3 Sladorana tvornica šećera d.o.o. (continued)

One should also draw attention to February 2014, when Sladorana tvornica ġeĺera was transformed from a joint-stock company to a limited liability company, in accordance with the underlying resolution of the Commercial Court in Osijek dated 7 February 2014. By decision adopted in the General Shareholdersô Meeting of 12 January 2014, a memorandum of incorporation was adopted, which forms an inseparable part of the decision on the change in the legal form.

On 24 October 2016 the Commercial Court in Osijek adopted a resolution under which Drağen Robiĺ was no longer President of the Management Board from 4 July 2016, with Ģeljko Zadro, a member of the Management Board, being appointed to replace him in this role based on a decision of 29 August 2016. In addition, Darko Krstiĺ and Ivo Reġiĺ became members of the Management Board on 29 August 2016.

In the territory of the Republic of Croatia, there are three licensed sugar producers after Croatiaŝ accession to the EU.

The principal product is white sugar for human consumption, with dry noodle and molasses as by-products. In addition, Viro d.d. is a producer of liquid sugar. Apart from sugar, Sladorana d.o.o. also produces alcohol, obtained in the process of alcoholic fermentation of molasses, and protein powder. In early 2010 Sladorana launched a new product on the market ï Sladoliq. This is a liquid supplement with molasses as the base ingredient, intended as a supplementary nutrient for ruminants.

The companies export the majority of their outputs.

2.4 Slavonija Županja d.d.

Slavonija Ģupanja d.d., Ģupanja, evolved from a cadastral flour mill ñNovo dobaò established in 1949, comprising six old flour mills with individual capacities ranging from 5 to 18 tons a day.

It was included in the Agricultural and Food Processing Group ñĢupanjaò, Ģupanja, on 1 January 1963. It left the Group ñĢupanjaò on 30 June 1991 and operated as a socially-owned enterprise until 8 September 1994, when it was transformed into a joint-stock company and operated as such until 27 August 2000. On 28 August 2000 bankruptcy proceedings were initiated over Slavonija Joint-Stock Company, which lasted until 20 June 2004.

Based on the adopted restructuring plan, Slavonija Nova d.d., Ģupanja, was established on 21 June 2004, as a new company to which all the assets and liabilities fully owned by the State were transferred. The share capital of the company amounts to HRK 66,166,800.00 and is divided into 165,417 ordinary A-series shares, with a nominal amount of HRK 400.00 each.

On 1 March 2011 a share purchase and transfer agreement was concluded between the The Strategic Commodity Stock Administration of the Croatian Ministry of Economy, the the State Savings Deposit Insurance and Bank Rehabilitation Agency of the Croatian Ministry of

Finance, all represented, by virtue of the Contract on the Management of Shares, consents and powers of attorney, by the Croatian Privatisation Fund, Zagreb, as the Seller, and Sladorana tvornica ġeĺera d.d., Çupanja, as the Buyer.

In January 2014 the company changed its name from Slavonija Nova d.d. to Slavonija Çupanja d.d. In 2015 the share capital was increased to HRK 67.810 million based on the underlying decision adopted in the General Shareholdersô Meeting of 18 December 2015. The change was registered at the Commercial Court in Osijek on 21 January 2016.
The capacities of the company are as follows:
Å crop silos - approx. 80,000 tons
Å flour silos - approx. 2,000 tons
Å flour mill - 200 t/day
Å rye mill - 200 t/day

The major products are the following: flour type T-550, flour type T-850, flour type T-400, flour type T-1100, flour type T-1250, flour type T-1600, integral flour, livestock flour. In addition, services are provided including wheat milling, agricultural produce drying and storage and transloading of crops.

3 OWNERSHIP STRUCTURE

Table1. ***Ownership structure of Viro tvornica šećera d.d. at 31 December 2016***

No.	Investor	Number of shares	Structure in %
1	2	3	4
1.	EOS-Z d.o.o.	308,204	22.23
2.	Cristal financiere	235,734	17.00
3.	Robiĺ d.o.o.	180,366	13.01
4.	Primorska banka d.d. Rijeka/Omnibus account of a natural person - M. Zadro	158,296	11.42
5	Societe Generale Splitska banka d.d. / AZ MANDATORY PF	137,055	9.88
6.	Primorska banka d.d. Rijeka/Omnibus account of a legal person - M. Zadro	127,936	9.23
7	Addiko bank d.d./ PBZ Croatia Osiguranje B-category Mandatory PF	40,063	2.89
8	Erste&Steiermaerkischebank d.d. / CSC	28,488	2.05
9	Zagrebaļka banka d.d. / AZ Profit Voluntary PF	25,842	1.86
10.	Addiko bank d.d./ Raiffeisen B-category Mandatory PF	24,911	1.80
11.	Hrvatska poġtanska banka d.d.	23,257	1.68
12.	Privredna banka zagreb d.d./Omnibus custody account of a client	9,265	0.67
13.	Moraliĺ Enver	7,660	0.55
14.	Other investors and small shareholders	79,590	5.74
	Grand total:	1,386,667	100.00

Source: Company data

The volume of the Companyôs shares traded on the Zagreb Stock Exchange during the year amounts to HRK 9,573,458, with the market capitalisation rate at 31 December 2016 amounting to HRK 531.09 million and a value per share in the amount of HRK 383.00. The Company did not hold any own shares at the end of 2016.

3 OWNERSHIP STRUCTURE (CONTINUED)

Viro tvornica ġeĺera d.d. applies the Code of Corporate Governance of the Croatian Financial Services Supervisory Agency and the Zagreb Stock Exchange. Details about certain departures from the Code and the reasons underlying the departures are provided in the answers given by the Company to the questions contained in the Annual Questionnaire, which is an inseparable part of the Code and has been submitted to the Zagreb Stock Exchange and published on its website. This Corporate Governance Code Statement is an inseparable part of this Report.
The Company has a designed and implemented internal control system.

Table2. ***Ownership structure of Viro kooperacija d.o.o. at 31 December 2016***

No.	Investor	Ownership interest (%)
1	2	3
1.	Viro tvornica ġeĺera d.d.	100.00

Source: Company data

Table3. ***Ownership structure of Sladorana d.o.o. at 31 December 2016***

No.	Investor	Ownership interest (%)
1	2	3
1.	Viro tvornica ġeĺera d.d.	100.00

Source: Company data

Table4. ***Ownership structure of Slavonija Županja d.d. at 31 December 2016***

No.	Investor	Equity share	Number of A-series shares	Number of B-series shares	Ownership interest (%)
1	2	4	5	6	3
1.	Sladorana d.o.o.	46,542,000	153,376	16,396	68.64
2.	Viro d.d.	11,343,000		22,686	16.72
3.	CERP	9,925,000	39,700		14.64
	Total	67,810,000	179,992	39,082	100.00

Source: Company data

Members of the Management and Supervisory Boards of Viro tvornica ġeĺera d.d., Zagreb, at 31 December 2016
The members of the Management Board of Viro tvornica ġeĺera d.d. are the following:

Chairman: Ģeljko Zadro
Member: Darko Krstiĺ
Member: Ivo Reġiĺ

The members of the Supervisory Board of Viro tvornica ġeĺera d.d. are the following:

Chairman: Marinko Zadro
Deputy Chairman Boris Ġimunoviĺ
Member: Ivan Miġetiĺ
Member: Damir Kelekoviĺ
Member: Svetlana Zadro

Members of the Management and Supervisory Boards of Viro-kooperacija d.o.o., Ģupanja, at 31 December 2016
The members of the Management Board of Viro-kooperacija d.o.o. are the following:

Managing Director Javor Katuġiĺ

3 OWNERSHIP STRUCTURE (CONTINUED)

The members of the Supervisory Board of Viro-kooperacija d.o.o. are the following:

Chairman: Ivan Ġkoriĺ
Member: Çeljko Zadro

Members of the Management and Supervisory Boards of Sladorana d.o.o., Çupanja, at 31 December 2016
The members of the Management Board of Sladorana d.o.o. are the following:

Chairman: Çeljko Zadro
Member: Darko Krstiĺ
Member: Ivo Reġiĺ

The members of the Supervisory Board of Sladorana d.o.o. are the following:

Chairman: Marinko Zadro
Member: Ivan Miġetiĺ
Member: Miroslav Boġiĺ
Member: Goran Fajdetiĺ
Member: Svetlana Zadro

Members of the Management and Supervisory Boards of Slavonija Çupanja d.d., Çupanja, at 31 December 2016
The members of the Management Board of Slavonija Çupanja d.d. are the following:

Member of the Management: Goran Blagojeviĺ

The members of the Supervisory Board of Slavonija Çupanja d.d. are the following:

Chairman: Boris Ġimunoviĺ
Deputy Chairman Marinko Zadro
Member: Çeljko Zadro
Member: Çeljko Koren

4 OVERVIEW OF THE 2016 PERFORMANCE

4.1 Viro tvornica šećera d.d.

The sugar beet purchases pipeline for the production year 2016 envisaged 6,000 hectares to be sown. The contractually agreed area in Croatia was 4,178 hectares, of which 4,132 hectares were sawn, and in Hungary 1,225 hectares were contractually negotiated and sawn. The area finally contractually agreed was 5,414 hectares, of which 5,357 were sawn. The sawing of sugar beet started on 21 March 2016. Until 05 April, 4,806 hectares (89 % of the total area) were sawn, and until 10 April over 97 percent of the total area was sawn. Repeat sawing took place on 2 hectares only. Agro-climatic conditions in the vegetation period favoured the growth and development of the sugar beet crops, especially in July and August when sugar beet requires largest quantities of water, the periods without any longer periods of persistently high day and night temperatures. The production year 2016 was characterised by a very high per-hectare yield of 74.35 tons for sugar beet, a very high digestion of 15.96 percent, and the record-high per-hectare sugar yield of 11.39 tons.
The sugar beet harvesting campaign started on 7 September, and the harvested beet was received at the plant on 9 September. The processing at the plant started on 10 September 2016.
Out of the total processed 404,023 tons of sugar beet, with a sugar output of 61,918 tons, 28 percent of sugar beet was refined for Sugar Factory Osijek (Tvornica ġeĺera Osijek) and 72 percent for own sugar production purposes.
The remaining total sugar output of 121,868 tons represent refinery services provided by other EU licensed producers.
Own raw sugar was processed in the period from 8 June to 2 July, with a total of 32,732 tons of raw sugar processed and the final output of 31,810 tons of sugar. The next processing phase of own raw sugar run in parallel with sugar beet processing, with a total processed quantity of 12,793 tons of sugar beat, of which 12,460 tons of sugar for human consumption were produced. In addition, Sladorana Ģupanja produced 5,789 tons of raw sugar for Viro, of which 5,789 tons of sugar for human consumption were refined.

4.2 Viro-kooperacija d.o.o.

In 2016 the volume of business decreased.

4.3 Sladorana d.o.o.

A total of 462,950 tons of sugar beet were processed, with an output of 68,277 tons of sugar, 21,305 tons of dry noodle, 740 tons of pressed beet pulp and 15,726 tons of molasses. The remaining total sugar output of 123,227 tons represent refinery services provided by other EU licensed producers.
No own raw cane sugar was refined in 2016, but 5,944 tons of raw cane sugar were refined for Viro, of which 5,789 tons of sugar and 238 tons of molasses were produced.
In 2016, the Alcohol and Yiest Unit was in operation 59 days, during which 6,364 tons of raw molasses, i.e. 6,000 molasses of 50% were produced. The volume of refined ethyl alcohol (AA) produced was 1,690 million litres, 0.226 million litres of technical ethyl alcohol (AA), and 86 tons of protein powder.
The quantity of molasses consumed in the production of all types of Sladoliqa (Sladoliq, Sladoliq MMS, Virovital PCG, Melasa B) was 2,594 tons, of which 3,287 tons of the product was made.

4 OVERVIEW OF THE 2016 PERFORMANCE (CONTINUED)

4.4 Slavonija Županja d.d.

Ensured financing of the purchase of crops provided assurance to Slavonija Ģupanja d.d. regarding commodity purchases. In 2016 the total volume of flour milled, either at own mills or externally, was 19.7 thousand tons of various flour types.
The silo capacities were full throughout 2016, which resulted in a sound level of revenue from acceptance, storage, drying and dispatch services.
In 2016, in addition to flour milling for the own sales function, the company agreed milling services for a partnering business for which it milled around 5 thousand tons of flour.

5 RISK EXPOSURE

The Group companies are exposed to the risk of capital and various financial risks arising from foreign exchange, interest rate, credit and liquidity risks. The Group companies monitor those risks and seek to mitigate their potential impact on their financial exposure. The Group does not enter into, or trade in financial instruments, including derivative financial instruments, for speculative purposes. The Treasury periodically reports about the risk exposures to the Companyǿs Management Board.

5.1 Capital risk

The Group manages its capital to ensure that it will be able to continue as a going concern, while maximising the return to stakeholders through the optimisation of the debt and equity balance.
The capital of the Group consists of the net debt (which includes received loans and borrowings less cash and cash equivalents) and shareholdersô equity (comprising the registered capital, reserves and retained earnings).
The Treasury of the Group reviews the capital structure on a regular basis. As part of this review, the Treasury considers the cost of capital and the risks associated with each class of capital.

5.2 Interest rate risk

The Groupǿs exposure to the interest rate risk arises from its borrowing at fixed and variable rates. The risk is managed by the Group by maintaining an appropriate mix between fixed and floating rate borrowings. In the current year, the Groupǿs sensitivity to interest rates increased mainly because of a higher number of variable-rate debt instruments.

5.3 Liquidity risk

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

5.4 Foreign exchange risk and exposure of the Group companies to price risk

The Groupǿs activities expose it primarily to the financial risks arising from movements in sugar and flour prices as well as the prices of raw material required for their production activities (sugar beet, sugar cane and wheat).
The Group undertakes certain transactions denominated in foreign currencies. Hence, it is exposed to fluctuations in foreign exchange rates. The Group is mainly exposed to the fluctuations in the exchange rate of the Croatian kuna against the euro (EUR) and the US dollar (USD) because these are the currencies in which the majority of sugar sales (EUR) and purchases of raw sugar (USD) on international markets are carried out.
So far, the Groupǿs business policy has been to make long-term contractual arrangements for deliveries of larger quantities over extended periods of time, which has proven to be most efficient, as it aims at minimising the impact of the price risk.

5 RISK EXPOSURE (CONTINUED)

5.4 Foreign exchange risk and exposure of the Group companies to price risk (continued)

As the Group sells the majority of its output on international markets, with the prices defined in euros, its is equally exposed to both foreign exchange and price risk.

5.5 Credit risk

Credit risk is the risk that the counterparty will default on its contractual obligations resulting in a financial loss to a company. The Group companies have adopted a policy of dealing only with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from default. The Group monitors regularly its exposure to counterparties as well as their creditworthiness spreads the aggregate value of the transactions to accepted customers. Credit exposure is managed by setting limits to customers.

Credit analysis involves assessing the financial position of the debtor and, where appropriate, insurance coverage is sought for credit guarantees.

The Group usually seeks from its customers to furnish bank guarantees, debentures and bills of exchange as instruments of collateral.

The structure of receivables is presented below:

Table5. *Receivables structure*

Type of receivables	2015	Structure (%)	2016	Structure (%)	Index
1	2	3	4	5	6 (4/2)
1. Receivables from related companies	743,933	0.36	2,422,079	1.00	326
2. Trade receivables	178,183,726	85.51	173,217,676	71.83	97
3. Receivables from entities in which there is a participating interest					
4. Amounts due from employees and owners	6,387	0.003	5,785	0.002	91
5. Receivables from the State and other institutions	29,187,271	14.00	64,791,695	26.87	222
6. Other receivables	267,224	0.13	707,098	0.29	265
Total receivables	208,388,541	100.00	241,144,333	100.00	116

Source: Company data

6 FINANCIAL POSITION

Table6. *Balance sheet at 31 December*

Item description	EDP code	Prior year (net)	Current year (net)
1	2	3	4
A) RECEIVABLES FOR SUBSCRIBED CAPITAL UNPAID	001		
B) DUGOTRAJNA IMOVINA (003+010+020+029+033)	002	**529,062,517**	**543,336,279**
I. INTANGIBLE ASSETS (004 to 009)	003	**1,008,224**	**769,909**
1. Development expenses	004		
2. Concessions, patents, licences, trade and service marks, software and other rights	005	1,008,224	769,909
3. Goodwill	006		
4. Prepayments for purchases of intangible assets	007		
5. Intangible assets under development	008		
6. Other intangible assets	009		
II. TANGIBLE ASSETS (011 to 019)	010	525,093,960	536,749,935
1. Land	011	38,540,921	38,540,921
2. Buildings	012	238,204,927	228,037,294
3. Plant and equipment	013	231,922,597	194,768,612
4. Tools, plant fittings and fixtures, and transport assets	014	3,368,260	2,712,606
5. Biological assets	015		
6. Prepayments for tangible assets	016	307,627	34,576,964
7. Tangible assets under development	017	10,480,578	35,993,969
8. Other tangible assets	018	44,900	44,900
9. Investment property	019	2,224,150	2,074,669
III. NON-CURRENT FINANCIAL ASSETS (021 to 028)	020	2,923,012	5,226,520
1. Equity shares in related companies	021	900,000	900,000
2. Loans to related companies	022		
3. Participating interests	023	1,320,983	
4. Loans to entities in which there is a participating interest	024		
5. Investments in securities	025	60,173	910,606
6. Given loans, deposits and similar	026	641,856	3,415,914
7. Other non-current financial assets	027		
8. Equity-method investments	028		
IV. RECEIVABLES (030 to 032)	029	37,321	589,915
1. Receivables from related companies	030		
2. Receivables in respect of credit sales	031		
3. Other receivables	032	37,321	589,915
V. DEFERRED TAX ASSETS	033		
C) CURRENT ASSETS (035+043+050+058)	034	**704,103,328**	**928,099,253**
I. INVENTORIES (036 to 042)	035	413,955,438	635,711,354
1. Raw material and supplies	036	37,569,067	76,486,835
2. Work in progress	037		
3. Finished products	038	251,210,014	373,566,269
4. Merchandise	039	80,795,687	134,836,805
5. Prepayments for inventories	040	44,380,670	50,821,445
6. Non-current assets held for sale	041		
7. Biological assets	042		
II. RECEIVABLES (044 to 049)	043	208,388,541	241,144,333
1. Receivables from related companies	044	743,933	2,422,079
2. Trade receivables	045	178,183,726	173,217,676
3. Receivables from entities in which there is a participating interest	046		
4. Amounts due from employees and owners	047	6,387	5,785
5. Receivables from the State and other institutions	048	29,187,271	64,791,695
6. Other receivables	049	267,224	707,098
III. CURRENT FINANCIAL ASSETS (051 to 057)	050	44,910,145	23,373,920
1. Equity shares in related companies	051		
2. Loans to related companies	052		

Item description	EDP code	Prior year (net)	Current year (net)
1	2	3	4
3. Participating interests	053		
4. Loans to entities in which there is a participating interest	054		
5. Investments in securities	055		
6. Given loans, deposits and similar	056	37,141,162	14,000,408
7. Other financial assets	057	7,768,983	9,373,512
IV. CASH WITH BANKS AND IN HAND	058	36,849,204	27,869,646
D) PREPAID EXPENSES AND ACCRUED INCOME	059	**14,121,337**	**11,332,940**
E) TOTAL ASSETS (001+002+034+059)	060	**1,247,287,182**	**1,482,768,472**
F) OFF-BALANCE SHEET ITEMS	061	2,236,261,172	1,714,081,455
LIABILITIES AND EQUITY			
A) CAPITAL AND RESERVES (063+064+065+071+072+075+078)	062	**421,326,312**	**479,530,197**
I. SHARE (SUBSCRIBED) CAPITAL	063	**249,600,060**	**249,600,060**
II. CAPITAL RESERVES	064	**10,368,101**	**10,368,101**
III. RESERVES OUT OF PROFIT (066+067-068+069+070)	065	**56,393,357**	**56,410,827**
1. Legal reserves	066	12,520,931	12,525,652
2. Reserves for own shares	067	43,866,670	43,866,670
3. Own shares (deductible item)	068		
4. Statutory reserves	069		
5. Other reserves	070	5,756	18,505
IV. REVALUATION RESERVES	071		
V. RETAINED PROFIT OR ACCUMULATED LOSSES (073-074)	072	95,792,725	99,270,607
1. Retained earnings	073	95,792,725	99,270,607
2. Tax losses brought forward	074		
VI. PROFIT OR LOSS FOR THE YEAR (076-077)	075	2,494,952	57,514,007
1. Profit for the year	076	2,494,952	57,514,007
2. Loss for the year	077		
VII. MINORITY INTEREST	078	6,677,117	6,366,595
B) PROVISIONS (080 to 082)	079	**453,209**	**453,209**
1. Provisions for retirement and termination benefits and similar obligations	080		
2. Provisions for taxes	081		
3. Other provisions	082	453,209	453,209
C) NON-CURRENT LIABILITIES (084 to 092)	083	**322,078,301**	**243,460,737**
1. Liabilities to related companies	084		
2. Liabilities for loans, deposits and similar	085	4,932,877	1,936,506
3. Liabilities to banks and other financial institutions	086	316,992,469	241,447,754
4. Advances received	087		
5. Trade payables	088		
6. Liabilities in respect of securities	089		
7. Liabilities to entities in which there is a participating interest	090		
8. Other non-current liabilities	091	152,955	76,477
9. Deferred tax liability	092		
D) CURRENT LIABILITIES (094 to 105)	093	**502,133,908**	**755,547,863**
1. Liabilities to related companies	094	150,000	35,000
2. Liabilities for loans, deposits and similar	095	8,595,581	12,921,646
3. Liabilities to banks and other financial institutions	096	195,181,628	202,505,024
4. Advances received	097	41,478,736	1,675,462
5. Trade payables	098	137,241,601	419,205,766
6. Liabilities in respect of securities	099		
7. Liabilities to entities in which there is a participating interest	100		
8. Liabilities to employees	101	2,943,764	3,153,292
9. Taxes, contributions and similar duties payable	102	11,844,700	4,916,880
10. Liabilities in respect of profit distributions (dividends payable)	103	31,703	30,963
11. Liabilities for non-current assets held for sale	104		
12. Other current liabilities	105	104,666,195	111,103,830
E) ACCRUED EXPENSES AND DEFERRED INCOME	106	**1,295,452**	**3,776,466**
F) TOTAL EQUITY AND LIABILITIES (062+079+083+093+106)	107	**1,247,287,182**	**1,482,768,472**

Item description	EDP code	Prior year (net)	Current year (net)
1	2	3	4
G) OFF-BALANCE SHEET ITEMS	108	2,236,261,172	1,714,081,455
BALANCE-SHEET SUPPLEMENT (to be completed by entrepreneurs preparing consolidated annual accounts)			
A) CAPITAL AND RESERVES			
1. Attributable to the equity holders of the parent	109	414,649,195	473,163,602
2. Attributable to the minority interest	110	6,677,117	6,366,595

Source: Company data

Table7. *Profit and loss account*

Item description	EDP code	Prior year	Current year
1	2	3	4
I. OPERATING INCOME (112+113)	111	**1,179,641,843**	**1,175,314,593**
1. Sales	112	1,136,881,950	1,164,848,253
2. Other operating income	113	42,759,893	10,466,340
II. OPERATING EXPENSES (115+116+120+124+125+126+129+130)	114	**1,149,864,240**	**1,096,569,697**
1. Changes in the value of inventories of work in progress and finished products	115	205,389,801	-168,090,768
2. Material expenses (117 to 119)	116	791,675,974	1,111,580,352
a) Cost of raw material and supplies	117	478,732,536	866,493,278
b) Cost of goods sold	118	253,968,915	188,191,649
c) Other external charges	119	58,974,523	56,895,425
3. Staff expenses (121 to 123)	120	49,798,617	52,056,447
a) Net salaries and wages	121	30,939,647	32,421,036
b) Taxes and contributions out of salaries	122	11,579,217	12,055,312
c) Contributions on salaries	123	7,279,753	7,580,099
4. Depreciation and amortisation	124	62,708,059	58,326,794
5. Other expenses	125	25,214,214	26,097,598
6. Value adjustment (127+128)	126	0	0
a) Non-current assets (other than financial assets)	127		
b) Current assets (other than financial assets)	128		
7. Provisions	129		
8. Other operating expenses	130	15,077,575	16,599,274
III. FINANCIAL INCOME (132 to 136)	131	**13,600,146**	**13,261,643**
1. Interest income, foreign exchange gains, dividend and similar income from transactions with related companies	132		62,153
2. Interest income, foreign exchange gains, dividend and similar income from transactions with unrelated entrepreneurs and other persons	133	12,391,974	12,601,552
3. Share in the income of associates and entities in which there is a participating interest	134		
4. Unrealised gains (income) from financial assets	135	311,854	535,190
5. Other financial income	136	896,318	62,748
IV. FINANCIAL EXPENSES (138 to 141)	137	**40,857,884**	**34,471,814**
1. Interest expense, foreign exchange losses and other expenses from related-party transactions	138		
2. Interest expense, foreign exchange losses and other expenses from transactions with unrelated entrepreneurs and other persons	139	36,002,068	32,154,753
3. Unrealised losses (expenses) from financial assets	140	311,400	1,020,990
4. Other financial expenses	141	4,544,416	1,296,071
V. SHARE IN THE PROFIT OF ASSOCIATES	142		
VI. SHARE IN THE LOSSES OF ASSOCIATES	143		
VII. EXTRAORDINARY – OTHER INCOME	144		
VIII. EXTRAORDINARY – OTHER EXPENSES	145		
IX. TOTAL INCOME (111+131+142 + 144)	146	**1,193,241,989**	**1,188,576,236**
X. TOTAL EXPENSES (114+137+143 + 145)	147	**1,190,722,124**	**1,131,041,511**
XI. PROFIT OR LOSS BEFORE TAXATION (146-147)	148	**2,519,865**	**57,534,725**
1. Profit before taxation (146-147)	149	2,519,865	57,534,725
2. Loss before taxation (147-146)	150	0	0
XII. PROFIT (CORPORATE INCOME) TAX	151	0	0
XIII. PROFIT OR LOSS FOR THE PERIOD (148-151)	152	**2,519,865**	**57,534,725**
1. Profit for the period (149-151)	153	2,519,865	57,534,725

Item description	EDP code	Prior year	Current year
1	2	3	4
2. Loss for the period (151-148)	154	0	0
PROFIT OR LOSS STATEMENT SUPPLEMENT (to be completed by an entrepreneur preparing consolidated annual accounts)			
XIV. PROFIT OR LOSS FOR THE PERIOD			
1. Attributable to the equity holders of the parent	155	2,494,952	57,514,007
2. Attributable to the minority interest	156	24,913	20,718
STATEMENT OF OTHER COMPREHENSIVE INCOME (to be completed by entrepreneurs subject to IFRS reporting requirements)			
I. PROFIT OR LOSS FOR THE PERIOD (= 152)	157	**2,519,865**	**57,534,725**
II. OTHER COMPREHENSIVE INCOME/LOSS BEFORE TAX (159 to 165)	158	**0**	**0**
1. Exchange differences on translation of a foreign operation	159		
2. Movements in reserves on revaluation of non-current tangible and intangible assets	160		
3. Profit or loss on revaluation of financial assets available for sale	161		
4. Profit or loss on determining the effectiveness of cash-flow hedges	162		
5. Profit or loss on determining the effectiveness of hedges of a net investment in a foreign operation	163		
6. Share in other comprehensive income/loss of associates	164		
7. Actuarial gains/losses on defined benefit plans	165		
III. TAX ON OTHER COMPREHENSIVE INCOME FOR THE PERIOD	166		
IV. NET OTHER COMPREHENSIVE INCOME OR LOSS FOR THE PERIOD (158-166)	167	**0**	**0**
V. COMPREHENSIVE INCOME OR LOSS FOR THE PERIOD (157+167)	168	**2,519,865**	**57,534,725**
SUPPLEMENT to the statement of other comprehensive income (to be completed by an entrepreneur preparing consolidated annual accounts)			
VI. COMPREHENSIVE INCOME OR LOSS FOR THE PERIOD			
1. Attributable to the equity holders of the parent	169	2,494,952	57,514,007
2. Attributable to the minority interest	170	24,913	20,718

Source: Company data

Table8. *Cash flows*

Item description	EDP code	Prior year	Current year
1	2	3	4
CASH FLOWS FROM OPERATING ACTIVITIES			
1. Profit before tax	001	2,519,865	57,534,725
2. Depreciation and amortisation	002	62,708,059	58,326,794
3. Increase in current liabilities	003		275,224,166
4. Decrease in current receivables	004		
5. Decrease in inventories	005	219,939,622	34,320,046
6. Other increases in cash	006	12,448,887	20,748,920
I. Total increase in cash flows from operating activities (001 to 006)	007	**297,616,433**	**446,154,651**
1. Decrease in current liabilities	008	299,466,366	
2. Increase in current receivables	009	80,454,944	29,279,296
3. Increase in inventories	010		255,419,802
4. Other decreases in cash	011	6,339,124	6,704,302
II. Total decrease in cash flows from operating activities (008 to 011)	012	**386,260,434**	**291,403,400**
A1) NET INCREASE IN CASH FLOWS FROM OPERATING ACTIVITIES (007-012)	013	**0**	**154,751,251**
A2) NET DECREASE IN CASH FLOWS FROM OPERATING ACTIVITIES (012-007)	014	**88,644,001**	**0**
CASH FLOWS FROM INVESTING ACTIVITIES			
1. Cash received from sale of non-current tangible and intangible assets	015	1,117,012	217,805
2. Cash received from sale of equity and debt instruments	016		
3. Interest received	017	2,683,636	1,679,568
4. Dividends received	018	40,596	56,703
5. Other cash received from investing activities	019	47,991,001	34,051,783
III. Total cash received from investing activities (015 to 019)	020	**51,832,245**	**36,005,859**
1. Cash paid for purchases of non-current tangible and intangible assets	021	19,072,910	69,908,838
2. Cash paid to acquire equity and debt financial instruments	022		
3. Other cash used in investing activities	023	36,288,473	6,204,350
IV. Total cash used in investing activities (021 to 023)	024	**55,361,383**	**76,113,188**
B1) NET INCREASE IN CASH FLOWS FROM INVESTING ACTIVITIES (020-024)	025	**0**	**0**

B2) NET DECREASE IN CASH FLOWS FROM INVESTING ACTIVITIES (024-020)	026	**3,529,138**	**40,107,329**
CASH FLOWS FROM FINANCING ACTIVITIES			
1. Cash receipts from issue of equity and debt instruments	027		
2. Cash received from loan principal, promissory notes, borrowings and other borrowed funds	028	856,044,582	258,582,572
3. Other receipts from financing activities	029	378,486,323	248,625,962
V. Total cash received from financing activities (027 to 029)	030	**1,234,530,905**	**507,208,534**
1. Repayments of loan and bond principals	031	735,573,166	346,764,139
2. Dividends paid	032		
3. Cash paid under finance leases	033	6,627,929	5,977,777
4. Cash paid for purchase of own shares	034		
5. Other cash used in financing activities	035	406,627,046	278,090,098
VI. Total cash used in financing activities (031 to 035)	036	**1,148,828,141**	**630,832,014**
C1) NET INCREASE IN CASH FLOWS FROM FINANCING ACTIVITIES (030-036)	037	**85,702,764**	**0**
C2) NET DECREASE IN CASH FLOWS FROM FINANCING ACTIVITIES (036-030)	038	**0**	**123,623,480**
Total increase in cash flows (013 ï 014 + 025 ï 026 + 037 ï 038)	039	0	0
Total decrease in cash flows (014 ï 013 + 026 ï 025 + 038 ï 037)	040	6,470,375	8,979,558
Cash and cash equivalents at beginning of period	041	43,319,579	36,849,204
Increase in cash and cash equivalents	042	0	0
Decrease in cash and cash equivalents	043	6,470,375	8,979,558
Cash and cash equivalents at end of period	044	36,849,204	27,869,646

Source: Company data

Table9. *Performance ratios*

LIQUIDITY RATIOS			**2015.**	**2016.**
	NUMERATOR	**DENOMINATOR**		
CASH TO CURRENT LIABILITIES RATIO	CASH	CURRENT LIABILITIES	0.073	0.037
QUICK RATIO	CASH + RECEIVABLES	CURRENT LIABILITIES	0.487	0.354
CURRENT RATIO	CURRENT ASSETS	CURRENT LIABILITIES	1.427	1.237
FINANCIAL STABILITY RATIO	NON-CURRENT ASSETS	EQUITY + LONG-TERM LIABILITIES	0.7111	0.751
LEVERAGE RATIOS				
RATIO DESCRIPTION	**NUMERATOR**	**DENOMINATOR**		
DEBT RATIO	TOTAL LIABILITIES	TOTAL ASSETS	0.662	0.677
EQUITY RATIO	EQUITY	TOTAL ASSETS	0.338	0.323
DEBT-TO-EQUITY RATIO	TOTAL LIABILITIES	EQUITY	1.960	2.092
ACTIVITY RATIOS				
RATIO DESCRIPTION	**NUMERATOR**	**DENOMINATOR**		
TOTAL ASSET TURNOVER RATIO	TOTAL INCOME	TOTAL ASSETS	0.957	0.802
CURRENT ASSETS TURNOVER RATIO	TOTAL INCOME	CURRENT ASSETS	1.661	1.265
RECEIVABLES TURNOVER RATIO	SALES	RECEIVABLES	5.456	4.831
INVENTORY TURNOVER RATIO	SALES	INVENTORIES	2.746	1.832
EFFICIENCY RATIOS				
RATIO DESCRIPTION	**NUMERATOR**	**DENOMINATOR**		
OVERALL EFFICIENCY RATIO	TOTAL INCOME	TOTAL EXPENSES	1.002	1.051
SALES EFFICIENCY RATIO	OPERATING INCOME	OPERATING EXPENSES	1.026	1.072
FINANCIAL EFFICIENCY RATIO	FINANCIAL INCOME	FINANCIAL EXPENSES	0.333	0.385
PROFITABILITY RATIOS				
RATIO DESCRIPTION	**NUMERATOR**	**DENOMINATOR**		
RETURN ON ASSETS (ROA) %	NET INCOME	TOTAL ASSETS	0.202	3.880
RETURN ON EQUITY (ROE) %	NET INCOME	EQUITY	0.598	11.998
RETURN ON SALES (ROS) %	NET INCOME	TOTAL INCOME	0.211	4.841

Source: Company data

- Current assets include prepaid expenses and accrued income
- Current liabilities include accrued expenses and prepaid income
- Non-current liabilities include provisions.

7 STAFF

Intellectual capital i.e. employees are the key resource of each Group company, in addition to their assets. The Group seeks to add value to its intellectual capital by arranging continuous education in an effort to attract and retain quality staff.

Table10. ***Permanent employees of Viro tvornica šećera d.d. by level of qualifications***

Level of qualifications	31.12.2015		31.12.2016		Index
	Number	Structure	Number	Structure	
1	2	3	4	5	6 (4/2)
MSc	1	1	1	1	100
University graduate degree	36	20	36	20	100
University undergraduate degree	6	3	6	3	100
Secondary school qualifications	108	61	111	61	103
Highly-skilled workers	0	0	0	0	0
Semi-skilled workers	2	1	2	1	100
Skilled workers	13	7	13	7	100
Unskilled workers	12	7	12	7	100
Total permanent staff:	178	100	181	100	102

Source: Company data

Table11. ***Permanent employees of Sladorana d.o.o. by level of qualifications***

Level of qualifications	31.12.2015		31.12.2016		Index
	Number	Structure	Number	Structure	
1	2	3	4	5	6 (4/2)
MSc	2	1	0	0	0
University graduate degree	40	20	39	20	98
University undergraduate degree	6	3	5	3	83
Secondary school qualifications	137	68	138	69	101
Highly-skilled workers	0	0		0	0
Skilled workers	6	3	6	3	100
Semi-skilled workers	10	5	12	6	0
Unskilled workers	0	0	0	0	0
Total permanent staff:	201	100	200	100	100

Source: Company data

Table12. ***Permanent employees of Slavonija Županja d.d. by level of qualifications***

Level of qualifications	31.12.2015		31.12.2016		Index
	Number	Structure	Number	Structure	
1	2	3	4	5	6 (4/2)
University graduate degree	10	19	8	16	80
University undergraduate degree	3	6	4	8	133
Secondary school qualifications	23	44	23	45	100
Skilled workers	9	17	9	18	100
Unskilled workers	7	14	7	13	100
Total permanent staff:	52	100	51	100	96

Source: Company data

8 INVESTMENTS

Table13. ***Investments realised in 2016 – Viro tvornica šećera d.d.***

Name	Amount
1	2
Bulk sugar loading station	2,065,439
Caterpillar loader, model 966 m	1,850,000
Personal car Audi q7 3,0 tdi Quattro	760,000
Facility 17 - Truss of dry beet noodle storage house - improvement	730,000
Cyclone fan: 50000 m3/h, with accessories	394,200
External Inox tank: 50000 l	369,413
Back-pressure steam turbine	323,427
Building 15.1. of the bulk sugar loading station - improvement	266,277
Volkswagen van, gv Crafter 35 Comfort	218,595
Stone and coke transporters	114,694
Research and development investments	103,691
Others:	1,072,796
Total:	**8,268,531**

Source: Company data

Table14. ***Investments realised in 2016 – Sladorana d.o.o.***

Name	Amount
1	2
Waste-water treatment plant (biological treatment)	27,298,862
Purchases of fixed assets	2,360,716
Additions	612,622
Others:	106,659
Total	**30,378,858**

Source: Company data

Table15. ***Investments realised in 2016 – Slavonija Županja d.d.***

Name	Amount
1	2
Reconstruction of an elevator booth	46,877
Digital measuring devices in silos ï silometers	24,339
Packaging printer	11,772
Electricity consumption control server	6,447
Total	**89,435**

Source: Company data

9 ECOLOGY

In 2016 there were no environmental, or ecological, incidents at the Group companies. Sugar production and the related programmes and flour production are not economic activities that may cause significant damage or pose a significant environmental hazard. Still, efforts have continued to improve environmental protection and sustainable development.

Natural gas is the major energy resource in sugar production, which helps avoid the use of heavy fuels and reduce green-house gas and SO_2 emissions.

9 ECOLOGY (CONTINUED)

Sugar refineries and factories are large consumers of natural gas, the key source of energy in the sugar production. The continuous improvements reduce the level of natural gas consumption aimed at achieving savings and reducing hazardous gas emissions.

The highest volumes of gas emissions arise at the power plant as a result of natural gas combustion and also from the lime kilns in coke combustion and lime production processes. The emissions are monitored on an annual basis by a certified laboratory and are within the prescribed value ranges, as well as by reference to the Greenhouse Gas Monitoring Plan provided to the Agency and the Ministry of Environment. The second type of air emission relates to the emission of solid particles from the beet drying process, together with gas emissions occurring as a result of the natural gas combustion during the drying process, and all the values at this source are also monitored by certified companies. The measured values are within permissible ranges and the measured data have been provided to the Agency and the Ministry.

Both sugar factories have their own process water production plants, which are also used to generate electricity (a co-generation plant) to cover the factoryôs own needs. Occasionally, surplus electricity arises in the production process which is then distributed to the power supply grid in the quantities and at prices agreed with the electricity distribution company in charge for the area.

Viro tvornica ġeĺera d.d. has its own waste water (anaerobic and aerobic) treatment plant for both own effluents (collected rainfall and process waters) and those of the City of Virovitica.
Sladorana d.o.o. has finalised the construction of a radial catch basin and obtained the use permit. The cooling tower has also been constructed, and the issue of the use permit is under way. Lagoon construction and the purchase and installation of the water treatment plant are in progress and should be finalised by the end of 2017.
The Group companies generate hazardous and non-hazardous waste, and both are reported to the Environmental Protection Agency using prescribed reporting forms.
All waste types are collected by certified companies specialised for the disposal of waste in accordance with prescribed guidelines. The production, storage and ex-factory transport documentation has been prepared in accordance with the Waste Act and other rulebooks regulating this area.

Viro d.d. has been part of the Emission Trading System since 2013.

In 2016 a coordinated supervisory inspection was carried out at Sladorana by the Ministry of Environmental Protection, the Sanitary Inspection, the Agricultural Inspection, the Veterinary Inspection, the Pressure Equipment, the Water Management Inspection, the Occupational Health and Safety Inspection and the Fire Protection Inspection. No instances of non-compliance were found as a result of the inspection.

10 DEVELOPMENT STRATEGY

The Group seeks to align its operations with the increasingly competitive market on an on-going basis. Hence, significant funds are allocated each year to eliminate any bottlenecks in the production as well as to increase energy efficiency.

On-going investments in modern equipment and education of the staff guarantee production by applying state-of-the-art methods and complying with the highest safety and sanitary standards. As an additional product quality assurance, the following have been implemented:

- Viro d.d. Zagreb: IFS FOOD (Version 6), ISO 50001:2011,

  FSSC 22000:2010, ISO 9001:2008, ISO 14001:2004, and Halal and Kosher certificates
- Sladorana d.o.o. Ģupanja: FOOD (Version 6), ISO 50001:2011, ISO 9001:2008, ISO 14001:2004, and Halal and Kosher certificates
- Slavonija Ģupanja d.d. Ģupanja: IFS FOOD (Version 6), HACCP, ISO 9001:2008, Kosher certificate

The continuous investments in the production plants are aimed at achieving optimum performance through economies of scale.
Except for investing in the production capacities, the Group seeks to improve its relationships with sugar beet, crop and oleaginous crop producers and suppliers of commodities for the milling and silo operations. Permanent on-site education of the staff, along with agrotechnical measures taken based on the soil analysis findings, improve the performance from year to year. By promoting traditional values, sponsoring cultural, sports and other events and assisting those in need, the Group companies seek to make a proactive contribution to improved quality of living within and beyond the local community, in line with the corporate social responsibility standards.

Investing in new technologies and diversifying the lines of product are the activities aimed at finding best possible response to the challenging environment.

11 2017 EXPECTATIONS BY GROUP COMPANY

The Investment Plan of Viro tvornica ġeĺera for the year 2017 envisages further increase in the energy efficiency of the plants and the reconstruction and restoration of certain plant components to maintain the high level of production process safety and improve the level of preparedness of the sugar processing plants following the abolition of the EU sugar quotas on 1 October 2017.

In 2017 Viro d.d. envisages 7,000 hectares to be contractually arranged for the purpose of sugar beet production, which means that, with about 450,000 tons of sugar beet to be processed with an output of 65,000 tons of beet sugar for human consumption, 18,000 tons of molasses and 19,500 tons of dried beet pulp pellets. In addition to sugar beet, at least 40,000 tons of raw cane sugar are to be refined in 2017, with the expected output comprising minimum 38,000 tons of white sugar for human consumption and 1,600 tons of molasses.

11 2017 EXPECTATIONS BY GROUP COMPANY (CONTINUED)

In 2017 Sladorana d.o.o. envisages 8,500 hectares to be contractually arranged, with about 450,000 tons of sugar beet to be processed with an output of 70,125 tons of beet sugar for human consumption, 17,550 tons of molasses and 21,000 tons of dry beet noodle.

The plan for Slavonija Çupanja d.d. is based on the level of utilisation of the silo capacities under the Crop Warehousing and Storage Contract with its partners and the production of brand flour for shopping centres. Cooperation with all the existing flour purchasers ï stores, wholesalers and bakers ï will continue. Investments planned to maintain the high level of production process safety imposed by high safety food production standards (HACCP, IFS, ISO) are intended as an assurance of the product quality and competitiveness. Investments are in plan to expand the existing production equipments as well as storage and handling areas. As a result of the on-going investments over the past period and developing partnerships based primarily on the quality of products and services, the company will continue improving the level of its capacity utilisation and flour milling volumes.

12 SIGNIFICANT POST YEAR-END EVENTS

There have been no significant events subsequent to the end of the business year that would depart significantly from the normal and expected course of business.

13 STATEMENT OF CHANGES TO THE CORPORATE GOVERNANCE CODE

As the shares of Viro tvornica ġeĺera d.d. are listed on the regulated Zagreb Stock Exchange market, the Company applies the valid version of the Code of Corporate Governance of the Croatian Financial Services Supervisory Agency and the Zagreb Stock Exchange). Pursuant to the positive laws and the Code of Corporate Governance, Viro tvornica ġeĺera completed the Annual Questionnaire for 2016, which is an inseparable part of the Code of Corporate Governance and provides details about the corporate governance practice at the Company or any departures from the Code of Corporate Governance, along with the related explanations. This Corporate Governance Code Statement is an inseparable part of the Companyĝs Annual Report for 2016 and is publicly available at the Companyĝs web site (www.secerana.hr) and the official website of the Zagreb Stock Exchange (www.zse.hr).
The appointment and revocation of the members of the Companyĝs Management Board and the election of the Companyĝs Supervisory Board members are governed by the Companyĝs Articles of Association and are fully compliant with the Companies Act. Thus, four Supervisory Board members are elected by the Companyĝs Shareholdersô Assembly, and the fifth member is appointed by the Company employees. Neither shareholder is entitled to appoint a member of the Supervisory Board directly. The Management Board of the Company is appointed by the Companyĝs Supervisory Board.
The Companyĝs Articles of Association contain a provision about the so-called authorised share capital, under which the Management Board of the Company may, with the consent of the Companyĝs Supervisory Board, adopt a decision to increase the share capital by maximum HRK 124,800,030.00. The authorisation expires on 20 January 2020.

13. STATEMENT OF CHANGES TO THE CORPORATE GOVERNANCE CODE (CONTINUED)

The powers of the General Assembly, the rules of procedure of the Assembly and the rights of the shareholders are regulated by the Company's Articles of Association, which are publicly available and prepared in accordance with the Companies Act. The shareholders' rights are not restricted in any way, and each share entitles to one vote in the General Meeting of the Company's Shareholders. Using the option provided in Article 279(2) of the Companies Act, the Articles of Association specify that attendance at a General Meeting should be announced six days in advance, as clearly indicated in each invitation to the general meeting, to which the appropriate statement of confirmation is attached and delivered to each individual shareholder.

Diversity Policy: the members of the Companyҫs Management and Supervisory Boards are experts of various profiles, which achieves the balance and stability required to meet the business challenges. Thus, university graduate economists and a master of biotechnology sciences are on the Companyҫs Management Board, while the Supervisory Board consists of a university graduate economist, a university graduate of laws as well as university graduate technology engineers with a considerable experience in food industry. The resumes (CVs) of all the members of the Management and Supervisory Boards are publicly available at the Companyҫs website.
The members of the Management and Supervisory Boards are presented in the accompanying audited financial statements.

13.1.CODE OF CORPORATE GOVERNANCE

COMMITMENTS TO CORPORATE GOVERNANCE AND CORPORATE RESPONSIBILITY PRINCIPLES	
1. Has the Group adopted the use of the Code of Corporate Governance or its own corporate governance policy? **YES**	11. Were the agenda of the assembly, as well as all relevant data and documentation with explanations relating to the agenda, announced on the website of the Group and put at the disposal of shareholders on the Groupôs premises as of the date of the first publication of the agenda? (If not, please explain.) **YES**
2. Are there corporate governance code principles adopted as part of the Groupôs internal policies? **YES**	12. Does the decision on dividend payment or advance dividend payment include the date on which shareholders are entitled to receive dividend payment and the date or period when the dividend will be paid? (If not, please explain.) **YES**
3. Does the Group disclose in its annual financial statements its compliance with corporate governance principles on the basis of the ñcomply or explainò principle? **YES**	13. Is the date of dividend payment or advance dividend payment set to be not later than 30 days after the day on which the decision was made? (If not, please explain.) **YES**
4. In the decision-making process, does the Group consider the interests of all its shareholders, in line with the principles of the corporate governance code? **YES**	14. Were any shareholders favoured while receiving their dividends or advance dividends? (If yes, please explain.) **NO**
SHAREHOLDERS AND GENERAL ASSEMBLY	15. Are the shareholders allowed to participate and to vote at the general assembly of the Group using modern communication technology? (If not, please explain.) **NO** *There were no such requests from the shareholders.*
5. Is the Group in a cross-shareholding relationship with another company/other companies? (If yes, please explain.) **NO**	16. Have the conditions been defined for participating at the general assembly by voting through proxy (irrespective of whether this is permitted pursuant to the law and articles of association), such as registration for participation in advance, certification of powers of attorney? (If yes, please explain.) **YES** *Pursuant to the Articles of Association and the Companies Act, the shareholders have to announce their attendance to a General Shareholders' Meeting six days in advance of the meeting.*
6. Does each share of the Group have one voting right? (If not, please explain). **YES**	17. Did the management of the Group made the decisions of the general assembly publicly available? **YES**
7. Does the Group treat all shareholders equally? (If not, please explain.) **YES**	18. Did the management of the Group made any information about potential claims challenging the decisions publicly available? (If not, please explain.) **NO** *No such claims have been initiated so far.*
8. Has the procedure for issuing power of attorney for voting at the general assembly been fully simplified and free of any strict formal requirements? (If not, please explain.) YES	**MANAGING AND SUPERVISORY BODIES**
9. Has the Group ensured that the shareholders who, for whatever reason, are not able to vote at the assembly in person have proxies who are obliged to vote in accordance with instructions received from the shareholders, at no extra cost for those shareholders? (If not, please explain). **NO** *There were no such requests.*	• **PLEASE PROVIDE THE NAMES OF MANAGEMENT BOARD MEMBERS AND THEIR FUNCTIONS:** Ģeljko Zadro, President of the Management Board Darko Krstiĺ, Member of the Management Board Ivo Reģiĺ, Member of the Management Board

13.1.CODE OF CORPORATE GOVERNANCE (CONTINUED)

. Did the management or the governance committee of the Group, when convening a shareholdersô assembly, set the date for defining the status in the register of shares which will be relevant for exercising voting rights at the assembly, by setting that date prior to the day of holding the assembly and not earlier than 6 days prior to the day of holding the meeting? (If not, please explain.) **YES**	• **PLEASE PROVIDE THE NAMES OF SUPERVISORY BOARD AND THEIR FUNCTIONS:** Marinko Zadro, President of the Supervisory Board Boris Ġimunoviĺ, Deputy President of the Supervisory Board Ivan Miġetiĺ, Member of the Supervisory Board Svetlana Zadro, Member of the Supervisory Board Damir Kelekoviĺ, Member of the Supervisory Board
19. Did the Supervisory or Management Board adopt a decision on the master plan of its activities, including the list of its regular meetings and data to be made available to Supervisory Board members regularly and in a timely manner? (If not, please explain.) **NO** *The Supervisory Board members maintain almost daily contact, and we believe that there is no need to formalise the matters.*	28. Are there any contracts or agreements between the members of the supervisory or management board and the Group? **YES**
20. Have the supervisory or management Board passed its internal rules of procedure? (If not, please explain.) NO *The rules of procedure for the Supervisory Board are specified in the Companies Act and the Group's Articles of Association.*	29. Were they previously approved by the supervisory or management board? (If not, please explain.) **YES**
21. Is the supervisory board composed of, i.e. are non-executive directors on the management board of the Group mostly independent members? (If not, please explain.) **NO** *The Supervisory Board members are representatives of the shareholders, workers and include one independent member.*	30. Are the essential elements of all such contracts or agreements included in the annual report? (If not, please explain.) **NO** *This is mainly an advisory services contract concluded for a limited term.*
22. Is there a long-term succession plan in the Group? (If not, please explain.) **NO** *Given a shallow organisational structure, we consider this as not necessary.*	31. Did the supervisory or management board establish the appointment committee? **NO**
23. Is the remuneration received by the members of the supervisory or management board entirely or partly determined according to their contribution to the Groupôs business performance? (If not, please explain.) **NO** *The President of the Supervisory Board receives a monthly remuneration defined by a decision of the General Assembly.*	32. Did the supervisory or management board establish the remuneration committee? **NO**
24. Is the remuneration to the members of the supervisory or management board determined by a decision of the general assembly or in the articles of association of the company? (If not, please explain.) **YES**	33. Did the supervisory or management board establish the audit committee? **NO**
25. Have details about all remuneration and other benefits received by each member of the supervisory or management board received from the Group or from other persons related to the Group, including the structure of such remuneration, been made public? (If not, please explain.) **NO** *The remuneration information is provided on request..*	34. Was the majority of the committee members selected from the group of independent members of the supervisory board? (If not, please explain.) **NO** *No such committees have been formed.*
26. Does every member of the supervisory or management board inform the Group of each change relating to the acquisition or disposal of shares of the company, or to the possibility to exercise voting rights arising from the Groupôs shares, not later than five trading days from such a change? (If not, please explain.) **YES**	35. Did the committee monitor the integrity of the financial information of the Group, especially the correctness and consistency of the accounting methods used by the Group, including the criteria for the consolidation of financial statements of the companies belonging to the Group? (If not, please explain.) **NO** *No such committees have been formed.*

13.1.CODE OF CORPORATE GOVERNANCE (CONTINUED)

27. Are all transactions involving members of the supervisory or management board or their related persons and the Group and its related persons clearly presented in the financial statements of the Group? (If not, please explain.) **YES**	36. Did the committee assess the quality of the internal control and risk management systems with the aim of adequately identifying and publishing the main risks the Group is exposed to (including the risks related to the compliance with regulations), as well as managing those risks in an adequate manner? (If not, please explain.) **NO** *No such committees have been formed.*
37. Has the committee been working on ensuring the efficiency of the internal audit system, especially by preparing recommendations for the selection, appointment, reappointment and dismissal of the head of internal audit department, and with regard to funds at his/her disposal, and the evaluation of the actions taken by the management after findings and recommendations of the internal audit? (If not, please explain.) **NO** *No such committees have been formed.*	46. Has the supervisory or management board evaluated their work over the past period, which includes the evaluation of the contribution and competencies of the individual members, as well as of joint activities of the board, evaluation of the work of the committees established and the evaluation of the Groupĝs objectives reached in comparison with the objectives set? **NO**
38. If there is no internal audit function in the Group, did the committee consider the need to establish it? (If not, please explain.) **NO** *No such committees have been formed.*	47. Did the Group publish a statement on the remuneration policy for the management, managing body and the supervisory board as part of the annual report? (If not, please explain.) **NO** *The remuneration for the members of the Supervisory Board is determined by a decision of the Group's Assembly. The remuneration for the members of the Management Board is determined in their respective management contracts.*
39. Did the committee monitor the independence and objectivity of the external auditor, especially with regard to the rotation of authorised auditors within the audit company and the fees the company is paying for services provided by external auditors? (If not, please explain.) **NO** *No such committees have been formed.*	48. Is the statement on the remuneration policy for the management or executive directors permanently available on the website of the Group? (If not, please explain.) **NO** *The Group has not made any such statement.*
40. Did the committee monitor the nature and quantity of services other than audit, received by the Group from the audit company or from persons related to it? (If not, please explain.) **NO** *No such committees have been formed.*	49. Are detailed data on all remuneration and benefits received by each member of the management or each executive director from the Group published in the annual report of the Group? (If not, please explain.) **NO** *NO, the remuneration and benefits are included in the individual employment contracts.*
41. Did the committee prepare any rules defining which services may not be provided to the Group by the external audit company and persons related to it, which services may be provided only with, and which without prior consent of the committee? (If not, please explain.) **NO** *No such committees have been formed.*	50. Are all forms of remuneration to the members of the management and supervisory board, including options and other benefits of the management, made public, broken down by items and persons, in the annual report of the Group? (If not, please explain.) **NO** *The remuneration for the members of the Supervisory Board is determined by a decision of the Group's Assembly. The remuneration for the members of the Management Board is determined in their respective management contracts.*
42. Did the committee analyse the efficiency of the external audit and actions taken by the senior management with regard to recommendations made by the external auditor? (If not, please explain.) **NO** *No such committees have been formed.*	51. Are all transactions involving members of the management board or executive directors, and persons related to them, and the company and persons related to it, clearly presented in reports of the Group? (If not, please explain.) **YES**

13.1.CODE OF CORPORATE GOVERNANCE (CONTINUED)

43. Did the audit committee ensure the provision of quality information by subsidiary and associated companies, as well as by third parties (such as expert advisors)? (If not, please explain.) **NO** *No such committees have been formed.*	52. Does the report to be submitted by the supervisory or management board to the general assembly include, apart from minimum information defined by law, the evaluation of the overall business performance of the Group, of activities of the management of the Group, and a special comment on its cooperation with the management? (If not, please explain.) **NO** *The reports are prepared in accordance with the Companies Act.*
44. Was the documentation relevant for the work of the supervisory board or management board submitted to all the members on time? (If not, please explain.) **YES**	**AUDIT AND INTERNAL CONTROL MECHANISMS**
45. Do supervisory board or management board meeting minutes contain all adopted decisions, together with the voting results? (If not, please explain.) **YES**	53. Does the Group have an external auditor? **YES**
54. Is the external auditor of the Group related with the Group in terms of ownership or interests? **NO**	59. Did the Group prepare a calendar of important events? **YES**
55. Is the external auditor of the Group providing to the Group, him/herself or through related persons, other services? **YES**	60. Did the Group establish mechanisms to ensure that persons who have access to or possess inside information understand the nature and importance of such information and limitations related to it? **YES**
56. Has the Group published the amount of fees paid to the independent external auditors for the audit carried out and for other services provided? (If not, please explain.) **NO** *The auditor has performed the audit of the financial statements of the Group and its subsidiaries in accordance with the price terms and conditions contained in the underlying contract, which are aligned with the general terms and conditions of business of the auditor. For non-audit services, please refer to the response to Question 40.*	61. Did the Group establish mechanisms to ensure monitoring the inside information and possible abuse thereof? **YES**
57. Does the Group have internal auditors and an internal control system established? (If not, please explain.) **YES**	62. Has anyone suffered negative consequences for pointing out to the competent authorities or bodies in the Group or outside, shortcomings in the application of rules or ethical norms within the Group? (If yes, please explain.) **NO**
TRANSPARANCY AND THE PUBLIC VISIBILITY OF THE BUSINESS	63. Did the management of the Group hold any meetings with interested investors last year? **NO**
58. Are the semi-annual, annual and quarterly reports available to the shareholders? **YES**	64. Do all the members of the management, Management Board and Supervisory Board agree that the answers provided in this questionnaire are, to the best of their knowledge, entirely true? **YES**

Responsibility for the consolidated financial statements

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

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

In preparing those financial statements, the Management Board is responsible for:

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

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

Signed on behalf of the Management Board by:

TVORNICA ŠEĆERA d.d.
ZAGREB

Željko Zadro, President of the Management Board

Darko Krstić, Member of the Management Board

Ivo Rešić, Member of the Management Board

Viro tvornica šećera d.d.
Ulica grada Vukovara 269g
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INDEPENDENT AUDITOR'S REPORT

Opinion

We have audited the accompanying consolidated financial statements of Viro tvornica šećera d.d. and its subsidiaries (hereinafter jointly referred to as the "Group"), which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of comprehensive income, the consolidated statement of changes in shareholders' equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

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

Registered at the Commercial Court in Zagreb: Reg. No: 030022053; - Registered capital paid in: HRK 44,900.00; Management:
Branislav Vrtaļnik, Eric Daniel Olcott, Marina Tonģetiĺ, Juraj Moravek, Draģen Nimļeviĺ and John Jozef H. Ploem; commercial bank: Zagrebaļka banka d.d., Trg bana Josipa Jelaļiĺa 10, 10 000 Zagreb, ģ. raļun/bank account no. 2360000-1101896313; SWIFT Code: ZABAHR2X IBAN: HR2723600001101896313; Privredna banka Zagreb d.d., Radniļka cesta 50, 10 000 Zagreb, ģ. raļun/bank account no. 2340009-1110098294; SWIFT Code: PBZGHR2X IBAN: HR3823400091110098294; Raiffeisenbank Austria d.d., Petrinjska 59, 10 000 Zagreb, ģ. raļun/bank account no. 2484008-1100240905; SWIFT Code: RZBHHR2X IBAN: HR1024840081100240905.

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INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Key Audit Matters

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

Key audit matter	***How our audit addressed the key audit matter***
Complexity of revenue *Refer to Notes 4.1 and 4.2 to the consolidated financial statements*	
In 2016 the Group recognised revenue in the amount of HRK 1,175,314 thousand. Revenue is an important measure used to evaluate the performance of the Group. There is a risk that revenue is presented in amounts higher than actually generated by the Group. According to International Accounting Standard 18 "Revenue", revenue is recognised when it is probable that economic benefits will flow into the Group and the revenue can be measured reliably. Accordingly, the Group recognises revenue in accordance with the underlying contracts with customers, when the sales transaction is performed and when goods and all risks associated with the goods are transferred to the customer. Sales of goods are recognized based on the contractually agreed prices less any contractually agreed discounts and returns.	Our audit approach included both controls testing and substantive procedures, which are the following: • we have tested the internal controls established by the Group; • we have assessed the controls in the information system used as a billing tool, based on the prices contractually agreed with customers; • based on a statistical sample, we have reviewed a sample of issued invoices and verified their compliance with the underlying contracts, agreed prices, delivery notes and the amounts of the revenue recognised; • we have applied analytical procedures to the recognised amounts of revenue, cost of goods sold, movements in the margin and compared them against the relevant indicators.

INDEPENDENT AUDITOR’S REPORT (CONTINUED)

Key Audit Matters (continued)

<table>
<tr><td colspan="2">Valuation of inventories
Please refer to Note 16 to the consolidated financial statements</td></tr>
<tr><td>At 31 December 2016 the Group recognised inventories in the amount of HRK 635,711 thousand, which consist of finished, products, merchandise, raw material and supplies and prepayment made for inventories.

There is a risk that inventories may not be presented in accordance with International Accounting Standard 2 “Inventories”, that is, they may not be recognised at the lower of cost or net realisable value.
The cost consists of all production costs incurred in making the products and includes direct materials, direct labour costs and those overhead costs that have been incurred in bringing inventories to their present location and condition.
The Group applies a traditional production cost method.</td><td>• We have reviewed the stock-count reports prepared on the inventory counts performed at warehouses at the end of the financial year and compared the balances with the balances in the Group’s books.
• We have tested the net realisable value of products and compared it with the cost in order to satisfy ourselves that the products are recognised at the lower of the cost or net realisable value.
• We have reviewed the production calculation method and the allocation of all overhead costs to the products.</td></tr>
<tr><td colspan="2">Trade receivables
Please refer to Note 17 to the separate financial statements</td></tr>
<tr><td>The Group is exposed to the risk of problems in recovering its receivables because of a long credit period for trade debtors and the financial condition of individual debtors.

At 31 December 2016, the total balance of receivables amounted to HRK 175,640 thousand.

Trade receivables are carried at nominal amounts less an appropriate impairment allowance for estimated irrecoverable amounts. The allowance for amounts doubtful of collection is charged to expenses for the year.</td><td>• We have gained the understanding of the Group’s policies for measuring receivables and impairment allowance on receivables.
• We have reviewed the ageing structure of receivables and satisfied ourselves that the impairment allowance has been made in accordance with the Group’s accounting policies.
• As regards receivables past due beyond 360 days and not impaired, we have reviewed the underlying collateral provided as a security for the settlement of the receivables.</td></tr>
</table>

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INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Other Information in the Annual Report

Other information is the responsibility of the Management Board. Such other information comprises the information included in the Annual Report, but does not include the financial statements and our auditor's report.

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

With respect to our audit of the annual financial statements, it is our responsibility to read other information and, in doing so, consider whether such other information is materially inconsistent with the annual financial statements or the knowledge we acquired during our audit, or materially misstated otherwise. With respect to the Group's Management Report and the Corporate Governance Statement, which are included in the Annual Report, we have also performed the procedures prescribed by the Accounting Act. These procedures include examining whether the Management Report includes required disclosures as set out in Articles 21, 22 and 24 of the Accounting Act and whether the Corporate Governance Statement includes the information specified in Articles 22 and 24 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 accompanying annual financial statements for the year,
2. The Group's Management Report for the year 2016 has been prepared, in all material respects, in accordance with Articles 21 of the Accounting Act,
3. Corporate Governance Statement has been prepared, in all material aspects, in accordance with the Article 22, paragraph 1, points 3 and 4 and Article 24 of the Accounting Act, and includes also the information from Article 22, paragraph 1, points 2, 5, 6 and 7 of that Act.

Based on the knowledge and understanding of the Group's operations and the environment in which it operates we gained during our audit of the annual financial statements, we have not identified any material misstatement in the other information. We have nothing to report to you in this respect.

Responsibilities of the Management and Supervisory Board for the annual financial statements

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

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

In preparing the accompanying annual financial statements, Management is responsible for assessing the Group's ability to continue as a going concern, including, where appropriate, whether the use of the going concern basis of accounting is appropriate. The use of the going concern basis of accounting is appropriate unless Management either intends to liquidate the Group 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 established by the Company.

Auditor's Responsibilities for the Audit of the Annual Financial Statements
Our objectives are to obtain reasonable assurance about whether the annual 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 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 the annual 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 the use by the Management Board of the going concern basis of accounting in the preparation of the financial statements in the context of the applicable financial reporting framework. We also conclude, 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 the auditor's report to the disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the

Deloitte.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

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

opinion on the financial statements. Our conclusions are based on the audit evidence obtained until the date of the 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 annual financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Management Board 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 are also required to 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 are required to 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 a law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

Branislav Vrtačnik
President of the Managing Board and certified auditor

Deloitte d.o.o.

6 April 2017
Zagreb, Republic of Croatia

Consolidated statement of profit or loss and other comprehensive income

For the year ended 31 December 2016

(All amounts are expressed in thousands of HRK)

	Notes	**2016**	**2015**
Sales	4.1	1,164,848	1,136,882
Other income	4.2	10,466	42,760
Total operating income		**1,175,314**	**1,179,642**
(Decrease) / increase in the value of work in progress and finished products		168,091	(205,390)
Cost of raw material and supplies	6	(866,493)	(478,733)
Cost of goods sold	7	(188,192)	(253,969)
Other external expenses	8	(56,895)	(58,974)
Depreciation and amortisation	14	(58,327)	(62,708)
Staff expenses	9	(52,056)	(49,799)
Other expenses	10.1	(26,098)	(25,214)
Other operating expenses	10.2	(16,599)	(15,077)
Total operating expenses		**(1,096,569)**	**(1,149,864)**
Profit from operations		**78,745**	**29,778**
Financial income	11	13,262	13,600
Financial expenses	12	(34,472)	(40,858)
Net financial loss		**(21,210)**	**(27,258)**
Profit before taxation		**57,535**	**2,520**
Income tax	13	-	-
Profit for the year		**57,535**	**2,520**
Other comprehensive income			
Total comprehensive income for the year		**57,535**	**2,520**
Income attributable to:			
Equity holders of the parent		**57,514**	**2,495**
Non-controlling interest		**21**	**25**
Total comprehensive income/(loss) attributable to:			
Equity holders		**57,514**	**2,495**
Non-controlling interest		**21**	**25**
Earnings / (loss) per share			
ï basic and diluted (in kunas and lipas)	23	**41.49**	**1.82**

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

Consolidated statement of financial position

At 31 December 2016

(All amounts are expressed in thousands of HRK)

	Notes	31 December 2016	31 December 2015
ASSETS			
Non-current assets			
Intangible assets	14	770	1,008
Property, plant and equipment	14	536,750	525,094
Non-current financial assets	15	5,226	2,923
Long-term receivables		590	37
Total non-current assets		**543,336**	**529,062**
Current assets			
Inventories	16	635,711	413,956
Trade receivables	17	175,640	178,928
Receivables from the State and other institutions	18	64,792	29,187
Current financial assets	19	23,374	44,910
Other receivables		712	274
Cash and cash equivalents	20	27,870	36,849
Prepaid expenses and accrued income	21	11,333	14,121
Total current assets		**939,432**	**718,225**
TOTAL ASSETS		**1,482,768**	**1,247,287**

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

(All amounts are expressed in thousands of HRK)

	Notes	31 December 2016	31 December 2015
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	22.1	249,600	249,600
Retained earnings		198,217	139,720
Capital reserves	22.2	10,368	10,368
Reserves out of profit	22.2	56,411	56,393
Other reserves	22.2	(41,432)	(41,432)
Attributable to the owners of the parent		**473,164**	**414,649**
Non-controlling interests		6,366	6,677
Total equity		**479,530**	**421,326**
Provisions	31	**453**	**453**
Non-current liabilities			
Liabilities for loans, deposits and similar	24	1,130	1,590
Loans payable and borrowings	24	242,255	320,335
Other non-current liabilities		76	153
Total non-current liabilities		**243,461**	**322,078**
Current liabilities			
Liabilities to related companies	29	35	150
Liabilities for loans, deposits and similar	24	10,161	2,541
Loans payable and borrowings	24	205,266	201,237
Advances received	26	1,675	41,479
Trade payables	25	419,206	137,242
Other current liabilities	27	119,205	119,486
Accrued expenses and deferred income	28	3,776	1,295
Total current liabilities		**759,324**	**503,430**
TOTAL EQUITY AND LIABILITIES		**1,482,768**	**1,247,287**

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

Consolidated statement of changes in shareholders' equity

For the year ended 31 December 2016

(All amounts are expressed in thousands of HRK)

	Share capital	Reserves	Retained earnings	Non-controlling interests	Total
Balance at 31 December 2014	**249,600**	**25,322**	**139,472**	**6,156**	**420,550**
Profit for the year	-	-	2,495	25	2,520
Legal reserves	-	7	-	(7)	-
Increase in non-controlling interest	-	-	-	503	503
Effect of correction credited to reserves and retained earnings	-	-	(2,247)	-	**(2,247)**
Balance at 31 December 2015	**249,600**	**25,329**	**139,720**	**6,677**	**421,326**
Profit for the year	-	-	57,514	21	57,535
Legal reserves	-	5	-	(5)	-
Additional acquisition (Note 1.1.)	-		(178)	(334)	(512)
Transfer from revaluation reserves to retained earnings	-	-	-	-	-
Effect of correction credited to reserves and retained earnings	-	13	1,161	7	1,181
Balance at 31 December 2016	**249,600**	**25,347**	**198,217**	**6,366**	**479,530**

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

Consolidated statement of cash flows

For the year ended 31 December 2016

(All amounts are expressed in thousands of HRK)

	2016	2015
Cash flows from operating activities		
Profit for the year	57,535	2,520
Income tax expense	-	-
Depreciation and amortisation	58,327	62,708
Unrealised exchange differences on loans and borrowings payable, net	(4,123)	(1,506)
Interest expense	21,809	24,491
Interest income	(2,131)	(2,209)
Net book value of retired assets	1,983	1,839
Decrease in provisions	-	(34,319)
Value adjustment of current assets	10,483	4,520
Permanent impairment of financial assets available for sale	483	301
Other non-cash adjustments	(505)	503
Operating cash flows before changes in working capital	**143,861**	**58,848**
(Increase)/decrease in inventories	(225,625)	218,688
Increase in trade receivables	(2,665)	(97,420)
Increase/(decrease) in other receivables	(33,808)	48,614
Increase/(decrease) in accrued expenses and deferred income	2,482	(6,203)
(Decrease)/increase in advances received	(39,803)	21,096
Increase/(decrease) in trade payables	281,849	(171,450)
Decrease in other liabilities	(641)	(57,562)
Cash generated from operations	**125,650**	**14,611**
Income taxes paid	(54)	(1,548)
Interest paid	(20,299)	(28,492)
Net cash generated from/(used in) operating activities	**105,297**	**(15,429)**

(All amounts are expressed in thousands of HRK)

	2016	2015
Cash flows from investing activities		
Given loans and deposits	20,220	2,969
Purchases of property, plant and equipment, and intangible assets	(71,729)	(21,372)
Net cash used in investing activities	**(51,509)**	**(18,403)**
Cash flows from financing activities		
Proceeds from loans and borrowings	539,579	744,017
Repayments of loans and borrowings	(602,346)	(716,655)
Net cash (used in)/generated from financing activities	**(62,767)**	**27,362**
Net decrease in cash and cash equivalents	**(8,979)**	**(6,470)**
Cash and cash equivalents at the beginning of the year	**36,849**	**43,319**
Cash and cash equivalents at the end of the year	**27,870**	**36,849**

1. GENERAL INFORMATION

1.1 Introduction

Viro tvornica ġeĺera d.d. and its subsidiaries comprise a group of the following companies: Viro tvornica ġeĺera d.d., Zagreb, Ulica grada Vukovara 269g, as the parent company, and subsidiaries Sladorana d.o.o., Slavonija Ųupanja d.d., and Viro-kooperacija d.o.o.

Viro tvornica ġeĺera d.d. was entered in the registry of the Commercial Court in Bjelovar on 23 July 2002. The founders of the company were EOS-Z d.o.o. Zagreb and Robiĺ d.o.o., Velika Gorica. In 2005 the Company was transformed from a Croatian limited liability company (druġtvo s ograniļenom odgovornoġĺu) into a joint-stock company (dioniļko druġtvo). The share capital of the Company amounts to HRK 249,600,060 (2015: HRK 249,600,060), divided into 1,386,667 (2015: 1,386,667) registered ordinary shares with no par value.

In early 2015 the Company changed its registered seat from Virovitica to Zagreb, Ulica grada Vukovara 269 G, which was entered into the register of the Commercial Court in Zagreb on 20 January 2015.
At 31 December 2015 the Company held, as the sole shareholder of Sladorana d.o.o., Ųupanja, 100.00 percent (2015: 100.00%) of the total equity of the subsidiary. On 7 February 2014 the company was transformed from a joint-stock company into a limited liability company.

In 2012 the Company established VIRO-kooperacija d.o.o. by paying in an initial cash contribution in the amount of HRK 20 thousand. The Company is the sole owner of VIRO-kooperacija d.o.o.

In 2013 the Company acquired equity shares in Slavonija Ųupanja based on a conversion of its receivables into equity and at 31 December 2016 it held 22,686 (2015: 22,686) ordinary B-series shares in Slavonija Ųupanja, representing 16.72 percent (2015: 17.58%) of the total equity of the subsidiary.

In 2013 Sladorana d.o.o. acquired additional shares in Slavonija Ųupanja d.d. by contributing its claims arising from outstanding receivables, as a result of which it acquired 16,396 ordinary B-series shares. As Slavonija Ųupanja d.d. increased its share capital through a new issue of shares, Sladorana d.d. held at 31 December 2015 67.05 percent shares in that company (2014: 67.05 %).

In 2015 Sladorana d.o.o. invested in its subsidiary Slavonija Ųupanja d.d. a total of HRK 3,271 thousand under a contract pursuant to which it committed to invest HRK 10,000 thousand in total by 31 December 2015; as a result, Sladorana fulfilled its contractual commitment. The Restructuring Centre acknowledged and accepted the investments, and the increase in the share capital of Slavonija Ųupanja d.d. was registered at the Central Clearing and Depositary Company Inc as of 16 February 2016, the date when Sladoranaŏs ownership interest in the subsidiary was increased. At 31 December 2015 the investment was presented as a long-term receivable. The total additional capital paid in by Sladorana amounts to HRK 17,299 thousand. At 16 February 2016, Sladorana d.o.o. held 68.64 percent of the shares of Slavonija Ųupanja d.d.

Following the share capital increase, the Group has acquired an additional ownership interest in Slavonija Ųupanja d.d. in the amount of 0.74 percent.

1. GENERAL INFORMATION (CONTINUED)

1.2 Principal activity

The principal activities of the Group comprise sugar, flour and alcohol production.

1.3 Management Board

At 31 December 2016 and 31 December 2015 the members of the Company's Management Board are the following:

1 Željko Zadro	*President of the Management Board*	
2 Dražen Robić	*Member of the Management Board*	*Until 4 July 2016*
3 Darko Krstić	*Member of the Management Board*	*Since 23 September 2016*
4 Ivo Rešić	*Member of the Management Board*	*Since 23 September 2016*

1.4 Supervisory Board

At 31 December 2016 and 31 December 2015 the members of the Company's Supervisory Board are the following:

1 Marinko Zadro	*Chairman of the Supervisory Board*	
2 Boris Šimunović	*Deputy Chairman of the Supervisory Board*	
3 Hrvoje Godinić	*Member of the Supervisory Board*	*Until 4 July 2016*
4 Ivan Mišetić	*Member of the Supervisory Board*	
5 Damir Keleković	*Member of the Supervisory Board*	
6 Svetlana Zadro	*Member of the Supervisory Board*	*Since 30 August 2016*

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

The following amendments to the existing standards issued by the International Accounting Standards Board as well as new interpretations issued by the International Accounting Standards Board (IASB) and adopted by the European Union (EU) are effective in the current reporting period:

- **Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosures of Interests in Other Entities" and IAS 28 "Investments in Associates and Joint Ventures"** ï Investment Entities: Applying the Consolidation Exception ï adopted by the European Union on 22 September 2016 (effective for annual periods beginning on or after 1 January 2016);

- **Amendments to IFRS 11 "Joint Arrangements"** ï Accounting for Acquisitions of Interests in Joint Operations ï adopted by the European Union on 24 November 2015 (effective for annual periods beginning on or after 1 January 2016),

- **Amendments to IAS 1 "Presentation of Financial Statements"** ï Disclosure Initiative ï adopted by the European Union on 18 December 2015 (effective for annual periods beginning on or after 1 January 2016),

- **Amendments to IAS 16 "Property, Plant and Equipment" and IAS 38 "Intangible Assets"** ï Clarification of Acceptable Methods of Depreciation and Amortisation ï adopted by the European Union on 2 December 2015 (effective for annual periods beginning on or after 1 January 2016),

- **Amendments to IAS 16 "Property, Plant and Equipment" and IAS 41 "Agriculture"** ï Agriculture: Bearer Plants ï adopted by the European Union on 23 November 2015 (effective for annual periods beginning on or after 1 January 2016),

- **Amendments to IAS 19 "Employee Benefits"** ï Defined Benefit Plans: Employee Contributions ï adopted by the European Union on 17 December 2014 (effective for annual periods beginning on or after 1 February 2015),

- **Amendments to IAS 27 "Separate Financial Statements"** ï Equity Method in Separate Financial Statements ï adopted by the European Union on 18 December 2015 (effective for annual periods beginning on or after 1 January 2016),

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

Initial application of new amendments to the existing standards effective for the current reporting period (continued)

- **Amendments to various standards "Improvements to IFRSs from the 2010-2012 Cycle"**, resulting from the annual improvement project of IFRS (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24, and IAS 38)
  primarily with a view to removing inconsistencies and clarifying wording, adopted by the EU on 17 December 2014 (applicable to annual periods beginning on or after 1 February 2015).

- **Amendments to various standards "Improvements to IFRSs from the 2012-2014 Cycle"** resulting from the annual improvement project of IFRS (IFRS 5, IFRS 7, IAS 19, and IAS 34) primarily with a view to removing inconsistencies and clarifying wording ï adopted by the European Union on 15 December 2015 (applicable to annual periods beginning on or after 1 January 2016).

The adoption of the amendments to the existing Standards and Interpretations has not lead to any material changes to the Groupôs financial statements.

Amendments to the existing standards issued by IASB and adopted by the European Union, 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 European Union (EU) are not yet effective:

- **IFRS 9 "Financial Instruments"**, adopted by the EU on 22 December 2016 (effective for annual periods beginning on or after 1 January 2018).

- **IFRS 15 "Revenue from Contracts with Customers"** and amendments to IFRS 15 îEffective date of IFRS 15òï adopted by the EU on 22 September 2016 (effective for annual periods beginning on or after 1 January 2018).

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

New Standards and amendments to the existing Standards issued by IASB, but not yet adopted by the EU

At present, the IFRSs as adopted by the EU do not significantly differ from regulations adopted by the International Accounting Standards Board (IASB) except from the following standards, amendments to the existing standards and interpretations, which were not endorsed for use by the EU as of 6 April 2017 (the effective dates stated below are for the IFRSs in full):

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

- **IFRS 16 "Leases"** (effective for annual periods beginning on or after 1 January 2019),

- **Amendments to IFRS 2 "Share-based Payment"** ï Classification and Measurement of Share-based Payment Transactions (effective for annual periods beginning on or after 1 January 2018),

- **Amendments to IFRS 4 "Insurance contracts"** ï 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 ñFinancial Instrumentsò is applied for the first time).

- **Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures"** ï Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date was deferred indefinitely until the research project on the equity method has been concluded),

- **Amendments to IFRS 15 "Revenue from Contracts with Customers"** ï Clarifications to IFRS 15 Revenue from Contracts with Customers (effective for annual periods beginning on or after 1 January 2018),

- **Amendments to IAS 7 "Statement of Cash Flows"** ï Disclosure Initiative (effective for annual periods beginning on or after 1 January 2017),

- **Amendments to IAS 12 "Income Taxes"** ï Recognition of Deferred Tax Assets for Unrealised Losses (effective for annual periods beginning on or after 1 January 2017),

- **Amendments to IAS 40 "Investment Property"** ï Transfers of Investment Property (effective for annual periods beginning on or after 1 January 2018),

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

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

- **Amendments to various standards "Improvements to IFRSs from the 2014-2016 Cycle"** 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),

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

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

At the same time, the hedge accounting issue involving financial assets and financial liabilities remains unregulated, as the principles have not yet been endorsed by the EU.

As assessed by the Group, the application of hedge accounting to the financial assets and financial liabilities **from IAS 39 "Financial Instruments: Recognition and Measurement"** to financial assets and financial liabilities at the balance sheet date would not have a significant impact on the financial statements.

(All amounts are expressed in thousands of HRK)

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of the financial statement presentation and preparation

The Group maintains its accounting records in the Croatian language, in Croatian kunas and in accordance with Croatian laws. The financial statements of the Group are prepared on the cost basis, except for financial assets carried at fair value, in accordance with International Financial Reporting Standards, as adopted by the European Union, and Croatian laws.

These financial statements are prepared under the going-concern assumption and on the accrual basis of accounting.

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

At 31 December, the exchange rates of the Croatian kuna against the euro and the US dollar were as follows:

	EUR 1	USD 1
2016	7.557787	7.168536
2015	7.635047	6.991801

The consolidated financial statements of the Group represent aggregate amounts of assets, liabilities, capital and reserves of the Group as of 31 December 2015, and the results of its operations for the year then ended.

3.2 Basis of consolidation

The accompanying consolidated financial statements comprise the financial statements of the Company and entities controlled by the Company (its subsidiaries), including structured entities. Control is achieved where the Company:

Å has power over the investee

Å is exposed, or has rights, to variable returns from its involvement with the investee; and

Å has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Basis of consolidation (continued)

When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

Å the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;

Å potential voting rights held by investors, other vote holders or other parties;

Å rights arising from other contractual arrangements; and

Å any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholdersô meetings.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.3 Goodwill

Goodwill arising on a business combination is recognised initially at cost, as established at the date of acquisition of the business, less accumulated impairment losses, if any.

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

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

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

3.4 Revenue recognition

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

3.5 Borrowing costs

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.6 Foreign-currency transactions

Transactions in foreign currencies are translated into Croatian kunas at the rates of exchange in effect at the dates of the transactions. Foreign-currency denominated cash, receivables and payables are retranslated at exchange rates effective at the date of the statement of financial position. Gains and losses on translation are included in the statement of profit or loss and other comprehensive income for the year.

3.7 Income tax

The tax currently payable is based on taxable profit for the year Taxable profit differs from the net profit reported in the statement of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax

Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. Deferred tax liabilities are also not recognised on temporary differences arising from the initial recognition of goodwill.

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

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.7 Income tax (continued)

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred taxes for the period

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. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

3.8 Property, plant and equipment

Property, plant and equipment are recognised initially at cost, less accumulated depreciation. The cost of comprises the purchase price of an item of property, plant and equipment, import duties and non-refundable sales taxes and any directly attributable costs of bringing the item to its working condition and location for its intended use.

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

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

In 2016 the depreciation/amortisation rates did not change from those applied in the comparative period.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.9 Inventories

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

Where inventories have to be reduced to the net realisable value, the related impairment is charged to expenses for the year.

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

Small inventory includes items of tangible fixed assets with a useful life over one year, but with a unit cost below HRK 3,500 (2015: HRK 3,500).

3.10 Trade receivables and prepayments

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

3.11 Cash and cash equivalents

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

3.12 Provisions

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.12 Provisions (continued)

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

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

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

3.13 Contingent liabilities

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

3.14 Events after the reporting date

Events subsequent to the reporting date that provide additional information about the Groupḉs position at the reporting date (adjusting events) are reflected in the financial statements. Subsequent events that are not adjusting events are disclosed in the notes when material.

3.15 Financial instruments

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.15 Financial instruments (continued)

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

Financial assets and financial liabilities are measured initially at fair value. On initial recognition, transaction costs directly attributable to the acquisition or issue of a financial asset and a financial liability (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 asset or financial liability, as appropriate. Transaction costs directly associated with an acquisition of a financial asset or a financial liability at fair value through profit or loss are recognised immediately in profit or loss.

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

Effective interest method

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

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

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

Available-for-sale (AFS) investments

Available-for-sale (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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.15 Financial instruments (continued)

Available-for-sale (AFS) investments (continued)

Securities that are traded in an active market are classified as AFS and are stated at fair value at the end of each reporting period. The Group also has investments in unlisted shares that are not traded in an active market but that are also classified as AFS financial assets and stated at fair value at the end of each reporting period (because the management consider that their fair value can be reliably measured). Fair value is the market value, at the date of the statement of financial position, on a regulated securities exchange, by reference to the notification of the Central Depository Agency and taking into account the trading volume. Changes in the carrying amount of AFS monetary financial assets arising from changes in foreign currency rates (see below), interest income calculated using the effective interest method and dividends on AFS equity investments are recognised in profit or loss. Other changes in the carrying amount of available-for-sale financial assets are recognised in other comprehensive income and accumulated under the heading 'Investments revaluation reserve'. When an investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in the investments revaluation reserve is transferred to profit or loss.

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 arisen on the retranslation are determined based on the amortised cost of the monetary asset. Other foreign exchange gains and losses are recognised in other comprehensive income.

At the end of each reporting period, AFS equity investments without a quoted market price in an active market and whose fair value cannot be reliably measured as well as derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment losses.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at each date of the statement of financial position. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted. For financial assets carried at amortised cost, the amount of the impairment is the difference between the assetǿs carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.15 Financial instruments (continued)

Impairment of financial assets (continued)

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

Changes in the carrying amount of the allowance account are recognised in profit or loss.

Financial instruments are classified as liabilities or equity instruments, in accordance with the substance of the underlying contracts. Interest, dividends, gains and losses on financial instruments classified as financial liabilities are recognised as income or expense when they arise. Financial assets and liabilities are offset when the Group has a legally enforceable right to set off the net amounts reported, or realise the asset and settle the liability simultaneously.

Derecognition of financial assets

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

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that was recognised in other comprehensive income and accumulated in equity is transferred to profit or loss.

On derecognition of a financial asset other than in its entirety (e.g. when the Group retains an option to repurchase part of a transferred asset), the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that previously recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.15 Financial instruments (continued)

Other financial liabilities

Other financial liabilities (including borrowings, trade and other payables) are measured initially 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 on 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 asset, or, where appropriate, a shorter period.

A financial guarantee contract is a contract that requires the issuer to make a specified payment 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.

The Group measures financial guarantee contracts it has issued initially at fair value and subsequently, if they are not designated as at FVTPL, at the higher of:

Å the amount of the obligation under the contract, as determined in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*; and

Å the amount initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the revenue recognition policies.

The Group derecognises financial liabilities when, and only when, the Groupǫs obligations are discharged, cancelled or they expire. The difference between the carrying amount of a financial liability derecognised and the consideration paid or payable is recognised in profit or loss.

3.16 Government grants

Government grants are not recognized until the fulfilment of the conditions for obtaining government grants and the receipt of aid becomes certain.
Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises the costs the grants are intended to compensate as expenses. Specifically, government grants whose primary condition is that the Company should purchase, construct or otherwise acquire non-current assets are recognised as deferred revenue in the statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.16 Government grants (continued)

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

The benefit of a government grant approved at an interest rate below the market rate is accounted for as a government grant and disclosed as the difference between the funds received and the fair value of the loan on the basis of the prevailing market interest rates.

3.17 Operating segment reporting

The Group identifies operating segments on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision-maker in order to allocate resources to the segments and to assess their performance. Details about the operating segments of the Company are disclosed in Note 5 to the consolidated financial statements.

3.18 Critical accounting judgements and key sources of estimation uncertainty

In the application of the Groupꞌs accounting policies, which are described above, the Management Board is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on past experience and other factors that are considered to be relevant. Actual results may differ from those estimates.

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

Areas of estimation include, but are not limited to, depreciation periods and residual values of property, plant and equipment, and of intangible assets, value adjustment of inventories, impairment of receivables, and litigation provisions. The key areas of management estimation in applying the Groupꞌs accounting policies that had a most significant impact on the amounts recognized in the financial statements were as follows:

Useful life of property, plant and equipment and of intangible assets

As described in the Note 3.8, the Group reviews the estimated useful lives of property, plant and equipment as well as of intangible assets at the end of each annual reporting period. Property, plant and equipment as well as intangible assets are recognised at cost less accumulated depreciation, i.e. amortisation.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.18 Critical accounting judgements and key sources of estimation uncertainty (continued)

Impairment allowance on trade receivables

Management provides for doubtful receivables based on a review of the overall ageing of all receivables and a specific review of significant individual amounts receivable.

The allowance for amounts doubtful of collection is charged to the statement of profit or loss and other comprehensive income for the year.

Consequences of certain legal actions

The parent company and its subsidiaries are involved in legal actions and proceedings, which have arisen from the regular course of their operations. The Management Board makes estimates when the probable outcome of a legal action has been assessed, and the provisions are recognised on a consistent basis (see Note 31).

Impairment allowance on inventories

As described in Note 3.8, the Group reviews, at each reporting date, the carrying amounts of its inventories and recognises impairment if appropriate.

Inventories are stated at the lower of cost and net realisable value.

Where inventories have to be reduced to the net realisable value, the related impairment is charged to expenses for the year.

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

3.19 Comparative information

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

(All amounts are expressed in thousands of HRK)

4. SALES AND OTHER INCOME

4.1 Sales

	2016	**2015**
Foreign sales	628,416	530,876
Domestic sales	536,432	606,006
	1,164,848	**1,136,882**

4.2. Other income

	2016	**2015**
Recovery of court costs and costs of lawsuits	3,407	-
Surplus	1,950	1,426
Prior-period income	1,793	616
Subsequent collection of written-off receivables	849	1,660
Subsequently approved discounts	590	2,562
Raw material and supplies sales	331	201
Damages collected	303	839
Income from transfers to waste inventories	63	123
Income from reversal of long-term provisions (Note 31)	-	34,319
Other income	1,180	1,014
	10,466	**42,760**

5. SEGMENT INFORMATION

The operating segments were determined based on the similarity in the nature of individual product groups. Three operating segments have been identified: Sugar, Flour and Others.

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

(All amounts are expressed in thousands of HRK)

5. SEGMENT INFORMATION (CONTINUED)

Segment revenue and results

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

	Segment revenue	
	2016	**2015**
Sugar	907,717	916,656
Flour	38,681	46,042
Others	228,916	216,944
	1,175,314	**1,179,642**

	Segment expenses		Segment profit	
	2016	**2015**	**2016**	**2015**
Sugar	846,901	893,517	60,816	23,139
Flour	37,241	44,028	1,440	2,014
Others	212,427	212,319	16,489	4,625
	1,096,569	**1,149,864**	**78,745**	**29,778**

	2016	**2015**
Operating profit	78,745	29,778
Financial income	13,262	13,600
Financial expenses	(34,472)	(40,858)
Profit before tax	**57,535**	**2,520**

The Sugar segment comprises sugar production.

The Flour segment comprises flour and bakery product production.

The Others segment comprises the production of molasses, dry beet noodles and alcohol.

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

(All amounts are expressed in thousands of HRK)

5. SEGMENT INFORMATION (CONTINUED)

Segment assets and liabilities

	31.12.2016	**31.12.2015**
Segment assets		
Sugar	1,123,081	939,479
Flour	103,745	113,765
Others	227,342	146,210
Total segment assets	**1,454,168**	**1,199,454**
Unallocated	28,600	47,833
Total assets	**1,482,768**	**1,247,287**

	31.12.2016	**31.12.2015**
Segment liabilities		
Sugar	774,470	641,417
Flour	41,303	50,428
Others	187,012	133,663
Total segment liabilities	**1,002,785**	**825,508**
Unallocated	453	453
Total liabilities	**1,003,238**	**825,961**

For the purposes of monitoring segment performance, all assets other than non-current and current financial assets (Note 15 and 19, respectively) are allocated to the segments.

All liabilities, excluding provisions, are allocated to the segments. Liabilities are allocated to reportable segments in proportion to segment assets.

(All amounts are expressed in thousands of HRK)

5. SEGMENT INFORMATION (CONTINUED)

Other segment information

	Depreciation and amortisation		Additions	
	2016	**2015**	**2016**	**2015**
Sugar	42,471	47,189	55,114	14,042
Flour	3,170	3,210	153	3,369
Others	12,686	12,309	16,462	3,961
Total	**58,327**	**62,708**	**71,729**	**21,372**

Geographical information

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

	Revenue from external customers	
	2016	**2015**
Croatian market	536,432	606,006
EU market	554,881	502,373
Others	73,535	28,503
Total	**1,164,848**	**1,136,882**

Information about major customers

Included in the sales in the amount of HRK 1,164,848 thousand (2015: HRK 1,136,882 thousand) are sales of HRK 266,386 thousand (2015: HRK 382,860 thousand) generated from the Groupõs major customer.

(All amounts are expressed in thousands of HRK)

6. COST OF RAW MATERIAL AND SUPPLIES

	2016	2015
Raw material and supplies	793,494	403,911
Energy	64,299	63,832
Spare parts	7,821	10,236
Small inventory	866	749
Other material expenses	13	5
	866,493	**478,733**

7. COST OF GOODS SOLD

Costs of goods sold in the amount of HRK 188,192 thousand (2015: HRK 253,969 thousand) represent expenses incurred on the cost of goods delivered and sold in the reporting year by the parent company and its subsidiaries customers outside the Group.

8. OTHER EXTERNAL EXPENSES

	2016	2015
Transport, postal and telecommunication services	16,006	12,596
Maintenance	10,478	10,570
External staff services	5,907	7,543
Municipal utility fees and charges	4,829	4,700
Bank and payment operation charges	4,746	4,560
Rental and lease expenses	3,643	5,715
Intellectual services	2,536	3,573
Insurance premiums	2,387	3,856
Data processing and software maintenance services	985	984
Other services	5,378	4,877
	56,895	**58,974**

(All amounts are expressed in thousands of HRK)

9. STAFF EXPENSES

	2016	2015
Net wages and salaries	32,421	30,940
Taxes and contributions from salaries	12,055	11,579
Contributions on salaries	7,580	7,280
	52,056	**49,799**

At 31 December 2016, the Group had 472 employees (31 December 2015: 462 employees).

10. OTHER COSTS AND OPERATING EXPENSES

10.1 Other costs

	2016	2015
Production quota duties	11,527	11,510
Regulated benefits, contributions and membership fees	3,716	3,135
Awards, gifts and support provided to employees	2,991	2,760
Employeesôtransportation costs	2,731	2,489
Remuneration paid to the members of the Supervisory and Management Boards and other forms of income	1,761	1,920
Hospitality and entertainment	1,723	1,669
Professional education and literature	275	444
Termination benefits	117	36
Others	1,257	1,251
	26,098	**25,214**

(All amounts are expressed in thousands of HRK)

10. OTHER COSTS AND OPERATING EXPENSES (CONTINUED)

10.2 Other operating expenses

	2016	2015
Impairment allowance and write-off of receivables	10,483	4,520
Subsequently approved discounts	1,253	2,450
Donations	1,185	1,007
Cost of raw material and supplies sold	1,063	784
Deficits	1,013	3,236
Others	1,602	3,080
	16,599	**15,077**

In 2016 impairment allowance and write-off of receivables amounts to HRK 10,483 thousand (2015: HRK 4,520 thousand) and comprise the following: impairment allowance of receivables in the amount of HRK 5,949 thousand (2015: HRK 3,854 thousand), directly written-off trade receivables in the amount of HRK 4 thousand (2015 HRK 653 thousand), impairment allowance and write-off of loan receivables in the amount of HRK 660 thousand (2015: HRK 0 thousand) and write-off of other assets in the amount of HRK 3,870 thousand (2015: HRK 13 thousand).

(All amounts are expressed in thousands of HRK)

11. FINANCIAL INCOME

	2016	2015
Foreign exchange gains	10,438	10,140
Interest income	2,131	2,209
Unrealised gains on financial assets	535	312
Income in respect of discount on bills of exchange	-	804
Other financial income	158	135
	13,262	**13,600**

12. FINANCIAL EXPENSES

	2016	2015
Interest expense - non related companies	21,809	24,491
Foreign exchange losses	8,983	9,204
Charges on bank loans	1,363	2,307
Impairment losses on financial assets	1,021	311
Other financial expenses	1,296	4,545
	34,472	**40,858**

Other financial expenses for the year 2016 in the amount of HRK 1,296 thousand (2015: HRK 4,545 thousand) comprise the cost of discounting bills of exchange in the amount amount of HRK 1,192 thousand (2015: HRK 3,916 thousand) and other financial expenses in the amount amount of HRK 104 thousand (2015: HRK 629 thousand).

(All amounts are expressed in thousands of HRK)

13. PROFIT TAX

The Group is not subject to taxation, but its individual members are subject to corporate income tax.

	2016	2015
Current tax	-	-
Deferred tax	-	-
Total	**-**	**-**

The Group generated a net profit for the year ended 31 December 2016 in the amount of HRK 57,535 thousand (31 December 2015: profit in the amount of HRK 5,250 thousand). The reconciliation between the accounting results and taxable profits is set out below:

	2016	2015
Profit before taxation	**57,535**	**2,520**
Income tax at 20%	14,018	504
Effect of tax non-deductible expenses and non-taxable income	2,008	(12,908)
Effect of unrecognised deferred tax assets arising from tax losses	(16,026)	12,404
Income tax	**-**	**-**

The tax rate applicable to taxable profit in the Republic of Croatia is 20 % (2015: 20 %).

Tax losses available for carryforward are analysed below:

Available for carryforward until:	**Tax loss**
2017	12,250
2018	452
2019	104,646
2020	33,149
2021	39
TOTAL	**150,536**

No deferred tax assets have been recognised in the consolidated statement of the financial position in respect of unused tax losses carried forward because the availability of sufficient taxable profit in the future that would allow those assets to be utilised is not certain.

Pursuant to the tax legislation, the tax authorities may inspect the books and records of the Group companies at any time within three years subsequent to the year in which the tax liability is reported and may impose additional tax liabilities and penalties.

(All amounts are expressed in thousands of HRK)

14. INTANGIBLE ASSETS, PROPERTY, PLANT AND EQUIPMENT

	Intangible assets	Land	Buildings objekti	Plant and equipment	Works of fine art	Assets under development	Other tangible assets	Total
Cost								
Balance at 31 December 2014	**12,888**	**38,529**	**470,056**	**999,527**	**45**	**8,395**	**2,990**	**1,532,430**
Additions	43	70	2,527	8,437	-	10,295	-	21,372
Disposals, retirements, shortage	(59)	(58)	(939)	(4,197)	-	-	-	(5,253)
Put into use	-	-	1,411	6,490	-	(7,901)	-	-
Balance at 31 December 2015	**12,872**	**38,541**	**473,055**	**1,010,257**	**45**	**10,789**	**2,990**	**1,548,549**
Additions	164	-	64	1,056	-	70,445	-	71,729
Disposals, retirements, shortage	(57)	-	-	(14,389)	-	(485)	-	(14,931)
Put into use	-	-	3,245	6,932	-	(10,177)	-	-
Balance at 31 December 2016	**12,979**	**38,541**	**476,364**	**1,003,856**	**45**	**70,572**	**2,990**	**1,605,347**

Intangible assets consist of computer software and licences.

(All amounts are expressed in thousands of HRK)

14. INTANGIBLE ASSETS, PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Intangible assets	Land	Buildings objekti	Plant and equipment	Works of fine art	Assets under development	Other tangible assets	Total
Accumulated depreciation/amortisation								
Balance at 31 December 2014	**11,545**	**-**	**221,114**	**729,878**	**-**	**-**	**616**	**963,153**
Charge for the year	319	-	13,799	48,440	-	-	150	62,708
Disposals, retirements, shortage	-	-	(62)	(3,352)	-	-	-	(3,414)
Balance at 31 December 2015	**11,864**	**-**	**234,851**	**774,966**	**-**	**-**	**766**	**1,022,447**
Charge for the year	345	-	13,476	44,356	-	-	150	58,327
Disposals, retirements, shortage	-	-	-	(12,947)	-	-	-	(12,947)
Balance at 31 December 2016	**12,209**	**-**	**248,327**	**806,375**	**-**	**-**	**916**	**1,067,827**
Net book value								
At 31 December 2016	**770**	**38,541**	**228,037**	**197,481**	**45**	**70,572**	**2,075**	**537,520**
At 31 December 2015	**1,008**	**38,541**	**238,204**	**235,291**	**45**	**10,789**	**2,224**	**526,102**

(All amounts are expressed in thousands of HRK)

15. NON-CURRENT FINANCIAL ASSETS

	31 December 2016	31 December 2015
Given deposits, loans and down payments	3,416	642
Financial assets available for sale	1,737	2,221
Investments in securities	73	60
	5,226	**2,923**

Given deposits, loans and down payments in the amount of HRK 3,416 thousand (31 December 2015: HRK 642 thousand) comprise loans to the employees of Sladorana d.d. for purchases of shares in the amount of HRK 120 thousand (31 December 2015: HRK 120 thousand), loans to Trstenjak Duġko in the amount of HRK 202 thousand (2015 HRK nil thousand), loans to Koprivanec Ģaklina in the amount amount of HRK 155 thousand (31 December 2015: HRK nil thousand), loans to Kaladiĺ Milan in the amount amount of HRK 0 thousand (31 December 2015: HRK 175 thousand), to sole proprietorship Ģarko Mario - Obrt ġrvanj in the amount amount of HRK 1,132 thousand (31 December 2015: HRK nil thousand), to Brļiĺ Andrija in the amount amount of HRK 1,088 thousand (31 December 2015: HRK nil thousand), to Jemriĺ Ivan in the amount amount of HRK 401 thousand (31 December 2015: HRK nil thousand), to Eko solar Kalistoviĺ d.o.o. in the amount amount of HRK 148 thousand (31 December 2015: HRK nil thousand), to Farming Cooperative ňPZ KoroĽò in the amount amount of HRK 100 thousand (31 December 2015: HRK nil thousand), to Fritz Igor in the amount amount of HRK 70 thousand (31 December 2015: HRK nil thousand) and to Bilandġija Damir in the amount amount of HRK nil thousand (31 December 2015 HRK 30 thousand), as well as down payments made under operating lease arrangements in the amount of HRK 0 thousand (31 December 2015: HRK 317 thousand).

Financial assets available for sale comprise equity investments of up to 20 percent of ownership interest, which are as follows:

	31 December 2016	31 December 2015
Sense savjetovanje d.o.o.	1,500	1,500
PBZ d.d. Zagreb	159	124
Hrvatski radio Ģupanja	78	78
Tesla ġtedna banka d.d.	-	519
	1,737	**2,221**

In 2016 the Group recognised impairment of the investment in Tesla ġtedna banka (Tesla Savings Bank) in the amount of HRK 519 thousand (2015: HRK 311 thousand).

(All amounts are expressed in thousands of HRK)

16. INVENTORIES

	31 December 2016	31 December 2015
Finished products	373,890	251,566
Merchandise	134,837	80,796
Prepayments for inventories	50,821	44,381
Raw material and supplies	76,487	37,569
Impairment allowance on inventories (Note 10.2)	(324)	(356)
	635,711	**413,956**

At 31 December 2016, the prepayments for inventories comprise advances made for the delivery of goods to Agrokor trgovina d.o.o. in the amont of HRK 21,520 thousand, Belje d.d., Darda, in the amount of HRK 13,365 thousand, PIK Vinkovci, in the amount of HRK 7,651 thousand, Vupik d.d., Vukovar, in the amount of HRK 6,003 thousand and other companies in the amount of HRK 2,262 thousand. At the date of issue of this report, the prepayment for inventories provided to Agrokor trgovina d.o.o. was discharged and amounts to HRK 0 thousand.

17. TRADE RECEIVABLES

At 31 December 2016 trade receivables amount to HRK 175,640 thousand (31 December 2015: HRK 178,928 thousand).

<u>Receivables structure</u>

	31 December 2016	31 December 2015
Domestic trade receivables	176,886	178,323
Foreign trade receivables	23,028	21,965
Receivables from related companies (Note 29)	2,422	744
Impairment allowance on trade receivables	(26,696)	(22,104)
	175,640	**178,928**

<u>Maturity analysis of receivables not impaired</u>

	31 December 2016	31 December 2015
Not yet due	89,858	108,504
0-90 days past due	59,401	46,964
90-120 days past due	4,976	4,574
Over 120 days past due	21,405	18,886
	175,640	**178,928**

(All amounts are expressed in thousands of HRK)

17. TRADE RECEIVABLES (CONTINUED)

Movements in impairment allowance for doubtful accounts

	2016	2015
Balance at 1 January	22,104	19,744
New allowances recognised (Note 10.2)	5,949	3,854
Collection of previously impaired receivables	(846)	(419)
Written-off receivables and other items	(511)	(1,075)
Balance at 31 December	**26,696**	**22,104**

All the receivables provided against were past due beyond 120 days.

18. RECEIVABLES FROM THE STATE AND OTHER INSTITUTIONS

	31 December 2016	31 December 2016
VAT receivable	63,043	27,579
Other amounts due from the state	1,749	1,608
	64,792	**29,187**

19. CURRENT FINANCIAL ASSETS

	31 December 2016	31 December 2015
Given loans	13,762	36,903
Received bills of exchange and other securities	9,374	7,769
Given deposits	238	238
	23,374	**44,910**

(All amounts are expressed in thousands of HRK)

19. CURRENT FINANCIAL ASSETS (CONTINUED)

An overview of the given loans at 31 December 2016 and 31 December 2015 is provided in the table below:

Legal persons	**Interest rate**	**31 December 2016**	**31 December 2015**
Robiĺ promet d.o.o.	5.50%	4,522	-
Fortis factoring d.o.o.	-	3,700	1,000
Dubrovaļki podrumi d.d.	6%	2,957	2,957
Poljoprivredno dobro Gradina d.o.o.	7%	1,725	1,378
Romiĺ promet d.o.o.	6%	1,224	-
Infinitum factoring d.o.o.	-	500	350
Konzum d.d.	7%	394	380
Grudska pivovara d.o.o.	6%	-	30,199
Ģeza d.o.o.	7%	-	1,027
Cvitkoviĺ d.o.o.	7%	-	685
Podravska banka d.d.	-	-	630
Others	6%-9%	1,483	1,362
Total loans to legal persons		**16,505**	**39,968**
Natural persons	3%-7%	**2,028**	**1,107**
Total given loans		**18,533**	**41,075**
Impairment allowance		(4,771)	(4,172)
Total given loans		**13,762**	**36,903**

In 2015 the Group recovered from Visus d.o.o. the previously provided against loans in the amount of HRK 998 thousand.

The repayment of the loan given to Grudska pivovara d.o.o. has been secured by lien registered on the debtorĝs movable and immovable property appraised at HRK 82,090 thousand.

(All amounts are expressed in thousands of HRK)

20. CASH AND CASH EQUIVALENTS

	31 December 2016	31 December 2015
Giro account balance	26,823	7,668
Foreign currency account balance	1,002	29,179
Cash in hand	45	2
	27,870	**36,849**

21. PREPAID EXPENSES

	31 December 2016	31 December 2015
Prepaid production quota duty	8,705	8,625
Accrued loan fee and interest	1,692	2,093
Accrued interest on leasing	112	350
Accrued reimbursement expected from HĢCargo	-	2,349
Other prepaid expenses	824	704
	11,333	**14,121**

(All amounts are expressed in thousands of HRK)

22. SHARE CAPITAL AND RESERVES

22.1 Share capital

At 31 December 2016 the registered (share) capital amounts to HRK 249,600 thousand and is divided into 1,386,667 shares (31 December 2015: HRK 249,600 thousand, consisting of 1,386,667 shares).

The ownership structure is set out below:

	Number of shares		Ownership in %	
	2016	**2015**	**2016**	**2015**
EOS-Z d.o.o.	308,204	466,500	22.23%	33.64%
Cristal financiere	235,734	-	17.00%	-
RobiÍ d.o.o.	180,366	416,100	13.01%	30.01%
Primorska banka d.d. Rijeka/Omnibus account of a natural person	158,296	127,936	11.42%	9.23%
Societe Generale Splitska banka d.d. / AZ MANDATORY PF	137,055	137,055	9.88%	9.88%
Primorska banka d.d. Rijeka/Omnibus account of a legal person	127,936	-	9.23%	-
Addiko bank d.d./ PBZ Croatia Osiguranje B-category Mandatory PF	40,063	43,044	2.89%	3.10%
Erste&Steiermaerkischebank d.d. / CSC	28,488	22,293	2.05%	1.61%
Zagrebaļ ka banka d.d. / AZ Profit Voluntary PF	25,842	25,842	1.86%	1.86%
Addiko bank d.d./ Raiffeisen B-category Mandatory PF	24,911	25,303	1.80%	1.82%
Hrvatska poģtanska banka d.d.	23,257	23,257	1.68%	1.68%
Societe Generale Splitska banka d.d. / ERSTE PLAVI MANDATORY PENSION FUND	-	10,033	-	0.72%
Others	96,515	89,304	6.95%	6.45%
	1,386,667	**1,386,667**	**100.00%**	**100.00%**

(All amounts are expressed in thousands of HRK)

22. SHARE CAPITAL AND RESERVES

22.2 Reserves

	2016	2015
Legal reserves	12,526	12,521
Capital reserves	10,368	10,368
Reserves for own shares	43,867	43,867
Other reserves	(41,432)	(41,432)
Other reserves out of profit	18	5
	25,347	**25,329**

In 2012 the parent company made several purchases of equity shares in subsidiary Sladorana d.d., as a result of which it held a 100-percent equity share in that subsidiary. The increases from 2012 occurred after the parent company had already acquired the control over the subsidiary in prior periods. Since the consideration paid to acquire the additional shares was higher the net assets of Sladorana d.d., the difference of HRK 41,432 thousand was charged to Other reserves within equity.

23. EARNINGS PER SHARE

Basic and diluted earnings per share

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

	2016	2015
Profit / (loss) for the year attributable to the shareholders of the Company (in HRK'000)	57,535	2,520
Weighted average number of ordinary shares used in the calculation of the basic earnings / (loss) per share:	1,386,667	1,386,667
Basic earnings per share (in kunas and lipas)	**41.49**	**1.82**

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

(All amounts are expressed in thousands of HRK)

24. LIABILITIES UNDER BORROWINGS AND FINANCIAL LEASES

	31 December 2016	31 December 2015
Long-term borrowings		
Bank loans	241,448	316,992
Finance lease obligations	807	3,343
Financial loan	1,130	1,590
	243,385	**321,925**
Short-term borrowings		
Bank loans	112,563	139,781
Current portion of long-term borrowings from banks	89,942	55,401
Finance lease obligations	2,761	6,055
Financial loan	10,161	2,541
	215,427	**203,778**
Total	**458,812**	**525,703**

Bank borrowings in the amount of HRK 443,953 thousand (31 December 2015: HRK 512,174 thousand) are secured by lien registered on the land, buildings and equipment of the Group. Debentures have been provided as security instruments for finance lease obligations in the amount of HRK 3,568 thousand (2015: HRK 9,398 thousand).

The financial loan in the amount of HRK 11,291 thousand (31 December 2015: HRK 4,131 thousand) consists of a liability to Konzum d.d. in the amount of HRK 4,700 thousand (31 December 2015: HRK 2,080 thousand), a liability to the Environmental Protection and Energy Efficiency Fund in the amount of HRK 1,590 thousand (31 December 2015: HRK 2,051 thousand) and a liability to Ģeza d.o.o. in the amount of HRK 5,000 thousand (31 December 2015: HRK 0 thousand).

Movements of the bank borrowings are as follows:

	2016	2015
Balance at 1 January	**512,174**	**477,016**
New bank loans raised	287,179	744,017
Repayments of received loans	(351,276)	(707,353)
Exchange differences	(4,124)	(1,506)
Balance at 31 December	**443,953**	**512,174**

(All amounts are expressed in thousands of HRK)

24. LIABILITIES UNDER BORROWINGS AND FINANCIAL LEASES (CONTINUED)

Overview of the bank loans (by maturity, interest rate, amount and currency):

Creditor	Maturity	Interest rate	Currency	31/12/2016	31/12/2015
Long-term borrowings					
Raiffeisenbank Austria d.d.	31.3.2021	4.00%	EUR	315,988	354,687
HBOR (Croatian development bank)	28.2.2023	4.00%	EUR	15,352	17,648
Short-term borrowings					
Kentbank d.d.	30.4.2017	6.00%	HRK	3,400	10,000
Kentbank d.d.	30.4.2016	6.00%	HRK	-	3,400
Kentbank d.d.	23.5.2017	5.50%	HRK	10,000	-
Privredna banka Zagreb d.d.	25.10.2017	5.45%	HRK	25,000	-
Privredna banka Zagreb d.d.	25.10.2017	5.45%	HRK	21,000	-
Privredna banka Zagreb d.d.	25.10.2017	5.45%	HRK	21,000	-
Privredna banka Zagreb d.d.	26.10.2017	5.45%	HRK	8,000	-
Privredna banka Zagreb d.d.	31.10.2016	5.40%	HRK	-	4,100
Privredna banka Zagreb d.d.	31.10.2016	5.40%	HRK	-	20,000
Privredna banka Zagreb d.d.	31.10.2016	5.40%	HRK	-	72,000
OTP banka d.d.	1.6.2016	4.50%	EUR	-	20,615
OTP banka d.d.	1.7.2016	5.18%	HRK	-	9,545
OTP banka d.d.	14.3.2017	5.50%	HRK	2,913	-
OTP banka d.d.	1.7.2016	5.18%	HRK	21,250	-
Interest payable on borrowings				50	179
Total short-term and long-term borrowings				**443,953**	**512,174**

(All amounts are expressed in thousands of HRK)

24. LIABILITIES UNDER BORROWINGS AND FINANCIAL LEASES (CONTINUED)

	Minimum lease payments		Finance charges		Present value of minimum lease payments	
	2016	**2015**	**2016**	**2015**	**2016**	**2015**
Up to 1 year	2,768	6,071	85	252	2,683	5,819
From two to five years	807	3,343	22	98	785	3,245
After five years	-	-	-	-	-	-
	3,575	**9,414**	**107**	**350**	**3,468**	**9,064**
Less: future finance charges	**(107)**	**(350)**	**-**	**-**	**-**	**-**
Present value of minimum lease payments	**3,468**	**9,064**	**107**	**350**	**3,468**	**9,064**

25. TRADE PAYABLES

	31 December 2016	31.12.2015
Foreign trade payables	276,102	85,102
Domestic trade payables	143,104	52,140
	419,206	**137,242**

26. ADVANCES RECEIVED

At 31 December 2016 advances received amount to HRK 1,675 thousand (31 December 2015: HRK 41,479 thousand) and relate to advance payments made by foreign and domestic enterprises for sugar.

(All amounts are expressed in thousands of HRK)

27. OTHER CURRENT LIABILITIES

	31 December 2016	31 December 2015
Liabilities in respect of issued bills of exchange	95,674	92,449
Production quota duties payable	11,606	11,501
Taxes, contributions and similar duties payable	4,917	11,845
Liabilities to employees	3,153	2,944
Liabilities in respect of the share in the result	32	32
Other current liabilities	3,823	715
	119,205	**119,486**

The liabilities for issued bills of exchange represent amounts payable to suppliers of sugar beet and protective substances as well as other payables, which are as follows:

	31 December 2016	31 December 2015
Amounts owed to factoring firms for discounted bills of exchange	35,000	15,156
Agrokor trgovina d.o.o., Zagreb	26,900	20,000
Belje d.d., Darda	16,706	36,697
PIK Vinkovci d.d.	9,564	10,230
Vupik d.d.	7,504	10,366
	95,674	**92,449**

Liabilities for issued bills of exchange to Agrokor trgovina d.o.o., Belje d.d., Darda, PIK Vinkovci d.d. and Vupik d.d. represent amounts paid to suppliers for an advance for the main delivery of sugar beet and protection. As of the reporting date, the bill of exchange of Agrokor trgovana d.o.o. was paid and amounts to HRK 0 thousand.

28. ACCRUED EXPENSES AND DEFERRED INCOME

	31 December 2016	31 December 2015
Accrued investment costs	1,982	-
Accrued water protection and use fee, concession fee	1,070	-
Accrued direct sugar beet costs	357	487
Other accrued expenses	367	808
	3,776	**1,295**

(All amounts are expressed in thousands of HRK)

29. RELATED-PARTY TRANSACTIONS

Transactions and balances resulting from the relationship between the Company and its subsidiaries, which are the Company's related parties, were eliminated on consolidation and are not disclosed in this note. An analysis of the transactions between the Group companies is presented below.

Trading transactions

Transactions entered into between the Group and the related parties during the year are as follows:

Operating income

	Sales		Other income	
	2016	**2015**	**2016**	**2015**
OĠTRC d.o.o./ OĠTRC PROMET d.o.o.	1,832	945	-	7
DALMACIJAVINO SPLIT d.o.o.	269	-	-	-
ROBIĹ PROMET d.o.o. (until 4 July)	-	-	30	-
	2,101	**945**	**30**	**7**

Operating expenses

	Selling expenses		Other expenses	
	2016	**2015**	**2016**	**2015**
OĠTRC d.o.o./ OĠTRC PROMET d.o.o.	1,684	618	-	6
DALMACIJAVINO SPLIT d.o.o.	274	-	-	-
ROBIĹ PROMET d.o.o. (until 4 July)	-	-	17	-
	1,958	**618**	**17**	**6**

Financial income and expenses

	Financial income		Financial expenses	
	2016	**2015**	**2016**	**2015**
ROBIĹ PROMET d.o.o. (until 4 July)	62	-	-	-
GRUDSKA PIVOVARA d.o.o.	1,564	1,491	-	-
	1,626	**1,491**	**-**	**-**

(All amounts are expressed in thousands of HRK)

29. RELATED-PARTY TRANSACTIONS (CONTINUED)

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

	Receivables from related parties		Amounts owed to related parties	
	2016	**2015**	**2016**	**2015**
ROBIĹ d.o.o. /ROBIĹ PROMET d.o.o.	-	-	-	150
OĠTRC d.o.o./ OĠTRC PROMET d.o.o.	2,106	744	-	-
DALMACIJAVINO SPLIT d.o.o.	316		35	-
	2.422	**744**	**35**	**150**

	Loans to related parties		Prepayments made to related parties for non-current assets	
	2016	**2015**	**2016**	**2015**
GRUDSKA PIVOVARA d.o.o.	-	30,199	34,455	-
	-	**30.199**	**34.455**	**-**

Remuneration paid to key management personnel:

	2016	**2015**
Salaries	4,813	5,184
Others	904	861
	5,717	**6,045**

(All amounts are expressed in thousands of HRK)

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Capital risk management

The Group manages its capital to ensure that it will be able to continue as a going concern, while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Groupôs overall strategy has remained unchanged since 2015.

The capital of the Group consists of the net debt (which includes received loans and borrowings disclosed in Note 24 less cash and cash equivalents) and shareholdersô equity (comprising the registered capital, reserves and retained earnings).

The Treasury of the Group reviews the capital structure on a regular basis. As part of this review, the Treasury considers the cost of capital and the risks associated with each class of capital. The gearing ratio at the year end was as follows:

Gearing ratio

	2016	2015
Debt (i)	**458,812**	**525,703**
Cash and cash equivalents	(27,870)	(36,849)
Net debt	**430,942**	**488,854**
Equity (ii)	479,530	421,326
Net debt-to-equity ratio	0.90%	116.03%

(i) Debt consists of short-term and long-term borrowings, as disclosed in Note 24.

(ii) Equity consists of the share capital, reserves and retained earnings.

(All amounts are expressed in thousands of HRK)

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Categories of financial instruments

	31. December 2016	31. December 2015
Financial assets		
Non-current financial assets	5,226	2,923
Non-current receivables	590	37
Receivables from related companies	2,422	744
Trade receivables	173,218	178,184
Current financial assets	23,374	44,910
Other receivables	712	274
Cash and cash equivalents	27,870	36,849
Prepaid expenses and accrued income	2,628	5,496
	236,040	**269,417**
Financial liabilities		
Long-term financial loans	1,130	1,590
Long-term borrowings and finance lease obligations	242,255	320,335
Other non-current liabilities	76	153
Liabilities to related companies	35	150
Financial loans	10,161	2,541
Short-term liabilities for borrowings and finance lease obligations	205,266	201,237
Advances received	1,675	41,479
Trade payables	419,206	137,242
Other current liabilities	102,681	96,141
Accrued expenses and deferred income	2,707	1,295
	985,192	**802,163**

The carrying amount reflected above represents the Group's maximum exposure to credit risk on such loans and receivables.

(All amounts are expressed in thousands of HRK)

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Financial risk management objectives

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

These risks comprise market risk (including currency risk and price risk), credit risk, liquidity risk and interest rate risk.

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

Market risk

The Group's activities expose it primarily to the financial risks arising from movements in sugar and flour prices as well as the prices of raw material required for their production activities (sugar beet, sugar cane and wheat). The Group is also exposed to the risk of fluctuations in foreign exchange and interest rates, which are described in more detail below.

Foreign currency risk management

The Company undertakes certain transactions denominated in foreign currencies. Hence, it is exposed to fluctuations in foreign exchange rates.

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

	Liabilities		Assets	
	2016	2015	2016	2015
European Union (EUR)	616,812	529,105	76,190	166,075
USD	112	32	19	2,442

(All amounts are expressed in thousands of HRK)

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Foreign currency risk management (continued)

Foreign currency sensitivity analysis

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

The following table analyses the Groupꞌs sensitivity to a ten-percent (10%) change in the exchange rate of the Croatian kuna against the relevant foreign currency. Ten percent (10 %) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents the management's assessment of the reasonably possible change in the foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for the 10-percent change in the relevant foreign exchange rate. The sensitivity analysis includes external borrowings, as well as loans to foreign operations of the Group denominated in a currency that is not the currency of the lender or the borrower. A positive number below indicates an increase in profit or equity where the Croatian kuna strengthens 10 percent against the relevant currency. For a 10-percent weakening of the Croatian kuna against the relevant currency, there would be an equal and opposite impact on the profit or equity, and the balances below would be negative.

	EUR impact		USD impact	
	2016	**2015**	**2016**	**2015**
Profit	54,062	36,403	11	241

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

Interest rate risk management

The Groupꞌs exposure to the interest rate risk arises from its borrowing at fixed and variable rates. The risk is managed by the Group by maintaining an appropriate mix between fixed and floating rate borrowings. The Group's exposure to interest rates on its financial assets and financial liabilities is detailed in the liquidity risk management section of this note.

(All amounts are expressed in thousands of HRK)

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Interest rate risk management (continued)

Interest rate sensitivity analysis

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

If interest rates had been 50 basis points higher/lower and all other variables were held constant:

- the loss/profit of the Group for the year 2016 would have been lower/higher by HRK 1,090 thousand (2015: lower/higher by HRK 1,225 thousand), mainly attributable to the exposure of the Group to variable-rate loans and borrowings.

In the current year, the Group's sensitivity to interest rates increased mainly because of a higher number of variable-rate debt instruments.

Credit risk management

Credit risk is the risk that the counterparty will default on its contractual obligations resulting in a financial loss to the Group. The Group has adopted a policy of dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from default. The Group monitors regularly its exposure to counterparties as well as their creditworthiness spreads the aggregate value of the transactions to accepted customers. Credit exposure is managed by setting limits to customers.

Credit analysis involves assessing the financial position of the debtor and, where appropriate, insurance coverage is sought for credit guarantees.

The most significant credit risk concentrations arising from the Group's key customers are analysed below:

	Receivables	
	31 December 2016	**31 December 2015**
Customer A	71,778	-
Customer B	13,299	-
Customer C	6,117	6,117
Customer D	5,058	4,412
Customer E	4,965	3,553
	101,217	**14,082**

(All amounts are expressed in thousands of HRK)

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Credit risk management (continued)

Collateral held as security

The Group usually seeks from its customers to furnish bank guarantees, debentures and bills of exchange as instruments of collateral.

Liquidity risk management

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

Liquidity and interest rate risk tables

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

	Weighted average effective interest rate	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 8 years	Total
2016						
Non-interest bearing liabilities		150,208	76,534	304,367	1,206	532,315
Interest bearing	5.10%	22,450	29,994	173,970	262,665	489,079
		172,658	**106,528**	**478,337**	**263,871**	**1,021,394**
2015						
Non-interest bearing liabilities		112,992	115,138	53,025	1,743	282,898
Interest bearing	4.61%	10,690	18,131	138,925	403,339	571,085
		123,682	**133,269**	**191,950**	**405,082**	**853,983**

(All amounts are expressed in thousands of HRK)

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Liquidity risk management (continued)

The following tables details the Groupĝs remaining contractual maturity for its non-derivative financial assets. The tables have been drawn up based on the undiscounted cash flows of financial receivables based on the earliest date on which the Group can require payment.

	Weighted average effective interest rate	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 8 years	Total
2016						
Non-interest bearing assets		127,949	57,681	29,511	3,721	218,862
Interest-bearing assets	5.35%	3,676	4,685	6,187	3,585	18,133
		131,625	**62,366**	**35,698**	**7,306**	**236,995**
2015						
Non-interest bearing assets		111,089	88,711	30,098	2,284	232,182
Interest-bearing assets	6.57%	2,769	1,607	35,005	123	39,504
		113,858	**90,318**	**65,103**	**2,407**	**271,686**

Fair value of financial instruments

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

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

At 31 December 2016, the carrying amounts of cash, short-term deposits, receivables, short-term liabilities, accrued expenses, short-term borrowings and other financial instruments approximate their fair values due to the short-term nature of these assets and liabilities.

(All amounts are expressed in thousands of HRK)

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Fair value of financial instruments (continued)

Fair value measurements recognised in the statement of financial position

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

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

Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from the prices).
Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

31 December 2016	Level 1	Level 2	Level 3	Total
Financial assets available for sale (AFS)	159	-	1,578	**1,737**
Total	**159**	**-**	**1,578**	**1,737**

31 December 2015	Level 1	Level 2	Level 3	Total
Financial assets available for sale (AFS)	124	-	2,097	**2,221**
Total	**124**	**-**	**2,097**	**2,221**

(All amounts are expressed in thousands of HRK)

31. PROVISIONS

The total balance of long-term provisions represents provisions for initiated legal actions. Movements in the provisions are presented below:

	2016	2015
At 1 January	453	34,772
New provisions made during the year	-	-
Amounts utilised/reversed	-	(34,319)
At 31 December	**453**	**453**

The Group reversed the provision for the most significant legal action under case file no P-561/13 (formerly case file no: P-768/12, originally: case file no: P-528/03), which became final based on the Judgement no: Pġ-3105/2014 of the Commercial Court rejecting the entire claim. In a lawsuit initiated by NLB, as the plaintiff, against Sladorana on the grounds of the alleged piercing of corporate veil in the Granal case, the plaintiff claims that, as a result of 'abuse in business' the future bankruptcy estate of Granal has deteriorated for which the defendant is to be held liable in the amount of HRK 40 million.

In prior periods, Sladorana d.d. made a total provision of HRK 50 million based on the estimate made that it would likely lose the case. The entire case is still in progress and comprises several separate lawsuits ruled so far in favour if Sladorana. However, for procedural grounds, they have been sent repeatedly for retrial. The plaintiff in a lawsuit (Case file no P-561/13 on 23 March 2015 and Case file no P-768/12 on 25 March 2015) filed a motion for revision, and the cases are now pending before the High Commercial Court of the Republic of Croatia.

32. CONTINGENT LIABILITIES AND COMMITMENTS

The contractual commitments and contingent liabilities of the Group comprise issued debentures, which amount to HRK 1,336,477 thousand at 31 December 2016 (31 December 2015: HRK 1,836,575 thousand), guarantees issued in the amount of HRK 54,107 thousand (31 December 2015: HRK 159,465 thousand) and letters of credit in the amount of HRK 199,855 thousand (31 December 2015: HRK 69,458 thousand), of which HRK 95,228 thousand are due on 25 April 2017 and HRK 104,627 thousand on 5 June 2017. The contractual maturities for the issued guarantees fall between 31 January 2017 to 30 June 2019.

(All amounts are expressed in thousands of HRK)

33. OPERATING LEASE ARRANGEMENTS

The Group as lessee

Operating lease arrangements

Operating lease agreements comprise leases of personal cars over a term of five years. The Group does not have an option to purchase the leased asset at the expiry of the lease periods.

Lease payments recognised as expenses

	2016	2015
Minimum lease payments	298	670

Irrevocable commitments under operating leases

	2016	2015
Up to 1 year	157	257
From 1 year to 5 years	211	103
	368	**360**

34. MANAGEMENT AUTHORISATION OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR ISSUE

These consolidated financial statements were adopted by the Management Board and authorised for issue on 6 April 2017.

Signed on behalf of the Management Board on 6 April 2017 by:

Željko Zadro
President of the Management Board

Darko Krstić, Member of the Management Board

Ivo Rešić, Member of the Management Board

TVORNICA ŠEĆERA d.d.
ZAGREB, ULICA GRADA VUKOVARA 269 G

STATEMENT OF PERSON RESPONSIBLE FOR PRODUCTION OF THE CONSOLIDATED REPORT FOR 2016

With this statement, in compliance with article 403 of the Law on capital market, I state that to the best of our knowledge

- the set of consolidated financial reports of VIRO TVORNICA ŠEĆERA d.d., Zagreb and its subsidiaries for the period I-XII 2016, produced by applying International standards of financial reporting and in compliance with the Croatian Law on Accounting, provides an integral and true overview of assets and liabilities, loss and profit, financial position and operations of the Group.

- The Management report contains a true overview of business results and position of the Group, with a description of the most significant risks and uncertanties to chich the Group is exposed.

In Zagreb, on April 6, 2017

RESPONSIBLE PERSON:

PRESIDENT OF THE MANAGEMENT BOARD

Željko Zadro, dipl.oec.

Viro
TVORNICA ŠEĆERA d.d. 7
ZAGREB

MEMBER OF THE MANAGEMENT BOARD

Darko Krstić, dipl.oec

MEMBER OF THE MANAGEMENT BOARD

Ivo Rešić, mr.sc.

ENCLOSURE 1

Reporting period: 1 January 2016 to 31 December 2016

Annual Financial Report-GFI-POD

Tax Number (MB): **01650971**

Registration Number (MBS): **010049135**

Personal Identification Number (OIB): **04525204420**

Issuer: **VIRO TVORNICA ŠEĆERA d.d.**

Postal Code and Location: **10000** **ZAGREB**

Street and number: **ULICA GRADA VUKOVARA 269 G**

e-mail address: info@secerana.hr

Internet address: www.secerana.hr

and name for municipality/city **133** **ZAGREB**

Code and name for county **21** **GRAD ZAGREB**

Number of employees (at the year's end) **472**

Consolidated Report **YES**

Business activity code: **1081**

Entities in consolidation (according to IFRS)	Registered seat:	Tax number (MB):
SLADORANA d.o.o.	ŠEĆERANA 63, ŽUPANJA	03307484
SLAVONIJA ŽUPANJA d.d.	J.J.STROSSMAYERA 65, ŽUPANJA	01841009
VIRO-KOOPERACIJA d.o.o.	ŠEĆERANA 63, ŽUPANJA	02835398

Book-keeping firm

Contact person **DRAGIĆ NEVENA**
(unosi se samo prezime i ime osobe za kontakt)

Telephone **033840117**

Telefaks: **033840103**

e-mail address nevena.dragic@secerana.hr

Surname and name **ZADRO ŽELJKO**
(osoba ovlaštene za zastupanje)

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

M.P.

Viro
TVORNICA ŠEĆERA d.d.
ZAGREB 7

(signature of authorized person)

BALANCE SHEET

as at 31.12.2016

Item	AOP code	Last year (net)	Current year (net)
1	2	3	4
ASSETS			
A) RECEIVABLES FOR SUBSCRIBED BUT NOT PAID-IN CAPITAL	001		
B) LONG-TERM ASSETS (003+010+020+029+033)	002	529.062.517	543.336.279
I. INTANGIBLE ASSETS (004 to 009)	003	1.008.224	769.909
1. Assets development	004		
2. Concessions, patents, licences fees, trade and service marks, software and other rights	005	1.008.224	769.909
3. Goodwill	006		
4. Prepayments for purchase of intangible assets	007		
5. Intangible assets in preparation	008		
6. Other intangible assets	009		
II. TANGIBLE ASSETS (011 to 019)	010	525.093.960	536.749.935
1. Land	011	38.540.921	38.540.921
2. Buildings	012	238.204.927	228.037.294
3. Plant and equipment	013	231.922.597	194.768.612
4. Tools, facility inventory and transport assets	014	3.368.260	2.712.606
5. Biological assets	015		
6. Prepayments for tangible assets	016	307.627	34.576.964
7. Tangible assets in progress	017	10.480.578	35.993.969
8. Other tangible assets	018	44.900	44.900
9. Investments in buildings	019	2.224.150	2.074.669
III. LONG-TERM FINANCIAL ASSETS (021 to 028)	020	2.923.012	5.226.520
1. Investments (shares) with related parties	021	900.000	900.000
2. Loans given to related parties	022		
3. Participating interest (shares)	023	1.320.983	
4. Loans to entrepreneurs in whom the entity holds participating interests	024		
5. Investments in securities	025	60.173	910.606
6. Loans, deposits and similar assets	026	641.856	3.415.914
7. Other long - term financial assets	027		
8. Investments accounted by equity method	028		
IV. RECEIVABLES (030 to 032)	029	37.321	589.915
1.Receivables from related parties	030		
2. Receivables from based on trade loans	031		
3. Other receivables	032	37.321	589.915
V. DEFERRED TAX ASSETS	033		
C) SHORT TERM ASSETS (035+043+050+058)	034	704.103.328	928.099.253
I. INVENTORIES (036 to 042)	035	413.955.438	635.711.354
1. Raw-material and supplies	036	37.569.067	76.486.835
2. Work in progress	037		
3. Finished goods	038	251.210.014	373.566.269
4. Merchandise	039	80.795.687	134.836.805
5. Prepayments for inventories	040	44.380.670	50.821.445
6. Long - term assets held for sales	041		
7. Biological assets	042		
II. RECEIVABLES (044 to 049)	043	208.388.541	241.144.333
1. Receivables from related parties	044	743.933	2.422.079
2. Accounts receivable	045	178.183.726	173.217.676
3. Receivables from participating parties	046		
4. Receivables from employees and members of related parties	047	6.387	5.785
5. Receivables from government and other institutions	048	29.187.271	64.791.695
6. Other receivables	049	267.224	707.098
III. SHORT TERM FINANCIAL ASSETS (051 to 057)	050	44.910.145	23.373.920
1. Shares (stocks) in related parties	051		
2. Loans given to related parties	052		
3. Participating interests (shares)	053		
4. Loans to entrepreneurs in whom the entity holds participating interests	054		
5. Investments in securities	055		
6. Loans, deposits, etc.	056	37.141.162	14.000.408
7. Other financial assets	057	7.768.983	9.373.512
IV. CASH AT BANK AND IN CASHIER	058	36.849.204	27.869.646
D) PREPAID EXPENSES AND ACCRUED REVENUE	059	14.121.337	11.332.940
E) TOTAL ASSETS (001+002+034+059)	060	1.247.287.182	1.482.768.472
F) OFF-BALANCE RECORDS	061	2.236.261.172	1.714.081.455

LIABILITIES AND CAPITAL			
A) CAPITAL AND RESERVES (063+064+065+071+072+075+078)	062	421.326.312	479.530.197
I. SUBSCRIBED CAPITAL	063	249.600.060	249.600.060
II. CAPITAL RESERVES	064	10.368.101	10.368.101
III.RESERVES FROM PROFIT (066+067-068+069+070)	065	56.393.357	56.410.827
1. Reserves prescribed by low	066	12.520.931	12.525.652
2. Reserves for treasury shares	067	43.866.670	43.866.670
3. Treasury stocks and shares (deduction)	068		
4. Statutory reserves	069		
5. Other reserves	070	5.756	18.505
IV. REVALUATION RESERVES	071		
V. RETAINED EARNINGS OR ACCUMULATED LOSS (073-074)	072	95.792.725	99.270.607
1. Retained earnings	073	95.792.725	99.270.607
2. Accumulated loss	074		
VI. PROFIT/LOSS FOR THE CURRENT YEAR (076-077)	075	2.494.952	57.514.007
1. Profit for the current year	076	2.494.952	57.514.007
2. Loss for the current year	077		
IX. MINORITY INTERESTS	078	6.677.117	6.366.595
B) PROVISIONS (080 to 082)	079	453.209	453.209
1. Provisions for pensions, severance pay, and similar liabilities	080		
2. Reserves for tax liabilities	081		
3. Other reserves	082	453.209	453.209
C) LONG - TERM LIABILITIES (084 to 092)	083	322.078.301	243.460.737
1. Liabilities to related parties	084		
2. Liabilities for loans, deposits etc.	085	4.932.877	1.936.506
3. Liabilities to banks and other financial institutions	086	316.992.469	241.447.754
4. Liabilities for received prepayments	087		
5. Accounts payable	088		
6. Liabilities arising from debt securities	089		
7. Liabilities to entrepreneurs in whom the entity holds participating interests	090		
8. Other long-term liabilities	091	152.955	76.477
9. Deferred tax liability	092		
D) SHORT - TERM LIABILITIES (094 to 105)	093	502.133.908	755.547.863
1. Liabilities to related parties	094	150.000	35.000
2. Liabilities for loans, deposits etc.	095	8.595.581	12.921.646
3. Liabilities to banks and other financial institutions	096	195.181.628	202.505.024
4. Liabilities for received prepayments	097	41.478.736	1.675.462
5. Accounts payable	098	137.241.601	419.205.766
6. Liabilities arising from debt securities	099		
7. Liabilities to entrepreneurs in whom the entity holds participating interests	100		
8. Liabilities to employees	101	2.943.764	3.153.292
9. Liabilities for taxes, contributions and similar fees	102	11.844.700	4.916.880
10. Liabilities to share - holders	103	31.703	30.963
11. Liabilities for long-term assets held for sale	104		
12. Other short - term liabilities	105	104.666.195	111.103.830
E) DEFFERED SETTLEMENTS OF CHARGES AND INCOME DEFERRED TO FUTURE	106	1.295.452	3.776.466
F) TOTAL – CAPITAL AND LIABILITIES (062+079+083+093+106)	107	1.247.287.182	1.482.768.472
G) OFF-BALANCE RECORDS	108	2.236.261.172	1.714.081.455
APPENDIX to balance sheet(to be filled in by entrepreneur that prepares consolidated annual financial report)			
CAPITAL AND RESERVES			
1. Attributed to equity holders of parent company	109	414.649.195	473.163.602
2. Attributed to minority interest	110	6.677.117	6.366.595

PROFIT AND LOSS ACCOUNT

for the period 01.01.2016. do 31.12.2016.

VIRO TVORNICA ŠEĆERA d.d.

Item	AOP code	Last year	Current year
1	2	3	4
I. OPERATING REVENUE (112+113)	111	1.179.641.843	1.175.314.593
1. Sales revenue	112	1.136.881.950	1.164.848.253
2. Other operating revenues	113	42.759.893	10.466.340
II. OPERATING EXPENSES (115+116+120+124+125+126+129+130)	114	1.149.864.240	1.096.569.697
1. Changes in value of work in progress and finished products	115	205.389.801	-168.090.768
2. Material costs (117 to 119)	116	791.675.974	1.111.580.352
a) Raw material and material costs	117	478.732.536	866.493.278
b) Costs of goods sold	118	253.968.915	188.191.649
c) Other external costs	119	58.974.523	56.895.425
3. Staff costs (121 to 123)	120	49.798.617	52.056.447
a) Net salaries and wages	121	30.939.647	32.421.036
b) Cost for taxes and contributions from salaries	122	11.579.217	12.055.312
c) Contributions on gross salaries	123	7.279.753	7.580.099
4. Depreciation	124	62.708.059	58.326.794
5. Other costs	125	25.214.214	26.097.598
6. Impairment (127+128)	126	0	0
a) Impairment of long-term assets (financial assets excluded)	127		
b) Impairment of short - term assets (financial assets excluded)	128		
7. Provisions	129		
8. Other operating costs	130	15.077.575	16.599.274
III. FINANCIAL INCOME (132 to 136)	131	13.600.146	13.261.643
1. Interest income, foreign exchange gains, dividends and similar income from related parties	132		62.153
2. Interest income, foreign exchange gains, dividends and similar income from non -	133	12.391.974	12.601.552
3. Share in income from affiliated entrepreneurs and participating interests	134		
4. Unrealized gains (income) from financial assets	135	311.854	535.190
5. Other financial income	136	896.318	62.748
IV. FINANCIAL EXPENSES (138 do 141)	137	40.857.884	34.471.814
1. Interest expenses, foreign exchange losses, dividends and similar expenses from related parties	138		
2. Interest expenses, foreign exchange losses, dividends and similar expenses from non -	139	36.002.068	32.154.753
3. Unrealized losses (expenses) on financial assets	140	311.400	1.020.990
4. Other financial expenses	141	4.544.416	1.296.071
V. INCOME FROM INVESTMENT - SHARE IN PROFIT OF ASSOCIATED ENTREPRENEURS	142		
VI. LOSS FROM INVESTMENT - SHARE IN LOSS OF ASSOCIATED ENTREPRENEURS	143		
VII. EXTRAORDINARY - OTHER INCOME	144		
VIII. EXTRAORDINARY - OTHER EXPENSES	145		
IX. TOTAL INCOME (111+131+142 + 144)	146	1.193.241.989	1.188.576.236
X. TOTAL EXPENSES (114+137+143 + 145)	147	1.190.722.124	1.131.041.511
XI. PROFIT OR LOSS BEFORE TAXATION (146-147)	148	2.519.865	57.534.725
1. Profit before taxation (146-147)	149	2.519.865	57.534.725
2. Loss before taxation (147-146)	150	0	0
XII. PROFIT TAX	151	0	0
XIII. PROFIT OR LOSS FOR THE PERIOD (148-151)	152	2.519.865	57.534.725
1. Profit for the period (149-151)	153	2.519.865	57.534.725
2. Loss for the period (151-148)	154	0	0
APPENDIX to P&L account (to be filled in by entrepreneur that prepares consolidated financial report)			
XIV. PROFIT OR LOSS FOR THE PERIOD			
1. Attributed to equity holders of parent company	155	2.494.952	57.514.007
2. Attributed to minority interest	156	24.913	20.718
STATEMENT OF OTHER COMPREHENSIVE INCOME (IFRS)			
I. PROFIT OR LOSS FOR THE PERIOD (= 152)	157	2.519.865	57.534.725
II. OTHER COMPREHENSIVE INCOME / LOSS BEFORE TAX (159 do 165)	158	0	0
1. Exchange differences on translation of foreign operations	159		
2. Movements in revaluation reserves of long - term tangible and intangible assets	160		
3. Profit or loss from reevaluation of financial assets available for sale	161		
4. Gains or losses on efficient cash flow hedging	162		
5. Gains or losses on efficient hedge of a net investment in foreign countries	163		
6. Share in other comprehensive income / loss of associated companies	164		
7. Actuarial gains / losses on defined benefit plans	165		
III. TAX ON OTHER COMPREHENSIVE INCOME FOR THE PERIOD	166		
IV. NET OTHER COMPREHENSIVE INCOME OR LOSS FOR THE PERIOD (158-166)	167	0	0
V. COMPREHENSIVE INCOME OR LOSS FOR THE PERIOD (157+167)	168	2.519.865	57.534.725
APPENDIX to Statement of other comprenhensive income (to be filled in by entrepreneur that prepares consolidated financial report)			
VI. COMPREHENSIVE INCOME OR LOSS FOR THE PERIOD			
1. Attributed to equity holders of parent company	169	2.494.952	57.514.007
2. Attributed to minority interest	170	24.913	20.718

STATEMENT OF CASH FLOWS - INDIRECT METHOD

for the period 01.01.2016 do 31.12.2016

Item	AOP code	Last year	Current year
1	2	3	4
CASH FLOW FROM OPERATING ACTIVITIES			
1. Profit before tax	001	2.519.865	57.534.725
2. Depreciation	002	62.708.059	58.326.794
3. Increase in short term liabilities	003		275.224.166
4. Decrease in short term receivables	004		
5. Decrease in inventories	005	219.939.622	34.320.046
6. Other increase in cash flow	006	12.448.887	20.748.920
I. Total increase in cash flow from operating activities (001 to 006)	007	**297.616.433**	**446.154.651**
1. Decrease in short term liabilities	008	299.466.366	
2. Increase in short term receivables	009	80.454.944	29.279.296
3. Increase in inventories	010		255.419.802
4. Other decrease in cash flow	011	6.339.124	6.704.302
II. Total decrease in cash flow from operating activities (008 to 011)	012	**386.260.434**	**291.403.400**
A1) NET INCREASE IN CASH FLOW FROM OPERATING ACTIVITIES	013	0	**154.751.251**
A2) NET DECREASE IN IN CASH FLOW FROM OPERATING ACTIVITIES	014	**88.644.001**	0
CASH FLOW FROM INVESTING ACTIVITIES			
1. Cash inflows from sales of long-term tangible and intangible assets	015	1.117.012	217.805
2. Cash inflows from sales of equity and debt instruments	016		
3. Interests receipts	017	2.683.636	1.679.568
4. Dividend receipts	018	40.596	56.703
5. Other cash inflows from investing activities	019	47.991.001	34.051.783
III. Total cash inflows from investing activities (015 to 019)	020	**51.832.245**	**36.005.859**
1. Cash outflow for purchase of long-term tangible and intangible assets	021	19.072.910	69.908.838
2. Cash outflow for acquisition of equity and debt financial instruments	022		
3. Other cash outflow for investing activities	023	36.288.473	6.204.350
IV. Total cash outflow for investing activities (021 do 023)	024	**55.361.383**	**76.113.188**
B1) NET INCREASE IN CASH FLOW FROM INVESTING ACTIVITIES (020-024)	025	0	0
B2) NET DECREASE IN CASH FLOW FROM INVESTING ACTIVITIES	026	**3.529.138**	**40.107.329**
CASH FLOW FROM FINANCIAL ACTIVITIES			
1. Cash inflow from issuing property and debt financial instruments	027		
2. Proceeds from the credit principal, promissory notes, borrowings and other loans	028	856.044.582	258.582.572
3. Other proceeds from financial activities	029	378.486.323	248.625.962
V. Total cash inflows from financial activities (027 to 029)	030	**1.234.530.905**	**507.208.534**
1. Cash outflow for repayment of credit principal and bonds	031	735.573.166	346.764.139
2. Cash outflow for dividends paid	032		
3. Cash outflow for financial lease	033	6.627.929	5.977.777
4. Cash outflow for purchase of treasury shares	034		
5. Other cash outflow for financial activities	035	406.627.046	278.090.098
VI. Total cash outflow for financial activities (031 to 035)	036	**1.148.828.141**	**630.832.014**
C1) NET INCREASE IN CASH FLOW FROM FINANCIAL ACTIVITIES	037	**85.702.764**	0
C2) NET DECREASE IN CASH FLOW FROM FINANCIAL ACTIVITIES	038	0	**123.623.480**
Total increase in cash flow (013 – 014 + 025 – 026 + 037 – 038)	039	0	0
Total decrease in cash flow (014 – 013 + 026 – 025 + 038 – 037)	040	6.470.375	8.979.558
Cash and cash equivalents at the beginning of the period	041	43.319.579	36.849.204
Increase of cash and cash equivalents	042	0	0
Decrease of cash and cash equivalents	043	6.470.375	8.979.558
Cash and cash equivalents at the end of the period	044	36.849.204	27.869.646

CHANGE IN CAPITAL STATEMENT

for the period from 1.1.2016 to 31.12.2016

Item	EDP	Previous year	Current year
1	2	3	4
1. Subscribed capital	001	249.600.060	249.600.060
2. Capital reserves	002	10.368.101	10.368.101
3. Profit reserves	003	56.393.357	56.410.827
4. Retained profit or loss carried forward	004	95.792.725	99.270.607
5. Profit or loss of the current year	005	2.494.952	57.514.007
6. Revaluation of fixed tangible assets	006		
7. Revaluation of intangible assets	007		
8. Revaluation of financial property available for sale	008		
9. 9. Other revaluation	009		
10. Total capital and reserves (EDP 001 through 009)	010	414.649.195	473.163.602
11. Foreign exchange differences from net investments in foreign operations	011		
12. Current and deferred taxes (part)	012		
13. Cash flow protection	013		
14. Changes in accounting policies	014		
15. Correction of significant mistakes from the previous period	015		
16. Other equity changes	016		
17. Total increase or decrease of capital (EDP 011 through 016)	017	0	0
17 a. Assigned to holders of parent company's capital	018	414.649.195	473.163.602
17 b. Assigned to minority interest	019	6.677.117	6.366.595

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