Ledo Group Report for 2016

Zagreb, 06 October 2017

Annex 1.

Reporting period 1.1.2016 to 31.12.2016

Annual financial report GFI-POD

Tax number (MB): 03218821

Company registration number (MBS): 080002964

Personal identification number (OIB): 87955947581

Issuing company: LEDO d.d.

Postal code and place: 10000 Zagreb

Street and house number: Marijana Čavića 1a

E-mail address: financije@ledo.hr

Internet address: www.ledo.hr

unicipality/city code and name: 133 Zagreb

County code and name: 21 Grad Zagreb

Number of employees (period end): 2.321

Consolidated report: YES

NKD code: 1052

Entities in consolidation (according to IFRS):	Registered seat:	Tax number (MB):
Irida d.o.o.	Ulica P. Zrinskog 34; Daruvar	03169391
Frikom d.o.o.	Zrenjaninski put bb, Beograd, Srbija	07042728
Ledo d.o.o. Čitluk	Industrijska zona; Tromeđa bb; Čitluk, BiH	4227031530007
Ledo d.o.o.	Liješnje bb; Podgorica, Crna Gora	02126265
Ledo kft.	2111 Szada 098/3 Hrszm Mađarska	10579967-2-13
Ledo d.o.o. Ljubljana	Moste 2f, komenda; Ljubljana, Slovenija	1216350
Frikom Beograd dooel Makedonija	Ul.1632 br. 46, 1000 Skoplje, Makedonija	6311946
Ledo Sh.p.k.	Mollosheve p.n., 1500 Obiliq, Kosovo	600042741
Agkor d.o.o. Beograd	Bulevar umetnosti br. 4/II/7; Beograd; Srbija	21098302

Bookkeeping service:

Contact person: Lisjak Jelena
(only surname and name)

Telephone: 012385723

Telefaks: 012385686

E-mail address: jelena.lisjak@ledo.hr

Family name and name: Vrabec Dario
(authorized representatives)

Disclosure documents:

1. Audited annual financial statements
2. Report of the Management Board on position of the Company
3. Statement of responsible persons for preparation of financial statements
4. The decision of the competent authority (the proposal) about the development of the annual financial statements
5. Decision on the allocation of profits or covering of loss

M.P.

ledo d.d. ZAGREB Čavićeva 1a 12

(signed by authorised person for representation)

BALANCE SHEET
as of 31.12.2016.

Company: LEDO GROUP - CONSOLIDATED			
Position	AOP	Previous period	Current period
1	2	3	4
A) RECEIVABLES FOR SUBSCRIBED AND NON-PAID CAPITAL	001		0
B) NON-CURRENT ASSETS (003+010+020+029+033)	002	699.923.171	636.913.745
I. INTANGIBLE ASSETS (004 do 009)	003	94.500.916	92.610.620
1. Expenditure for development	004	0	0
2. Concessions, patents, license fees, trademarks, service marks, software and other rights	005	7.028.975	5.178.209
3. Goodwill	006	85.921.275	85.921.276
4. Advances for purchase of intangible assets	007	0	0
5. Intangible assets in progress	008	0	283.150
6. Other intangible assets	009	1.550.666	1.227.985
II. PROPERTY, PLANT AND EQUIPMENT (011 do 019)	010	486.996.868	429.481.319
1. Land	011	97.602.505	85.606.963
2. Buildings	012	135.182.158	122.294.649
3. Plant and equipement	013	187.335.442	167.015.758
4. Tools, working inventory and transportation assets	014	55.489.073	47.558.891
5. Biological assets	015	0	0
6. Advances for purchase of tangible assets	016	1.531.995	1.740.561
7. Tangible assets in progress	017	4.209.487	58.529
8. Other tangible assets	018	5.646.208	5.205.968
9. Investment in real-estate	019		0
III. NON-CURRENT FINANCIAL ASSETS (021 do 028)	020	105.635.895	104.312.378
1. Share in related parties	021		0
2. Loans given to related parties	022		0
3. Participating interests (shares)	023	505.120	770.935
4. Loans given to companies in which the entity holds participating interest	024		0
5. Investments in securities	025	40.840.612	42.118.703
6. Loans, deposits and similar assets	026	60.637.549	61.422.740
7. Other non-current financial assets	027	1.285.847	0
8. Equity-accounted investments	028	2.366.767	0
IV. RECEIVABLES (030 do 032)	029	3.039.708	368.042
1. Receivables from related parties	030		0
2. Receivables arising from sales on credit	031		0
3. Other receivables	032	3.039.708	368.042
V. DEFERRED TAX ASSETS	033	9.749.784	10.141.386
C) CURRENT ASSETS (035+043+050+058)	034	1.839.333.987	1.443.725.772
I. INVENTORIES (036 do 042)	035	411.952.407	340.120.940
1. Raw materials and supplies	036	151.053.386	105.215.848
2. Production in progress	037	78.101.323	86.383.761
3. Finished goods	038	68.887.913	50.580.012
4. Merchandise	039	108.857.599	95.295.064
5. Advances for inventories	040	3.669.787	1.297.668
6. Long term assets held for sale	041	1.382.399	1.348.587
7. Biological assets	042	0	0
II. RECEIVABLES (044 do 049)	043	411.419.945	353.592.660
1. Receivables from related parties	044		0
2. Receivables from end-customers	045	353.539.456	314.567.379
3. Receivables from participating entities	046		0
4. Receivables from employees and members of the company	047	826.851	873.089
5. Receivables from government and other institutions	048	18.403.196	16.365.221
6. Other receivables	049	38.650.442	21.786.971
III. CURRENT FINANCIAL ASSETS (051 do 057)	050	990.046.722	732.013.679
1. Share in related parties	051		0
2. Loans given to related parties	052		0
3. Participating interests (shares)	053		0
4. Loans given to companies in which the entity holds participating interest	054		0
5. Investments in securities	055	1.055.000	210.000
6. Loans, deposits and similar assets	056	988.991.722	731.797.660
7. Other financial assets	057		6.019
IV. CASH AND CASH EQUIVALENTS	058	25.914.913	17.998.493
D) PREPAYMENTS AND ACCRUED INCOME	059	10.170.917	7.197.063
E) TOTAL ASSETS (001+002+034+059)	060	2.549.428.075	2.087.836.580
F) OFF BALANCE SHEET ITEMS	061		

EQUITY AND LIABILITIES			
A) CAPITAL AND RESERVES (063+064+065+071+072+075+078)	**062**	**1.733.498.384**	**1.313.698.094**
I. SUBSCRIBED SHARE CAPITAL	063	119.289.600	119.289.600
II. CAPITAL RESERVES	064	713.232.769	734.374.387
III.RESERVES FROM PROFIT (066+067-068+069+070)	065	107.389.196	106.739.132
1. Legal reserves	066	27.091.699	26.877.909
2. Reserve for own shares	067	0	0
3. Treasury shares and stakes (deductible items)	068	0	0
4. Statutory reserves	069	0	0
5. Other reserves	070	80.297.497	79.861.223
IV. REVALUATION RESERVES	071	56.091.480	57.689.745
V. RETAINED EARNINGS OR ACCUMULATED LOSS (073-074)	072	475.849.112	565.446.931
1. Retained earnings	073	475.849.112	650.887.701
2. Accumulated loss	074		85.440.770
VI. NET PROFIT OR LOSS FOR THE PERIOD (076-077)	075	261.646.227	-269.841.701
1. Net profit for the period	076	261.646.227	
2. Net loss for the period	077		269.841.701
VII. MINORITY INTEREST	078		0
B) PROVISIONS (080 do 082)	**079**	**4.739.693**	**4.942.893**
1. Provisions for pensions, severance pay and similar liabilities	080	4.739.693	4.942.893
2. Provisions for tax liabilities	081		0
3. Other provisions	082		0
C) NON-CURRENT LIABILITIES (084 do 092)	**083**	**16.246.291**	**15.366.358**
1. Liabilites to related parties	084		0
2. Liabilities for loans, deposits, etc.	085	2.292.351	2.935.687
3. Liabilities to banks and other financial institutions	086		0
4. Liabilities for received advances	087		0
5. Trade payables	088		0
6. Commitments on securities	089		0
7. Liabilities to companies in which the entity holds participating interest	090		0
8. Other non-current liabilities	091		0
9. Deferred tax liabilities	092	13.953.940	12.430.671
D) CURRENT LIABILITIES (094 do 105)	**093**	**787.329.774**	**743.414.768**
1. Liabilites to related parties	094		0
2. Liabilities for loans, deposits, etc.	095	53.369.636	46.148.938
3. Liabilities to banks and other financial institutions	096	420.670.247	400.075.614
4. Liabilities for advances	097	6.548.044	3.648.642
5. Trade payables	098	230.713.983	215.612.337
6. Commitments on securities	099	32.285.439	19.221.765
7. Liabilities to companies in which the entity holds participating interest	100		0
8. Liabilities to employees	101	13.968.772	14.735.925
9. Liabilities for taxes, contributions and similar fees	102	27.682.265	19.869.952
10. Liabilities to shareholders arising from share in the result	103	366.527	363.623
11. Liabilities arising from non-current assets held for sale	104		0
12. Other current liabilities	105	1.724.861	23.737.972
E) ACCRUED EXPENSES AND DEFERRED INCOME	**106**	**7.613.933**	**10.414.467**
F) TOTAL EQUITY AND LIABILITIES (062+079+083+093+106)	**107**	**2.549.428.075**	**2.087.836.580**
G) OFF BALANCE SHEET ITEMS	**108**		**0**
ADDITION TO BALANCE SHEET (only for consolidated financial statements)			
ISSUED CAPITAL AND RESERVES			
1. Attributable to majority owners	109	1.733.498.384	1.313.698.094
2. Attributable to minority interest	110	0	0

INCOME STATEMENT
period 01.01.2016 to 31.12.2016

Company: LEDO GROUP - CONSOLIDATED			
Position	AOP	Previous period	Current period
1	2	3	4
I. OPERATING INCOME (112 do 113)	111	2.183.347.422	2.180.978.862
1. Sales revenue	112	2.163.404.747	2.161.777.455
2. Other operating income	113	19.942.675	19.201.407
II. OPERATING EXPENSES (115+116+120+124+125+126+129+130)	114	1.903.224.430	2.429.524.857
1. Change in inventories of work in progress and finished goods	115	-9.865.948	7.129.502
2. Material expenses (117 do 119)	116	1.423.760.421	1.415.209.276
a) Costs of raw materials	117	654.651.836	599.253.569
b) Cost of goods sold	118	509.238.148	557.294.142
c) Other material expenses	119	259.870.437	258.661.565
3. Staff costs (121 do 123)	120	246.642.377	246.557.463
a) Net salaries and wages	121	150.095.137	151.412.755
b) Tax and contributions from salary expenses	122	63.199.352	60.773.131
c) Contributions on gross salaries	123	33.347.888	34.371.577
4. Depreciation and amortisation	124	94.123.501	90.938.124
5. Other expenses	125	141.570.164	107.143.840
6. Write down of assets (127+128)	126	6.540.784	562.331.427
a) non-current assets (excluding financial assets)	127	25.623	
b) current assets (excluding financial assets)	128	6.515.161	562.331.427
7. Provisions	129	453.131	215.225
8. Other operating costs	130		
III. FINANCIAL INCOME (132 do 136)	131	78.909.341	71.996.119
1. Interest, foreign exchange gains, dividends and similar income from related parties	132		
2. Interest, foreign exchange gains, dividends and similar income from third parties	133	78.909.341	71.996.119
3. Part of income from associates and participating interests	134		
4. Unrealised gains (income) from financial assets	135		
5. Other financial income	136		
IV. FINANCIAL EXPENSES (138 do 141)	137	47.088.108	32.937.035
1. Interest, foreign exchange losses, dividends and similar expenses from	138		
2. Interest, foreign exchange losses, dividends and similar expenses from third parties	139	44.588.108	32.937.035
3. Unrealised losses (expenses) from financial assets	140		
4. Other financial expenses	141	2.500.000	
V. SHARE OF PROFIT FROM ASSOCIATED COMPANIES	142		-1.442.092
VI. SHARE OF LOSS FROM ASSOCIATED COMPANIES	143	257.520	
VII. EXTRAORDINARY - OTHER INCOME	144		
VIII. EXTRAORDINARY - OTHER EXPENSES	145		
IX. TOTAL INCOME (111+131+144)	146	2.262.256.763	2.251.532.889
X. TOTAL EXPENSES (114+137+143+145)	147	1.950.570.058	2.462.461.892
XI. PROFIT OR LOSS BEFORE TAXES (146-147)	148	311.686.705	-210.929.003
1. Profit before taxes (146-147)	149	311.686.705	0
2. Loss before taxes (147-146)	150		210.929.003
XII. CORPORATE INCOME TAX	151	50.040.478	58.912.698
XII. PROFIT OR LOSS FOR THE PERIOD (148-151)	152	261.646.227	-269.841.701
1. Profit for the period (149-151)	153	261.646.227	0
2. Loss for the period (151-148)	154		269.841.701
ADDITION TO PROFIT AND LOSS ACCOUNT (only for consolidated financial statements)			
XIV. PROFIT OR LOSS FOR THE PERIOD			
1. Attributable to majority owners	155	261.646.227	-269.841.701
2. Attributable to minority interest	156	0	0
STATEMENT OF OTHER COMPREHENSIVE INCOME (only for IFRS adopters)			
I. PROFIT OR LOSS FOR THE PERIOD (=152)	157	261.646.227	-269.841.701
II. OTHER COMPREHENSIVE INCOME/LOSS BEFORE TAXES (159 TO 165)	158	-14.071.861	-16.031.961
1. Exchange differences from international settlement	159	-4.298.704	-15.843.684
2. Changes in revaluation reserves of long-term tangible and intangible assets	160	-9.082.873	-772.752
3. Profit or loss from re-evaluation of financial assets held for sale	161	-537.284	684.125
4. Profit or loss from cash flow hedging	162		
5. Profit or loss on efficient hedge of net investments in foreign countries	163		
6. Share in other comprehensive income/loss of associtied companies	164		
7. Actuarial gains/losses from defined benefit plans	165	-153.000	-99.650
III. TAXATION OF OTHER COMPREHENSIVE INCOME FOR THE PERIOD	166	-2.244.343	-1.261.723
IV. NET OTHER COMPREHENSIVE INCOME OR LOSS FOR THE PERIOD (158 TO 166)	167	-11.827.518	-14.770.238
V. COMPREHENSIVE INCOME OR LOSS FOR THE PERIOD (157+167)	168	249.818.709	-284.611.939
ADDITION TO STATEMENT OF OTHER COMPREHENSIVE INCOME (only for consolidated financial statements)			
VI. COMPREHENSIVE INCOME OR LOSS FOR THE PERIOD			
1. Attributable to majority owners	169	249.818.709	-284.611.939
2. Attributable to minority interest	170	0	0

CASH FLOW STATEMENT - Indirect method
period 01.01.2016. to 31.12.2016.

Company: LEDO GROUP - CONSOLIDATED			
Position	**AOP**	**Previous period**	**Current period**
1	2	3	4
CASH FLOW FROM OPERATING ACTIVITIES			
1. Profit before tax	001	311.686.705	-210.929.003
2. Depreciation and amortisation	002	94.123.501	90.938.124
3. Increase in current liabilities	003	74.763.184	62.523.646
4. Decrease in current receivables	004		
5. Decrease of inventories	005		71.798.467
6. Other cash flow increases	006	11.990.143	788.483.310
I. Total increase of cash flow from operating activities	007	**492.563.532**	**802.814.544**
1. Decrease in current liabilities	008		
2. Increase in current receivables	009	214.589.123	272.036.218
3. Increase of inventories	010	45.071.278	
4. Other cash flow decreases	011	79.640.249	303.837.408
II. Total decrease of cash flow from operating activities	012	**339.300.650**	**575.873.626**
A1) NET INCREASE OF CASH FLOW FROM OPERATING ACTIVITIES	013	153.262.882	226.940.918
A2) NET DECREASE OF CASH FLOW FROM OPERATING ACTIVITIES	014		0
CASH FLOW FROM INVESTING ACTIVITIES			
1. Receipts from sale of non-current assets	015	15.933.247	14.142.451
2. Receipts from sale of non-current financial assets	016		
3. Interest received	017	54.825.391	43.856.732
4. Dividend received	018		
5. Other proceeds from investing activities	019	308.542.309	322.317.218
III. Total cash inflows from investing activities	020	**379.300.947**	**380.316.401**
1. Purchase of non-current assets	021	97.552.198	52.662.361
2. Purchase of non-current financial assets	022		
3. Other cash outflows from investing activities	023	357.006.393	352.823.505
IV. Total cash outflows from investing activities	024	**454.558.591**	**405.485.866**
B1) NET INCREASE OF CASH FLOW FROM INVESTING ACTIVITIES	025	0	0
B2) NET DECREASE OF CASH FLOW FROM INVESTING ACTIVITIES	026	**75.257.644**	**25.169.465**
CASH FLOW FROM FINANCING ACTIVITIES			
1. Cash inflows from issuing equity and debt financial instruments	027	0	
2. Cash inflows from loans, debentures, credits and other borrowings	028	791.550.482	555.183.214
3. Other proceeds from financing activities	029	0	
V. Total cash inflows from financing activities	030	**791.550.482**	**555.183.214**
1. Repayment of loans and bonds	031	804.281.322	629.682.735
2. Dividends paid	032	70.237.741	135.188.352
3. Cash outflows for finance lease	033		
4. Purchase of treasury shares	034	0	
5. Other cash outflows from financing activities	035	0	
VI. Total cash outflows from financing activities	036	**874.519.063**	**764.871.087**
C1) NET INCREASE OF CASH FLOW FROM FINANCING ACTIVITIES	037	0	0
C2) NET DECREASE OF CASH FLOW FROM FINANCING ACTIVITIES	038	**82.968.581**	**209.687.873**
Total increases of cash flow	039	0	0
Total decreases of cash flow	040	**4.963.343**	**7.916.420**
Cash and cash equivalents at the beginning of the period	041	30.878.256	25.914.913
Increase of cash and cash equivalents	042		
Decrease of cash and cash equivalents	043	4.963.343	7.916.420
Cash and cash equivalents at the end of period	044	25.914.913	17.998.493

STATEMENTS OF CHANGES IN EQUITY

period 1.1.2016 do 31.12.2016

Naziv pozicije	AOP oznaka	Prethodna godina	Tekuća godina
1	2	3	4
1. Subscribed share capital	001	119.289.600	119.289.600
2. Capital reserves	002	713.232.769	734.374.387
3. Reserves from profit	003	107.389.196	106.739.132
4. Retained earnings or accumulated loss	004	475.758.336	565.450.610
5. Net profit or loss for the period	005	261.646.227	-269.845.380
6. Revaluation of tangible assets	006	57.700.990	57.689.745
7. Revaluation of intangible assets	007		
8. Revaluation of financial assets available for sale	008	-1.365.231	
9. Other revaluation	009	-153.503	
10. Total equity and reserves (AOP 001 to 009)	**010**	1.733.498.384	1.313.698.094
11. Currency profit or loss arising from net investments in foreign operations	011	-4.298.704	-15.843.684
12. Current and deferred taxes	012		
13. Cash flow hedge	013		
14. Change of accounting policies	014		
15. Correction of significant errors in prior periods	015	-46.130.169	
16. Other changes in capital	016	189.070.034	-403.956.606
17.Total increase or decrease of equity (AOP 011 to 016)	**017**	138.641.161	-419.800.290
17 a. Attributable to majority owners	018	138.641.161	-419.800.290
17 b. Attributable to minority interest	019	0	0

Dioničko društvo
za proizvodnju i
promet sladoleda
i smrznute hrane
Čavićeva 1a, Zagreb

Declaration of key personnel responsible for preparation of financial statements

Consolidated financial statements for Ledo d.d. for the period from 1 January 2016 till 31 December 2016 are prepared in accordance with the International Financial Reporting Standards and they give a complete and true state of assets and liabilities, financial result and affairs of Ledo d.d.

Management report contains true and fair view of affairs and results of Ledo d.d. and all material significant transactions are stated appropriately.

Head of Accounting department	Finance Director
Jelena Lisjak	Ankica Slobođanac

d.d. ZAGREB
Čavićeva 1a
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Contact

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CONSOLIDATED ANNUAL REPORT FOR 2016
AND INDEPENDENT AUDITOR'S REPORT

Contents

CONSOLIDATED MANAGEMENT REPORT OF THE LEDO GROUP

In 2016, the sales of Ledo Group amounted to HRK 2,180 million, while in 2015 amounted to HRK 2,183 million. Realised sales compared to the previous year is 99.9%, which is a good result for the Ledo Group due to unfavourable weather conditions. In 2016, costs related to marketing and sales promotion costs directly attributable to customer contracts were reclassified from the category of costs to decrease in sales revenue. This reclassification resulted in lower operating income, as well as lower operating expenses, and had no impact on the final result. Due to the performed reclassification, the financial statements for the previous year have been restated.

In 2016, the product assortment was consolidated. The products with the highest turnover and most profitable items were identified, with business operations focusing on these items in order to increase the gross margin and thus the Group's operating profit.

Operating profit, excluding one-off costs of value adjustments and impairments of assets, increased by 9% compared to the previous year and amounted to HRK 313.8 million, while in the previous year amounted to HRK 286.7 million.
As at 31 December 2016, the Group had receivables from related companies, members of the Agrokor Group, in the total amount of HRK 1,410 million. Due to the uncertainty of collection, which will depend on the outcome of the Settlement in the entire restructuring process of the Agrokor Group, the Management Board has made an adequate impairment of the value of receivables which have not been collected up to the date of the report, amounting to HRK 550.7 million.
Non-recurring costs of value adjustments resulted in a pre-tax loss of HRK 210.9 million. Normalised pre-tax profit excluding non-recurring costs amounted to HRK 352.8 million.

Expected future development of the Group

For all individual companies within the Group, a medium-term business plan was defined with planned investments in production equipment, which would increase the efficiency of individual companies and thus the Group's efficiency. This is meant to increase the competitiveness on the domestic, and especially on, foreign markets. As a result of the stated, Management also sees the potential for further growth and development. Development activities are based on assuming that the leading position in the regional market will be maintained, expanding to new foreign markets, entering the segment of private brand production for retail customers. These assumptions would result in revenue growth, optimisation of business processes and cost reduction, which would in turn result in the Group's growth in profits. One of the basic assumptions of future business is the maximisation of free cash flow.
The development of the Group and the realisation of the goals set out in the business plans will be significantly affected by the result of the Settlement implemented as part of the Extraordinary Administration procedure over companies of systemic importance for the Republic of Croatia. To the best of their knowledge and available information, Management expects a successful conclusion of the Settlement, on which the business plans are based.

Research and development activities

Research and development activities at the Ledo Group are based on market data, and they are conducted by certified research houses (Ipsos, Nielsen, Euromonitor, Mintel). Ledo, as the market leader in all key areas of its business, bases its product development on tracking global trends and consumer needs with a focus on quality and innovation.

The top quality and safety of products manufactured by Ledo Group companies confirms and combines a certified integrated management system based on the principles of quality management, food safety and environmental protection in accordance with international standards ISO 9001, HACCP, ISO 14001, IFS, BRC and Koscher. At the end of 2016, the implementation of an energy efficiency management system was initiated in compliance with the requirements of ISO 50001 as well as the transition of an integrated management system according to the ISO 14001: 2015 and ISO 9001: standards.

Operating risks
Foreign Exchange Rate Risk - most of the Group's assets are denominated in HRK. A significant portion of the Group's loan liabilities is denominated in foreign currencies (primarily EUR). Consequently, the Group is

exposed to the risk of exchange rate fluctuations. Given the long-term policy of the Republic of Croatia related to maintaining the EUR exchange rate, the Group does not consider it to be significantly exposed to further negative impact of this exposure.

Credit risk - The Group is exposed to credit risk, which is the risk that the debtor will not be able to meet the maturity obligations. The Group manages the level of risk by establishing credit risk exposure limits to one debtor or group of debtors. The Group believes that the maximum exposure to credit risk relates to receivables from loans granted to related companies in the Agrokor Group, which is why a value adjustment of part of these receivables as at 31 December 2016 was carried out, i.e. the Group believes that its maximum exposure is reflected in the amount of these receivables.

Liquidity risk - The Group monitors its cash flows and all companies within the Group plan in detail cash flow movements and generate sufficient funds to meet their obligations. Liquidity risk is affected by the Group's contingent liabilities on the basis of co-debtor relations and guarantees (subsidiary and solidarity). All guarantees issued by the Group relate to companies within the Agrokor parent company. All guarantees apply to funds used to finance the entire Parent company, resulting in the growth and development of the Parent company. Through synergic effects, there were benefits for all business segments, as well as for companies within the Ledo Group. The financing of Agrokor d.d. was a centralised function and common for many years, so that legal affairs were contracted and monitored centrally by Agrokor d.d., whereby the Ledo Group does not have complete insight into all contracted legal affairs.

Events after the balance sheet date

Pursuant to the *Act on Extraordinary Administration Procedure in Companies of Systemic Importance for the Republic of Croatia* ("the Act"), on 7 April 2017, the Management Board of Agrokor d.d., Zagreb ("Agrokor") filed a request for initiating the Extraordinary Administration procedure to the Commercial Court in Zagreb.

The purpose of this Act is to protect the sustainability of business operations of companies of systemic importance for the Republic of Croatia while conducting business, financial and ownership restructuring, all with the aim of preventing negative consequences on the overall economic, social and financial stability in the Republic of Croatia that may arise from a sudden discontinuity in the operations of such companies.

On 10 April 2017 (amended on 21 April 2017), the Commercial Court in Zagreb issued a Decision on Initiating the Extraordinary Administration Procedure (St-1138/17) over Agrokor and its related companies and subsidiaries in the Republic of Croatia including the company Ledo d.d. On the basis of the aforementioned Decision, on 10 April 2017 the Extraordinary Commissioner took over the management of Agrokor d.d. as well as control over the Agrokor companies covered by the Extraordinary Administration.

As defined in Article 7 of the Act, during the Extraordinary Administration procedure it is not permitted to initiate debtor liquidation proceedings. Also, as defined in Article 41 of the Act, from the day of initiating the Extraordinary Administration procedure until its completion, it is not allowed to initiate civil, enforcement, administrative and insurance proceedings as well as out-of-court collection proceedings against Agrokor and its subsidiaries and related companies subject to the Extraordinary Administration.

Within 12 months from initiating the Extraordinary Administration procedure, with the possibility of extension for 3 months, the Extraordinary Commissioner may, with the consent of the council of creditors, propose a settlement to the creditors. The settlement process is defined by the Act, while its outcome cannot reasonably be estimated up to the date of this report.

In accordance with the Act, the Extraordinary Administration measure is implemented only when there is a reasonable probability of establishing a balance and continued operations on a more permanent basis. Otherwise, at any time during the course of the Extraordinary Administration procedure, the court may, at the request of the Extraordinary Commissioner and upon obtaining the consent of the council of creditors, decide to terminate the Extraordinary Administration procedure and to initiate bankruptcy proceedings if circumstances have arisen due to which there is no longer a reasonable probability of establishing economic balance and continued operations on a more permanent basis. To the best of our knowledge, such circumstances have not arisen so far and according to the information available until the date of this report, the Company's Management expects a successful conclusion of the Settlement. Accordingly, the financial statements have been prepared based on the going concern basis.

On 21 February 2017, a EUR 100 million loan agreement was concluded between Sberbank Russia as the loan provider and Agrokor d.d. as the loan recipient, with the guarantee of certain related companies including Ledo d.d. The agreement confirmed two tranches, one in the amount of EUR 60 million for meeting current operating requirements and another in the amount of EUR 40 million for refinancing purposes.

On 13 April 2017, following the consideration of the key provisions (amount, interest rate, maturity, co-debtor rights and obligations), the company signed the loan agreement as a co-debtor for the loan of the related company Agrokor d.d. A contract was signed between Agrokor d.d. as the loan recipient and Zagrebačka banka d.d., Privredna banka Zagreb d.d., ERSTE Steiermaerkische d.d. and Raiffeisen Bank Austria d.d. as the loan provider in the amount of EUR 80,000,000. The loan is repaid one-off at the expiration of 12 months from the date of initiating the Extraordinary Administration procedure or 15 months, if the Extraordinary Administration procedure is extended.

On 8 June 2017, the company signed, as a guarantor, an Loan Agreement with a priority right when settling concluded by Agrokor d.d., together with its related companies (Agrokor-trgovina d.o.o., Belje d.d. Darda, Jamnica d.d., Konzum d.d., Ledo d.d., Pik-Vinkovci d.d., Sarajevski Kiseljak d.d., Vupik d.d., Zvijezda d.d., PIK Vrbovec d.d., Velpro d.o.o. and others). This is a Loan Agreement with different international and domestic inventors up to EUR 1,060,000,000 the highest, divided in two tranches: first one up to EUR 960,000,000 and the second one up to EUR 100,000,000 (offered to existing suppliers to participate in financing the Agrokor group as investors). Loan Agreement matures at each day preceeding 10 July 2018 or the day of judicial validation of the Settlement or the day of starting the bankruptcy proceedings. The loan amount was used also for the early repayment of loan amounting to EUR 80 million granted as of 13 April. Loan was granted under the condition of refinancing (settlement) of part of old debt existing before the initiation of Extraordinary Administration procedure in the ratio of cash remaining at company’s disposal and cash used for refinancing (settlement) of part of old debt 1:1. As a security, the loan agreement defines a potential pledge over non-current tangible and intangible assets of all guarantors. Funds secured with this loan have allowed the Issuer to stabilise its operations, solve liquidity problems, and fund inventory and prepare for the tourist season.

In 2017, the amount of loan liabilities to banks in Frikom d.o.o. was decreased compared to the balance as of 31 December 2016 by EUR 9.5 million. For the extension of existing loans that became due in 2017, a pledge over Frikom's assets was recorded: a building in Čačak, a part of the facility in Niš and a facility in Gornji Milanovac, in the amount of EUR 13 million. The funds secured by extending the existing loans enabled a steady continuation of operations. Due to extending a matured loan from Komercijalna banka, Ledo d.o.o. Čitluk registered a pledge over the warehouse and production hall in Čitluk. Ledo Podgorica has a Decision on the Pledge Realisation over facilities in Podgorica and Kovačko polje on the basis of a loan concluded in 2015 between Hipotekarna banka and Agrokor d.d. amounting to EUR 6.8 million. The Decision has not been activated to date.

Significant legal disputes initiated against the Group

On 7 June 2017, The Commercial Court in Belgrade issued a decision on a provisional measure prohibiting the Company from disposing and using the 100% share of the company Ledo d.d. in the company Frikom d.o.o. as security for receivables of Sberbank d.d. in the amount of EUR 100,000,000 (principal amount) and EUR 1,323,493 (accrued interest on 25 May 2017) arising from a guarantee on the basis of a loan agreement signed on 21 February 2017.

Encumbrance of Group’ assets

On 1 September 2017, Agrokor d.d., its related companies, including Ledo d.d., all as Opponents of the collateral on the one hand, and Madison Pacific Trust Limited as the Proponent of the collateral on the other, signed an Agreement on creating a lien against properties. This Agreement was concluded for the purpose of establishing and perfecting the collateral in favour of the Proponent of the collateral in order to secure the present and future claims that each Debtor owes to the Secured Parties, all as defined in and in accordance with the Agreement on the super-priority loan as of 8 June 2017 (13.06.2017, 18.06.2017, 28.06.2017, 04.07.2017, 10.07.2017 and 30.08.2017).

The lien was created against properties of the company Ledo d.d., which comprise the following business facilities: administrative building, business buildings, commercial buildings (ice cream factory) and courtyard in Zagreb, M. Čavića 9, total area 23129 m2; two buildings, a shed and an industrial yard in Osijek, Ulica vukovarska 314, with a total area of 5051 m2; a building and yard in Slavonski Brod, Ljudevita Posavskog bb, total area of 5563 m2; the factory yard in Zagreb, Čavićeva 9, with a total area of 235 ftm2 or 845 m2.

Pledge over the company's (issuer) Mark (brand)

On 15.9.2017. the Agreement on the Establishment of a Pledged Right to Certain Marks (brands) of issuers between Agrokor d.d., its related companies including the issuer, all as insurance opposites on one side, and Madison Pacific Limited as the Proponent of Insurance on the other, for the purpose of establishing and perfecting insurance in the benefit of the Proponent of Insurance to secure the current and future claims that each borrower owes to the secured parties, as defined in accordance with the oldest loan agreement of 8 June 2017 and with all the changes and amendments (13.06.2017., 18.06.2017., 28.06.2017., 04.07.2017., 10.07.2017. i 30.08.2017.).

The 2016 consolidated financial statements of the Ledo Group consist of the parent company Ledo d.d. Zagreb and its subsidiaries: Frikom d.o.o. Belgrade, Ledo d.o.o. Čitluk, Ledo d.o.o. Podgorica, Ledo d.o.o. Ljubljana, Frikom Beograd d.o.o.e.l. Macedonia, Ledo Kft. Budapest, Ledo Sh.p.k Kosovo, Irida d.o.o. Daruvar and Agkor d.o.o. Belgrade. The Group has one associate – Kikindski mlin, Kikinda.

COMPANY'S DECLARATION ON THE APPLICATION OF THE CORPORATE GOVERNANCE CODE

Ledo d.d. applies most of the standards and recommendations of the Corporate Governance Code (hereinafter referred to as "the Code") that were jointly developed by the Croatian Financial Services Supervisory Agency and the Zagreb Stock Exchange, and as outlined in all the Codes published so far. Certain departures from some of the recommendations and guidelines were conditioned by a concentrated ownership structure, the internal regulations of Ledo d.d. applicable at that time and the Company's Articles of Association.

The Management and Supervisory Board make significant efforts and gradually develop the Ledo d.d management system, directing it towards a comprehensive implementation of the Code, activities are especially devoted to the development of internal bylaws that will contribute to a better and more transparent monitoring and control of business processes. The Company will inform the investment public in detail on the implemented recommendations and standards of corporate governance by publishing the Code for 2017. The Code will be submitted to the Zagreb Stock Exchange, published on their website, as well as on the Company's website.

In this Statement the Company considers that publishing the Code for 2016 as well as individually stating all provisions of the Code that are not yet applied and explanations thereto is not practical and sufficiently transparent, since the Company is in an Extraordinary Administration procedure in accordance with the Act on Extraordinary Administration Procedure in Companies of Systemic Importance for the Republic of Croatia (OG 32/2017) whose purpose is somewhat opposed to certain principles of the Corporate Governance Code.

Namely, in the forthcoming period, the Management Board, together with the Extraordinary Commissioner and its expert teams, will, amongst other things, work intensively on a more efficient and transparent corporate governance system in the Company and by adopting internal regulations it will regulate individual areas of corporate governance.

Since the shares of Ledo d.d. are quoted on the official market of the Zagreb Stock Exchange, in the course of 2016 Ledo d.d. met its obligations of informing the public, the Croatian Financial Services Supervisory Agency and the Zagreb Stock Exchange to the extent and in the manner stipulated by the Capital Market Act and relevant EU Regulations.

Corporate governance in the company is based on a dual system consisting of the Supervisory Board and the Management Board of the Company. Together with the General Assembly, these are the three basic governing bodies of the Company.

Internal control and control of operations is carried out continuously, through several business functions, i.e. organisational departments in Ledo d.d. (e.g. controlling services, internal control services, business intelligence department etc.), and internal accounting controls of the relevant employees and through the Audit Committee ensure the accuracy, validity, comprehensiveness of financial records and reports. Management functions are performed by the Management Board and the Supervisory Board performs the supervisory function in accordance with its authorities.

Shareholders of the Company execute their rights at the Company Assembly in accordance with the provisions of the Companies Act and the Company Articles of Association. Invitations to Assembly meetings together with the agenda and proposed decisions are publicly announced on the web sites of the Company and the Stock Exchange, and the Assembly's decisions are also published in the same way. All shareholders, who register for participating in the Assembly's work on time, have the right to attend the meetings. The General Assembly decides on changes to the Articles of Association;

election and dismissal of members of the Supervisory Board, annual financial statements and distribution of profit; discharging members of the Management and Supervisory Board; appointment of the Company's auditor; increase and decrease of Company's share capital; listing and dilisting on a regulated market; the Company's termination. In 2016, the Company's General Assembly was held on 31 August and adopted the following decisions: adoption of the Annual Financial Statements for 2015 of Ledo d.d. and the Ledo Group; on profit distribution; on dismissing the Management and Supervisory Board and appointing the Company's auditor for 2017. In the first half of 2017, two extraordinary sessions of the General Assembly were held on 15 May 2017 where PricewaterhouseCoopers d.o.o. was appointed as the new auditor for 2016 and on 5 June 2017 where decisions on changes regarding Supervisory Board members were adopted.

The Company's Supervisory Board consists of seven members, one of which is the workers' representative. The Supervisory Board acts in accordance with the provisions of the Companies Act, the Company's Articles of Association and the Rules of Procedure of the Supervisory Board. During 2016, nine Supervisory Board meetings were held. Among other things, the annual financial statements for 2015 and the proposed draft decisions for the General Assembly were considered. During 2017, there was a change in the membership of the Supervisory Board since on 15 February 2017, Mr. Kristijan Buk ceased to be a Supervisory Board member at his own request, Mr. Srećko Žganec passed away on 19 April 2017, and in June 2017, based on the decision of the Company's General Assembly, Ljerka Puljić, President of the Supervisory Board, the members Ante Todorić and Marica Guina Torres Dujsin were revoked, and new members, Vladimir Bošnjak, Teo Vujčić, Luka Cvitan and Zdravko Kačić, were appointed. At the time of writing the report, the **Supervisory Board is composed of: Vladimir Bošnjak – President, Mislav Galić - Vice President, Teo Vujčić, Luka Cvitan, Zdravko Kačić and Milenko Arapović – members.**

The **Company's Management Board**, which consists of two members, represents the Company and manages the Company's business in accordance with the provisions of the Companies Act and the Articles of Association of the Company. At the time of writing of this Statement, the Management Board acts in accordance with the decisions of the Extraordinary Commissioner regarding all matters beyond the regular business framework, in line with the Act on the Extraordinary Administration Procedure in Companies of Systematic Importance for the Republic of Croatia (OG 32/2017).

In the past period, there has been no formally adopted diversity policy in the Company, but from the composition of the governing bodies it is evident that the principle of diversity related to age, gender and education is complied with.

Statement of the Management Board's responsibilities for the consolidated Annual Report

Pursuant to the Croatian Accounting Act in force, the Management Board is responsible for ensuring that consolidated financial statements are prepared for each financial year in accordance with International Financial Reporting Standards as adopted in the European Union (IFRS), in order to give a true and fair view of the financial position and operating results of the Group for that period.

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 consolidated financial statements, the responsibilities of the Management Board include ensuring that:

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

The Management Board is responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Group and must also ensure their compliance with the applicable 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.

Also, in accordance with the Accounting act, the Management is responsible for the preparation of Consolidated Annual report comprising consolidated financial statements, consolidated Management report and the Declaration on the application of the corporate governance code. Consolidated Management report has been prepared in accordance with the requirements of article 24 of Accouting act, and the Declaration on the application of the corporate governance code were prepared in accordance with the requirements of article 22 of Accounting act.

The consolidated Annual Report was authorised for issue by the Management Board on 3 October 2017.

Dario Vrabec
President of the Management Board

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Ankica Slobođanac
Member of the Management Board

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Independent Auditor's Report

To the Shareholders and Management Board of LEDO d.d.:

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of LEDO d.d. (the "Company") and its subsidiaries (together – the "Group") as at 31 December 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted in the European Union ("IFRS").

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2016;
- the consolidated statement of income and consolidated statement of other comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report.

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

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Material Uncertainty Relating to Going Concern

We draw attention to note 35 which indicates that the Company may face significant liquidity problems as a result of the events and conditions surrounding the Group to which the Company belongs. This along with the other conditions described in Note 35 indicates that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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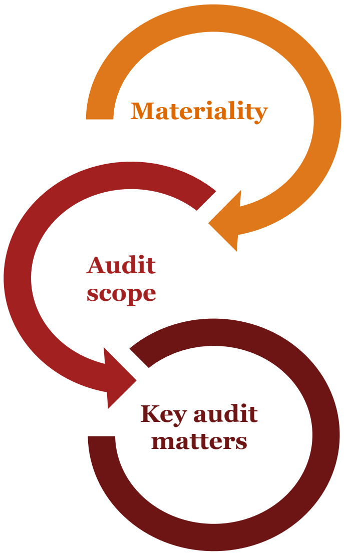
T: +385 (1) 6328 888, F:+385 (1)6111 556, www.pwc.hr

Commercial Court in Zagreb, no. Tt-99/7257-2, Reg. No.: 080238978; Company ID No.: 81744835353; Founding capital: HRK 1,810,000.00, paid in full; Management Board: J. M. Gasparac, President; S. Dusic, Member; T. Macasovic, Member; Giro-Account: Raiffeisenbank Austria d.d., Petrinjska 59, Zagreb, IBAN: HR8124840081105514875.

Our audit approach

Overview



- Overall materiality for consolidated financial statements as a whole: Croatian kuna (“HRK “) 19.4 million, which represents 0.9% of total operating revenue from continuing operations

- We conducted audit work at three legal entities, specified procedures for one legal entity and limited scope for two legal entities in 5 countries in total.
- Our audit scope addressed 96% of the Group’s revenues and 98% of the Group’s absolute value of underlying profit.

- Valuation of construction land
- Impairment of loans and related party trade receivables
- Impairment test for goodwill

How we tailored our Group audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the geographical and management structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

Considering our ultimate responsibility for the opinion on the Group’s consolidated financial statements we are responsible for the direction, supervision and performance of the group audit. In establishing the scope of our audit work, we have determined the nature and extent of the audit procedures to be performed at the reporting units to ensure sufficient evidence has been obtained to support our opinion on the consolidated financial statements as a whole.

In establishing our overall approach to audit the Group, we considered the significance of the components to the Group financial statements, our assessment of risk within each component, the overall coverage across the Group achieved by our procedures, as well as the risk associated with less significant components not brought into the full scope of our audit.

In establishing the overall approach to the Group audit, we determined the type of work that needed to be performed directly by us, as the Group engagement team or component auditors represented by us and other network firms operating under our instruction. Where the work was performed by component auditors, we determined the level of involvement we needed to have in the audit work at those components to be able to conclude whether sufficient appropriate audit evidence has been obtained as a basis for our opinion as a whole. As a result, we conducted full scope audit work (directly by us or jointly in cooperation with other network firms) covering 75% of the Group’s revenue, specified procedures covering 12% of revenue and limited scope review covering 9% of revenue.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, if any, both individually and in aggregate on the consolidated financial statements as a whole.

Overall materiality for consolidated financial statements as a whole	HRK 19.4 million
How we determined it	0.9 % of total operating revenues from continuing operations
Rationale for the materiality benchmark applied	We chose total revenue as the materiality benchmark because, in our view, it is the most appropriate benchmark in our view taking into consideration the significant fluctuation of results in past periods.

Key audit matters

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

Key audit matter	How our audit addressed the Key audit matter
Valuation of construction land Refer to note 1 *Summary of accounting policies – Property, plant and equipment* and note 14 – *Property, plant and equipment*. The Group has HRK 85,607 thousand of construction land measured at fair value as at 31 December 2016. We focused our attention on the valuation of this land because it involves significant judgement about the assumptions used in the determination of fair value. Fair value was determined by an external valuator using the comparable market transaction approach.	Our procedures in relation to management's valuation of construction land included: - Our internal valuation experts assessing the methodologies used by the external valuator to estimate comparable market transactions and resale values; – Evaluating the independent external valuator's competence, capabilities and objectivity; – Considering the appropriateness of the comparable market transactions estimated by the external valuator based on our internal valuation experts knowledge of the comparable market transactions; and - Considering appropriate disclosures required by IAS 16 regarding assets measured at fair value. Based on the results of our procedures, we found no material exceptions in relation to management's assumptions in relation to the fair value of construction land.

Key audit matter	How our audit addressed the Key audit matter
Impairment of loans and related party trade receivables *Refer to note 1 (Significant accounting policies) and notes 18 Current investments and note 19 Receivables.* The Group's statement of financial position includes loans and related party trade receivables of HRK 856,929 million which includes HRK 550,693 million of impairment. As described in note 35 the Group to which the Company and its subsidiaries belong faced significant liquidity problems which resulted in uncertainty regarding the collection of receivables from related parties. As a result, part of the Group's loans and related party trade receivables were impaired as at 31 December 2016. We focused on this area because the management makes complex and subjective judgements over both the timing of recognition of impairment based on estimated future cash flows and the estimation of the size of any such impairment.	We tested the detailed listings of loans and related party trade receivables substantively by examining a sample of loan contracts, bank statements and invoices and we determined that we could rely on these reports for the purposes of our audit. Where impairment had been identified, we examined the supporting documentation prepared by management to support the calculation of the impairment, challenging the assumptions and comparing estimates to external evidence where available. We found no material exceptions as a result of these procedures. For each judgement made, we compared the principal assumptions made with our own knowledge of external factors, other practices and actual experience. We considered the potential for impairment to be impacted by events which were not captured by management's estimation and noted no significant differences.

Key audit matter	How our audit addressed the Key audit matter
Impairment test for goodwill *Refer to note 1 (Significant accounting policies) and note 13 Intangible assets* The Group has goodwill with a carrying amount of HRK 85,921 thousand as at 31 December 2016. We focused on the impairment testing of goodwill because management's assessment of the "value in use" of the Group's cash generating units ("CGU") involves significant judgments about the future results of the business and the discount rates applied to future cash flow forecasts. The risk that we focused on in the audit is that the carrying values of goodwill may be overstated and that an impairment charge may be required. For the year ended 31 December 2016 management has performed an impairment assessment over goodwill by: 1. Calculating the value in use for each CGU using a discounted cash flow model. These cash flows were then discounted to net present value using the company's weighted average cost of capital (WACC). 2. Comparing the resulting value in use to their respective book values. Key assumptions used in the test include estimated future cash flows, terminal growth rate and WACC. CGU's for goodwill impairment testing are determined on an operating segment level. Management also performed a sensitivity analysis over the value in use and fair value calculations by varying the assumed WACC and terminal growth rates to assess the impact on the valuations. On the basis of impairment test performed, the Management assessed that the value of goodwill is not impaired and therefore the impairment charge is not needed.	We have evaluated and challenged the Group's future cash flow forecasts and the process by which they were prepared, and tested the mathematical accuracy of the underlying value in use and fair value calculations. We did not find any material exceptions as a result of our procedures performed in relation to the estimates of future cash flows and the oversight by management of key assumptions. We have compared management's key assumption for long-term growth rate by comparing it to historical growth results. In addition we analyzed and challenged other key estimates including weighted average cost of capital (WACC) by comparing them to market data and industry research. We compared the discount rate used by management with market data and industry research. We performed a sensitivity analysis around the WACC and terminal growth rate to ascertain the extent of change in those assumptions which would trigger a further material impairment. No material exceptions were noted from our procedures.

Other information

Management is responsible for the other information. The other information comprises the Consolidated Annual Report of the Group, which includes the Management Report and Corporate Governance Statement, but does not include the consolidated financial statements and our independent auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information, including the Management Report and Corporate Governance Statement.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

With respect to the Management Report and Corporate Governance Statement, we also performed procedures required by the Accounting Act in Croatia. Those procedures include considering whether the Management Report includes the disclosures required by Article 21 and 24 of the Accounting Act, and whether the Corporate Governance Statement includes the information specified in Article 22 of the Accounting Act.

Based on the work undertaken in the course of our audit, in our opinion:

- the information given in the Management Report and the Corporate Governance Statement for the financial year for which the consolidated financial statements are prepared is consistent, in all material respects, with the consolidated financial statements;
- the Management Report has been prepared in accordance with the requirements of Article 21 and 24 of the Accounting Act; and
- the Corporate Governance Statement includes the information specified in Article 22 of the Accounting Act.

In addition, in light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we are also required to report if we have identified material misstatements in the Management Report and Corporate Governance Statement. We have nothing to report in this respect.

Responsibilities of management and those charged with governance for the consolidated financial statements

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

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

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

Auditor's responsibilities for the audit of the consolidated financial statements

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

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

- Identify and assess the risks of material misstatement of the consolidated 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our independent auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our independent auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

PricewaterhouseCoopers d.o.o.
Ulica kneza Ljudevita Posavskog 31, Zagreb
5 October 2017

This version of our report is a translation from the original, which was prepared in Croatian language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

Consolidated statement of income
For the year ended 31 December 2016

	Note	2016 In thousands of HRK	2015 In thousands of HRK (restated)
Sales	4	2,161,777	2,163,405
Other operating income	4	19,201	19,943
		2,180,978	2,183,348
Change in value of inventories of work in progress and finished goods		(7,130)	9,866
Cost of raw materials and supplies	5	(599,254)	(654,652)
Cost of goods sold		(557,294)	(509,238)
Service costs	6	(258,661)	(259,871)
Staff costs	7	(246,557)	(246,643)
Depreciation and amortisation		(90,938)	(94,124)
Impairment	8	(562,331)	(6,541)
Provisions		(215)	(453)
Other costs	9	(107,144)	(141,569)
		(2,429,524)	(1,903,225)
Finance income	10	71,996	78,909
Finance costs	11	(32,937)	(47,088)
		39,059	31,821
Share in result of an associate	15	(1,442)	(258)
(Loss)/profit before tax		(210,929)	311,686
Income tax	26	(58,913)	(50,040)
Net (loss)/profit		(269,842)	261,646
Available for:			
Equity holders of the parent company in the Group		(269,842)	261,646
Non-controlling interests		-	-
(Loss)/Earnings per share (in HRK)	12		
(Loss)/Earnings per share – basic		(859.59)	833.48
(Loss)/Earnings per share – diluted		(859.59)	833.48

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated statement of other comprehensive income

For the year ended 31 December 2016

	Note	2016 In thousands of HRK	2015 In thousands of HRK (restated)
NET (LOSS)/PROFIT FOR THE YEAR		(269,842)	261,646
Other comprehensive income			
Other comprehensive (loss)/income which will be reclassified as profit or loss in future periods:			
Foreign exchange differences from translation		(15,844)	(4,299)
Gains/(losses) on financial assets available for sale		684	(537)
Impact of corporate income tax		(34)	108
Net other comprehensive (loss)/income which will be reclassified as profit or loss in future periods		(15,194)	(4,728)
Other comprehensive income which will not be reclassified as profit or loss in future periods:			
Revaluation of land		(773)	(9,083)
Tax effects (including the change in the tax rate)		1,296	2,137
Net other comprehensive income which will not be reclassified as profit or loss in future periods		523	(6,946)
Actuarial losses		(100)	(153)
Net other comprehensive income/(loss) which will not be reclassified as profit or loss in future periods		423	(7,099)
Other comprehensive (loss)/income for the year, net		(14,771)	(11,827)
Total comprehensive (loss)/income for the year, net		(284,613)	249,819
Available for:			
Equity holders of the parent company in the Group		(284,613)	249,819
Non-controlling interests		-	-

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated statement of financial position
As at 31 December 2016

ASSETS	Note	31 December 2016 In thousands of HRK	31 December 2015 In thousands of HRK (restated)	1 January 2015 In thousands of HRK (restated)
Non-current assets				
Intangible assets	13	92,611	94,501	94,779
Property, plant and equipment	14	429,481	486,997	508,921
Investments in associates	15	771	2,367	2,680
Financial instruments	16	103,541	106,309	128,863
Deferred tax assets		10,141	9,750	8,698
Receivables		368	-	-
		636,913	699,924	743,941
Current assets				
Inventories	17	338,772	410,570	365,499
Assets held for sale		1,349	1,382	1,395
Current investments	18	731,804	985,145	739,188
Receivables	19	336,303	380,190	400,195
Receivables based on recourse rights	27	17,500	32,285	22,200
Other current assets		7,197	14,017	9,133
Cash and cash equivalents	21	17,998	25,915	30,878
		1,450,923	1,849,504	1,568,488
TOTAL ASSETS		**2,087,836**	**2,549,428**	**2,312,429**
EQUITY AND LIABILITIES				
EQUITY AVAILABLE FOR EQUITY HOLDERS OF THE PARENT COMPANY IN THE GROUP	22			
Share capital		119,290	119,290	119,290
Reserves		1,194,408	1,614,209	1,434,628
Total equity		1,313,698	1,733,499	1,553,918
Non-current liabilities				
Provisions	23	4,943	4,740	4,288
Borrowings and loans	25	2,936	2,292	24,315
Deferred tax liabilities	26	12,430	13,954	16,091
		20,309	20,986	44,694
Current liabilities				
Trade payables	28	215,010	230,714	195,333
Current portion of long-term borrowings and loans	25	-	52,713	48,561
Short-term loans	25	400,075	368,532	387,659
Short-term borrowings	25	46,149	52,795	18,106
Bills of exchange payable and liabilities based on recourse rights	27	19,824	32,285	22,200
Income tax		19,870	18,480	5,461
Other current liabilities	29	52,901	39,424	36,497
		753,829	794,943	713,817
TOTAL EQUITY AND LIABILITIES		**2,087,836**	**2,549,428**	**2,312,429**

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity
For the year ended 31 December 2016

	Available for equity holders of the parent company in the Group							
	Share capital In thousands of HRK	Premium In thousands of HRK	Revaluation surplus In thousands of HRK	Reserve for available for sale financial assets In thousands of HRK	Foreign exchange differences In thousands of HRK	Retained earnings In thousands of HRK	Total In thousands of HRK	Total In thousands of HRK
Balance at 1 January 2015 (reported)	**119,290**	**713,233**	**64,647**	**(936)**	**(13,976)**	**712,599**	**1,475,567**	**1,594,857**
Effect of correction (Note 2)	**-**	**-**	**-**	**-**	**-**	**(40,939)**	**(40,939)**	**(40,939)**
Balance at 1 January 2015 (restated)	**119,290**	**713,233**	**64,647**	**(936)**	**(13,976)**	**671,660**	**1,434,628**	**1,553,918**
Profit for the year (restated)	-	-	-	-		*261,646*	*261,646*	*261,646*
Other comprehensive income (restated)	-	-	*(7,099)*	*(429)*	*(4,299)*	-	*(11,827)*	*(11,827)*
Total comprehensive income (restated)	-	-	*(7,099)*	*(429)*	*(4,299)*	*261,646*	*249,819*	*249,819*
Dividends paid	-	-	-	-		(70,238)	(70,238)	(70,238)
Balance at 31 December 2015 (restated)	**119,290**	**713,233**	**57,548**	**(1,365)**	**(18,275)**	**863,068**	**1,614,209**	**1,733,499**
Loss for the year	-	-	-	-	-	*(269,842)*	*(269,842)*	*(269,842)*
Other comprehensive income	-	-	*523*	*650*	*(15,844)*	*(100)*	*(14,771)*	*(14,771)*
Total comprehensive loss	-	-	*523*	*650*	*(15,844)*	*(269,942)*	*(284,613)*	*(284,613)*
Dividends paid	-	-	-	-	-	(135,188)	(135,188)	(135,188)
Balance at 31 December 2016	**119,290**	**713,233**	**58,071**	**(715)**	**(34,119)**	**457,938**	**1,194,408**	**1,313,698**

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated statement of cash flows

For the year ended 31 December 2016

	2016 In thousands of HRK	2015 In thousands of HRK (restated)
CASH FLOW FROM OPERATING ACTIVITIES		
(Loss)/Profit before tax	(210,929)	311,686
Depreciation and amortisation	90,938	94,124
Impairment of receivables	559,592	2,323
Additional provisions	203	452
Loss/(proceeds) from sale of non-current tangible and intangible assets	918	(1,204)
Unrealised foreign exchange differences	(11,219)	7,340
Change in fair value and other non-cash items	(1,879)	(369)
Cash flow before adjustments for changes in working capital	427,624	414,352
Changes in inventories	71,798	(45,071)
Changes in receivables	(272,036)	(214,589)
Changes in trade payables	62,524	74,763
Changes in other current assets	6,820	(4,884)
Changes in other current liabilities	10,021	1,876
CASH FLOW FROM OPERATING ACTIVITIES	306,751	226,447
Tax paid	(53,267)	(36,883)
Interest paid	(26,544)	(36,300)
NET CASH FLOW FROM OPERATING ACTIVITIES	**226,940**	**153,264**
CASH FLOW FROM INVESTING ACTIVITIES		
Proceeds from sale of property, plant and equipment	14,142	15,933
Purchase of property, plant and equipment	(52,662)	(97,552)
Loans given and deposits	(352,824)	(357,006)
Repayment of loans given and deposits	322,317	308,542
Interest received	43,857	54,825
NET CASH FLOW FROM INVESTING ACTIVITIES	**(25,170)**	**(75,258)**
CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds from long-term and short-term loans	555,183	791,550
Repayment of short-term and long-term borrowings	(629,682)	(804,281)
Dividends paid	(135,188)	(70,238)
NET CASH FLOW FROM FINANCING ACTIVITIES	**(209,687)**	**(82,969)**
TOTAL NET CASH FLOW	**(7,917)**	**(4,963)**
Cash and cash equivalents at beginning of period	25,915	30,878
Cash and cash equivalents at end of period	17,998	25,915
(Decrease)/increase in cash and cash equivalents	**(7,917)**	**(4,963)**

The accompanying notes are an integral part of these consolidated financial statements.

Notes to the consolidated financial statements
for the year ended 31 December 2016

Company profile
The Company Ledo d.d. (the Parent company) was registered as a joint-stock company at the Commercial Court in Zagreb on 4 January 1993 by the decision No. 2375/92. The statistical registration number of the entity is 080002964.

The majority shareholder of the company is Agrokor d.d., Zagreb, Trg D. Petrovića 3, with a 48.91% share. The ultimate owning company is Agrokor projekti d.o.o., and the ultimate owner is Ivica Todorić.

The Company's registered office is in Zagreb, Ulica Marijana Čavića 1a.

The principal activity of the Parent company and its subsidiaries is the production and sale of ice cream and other food products, wholesale and retail trade and commission trade, transport of goods, catering services and export and import of food products.

As at 31 December 2016, the Ledo Group had 2,321 employees, while as at 31 December 2015 the Group had 2,380 employees.

1. Summary of significant accounting policies

Basis of preparation
The consolidated financial statements of the Parent company and its subsidiaries (together the Group) have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. The consolidated financial statements also comply with the provisions of the Accounting Act in the part relating to the consolidated statements, pointing to the IFRS adopted by the European Union.

The consolidated financial statements of the Group have been prepared on a historical cost basis, except for a part of property, plant and equipment and non-current investments and liabilities carried at fair value as described in the following notes on accounting policies.

The accounting policies have been consistently applied and are identical to those applied in the previous year except as disclosed in Changes to the accounting policies.

The financial statements are presented in Croatian kuna (HRK), which is the functional currency of the Parent company and the presentation currency of the consolidated financial statements. The official foreign exchange rate published by the Croatian National Bank as at 31 December 2016 was HRK 7.557787 for EUR 1, HRK 7.168536 for USD 1 (31 December 2015: HRK 7,635047 for EUR 1, HRK 6.991801 for USD 1). The amounts disclosed in the financial statements are expressed in thousands of HRK unless otherwise stated.

Consolidation principles
The consolidated financial statements include the Parent company and subsidiaries as of 31 December 2016. Control is achieved where the Group is exposed, or is entitled to, variable returns from its relationships with the companies in which it has invested and when it has the ability to influence those returns through its power over the society in which it has invested. More specifically, the Group has control over another company, if and only if the Group has:

- Power over the managed company (i.e. the existing rights that give immediate workable possibility of management of the relevant activities of the managed company;
- Exposure, or rights, to variable returns from its relationship with the managed company;
- Possibility of use of power over the managed company to impact returns.

The general assumption is that the majority of the voting rights result in control. In order to support this assumption, and when the Group has less than a majority of voting or similar rights in the company which it manages, the Group considers all relevant facts and circumstances when assessing whether or not it has the power of management of the company, including:

- Contractual relationship with another holder of voting rights of the managed company;
- Rights arising from other contractual relations;
- Voting rights and potential voting rights of the Group.

The Group reassesses whether or not it has control over the managed company if facts and circumstances indicate that there are changes in one or more elements of control. Consolidation of an associated company starts when the Group controls the associated company and ends when the Group loses control over the associated company. Assets, liabilities, income and expenses of the company that is acquired or disposed of during the year are included in the consolidated financial statements from the date when the Group obtains control until the date when such control ceases.

A list of subsidiaries and a review of the financial effects of the acquisition of subsidiaries during the year is disclosed in Note 2.
Profit or loss and each component of other comprehensive income are allocated to equity holders of the parent company of the Group and non-controlling interests, even if this results in a negative balance of non-controlling interests. Where necessary, the financial statements of subsidiaries are adjusted to align them with the Group's accounting policies. All assets and liabilities, equity, revenues, expenses and cash flows of the Group are eliminated on consolidation in full.
The change of ownership of shares in a subsidiary, without losing control, is recorded as a transaction within equity.
In the event that the Group loses control of a subsidiary, it derecognises the assets (including goodwill) and liabilities, non-controlling interests and other components of equity, while the resulting gain or loss are recognised in the income statement. In the event that a certain proportion is retained, it is recognised at fair value.

Business Combinations and Goodwill
Business combinations are recorded using the acquisition method of accounting. The cost of an acquisition is measured as the sum of the consideration transferred, measured at fair value at the acquisition date and the amount of any non-controlling interest in the acquiree. For each business combination the acquirer evaluates the non-controlling interest in the acquiree either at fair value or at the proportionate share of identifiable net assets of the acquiree. Incurred acquisition-related costs are expensed as incurred.
When the Group acquires a business, it assesses the financial assets and liabilities in accordance with the appropriate classification and sorts them according to the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.
If the business combination occurs in stages, previously held equity interests in the acquiree, are again carried at fair value at the acquisition date.
Contingent compensation classified as an asset or liability which is considered a financial instrument in accordance with the provisions of IAS 39 Financial Instruments: Recognition and Measurement, is measured at fair value with changes recognised in the income statement.
Goodwill is initially measured at cost, which is the difference between the total amount paid and the amount recognised for non-controlling interests, as well as any previously existing shares and acquired net identifiable assets and liabilities assumed. If the fair value of net assets acquired and obligations assumed is greater than the total amount paid, the Group reassesses whether it correctly identified all the assets acquired and all the liabilities assumed and reviews the procedures used for the evaluation of the said amount recognised at the acquisition date. In the case when reassessment still results in excess of fair value of acquired net assets in relation to the total amount paid, then the gain is recognised in the income statement.
Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination as of the date of acquisition is allocated to each cash-generating unit within the Group that is expected to benefit from the business combination, irrespective of the fact whether the assets or liabilities of the acquired company are assigned to these units.
Where goodwill has been allocated to a cash-generating unit and a part of the operations within that unit is disposed of, then the goodwill belonging to the disposed of the project includes the current value of the operations when determining the gain or loss on disposal. Goodwill disposed of in these circumstances is measured based on the relative values of the disposed operations in the retained part of the operations of the cash-generating unit.

Going concern
In the current period, the Group incurred a loss after taxation of HRK 269,842 thousand, primarily due to impairment losses on receivables from related companies. Net assets of the Group are positive and amount to HRK 1,313,698 thousand, whereby current assets exceed current liabilities by HRK 697,094 thousand. Additional considerations regarding going concern are presented in Note 35 Events after the balance sheet date. Based on the foregoing, Management believes that it is appropriate to use the going concern assumption in preparing these consolidated financial statements. However, due to the events and circumstances set out above and in note 35 there is a material uncertainty related to events or conditions that may cast significant

doubt on the Group's ability to continue as a going concern and, therefore, that it may be unable to realize its assets and discharge its liabilities in the normal course of business.

Revenue recognition
Revenue is recognised when it is probable that economic benefits will flow to the Group and when they can be reliably measured, regardless of when they will be charged. Revenue is measured at the fair value of the consideration received or consideration to be received less discounts, rebates and taxes, costs of product listing and marketing activities that are an integral part of customer contracts. All other marketing activities related to marketing campaigns that are not part of the customer contracts are included in Costs of marketing and sales promotion. The Group assesses its revenue transactions according to specific criteria to determine whether it acts in them as principal or as agent. The Group has concluded that it is acting as a principal in all of its revenue transactions. In order to be able to recognise revenue, the following criteria for revenue recognition must be observed:
Revenue on sales of products and goods is recognised when the significant risks and rewards of ownership are transferred to the buyer, and when there is no significant uncertainty with respect to sales, associated costs or possible return of goods.
When providing services, revenue is recognised according to the level of the service execution, or when there is no significant uncertainty regarding the provision of services or related expenses.
Interest resulting from the use of funds of the Group by others are recognised when it is probable that the economic benefits associated with the transaction will flow to the Group and the revenue can be measured reliably. Interest income is recognised as it accrues (taking into account the effective yield on the asset) unless the collection is uncertain.
Dividend income is recognised when the Group has established the right to a dividend.

Investments in associates
An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in making business and financial policies of the company in which the investment is made, but not control or joint control over those policies.
The Group records investments in associates using the equity method.
According to the equity method, investments in associates or joint venture are initially measured at cost. The present value of the investment is adjusted to recognise the changes in the Group's share in the net assets of the associate or joint venture after the date of acquisition. The goodwill associated with the associate or joint venture is included in the present value of the investment and is not individually tested for impairment.
The total Group's share of the profit or loss of the associate or joint venture is recognised in the income statement and represents the profit or loss after tax and non-controlling interests of related companies in the associate or joint venture.

Classification of current versus non-current
The Group presents the assets and liabilities in the statement of financial position on the basis of the breakdown into non-current and current. Assets are considered current when:

- expected to be realised or the intention is to sell or consume them in the normal operating cycle;
- held primarily for trading purposes;
- expected to be realised within 12 months after the reporting period; or
- cash and cash equivalent, unless there is a limit to dispose of them, or they will be used for the settlement of obligations for at least 12 months after the reporting period.

All other assets are considered non-current.

Liabilities are considered current when:

- expected to be settled within the normal operating cycle;
- held primarily for trading purposes;
- maturity is expected within 12 months after the reporting period; or
- there is no unconditional right of delay or payment obligation for at least 12 months after the reporting period.

All other liabilities are considered to be long-term.

Deferred tax assets and deferred tax liabilities are classified as non-current assets and non-current liabilities.

Financial instruments
A financial instrument is any contract that results in the creation of financial assets of one entity and a financial liability or equity of another entity.

Financial assets
Initial recognition and measurement
Financial assets are classified at initial recognition as financial assets at fair value through the income statement, loans and receivables, investments to maturity, financial assets available for sale or as derivatives held for hedging instruments for the effective protection, whichever is applicable.
All financial assets are initially recognised at fair value including transaction costs, except in the case of financial assets recorded at fair value through profit or loss.
Acquisitions or sales of financial assets that require delivery of assets within the time frame established by regulation or standard behaviour on the market (regular sales) are recognised on the trade date, i.e. the date when the Group commits to the purchase or sale of assets.

Subsequent measurement
The subsequent measurement of financial assets depends on their classification and is described below:

Financial assets at fair value through profit or loss
Financial assets at fair value through profit or loss include financial assets held for trading, as well as financial assets initially designated as at fair value through profit or loss. Financial assets are classified as held for trading if acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are intended for instruments of effective protection.
Financial assets at fair value through profit or loss are recognised in the statement of financial position at fair value with net changes in fair value reported in the income statement.
Financial assets designated upon initial recognition as at fair value through profit or loss, are distributed on the day of their initial recognition and only if certain criteria are met. The Group has no financial assets designated at fair value through profit or loss.
Derivatives embedded in host contracts are recorded as separate derivatives and recognised at fair value if their economic characteristics and risks are not closely related to those of the host contract and the host contracts are not held for trading or designated at fair value through profit or loss. These embedded derivatives are measured at fair scores, with changes in fair value recognised through profit or loss. Reassessment only occurs in the event of a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required, or in the event of reclassification of financial assets at fair value through profit or loss in another category.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement these financial assets are carried at amortised cost using the effective interest method less impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation method is included as interest income in the income statement. Foreign currency losses arising from impairment are recognised in the income statement.

Investments available for sale
Investments available for sale include equity and debt instruments. Equity instruments classified as available for sale are those that are not classified as held for trading nor distributed at fair value through profit or loss. Debt instruments in this category are those for which there is an intention to hold for an indefinite period of time which may be sold in response to needs for liquidity or in response to changes in market conditions.
After initial recognition, investments available for sale are subsequently measured at fair value with unrealised gains or losses recognised as other comprehensive income in reserves for instruments available for sale until the time of derecognition, when the cumulative gains or loses are recognised in other income, or when it is determined that an impairment of investments has occurred, whereby the cumulative loss reclassifies from

reserves for instruments available for sale in the income statement. Interest earned during the holding of investments available for sale are reported as interest income using the effective interest rate.
Investments in equity instruments available for sale for which there is no quotation in an active market and for which fair value can not be reliably measured are measured at cost.
The Group evaluates whether the intention of selling its instruments available for sale in the near future is still appropriate. When, in rare situations, the Group is unable to trade these financial instruments because there is no active market, and there has been a change in the intention of the Board to do so in the foreseeable future, the Group may decide to reclassify this financial asset.
For financial assets reclassified from available-for-sale category, its present value at the date of reclassification (fair value of the instrument on the day) becomes the new amortised cost and all previous gains and losses recognised in equity are amortised in the income statement over the remaining life of investment using the effective interest rate. Any difference between the new amortised cost and the amount at maturity is also amortised over the remaining life of assets using the effective interest rate. If assets are subsequently impaired, the amount recorded in equity should be reclassified to the income statement.

Derecognition
Financial assets are derecognised when the rights to receive cash flows from these assets have expired, or when the Group has transferred the rights to receive cash flows from an asset or has assumed an obligation to pay received cash flows in full without material delay to a third party, and the Group has transferred substantially all the risks and rewards of the asset, or the Group has not transferred substantially all the risks and rewards of the assets, but has transferred control of the asset.

Impairment of financial assets
The Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets has been impaired. A financial asset or group of financial assets has been impaired if there is objective evidence of impairment resulting from one or more events arising after the initial recognition of an asset and that event has an adverse impact on the estimated cash flows of a financial asset or group of financial assets that can be reliably estimated.
For financial assets valued at amortised cost: If there is objective evidence of impairment, the impairment loss is measured as the difference between the present value of the asset and the present value of the estimated future cash flows. The present value of estimated future cash flows is discounted using the original effective interest rate of financial assets. The present value of assets is impaired and a loss is recognised in the income statement.
For available-for-sale assets: when there is evidence of impairment, the cumulative loss, evaluated as the difference between the acquisition cost and the current fair value, less any impairment of investments that had previously been recognised in the income statement, is transferred from other comprehensive income and recognised in the income statement.

Financial liabilities
Initial recognition and measurement
Financial liabilities are classified as financial liabilities at fair value through profit or loss, borrowings and loans or as derivatives classified as hedging instruments in an effective hedge, whichever is applicable. The Group determines the classification of its financial instruments at initial recognition.

All financial liabilities are initially recognised at fair value and in the case of borrowings and loans, less directly attributable transaction costs.
Financial liabilities of the Group include trade payables and other liabilities as well as borrowings and loans.

Subsequent measurement
The measurement of financial liabilities depends on their classification and is described below:

Trade payables
Trade payables are liabilities to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payable are classified as current liabilities if payment is due within one year or less (or in the regular operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Borrowings
After initial recognition, interest bearing borrowings are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process using the effective interest rate.
Amortised cost is calculated taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation method is included as interest income in the income statement.

Financial guarantee contracts
Financial guarantee contracts issued by the Group are those contracts that require the execution of a payment as a compensation to the holder for a loss incurred due to the fact that a certain debtor has not timely settled his obligation in accordance with the provisions of the debt instrument. Financial guarantee contracts are initially recognised as a liability at fair value, adjusted for the higher of the best estimate of the expected expense for settlement of the present obligation at the reporting date or the recognised amount deducted by amortisation.

Derecognition
A financial liability is derecognised when the consideration linked to the liability is discharged or cancelled or expires. When an existing financial liability is replaced by a new form of the same creditor with substantially different terms, or the terms of existing obligations are substantially modified, such replacement or modification is considered a derecognition of the original liability and the recognition of a new liability. The difference in the respective current values is recognised in the income statement.

Offsetting of financial instruments
Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently valid legal basis to offset the recognised amounts and there is an intention of the settlement by a net basis for the realisation of assets and settlement of liabilities simultaneously.

Fair value measurement
The Group measures financial instruments such as derivatives and non-financial assets such as biological assets at fair value at each reporting date.
Fair value is the price that could be received for assets sold or paid to settle the liabilities in an arm's length transaction between market participants at the value measurement date. Fair value is based on the assumption that the transaction for the sale of assets and transfer of liabilities is carried on: the primary market for the assets and liabilities or in the absence of the primary market, the most favourable market for the sale of assets or liabilities. The primary or most favourable market must be available to the Group.
The fair value of an asset or liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants are working in their best economic interest.
Fair valuation of non-financial assets takes into account the ability of a market participant to generate benefits in such a way that it realises the greatest and best use of that asset or from selling the asset to another market participant that will use that asset in the best possible way.

The Group uses valuation techniques that are appropriate in the circumstances and for which there is sufficient data available to measure fair value, maximising the use of relevant publicly available inputs and minimising the use of inputs that are not publicly available.
All assets and liabilities that are measured at fair value or for which it has been published in the financial statements are categorised within the fair value hierarchy, as described below, assuming that the lowest category input is the one that is significant for the fair value measurement in its entirety:

- Level 1: Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2: Valuation techniques for which the lowest level of input that is significant for evaluating fair value is directly or indirectly publicly available
- Level 3: Valuation techniques for which the lowest level of input that is significant for evaluating fair value is not publicly available.

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For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether there has been a transfer in hierarchy levels by re-categorisation (based on the lowest level of input that is significant to the fair valuation as a whole) at the end of each reporting period.

Intangible assets
Individually purchased intangible assets are stated at cost. The cost of intangible assets acquired in a business combination is its fair value at the acquisition date. After initial recognition, intangible assets are measured at cost less accumulated amortisation and any accumulated impairment losses. Internally developed intangible assets, excluding development costs, are not capitalised and expenditure of the amount recorded in the income statement when they are incurred. The useful lives of intangible assets are assessed to be either limited or unlimited.
Intangible assets with limited useful lives are amortised over their useful lives and any impairment of the assets is assessed whenever there is an indication that the value of such assets may be impaired, as described in the accounting policy Impairment of assets. Intangible assets with a limited useful life are amortised using the straight-line amortisation method over the expected useful life of the asset not exceeding ten years. The amortisation period and the amortisation method for an intangible asset with a limited useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or model of utilising future economic benefits embodied in the assets are recorded as a change in the amortisation period or method, whichever is applicable, and is treated as a change in accounting estimate.
Intangible assets with unlimited useful lives are not amortised, but are tested for impairment at least annually, either individually or at the cash-generating unit level. The rating of unlimited useful life is checked once a year to determine whether it is still possible to support such unlimited useful life. If this is not the case then the useful life is changed unlimited to limited from the moment of such determination onwards.
Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net proceeds realised and the present value of assets and are recognised in the income statement at the time of recognition of the asset.

Property, plant and equipment
Items of property, plant and equipment, other than land, are stated at historical cost less accumulated depreciation and permanent impairment losses.
Revaluation refers to land and is based on valuations performed by an independent appraiser. Valuations are carried out in sufficient frequency to ensure that the present value of revalued assets does not significantly differ from their fair value.
Valuations are made on the basis of comparable market prices. The increase in the carrying amount of the revaluation is recorded directly in the revaluation surplus within equity or appropriate obligations for deferred taxes, if applicable.
The corresponding part of revaluation reserves created from the earlier valuation is released from revaluation reserves directly to retained earnings upon the disposal of revalued assets.
Items of property, plant and equipment that are disposed of or sold are eliminated from the balance sheet together with the related accumulated depreciation. Any gain or loss arising from derecognising tangible assets (calculated as the difference between net sales receipts and the carrying value of the asset at the time of sale) is taken to the income statement in the year of derecognition.

When there is a periodic appearance of conditions in which significant elements of buildings, plant and equipment need to be replaced, the Group separately depreciates them on the basis of their specific useful life. Likewise, when major overhauls are carried out, their costs are recognised as the present value of buildings, plant and equipment as a replacement if the recognition criteria are met. All other repairs and maintenance costs are charged to the income statement when incurred.
Depreciation is recognised as an expense of the period and is calculated using the straight-line method over the expected useful life of the asset.

The expected useful lives by types of assets are as follows:

Buildings	20 to 40 years
Plant and equipment	5 to 50 years
Other assets	2.5 to 10 years

The useful life, depreciation method and residual values are reviewed at each financial year-end, and if expectations differ from previous estimates, the change(s) are accounted for as a change in an accounting estimate.

Revaluation of land
The Company measures the value of land at fair value. Fair value estimates are made every 3 to 5 years, if there are no impairment indicators. The last estimate based on which land was revalued, was performed in 2015 by an authorised valuer. When preparing the report, the comparative method was used, which is based on the assumption that prices of similar properties determined recently on the same market, are a good indicator of the market value of the property in question. Market volatility, lack of quality comparable examples of land, market data and a lack of investors currently adds to the uncertainty of estimating the fair value of land.

Impairment of assets
The Group assesses at each balance sheet date whether there are any indicators of impairment of assets. If any such indication exists, or when an annual test of loss in value is required, the Group estimates the recoverable value of assets.
The recoverable amount is estimated as the higher of fair value less costs of sales of an asset or cash-generating unit to which the asset belongs and the value of the property in use. The recoverable amount is estimated for each individual asset or, if this is not possible, for the cash-generating unit to which the asset belongs. Cash-generating units are determined on a company basis. Where the carrying amount exceeds the estimated recoverable amount, the asset is impaired to its recoverable amount.
The following criteria apply when assessing the impairment of specific assets:

Goodwill
Goodwill is reviewed for impairment, annually or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired.
Impairment of goodwill is determined by evaluation of the recoverable amount for each cash-generating unit (or group of cash generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than its present value, an impairment loss is recognised. Impairment losses on goodwill in future periods cannot be undone.

Leases
Determining whether or not a certain transaction contains elements of a lease, is based on the substance of the transaction on the date of its inception. A contract is a lease contract or contains elements of a lease in case when the fulfilment of the contract depends on the use of a specific asset and the contract holds the right to use assets even if this right is not specifically defined in the contract.

The Group as the lessee
Assets leased under a contract transferring all the risks and rewards of ownership (finance lease) to the Group, are capitalised at the lower of the fair value of the asset or the present value of the minimum rent at the beginning of the lease period and are recorded as tangible assets under lease. Lease payments are recorded as a finance cost and a decrease in lease obligations to achieve a constant interest up to the end of the contract period. Financial expenses shall be reimbursed directly from profits.
Capitalised assets under lease are amortised over the shorter of the lease term and the useful life. Leases where the lessor effectively retains substantially all the risks and rewards of ownership of the leased asset are classified as operating leases. Payments made under operating leases are charged to the income statement over the period of the lease.
The accounting treatment of sales and lease transactions depends on the type of lease. If the transaction is a sale and lease resulting in a finance lease, any excess of sales proceeds over the carrying amount is deferred and amortised over the period of the lease. If the transaction is a sale and lease resulting in an operating lease, the transaction is carried at fair value and any profit or loss is recognised immediately.

The Group as the lessor
Leases where the Group does not transfer substantially all the risks and rewards of ownership of the asset are classified as operating leases. Initial direct costs incurred during the negotiating of an operating lease are added to the present value of the leased asset and recognized as rental income over the lease term. Contingent rentals are recognised as income at the time in which they are earned.

Non-current assets held for sale

Non-current assets classified as held for sale and disposal group are measured at the lower of carrying amount and fair value less costs of sale or distribution. Distribution costs are incremental costs that are directly attributable to the distribution and exclude financing costs and income taxes. Non-current assets are classified as held for sale or disposal group if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is considered fulfilled only when the sale is highly probable and the assets are immediately available for sale in its current state. Activities needed to complete the sale should indicate that it is unlikely that there will be significant changes during the sale or that that the sales will not be followed through. Management must commit to a sale that is expected to be completed within one year from the date of classification.

Property, plant and equipment and intangible assets once classified as available for sale are no longer depreciated or amortised.

Assets and liabilities classified as held for sale are presented separately as current in the statement of financial position.

Inventories

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

Costs incurred in bringing each product to its present location and condition are stated as follows:

Raw materials - stated at the lower of cost or net realisable value. Cost is determined using the weighted average method.

Finished goods and work in progress are stated at the value which includes the cost of direct materials and labour and attributable production overheads based on normal production capacity.

Inventories of trade goods are stated at the lower of cost or net realisable value.

Net realisable value is the estimated net selling price in the normal course of business decreased by estimated cost of completion and estimated costs needed to complete the sale.

Receivables

Receivables due within 30-90 days are stated at original invoice amount decreased to their recoverable value through an allowance for doubtful receivables. The allowance is estimated when the collection of the entire amount is uncertain. Bad debts are written off when determined.

Cash and cash equivalents

Cash and cash equivalents in the statement of financial position include cash on hand, demand deposits, short-term bank deposits with agreed maturity up to 3 months and balances with banks.

Taxes

The tax calculation is based on the accounting profit for the year and is adjusted for permanent and temporary differences between the taxable and accounting income. Income tax is calculated in accordance with the tax regulations of the countries in which the Group companies operate. The tax returns of companies are subject to the tax authorities. Since the application of tax laws and regulations is subject to many types of transactions is susceptible to varying interpretations, amounts reported in the financial statements could be changed at a later date upon final determination by the Tax Authority.

Deferred taxes are calculated using the liability method for all temporary differences at the date of preparation of the financial statements due to differences in the treatment of certain items for taxation and accounting purposes within the consolidated financial statements. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to taxable profit in the years in which the temporary differences are expected to be reversed or settled.

Deferred tax assets are recognised when it is probable that sufficient taxable profits will be generated against which they can be utilised. At each balance sheet date, the Group reassesses unrecognised deferred tax assets and the appropriateness of the present value of the tax asset.

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for the year ended 31 December 2016

Transactions in foreign currencies
The separate financial statements of each Group company are measured using the currency of the primary economic environment in which such company operates (its functional currency). For the purposes of the consolidated financial statements, the results and financial position of each company within the Group are presented in Croatian kuna which is the functional currency of the Parent company and presentation currency of consolidated financial statements.

Transactions and balances:
Transactions in foreign currencies of the companies within the Group are initially recognised in their functional currency using the exchange rates prevailing on the transaction date.
On the balance sheet date, monetary items denominated in foreign currencies are reported using the closing exchange rate. Non-monetary items measured at historical cost in a foreign currency are translated using the exchange rate at the date of the initial transaction. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined.
Foreign exchange differences arising from foreign currency transactions and translation of monetary and non-monetary assets and liabilities are recognised in comprehensive income for the period in which they arise.

Foreign subsidiaries:
Assets and liabilities of foreign subsidiaries are translated into the reporting currency using the mid exchange rate of the Croatian National Bank at the balance sheet date. Revenues and expenses are translated at the average annual exchange rate. The effects of translation of these items are included in the statement of comprehensive income.
Any goodwill and fair value adjustments arising on the acquisition of a foreign subsidiary are treated as assets and liabilities of that foreign subsidiary and are translated at the closing rate.

Borrowing costs
Borrowing costs directly attributable to the acquisition, construction or production of assets that take a substantial period of time to get ready for their intended use or sale are capitalised as part of the cost of that asset. All other borrowing costs are charged to the income statement during the period in which they are incurred. Borrowing costs consist of interest and other costs incurred in connection with the borrowing of funds.

Information on business segments
For management purposes, the Group is organised into business units based on their products and services and has the following segments:

- Ice cream – production of all kinds of ice cream
- Frozen foods – production of all kinds of frozen foods
- Other

None of these segments was created by merging other segments in order to obtain the above-mentioned business units.
Management monitors the operating results of individual business units for the purpose of making decisions about allocating resources and assessing whether set objectives are met. Meeting the set objectives of a segment is evaluated based on operating profit or loss and consistently compared with operating profit in the consolidated financial statements of the Group.
Segment results include revenue and expenses directly attributable to the segment and the relevant portion of general revenues and expenses on a reasonable basis can be assigned to the segment, whether from external transactions or from transactions with other segments of the Group.

Pensions and employee benefits
In its normal course of business, the Group makes fixed contributions to mandatory pension funds on behalf of its employees. The Group does not participate in any other pension plans, and consequently, there are no legal or other obligations to make further contributions if the funds do not contain sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.
The Group pays benefits to employees including termination benefits and jubilee and scholarships for children of workers who died in a work-related accident. Liabilities and expenses of termination benefits and jubilee awards are determined using the projected unit credit method per employee. The projected unit credit method

per employee considers each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.
Past service costs for employees are calculated on a straight-line basis over the average period until certain employee benefits become vested. Gains or losses on the curtailment or settlement of pension benefits are recognised when the curtailment or settlement occurs.
The termination benefit obligation is measured at the present value of estimated future cash flows using a discount rate that is similar to the interest rate on government bonds where the terms of the government bonds are consistent with the currency and estimated terms of the benefit obligation.

Provisions
Provisions are recognised when there is a legal or other obligation which is a result of past events, when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and when a reliable estimate of the obligation can be made. When the Group expects that a part or the entire amount of provisions will be collected, for example, under a contract of insurance, such a fee is recognised as a separate asset but only when the collection is virtually certain. Costs associated with the provision are presented in the income statement as net of all fees.

Contingent liabilities
Contingent liabilities are not recognised in the financial statements. They are disclosed in notes except when there is a slight probability of an outflow of resources embodying economic benefits.
A contingent asset is not recognised in the financial statements but is disclosed in the Notes when an inflow of economic benefits is probable.

Financial guarantee contracts
Financial guarantee contracts issued by the Group are those contracts that require the execution of a payment as a compensation to the holder for a loss incurred due to the fact that a certain debtor has not timely settled his obligation in accordance with the provisions of the debt instrument. Financial guarantee contracts are initially recognised as a liability at fair value, adjusted for the higher of the best estimate of the expected expense for settlement of the present obligation at the reporting date or the recognised amount.

Events after the balance sheet date
Events after the balance sheet date, which provide additional information on the Group's position at the balance sheet date (adjusting events), are reflected in the financial statements. Events after the balance sheet date that are not adjusting events are presented in the notes when material.

Significant accounting estimates and judgements
The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the amounts reported in the financial statements and notes. Although these estimates are based on all available information of the Management about current events and actions, actual results may differ from these estimates.
The key assumptions concerning the future and other key sources of estimation uncertainty on the day of drafting the financial statements, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

In the Group's normal course of operations, estimates were also used for, but not limited to: the valuation of land, the period of depreciation and residual values of property, plant and equipment, impairment allowances for inventories and bad and doubtful debts and provisions for employee benefits, legal disputes and taxes. Future events and their effects cannot be reliably anticipated. Details of estimates and the amounts are shown in the respective accounting policies and notes to the financial statements.
In the process of applying the Group's accounting policies, the Management Board has made the following judgement, apart from those involving estimates, which have the most significant effect on the amounts recognised in the financial statements:

a) Impairment of goodwill
The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of cash generating units, to which the goodwill is allocated. Estimating the value in use

requires the Group making estimates of future cash flows of cash generating units and the choice of the appropriate discount rate to calculate the present value of those cash flows.
The key assumptions used in impairment testing relate to the discount rate (WACC) and the terminal growth rate, which in this case were 10.6% and 1.84%. The sensitivity analysis of these key assumptions shows that increasing the discount rate by 1 percentage point would neither cause a decrease in the value of goodwill nor a decrease in the terminal growth rate by 1 percentage point.

b) Impairment of regular receivables from Agrokor Group companies and receivables based on approved loans to Agrokor Group companies
In 2016, the Group impaired the value of regular receivables and receivables based on loans granted to the Agrokor Group by a total amount of HRK 550,693 thousand on the basis of Management estimates of the required impairment. Had the estimated impairment of receivables and loans granted been 10 percentage points higher, the loss would have increased by HRK 140,006 thousand and had the estimate been 10 percentage points lower, the loss would have been HRK 140,006 thousand lower in 2016.

c) Fair value of land
The Company's carries land at revalued value in accordance with the selected accounting policy, whereby fair value is determined on the basis of an estimate made by an independent valuer. An independent valuation of this land is performed every 4 years, and the average value per square meter in Euros is EUR 262.11 per m2.

d) Operating lease - the Group as the lessee.
The Group has concluded significant operating lease agreements as the lessee. It has been established that almost all the significant risks and rewards of ownership of assets used by the Group in the operating lease are retained with the lessor.

Changes in accounting policies

(a) New and amended standards – applicable as of 1 January 2016

The following standards and interpretations are applicable for the first time to financial reporting periods beginning on or after 1 January 2016:

Clarification of Acceptable Methods of Depreciation and Amortisation – Amendments to IAS 16 and IAS 38
The amendments clarify that a revenue-based method of depreciation or amortisation is generally not appropriate.
IASB has amended IAS 16 Property, Plant and Equipment to clarify that a revenue-based method should not be used to calculate the depreciation of items of property, plant and equipment.
IAS 38 Intangible Assets now includes a rebuttable presumption that the amortisation of intangible assets based on revenue is inappropriate. This presumption can be overcome if either

- The intangible asset is expressed as a measure of revenue (i.e. where a measure of revenue is the limiting factor on the value that can be derived from the asset), or
- It can be shown that revenue and the consumption of economic benefits generated by the asset are highly correlated.

Annual Improvements for the Reporting Cycle from 2012 to 2014
The latest annual improvements clarify the following:

- IFRS 5 – when an asset (or disposal group) is reclassified from ‘held for sale’ to ‘held for distribution,’ or vice versa, this does not constitute a change to a plan of sale or distribution, and does not have to be accounted for as such.
- IFRS 7 – specific guidance for transferred financial assets to help management determine whether the terms of a servicing arrangement constitute ‘continuing involvement’ and, therefore, whether the asset qualifies for derecognition.
- IFRS 7 – additional disclosures relating to the offsetting of financial assets and financial liabilities only need to be included in interim reports if required by IAS 34.
- IAS 19 – when determining the discount rate for post-employment benefit obligations, it is the currency that the liabilities are denominated in that is important, not the country where they arise.

- IAS 34 – what is meant by the reference in the standard to 'information disclosed elsewhere in the interim financial report'; entities taking advantage of the relief must provide a cross-reference from the interim financial statements to the location of that information and make the information available to users on the same terms and at the same time as the interim financial statements.

Disclosure Initiative – Amendments to IAS 1
The amendments to IAS 1 Presentation of Financial Statements are determined in the context of the IASB's Disclosure Initiative, which explores how financial statement disclosures can be improved. The amendments provide clarifications on a number of issues, including:

- Materiality – an entity should not aggregate or disaggregate information in a manner that obscures useful information. Where items are material, sufficient information must be provided to explain the impact on the financial position or performance.
- Disaggregation and subtotals – line items specified in IAS 1 may need to be disaggregated where this is relevant to an understanding of the entity's financial position or performance. There is also new guidance on the use of subtotals.
- Notes – confirmation that the notes do not need to be presented in a particular order.
- OCI arising from investments accounted for under the equity method – the share of OCI arising from equity-accounted investments is grouped based on whether the items will or will not subsequently be reclassified to profit or loss. Each group should then be presented as a single line item in the statement of other comprehensive income.

According to the transitional provisions, the disclosures in IAS 8 regarding the adoption of new standards/accounting policies are not required for these amendments.

Investment entities: Applying the consolidation exception - Amendments to IFRS 10, IFRS 12 and IAS 28

Amendments made to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in associates and joint ventures clarify that:

- The exception from preparing consolidated financial statements is also available to intermediate parent entities which are subsidiaries of investment entities.
- An investment entity should consolidate a subsidiary which is not an investment entity and whose main purpose and activity is to provide services in support of the investment entity's investment activities.
- Entities which are not investment entities but have an interest in an associate or joint venture which is an investment entity have a policy choice when applying the equity method of accounting. The fair value measurement applied by the investment entity associate or joint venture can either be retained, or a consolidation may be performed at the level of the associate or joint venture, which would then unwind the fair value measurement.

(b) Forthcoming requirements

As at 31 May 2016, the following standards and interpretations have been issued but are not mandatory for annual reporting periods ending 31 December 2016.

IFRS 9 Financial instruments and associated amendments to various other standards (effective for annual periods beginning on or rafter 1 January 2018)

IFRS 9 replaces the multiple classification and measurement models in IAS 39 Financial instruments: Recognition and measurement with a single model that has initially only two classification categories: amortised cost and fair value.
The classification of debt assets will be driven by the entity's business model for financial assets management and the contractual cash flow characteristics of the financial assets. A debt instrument is measured at amortised cost if: a) the objective of the business model is to hold the financial asset for the collection of the contractual cash flows, and b) the contractual cash flows under the instrument solely represent payments of principal and interest.

All other debt and equity instruments, including investments in complex debt instruments and equity investments, must be recognised at fair value.
All fair value movements on financial assets are taken through the statement of profit or loss, except for equity investments that are not held for trading, which may be recorded in the statement of profit or loss or in reserves (without subsequent recycling to profit or loss).
For financial liabilities that are measured under the fair value option entities will need to recognise the part of the fair value change that is due to changes in the their own credit risk in other comprehensive income rather than profit or loss.
The new hedge accounting rules (released in December 2013) align hedge accounting more closely with common risk management practices. As a general rule, it will be easier to apply hedge accounting going forward. The new standard also introduces expanded disclosure requirements and changes in presentation.
In July 2014, IASB made further changes to the classification and measurement rules and also introduced a new impairment model. With these amendments, IFRS 9 is now complete. The changes introduce:

- a third measurement category (FVOCI) for certain financial assets that are debt instruments
- a new expected credit loss (ECL) model which involves a three- stage approach whereby financial assets move through the three stages as their credit quality changes. The stage dictates how an entity measures impairment losses and applies the effective interest rate method. A simplified approach is permitted for financial assets that do not have a significant financing component (e.g. trade receivables). On initial recognition, entities will record a day-1 loss equal to the 12 month ECL (or lifetime ECL for trade receivables), unless the assets are considered credit impaired.

For financial years commencing before 1 February 2015, entities can elect to apply IFRS 9 early for any of the following:

- the own credit risk requirements for financial liabilities
- classification and measurement (C&M) requirements for financial assets
- C&M requirements for financial assets and financial liabilities, or
- C&M requirements for financial assets and liabilities and hedge accounting.

IFRS 15 Revenue from contracts with customer and associated amendments to various other standards (effective for annual periods beginning on or after 1 January 2018)
The IASB has issued a new standard for the recognition of revenue. This will replace IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts.
The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer, so the notion of control replaces the existing notion of risks and rewards.

A new five-step process must be applied before revenue can be recognised:

- identify contracts with customers
- identify the separate performance obligation
- determine the transaction price of the contract
- allocate the transaction price to each of the separate performance obligations, and
- recognise the revenue as each performance obligation is satisfied.

Key changes to current practice are:

- Any bundled goods or services that are distinct must be separately recognised and any discounts or rebates on the contract price must generally be allocated to the separate elements.
- Revenue may be recognised earlier than under current standards if the consideration varies for any reasons (such as for incentives, rebates, performance fees, royalties, success of an outcome, etc.) – minimum amounts must be recognised if they are not at a significant risk of reversal.
- The point at which revenue is able to be recognised may shift: some revenue which is currently recognised at a point in time at the end of a contract may have to be recognised over the contract term and vice versa.
- There are new specific rules on licenses, warranties, non-refundable upfront fees and consignment arrangements, to name a few.
- As with any new standard, there are also increased disclosures.

These accounting changes may have flow-on effects on the entity's business practices regarding systems, processes and controls, compensation and bonus plans, contracts, tax planning and investor communications.

Entities will have a choice of full retrospective application, or prospective application with additional disclosures.

IFRS 16 Leases (effective for annual periods beginning on or after 1 January 2019, early adoption is permitted only if IFRS 15 is adopted at the same time)

IFRS 16 will affect primarily lessee accounting and will result in the recognition of almost all leases on the balance sheet. The standard removes the current distinction between operating and financing leases and requires recognition of an asset (the right to use the leased item) and a financial liability to pay rentals for virtually all lease contracts. An optional exemption exists for short-term and low-value leases.
The income statement will also be affected because the total expense is typically higher in the earlier years of a lease and lower in later years. Additionally, operating expense will be replaced with interest and depreciation, so key metrics like EBITDA will change.
Operating cash flows will be higher as cash payments for the principal portion of the lease liability are classified within financing activities. Only the part of the payments that reflects interest can continue to be presented as operating cash flows.
Lessor accounting will not change significantly. Some differences may arise as a result of the new guidance on the definition of a lease. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to IAS 12 (effective for annual periods beginning on or after 1 January 2017)

Amendments made to IAS 12 in January 2016 clarify the accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset's tax base. Specifically, the amendments confirm that:

- A temporary difference exists whenever the carrying amount of an asset is less than its tax base at the end of the reporting period.
- An entity can assume that it will recover an amount higher than the carrying amount of an asset to estimate its future taxable profit.
- Where tax legislation restricts the source of taxable profits against which particular types of deferred tax assets can be recovered, the recoverability of the deferred tax assets can only be assessed in combination with other deferred tax assets of the same type.
- Tax deductions resulting from the reversal of deferred tax assets are excluded from the estimated future taxable profit that is used to evaluate the recoverability of those assets.

Disclosure initiative – Amendments to IAS 7 (effective for annual periods beginning on or after 1 January 2017)
Going forward, entities will be required to explain changes in their liabilities arising from financing activities. This includes changes arising from cash flows (e.g. drawdowns and repayments of borrowings) and non-cash changes such as acquisitions, disposals, accretion of interest and unrealised exchange differences.
Changes in financial assets must be included in this disclosure if the cash flows were, or will be, included in cash flows from financing activities. This could be the case, for example, for assets that hedge liabilities arising from financing liabilities.
Entities may include changes in other items as part of this disclosure, for example by providing a 'net debt' reconciliation. However, in this case the changes in the other items must be disclosed separately from the changes in liabilities arising from financing activities.
The information may be disclosed in tabular format as a reconciliation from opening and closing balances, but a specific format is not mandated.

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28
IASB made limited scope amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures.
The amendments clarify the accounting treatment for sales or contribution of assets between an investor and its associates or joint ventures. They confirm that the accounting treatment depends on whether the non-monetary assets sold or contributed to an associate or joint venture constitute a 'business' (as defined in IFRS 3 Business Combinations).

Where the non-monetary assets constitute a business, the investor will recognise the full gain or loss on the sale or contribution of assets. If the assets do not meet the definition of a business, the gain or loss is recognised by the investor only to the extent of the other investor's investments in the associate or joint venture. The amendments apply prospectively.
** In December, IASB decided to defer the application date of this amendment until such time as IASB has finalised its research project on the equity method.

Amendments to IFRS 15, Revenue from Contracts with Customers (issued on 12 April 2016 and effective for annual periods beginning on or after 1 January 2018)

The amendments do not change the underlying principles of the standard but clarify how those principles should be applied. The amendments clarify how to identify a performance obligation (the promise to transfer a good or a service to a customer) in a contract; how to determine whether a company is a principal (the provider of a good or service) or an agent (responsible for arranging for the good or service to be provided); and how to determine whether the revenue
from granting a licence should be recognised at a point in time or over time. In addition to the clarifications, the amendments include two additional reliefs to reduce cost and complexity for a company when it first applies the new standard.

Amendments to IFRS 2, Share-based Payment (issued on 20 June 2016 and effective for annual periods beginning on or after 1 January 2018)

The amendments mean that non-market performance vesting conditions will impact measurement of cash-settled share-based payment transactions in the same manner as equity-settled awards. The amendments also clarify classification of a transaction with a net settlement feature in which the entity withholds a specified portion of the equity instruments, that would otherwise be issued to the counterparty upon exercise (or vesting), in return for settling the counterparty's tax obligation that is associated with the share-based payment. Such arrangements will be classified as equity-settled in their entirety.
Finally, the amendments also clarify accounting for cash-settled share based payments that are modified to become equity-settled, as follows: (a) the share-based payment is measured by reference to the modification-date fair value of the equity instruments granted as a result of the modification; (b) the liability is recognised upon the modification, (c) the equity-settled share-based payment is recognised to the extent that the services have been rendered up to the modification date, and (d) the difference between the carrying amount of the liability as at the modification date and the amount recognised in equity at the same date is recorded in profit or loss immediately.

Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts – Amendments to IFRS 4 (issued on 12 September 2016 and effective, depending on the approach, for annual periods beginning on or after 1 January 2018 for entities that choose to apply temporary exemption option, or when the entity first applies IFRS 9 for entities that choose to apply the overlay approach).

The amendments address concerns arising from implementing the new financial instruments standard, IFRS 9, before implementing the replacement standard that IASB is developing for IFRS 4. These concerns include temporary volatility in reported results. The amendments introduce two approaches: an overlay approach and a deferral approach. The amended standard will give all companies that issue insurance contracts the option to recognize in other comprehensive income, rather than profit or loss, the volatility that could arise when IFRS 9 is applied before the new insurance contracts standard is issued. In addition, the amended standard will give companies whose activities are predominantly connected with insurance an optional temporary exemption from applying IFRS 9 until 2021. The entities that defer the application of IFRS 9 will continue to apply the existing financial instruments standard, i.e. IAS 39. The amendments to IFRS 4 supplement existing options in the standard that can already be used to address the temporary volatility.

The Group has not earlier adopted any International Financial Reporting Standard, the application of which was not mandatory at the reporting date. In cases where the transitional provisions of the standards allow for a choice between prospective and retrospective application, the Group chose to apply the standard prospectively from the date of application.

Notes to the consolidated financial statements
for the year ended 31 December 2016

2. Comparative information and restatement of financial information of prior periods

The financial information as of 1 January 2015 as well as of 31 December 2015 and for the period then ended has been restated (due to correction of errors) as follows:

Impact of reconciliation on equity (increase/(decrease))	31 December 2015 HRK'000	1 January 2015 HRK'000	Comment
Non-current assets			
Property, plant and equipment	(2,665)	(1,762)	2.1
Current assets			
Inventories	(58,996)	(54,633)	2.2
Receivables	19,909	19,909	2.2; 2.3
Receivables on the basis of recourse rights	32,285	22,200	2.4
A. *TOTAL ASSETS*	(9,467)	(14,286)	
Current liabilities			
Bills of exchange payable and liabilities on the basis of recourse rights	32,285	22,200	2.4
Other liabilities	4,378	4,453	2.5
B. *TOTAL LIABILITIES*	36,663	26,653	
NET IMPACT ON EQUITY (A – B)	(46,130)	(40,939)	

Impact of reconciliation on the statement of comprehensive income (increase/(decrease))	2015 HRK'000	Comment
Sales	(113,904)	2.6
Other income	16,937	2.6
A. Effect on income	(96,967)	
Change in value of inventories of finished goods	4,363	2.2
Service costs	(87,473)	2.6
Staff costs	(75)	2.5
Depreciation expense	903	2.1
Other costs	(9,494)	2.6
B. Effect on expenses	(91,776)	
Net impact on profit for the period *(A – B)*	(5,191)	
Net effect on earnings per share in kunas	*(16.54)*	

The reconciliation of results for the year 2015 in the amount of HRK 5,191 thousand reflected on the operating cash flow by the same amount.

2.1. Calculation of depreciation

The Group performed a detailed analysis of the carrying value of plant and equipment and identified a system error in the depreciation charge for a part of the plant in production. During 2016, the system error was corrected and the Group Management reconciled the amount of retained earnings at 1 January 2015 by the amount of HRK 1,762 thousand and the amount of retained earnings as at 31 December 2015 by HRK 2,665 thousand and the result for 2015 by the amount of HRK 903 thousand.

2.2. Correction of value of inventories

In 2016, the Group Management performed a detailed inventory analysis and identified that in previous periods a part of the inventories was overstated due to the non-compliance of the valuation of a part of inventories with the requirements of IAS 2 Inventories. In accordance with the performed analysis, the Group Management reconciled the amounts of inventories and retained earnings as of 1 January 2015 and 31 December 2015. In addition, as at 1 January 2015 and 31 December 2015, the Group corrected the classification of the amount of HRK 24,000 thousand initially classified in inventories, whereas in the restated balance sheet it is included in trade receivables in the same amount.

2.3. Impairment of trade and other receivables

In earlier periods, the Group used impairment criteria for trade and other receivables that did not fully include all the impairment indicators which the Company's management believe were already present in previous periods. In 2016, the Group Management performed a detailed impairment review of those receivables and in accordance with the performed tests, reconciled the amounts of trade receivables in the total amount of HRK 4,091 thousand and retained earnings as of 1 January 2015 and 31 December 2015.

2.4. Receivables and liabilities for bills of exchange with recourse rights

The Group has not recognised in previous periods receivables/liabilities in relation to bills of exchange with recourse rights. This correction resulted in an increase in receivables and liabilities on 1 January 2015 and 31 December 2015 in the same amount.

2.5. Liabilities for unused vacation

In earlier periods, the Group has not accrued a liability for unused vacation. As a result, the Group reconciled its liability for unused vacation, retained earnings and current results as at 1 January 2015 and as at 31 December 2015 and for the year then ended.

2.6. Correction of presentation of revenues and expenses in the statement of comprehensive income

The Group has reclassified income related to insurance compensations, recharges and similar income not directly related to sales of products or rendering services from sales to other operating income and therefore sales in 2015 are decreased by the amount of HRK 16,937 thousand, and the other operating income is increased by the same amount.

Also, the Group transferred sales promotion costs (incentives to retailers) that can be directly linked to customer contracts from the category of costs to the decrease in sales revenue, resulting in a decrease in sales revenue of HRK 96,055 thousand in 2015, service costs in 2015 were decreased by the amount of HRK 87,473 thousand and other expenses in 2015 were decreased by HRK 9,494 thousand. Inventory surpluses and deficits were also netted, resulting in a decrease in other income and other expenses by an amount of HRK 912 thousand.

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3. Group structure

31 December 2016	Country	Equity share Ledo d.d.	Equity share of subsidiaries	Voting right - Group	Ownership - Group
Agkor d.o.o.	Serbia		100,00%1)	100.00%	100.00%
Frikom d.o.o.	Serbia	100.00%		100.00%	100.00%
Irida d.o.o.	Croatia	100.00%		100.00%	100.00%
Ledo d.o.o. Čitluk	Bosnia and Herzegovina	100.00%		100.00%	100.00%
Ledo d.o.o.	Kosovo	100.00%		100.00%	100.00%
Ledo kft	Hungary	100.00%		100.00%	100.00%
Ledo d.o.o.	Slovenia	100.00%		100.00%	100.00%
Ledo d.o.o. Podgorica	Montenegro	100.00%		100.00%	100.00%
Frikom Beograd dooel	Macedonia		100,00%1)	100.00%	100.00%

1) owned by Frikom d.o.o.

31 December 2015	Country	Equity share Ledo d.d.	Equity share of subsidiaries	Voting right - Group	Ownership - Group
Agkor d.o.o.	Serbia		100,00%1)	100.00%	100.00%
Frikom d.o.o.	Serbia	100.00%		100.00%	100.00%
Irida d.o.o.	Croatia	100.00%		100.00%	100.00%
Ledo d.o.o. Čitluk	Bosnia and Herzegovina	100.00%		100.00%	100.00%
Ledo d.o.o.	Kosovo	100.00%		100.00%	100.00%
Ledo kft	Hungary	100.00%		100.00%	100.00%
Ledo d.o.o.	Slovenia	100.00%		100.00%	100.00%
Ledo d.o.o. Podgorica	Montenegro	100.00%		100.00%	100.00%
Frikom Beograd dooel	Macedonia		100,00%1)	100.00%	100.00%

1) owned by Frikom d.o.o.

Ownership of the Group represents the share of the Parent company in the share capital of subsidiaries, while the Group's voting right represents the number of votes which the Parent company has in the Assembly of a subsidiary.

4. Segment reporting

Segment reporting is given below (excluding the effect of one-off costs in 2016):

2016	Sales	Other income	Total expenses	Operating profit
	In thousands of HRK	In thousands of HRK	In thousands of HRK	In thousands of HRK
Ice cream	1,128,633	-	(922,998)	205,635
Frozen foods	1,294,428	-	(1,199,115)	95,312
Other	50,661	22,864	(60,688)	12,837
Total	2,473,722	22,864	(2,182,801)	313,785
Eliminations	(311,945)	(3,663)	315,608	-
Consolidated	2,161,777	19,201	(1,867,193)	313,785

2015	Sales	Other income	Total expenses	Operating profit (restated)
	In thousands of HRK	In thousands of HRK	In thousands of HRK	In thousands of HRK
Ice cream	1,159,373	514	(984,003)	175,884
Frozen foods	1,288,804	477	(1,215,521)	73,760
Other	41,121	26,216	(30,317)	37,020
Total	2,489,298	27,207	(2,229,841)	286,664
Eliminations	(325,893)	(7,264)	333,157	-
Consolidated	2,163,405	19,943	(1,896,684)	286,664

The Group does not monitor assets and liabilities by segments and does not perform business transactions with any single customer exceeding 10% of the total annual turnover.

The reconciliation of operating profit with the net loss is given below:

	2016 In thousands of HRK	2015 In thousands of HRK (restated)
Operating profit by segment	313,785	286,664
Finance income – Note 9	71,996	78,909
Finance costs – Note 10	(32,937)	(47,088)
One-off costs (impairments of Agrokor Group and other)	(562,331)	(6,541)
Share in result of associate	(1,442)	(258)
Income tax	(58,913)	(50,040)
Total	(269,842)	261,646

Sales revenues by geographic segments:

	2016 In thousands of HRK	2015 In thousands of HRK (restated)
Croatia	701,733	990,154
Serbia	524,067	593,019
Bosnia and Herzegovina	231,692	285,594
Montenegro	88,800	101,237
Slovenia	62,769	94,099
Macedonia	41,664	41,485
Hungary	22,894	21,687
Kosovo	13,521	11,609
Norway	8,089	6,683
Rest of the world	466,548	17,838
Total	2,161,777	2,163,405

Notes to the consolidated financial statements
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Other income refers to the collection of claims from insurance companies, collection of written off receivables, out-of-court settlements and recharged expenses.

5. Cost of raw materials and supplies

The structure of costs of raw materials and supplies consists of:

	2016 In thousands of HRK	2015 In thousands of HRK
Raw materials and supplies used	512,951	564,474
Energy consumed	61,821	69,279
Spare parts used	15,933	13,715
Write-off of small inventory and packaging	8,549	7,184
Total	599,254	654,652

6. Service costs

The structure of service costs consists of:

	2016 In thousands of HRK	2015 In thousands of HRK (restated)
Rentals	85,485	85,288
Marketing	58,216	65,897
External maintenance services	36,625	31,613
Cost of joint operations	26,020	21,565
Transport services	14,569	16,310
Postage, telephones	4,280	4,357
Other services	33,466	34,841
Total	258,661	259,871

7. Staff costs

The structure of staff costs consists of:

	2016 In thousands of HRK	2015 In thousands of HRK (restated)
Wages and salaries (net)	151,413	150,096
Taxes and contributions from salaries	60,773	63,199
Contributions on salaries	34,371	33,348
Total	246,557	246,643

In 2016, pension contributions amounted to HRK 43,148 thousand.

Notes to the consolidated financial statements
for the year ended 31 December 2016

8. Impairment of assets

The structure of impairment of assets is given below:

	2016 In thousands of HRK	2015 In thousands of HRK
Impairment of trade receivables - third parties	8,652	6,022
Impairment of trade receivables - Agrokor Group	76,446	-
Impairment of loans given - Agrokor Group	474,247	-
Other	2,986	519
Total	562,331	6,541

9. Other costs

The structure of other costs is given below:

	2016 In thousands of HRK	2015 In thousands of HRK (restated)
Management fees	17,892	55,042
Other employee benefits	19,523	21,424
Entertainment expenses	7,285	7,488
Insurance costs	8,703	7,531
Contributions, fees and taxes independent of result	4,818	4,563
Bank charges and payment transaction services	3,934	3,793
Business travel expenses	3,457	4,041
Cost of lawyers, legal advisers and audit	3,643	3,783
Costs of temporary service contracts and and authors' fees	3,013	3,529
Agency services and student employment agency services	5,163	3,664
Inventory shortages	3,140	1,669
Other costs	26,573	25,042
Total	107,144	141,569

10. Finance income

The structure of finance income consists of:

	2016 In thousands of HRK	2015 In thousands of HRK
Interest	57,843	61,904
Foreign exchange gains	14,153	17,005
Total	71,996	78,909

11. Finance costs

The structure of finance costs consists of:

	2016 In thousands of HRK	2015 In thousands of HRK
Interest	26,127	33,414
Foreign exchange differences	6,810	11,174
Other finance costs	-	2,500
Total	32,937	47,088

Notes to the consolidated financial statements
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12. (Loss)/Earnings per share

Basic (loss)/earnings per share
The basic (loss)/earnings per share is calculated by dividing the Company's net (loss)/profit by the weighted average number of ordinary shares in issue during the year, excluding ordinary shares purchased by the Company and held as treasury shares.

	2016	2015 (restated)
Net (loss)/profit in HRK	(269,841,701)	261,646,227
Weighted average number of shares	313,920	313,920
Basic (loss)/earnings per share in HRK	(859.59)	833.48

Diluted (loss)/earnings per share
Diluted (loss)/earnings per share equal basic (loss)/earnings per share, as there were no convertible potentially dilutive ordinary shares.

13. Intangible assets

Balances and changes in intangible assets are shown below:

At 1 January 2015	Goodwill In thousands of HRK	Other intangible assets In thousands of HRK	Assets under construction In thousands of HRK	Total In thousands of HRK
Cost	85,921	50,487	1,035	137,443
Accumulated amortisation	-	(42,664)	-	(42,664)
Net book amount	85,921	7,823	1,035	94,779
At 1 January 2015				
Opening net book amount	85,921	7,823	1,035	94,779
Investments during the year	-	-	4,046	4,046
Transfer from investments	-	5,081	(5,081)	-
Amortisation	-	(4,320)	-	(4,320)
Foreign exchange differences	-	(4)	-	(4)
Closing net book amount	85,921	8,580	-	94,501
At 31 December 2015				
Cost	85,921	55,489	-	141,410
Accumulated amortisation	-	(46,909)	-	(46,909)
Net book amount	85,921	8,580	-	94,501
At 1 January 2016				
Opening net book amount	85,921	8,580	-	94,501
Investments during the year	-	-	2,035	2,035
Transfer from investments	-	1,752	(1,752)	-
Amortisation	-	(3,897)	-	(3,897)
Foreign exchange differences	-	(27)	-	(27)
Closing net book amount	85,921	6,408	283	92,611
At 31 December 2016				
Cost	85,921	56,094	283	142,298
Accumulated amortisation	-	(49,687)	-	(49,687)
Net book amount	85,921	6,407	283	92,611

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As at 31 December 2016 and 31 December 2015, goodwill relates to the acquisition of the company Frikom d.o.o.

A cash-generating unit is defined on the basis of an acquired business unit. An impairment testing of goodwill is performed at the level of the cash-generating unit.

The amount of the recoverability of an individual cash-generating unit is determined by the value in use, using the projected cash flows based on financial plans over a five-year period. The applied discount rate to projected cash flows is 10.6%. Cash flows for the periods after the above mentioned five years are derived based on the assumed rate of growth of inflation. The basis for determining the value of the gross margin is the average gross margin achieved in the year preceding the year for which a business plan is made, plus the expected improvements in efficiency.

14. Property, plant and equipment

Balances and changes in property, plant and equipment are shown below in thousands of HRK:

(Restated)	Land	Buildings	Plant and equipment	Leasehold improve-ments	Other	Assets under construc-tion	Total
Present value on 1 January 2015							
Cost	118,387	315,857	1,130,553	32,020	359	-	1,597,176
Accumulated depreciation	-	(171,569)	(890,072)	(26,614)	-	-	(1,088,255)
Net book amount	118,387	144,288	240,481	5,406	359	-	508,921
At 1 January 2015							
Opening net book amount	118,387	144,288	240,481	5,406	359	-	508,921
Investments during the year	-	-	-	-	-	92,330	92,330
Transfer from investments	117	2,863	83,897	1,243	-	(88,120)	-
Advances	-	-	-	-	1,176	-	1,176
Disposals	(11,639)	(1,462)	(1,159)	(469)	-	-	(14,729)
Revaluation	(9,083)	-	-	-	-	-	(9,083)
Depreciation	-	(9,845)	(79,432)	(527)	-	-	(89,804)
Foreign exchange differences	(179)	(661)	(963)	(7)	(3)	(1)	(1,814)
Closing net book amount	97,603	135,183	242,824	5,646	1,532	4,209	486,997
At 31 December 2015							
Cost	97,603	311,502	1,167,139	32,342	1,532	4,209	1,614,327
Accumulated depreciation	-	(176,319)	(924,315)	(26,696)	-	-	(1,127,330)
Net book amount	97,603	135,183	242,824	5,646	1,532	4,209	486,997
At 1 January 2016							
Opening net book amount	97,603	135,183	242,824	5,646	1,532	4,209	486,997
Investments during the year	-	-	-	-	-	50,384	50,384
Transfer from investments	(5)	1,991	52,462	-	-	(54,448)	-
Advances	-	-	-	-	244	-	244
Disposals	(10,614)	(2,641)	(1,615)	(188)	-	-	(15,059)
Revaluation	(996)	-	-	-	-	-	(996)
Depreciation	-	(10,411)	(76,043)	(587)	-	-	(87,041)
Foreign exchange differences	(381)	(1,827)	(3,055)	335	(35)	(87)	(5,028)
Closing net book amount	85,607	122,295	214,573	5,206	1,741	59	429,481
At 31 December 2016							
Cost	85,607	305,397	1,185,188	32,236	1,741	59	1,610,228
Accumulated depreciation	-	(183,102)	(970,615)	(27,030)	-	-	(1,180,747)
Net book amount	85,607	122,295	214,573	5,206	1,741	59	429,481

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Balance of land at 31 December 2016	in thousands of HRK
Cost	13,884
Revaluation	71,723
Net book amount	85,607

The total amount recorded in the land column refers to land for construction purposes. The last revaluation was carried out in 2016 by the independent appraiser Planko Consulting d.o.o. using the comparative method based on the assumption that the recently determined prices of similar properties in the same market, are a good indicator of the market value of properties; the law prescribes a recent period of 48 months. At the balance sheet date, a part of the Group's assets is mortgaged as security for a loan of EUR 6.8 million.

15. Investments in associates

Associates

	2016 In thousands of HRK	2015 In thousands of HRK
At 1 January	2,367	2,680
Share in loss	(1,442)	(258)
Foreign exchange differences	(154)	(55)
At 31 December	771	2,367

The Group's share in the company Kikindski mlin a.d. is 23,97%.

Condensed financial information of the associated company Kikindski mlin a.d.:

	31 December 2016 In thousands of HRK	31 December 2015 In thousands of HRK
Current assets	125,897	65,865
Non-current assets	80,017	88,003
Current liabilities	(121,507)	(58,690)
Non-current liabilities	(7,182)	(7,763)
Net assets	77,225	87,415

	2016 In thousands of HRK	2015 In thousands of HRK
Income	104,769	120,055
Loss	(6,016)	(1,075)

16. Financial assets

Financial assets consist of:

	31 December 2016 In thousands of HRK	31 December 2015 In thousands of HRK
Loans given	54,922	51,799
Loans given - Agrokor Group	2,192	5,592
Available-for-sale securities	42,624	41,346
Long-term deposits	3,803	7,572
Total	103,541	106,309

Long-term deposits are mainly related to deposits arising from operating leases that do not bear interest and are not due on the date of repayment of contractual obligations.
During 2016, there was no impairment of the value of investments in available-for-sale securities.
Long-term loans were given for a period of 3 to 20 years at an annual interest rate ranging from 2%-5%.

An overview of loans given to members of the Agrokor Group is as follows:

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	31 December 2016 In thousands of HRK	31 December 2015 In thousands of HRK
Parent's subsidiaries:		
M profil d.o.o.	351	354
Nova sloga d.o.o.	1,841	5,238
Total	2,192	5,592

The loans were granted at an interest rate of up to 6% p.a.

17. Inventories

The structure of inventories is given below:

	31 December 2016 In thousands of HRK	31 December 2015 In thousands of HRK (restated)
Raw materials and supplies	105,216	163,931
Work in progress	86,384	78,101
Trade goods	95,295	95,980
Finished goods	50,580	68,888
Advances	1,298	3,670
Total	338,772	410,570

The cost of products sold for 2016 amounted to HRK 741,751 thousand.

18. Short-term investments

Short-term investments consist of:

	31 December 2016 In thousands of HRK	31 December 2015 In thousands of HRK
Loans given – Agrokor Group	1,194,869	978,762
Impairment – Agrokor Group	(474,426)	-
Loans given	11,355	6,383
Other financial assets	6	-
Total	731,804	985,145

Loans were given for a period of 12 months at an annual interest rate 2%-5.9%.

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Loans given to Agrokor Group companies:

	31 December 2016 In thousands of HRK	31 December 2015 In thousands of HRK
Parent:		
Agrokor d.d.	23,723	13,018
Parent's subsidiaries:		
A007 d.o.o.	318	-
Agrolaguna d.d.	1,560	-
Idea d.o.o. Serbia	260,537	289,861
MG Mivela d.o.o. Serbia	18,129	27,627
Kikindski mlin a.d.	27,559	15,953
Konzum d.d.	350,757	563,576
Konzum d.o.o. Sarajevo	17,828	4,062
Kron d.o.o. Serbia	-	21,188
Mprofil d.o.o. Serbia	802	254
Nova sloga d.o.o.	3,779	11,993
Zvijezda Sarajevo d.o.o.	15,457	31,230
Total	720,449	978,762

The loans are short-term at an annual interest rate of 5.14% (during 2015, from 3% -7%) in Croatia, and for the other countries in the range of 5.4% and 5.9% and were mostly given in HRK.

19. Receivables

Receivables consist of the following:

	31 December 2016 In thousands of HRK	31 December 2015 In thousands of HRK (restated)
Trade receivables	241,513	272,823
Provision for impairment of trade receivables	(63,426)	(58,789)
Trade receivables – Agrokor Group	212,994	139,506
Impairment of receivables – Agrokor Group	(76,514)	-
Receivables from the state	16,365	18,403
Due from employees	873	827
Other receivables	4,288	6,365
Received bills of exchange	210	1,055
Total	336,303	380,190

Movements in the impairment of trade receivables (third parties) and trade receivables within the Agrokor Group are given below:

	2016 In thousands of HRK	2015 In thousands of HRK (restated)
At 1 January	58,789	60,856
Increase in provisions through income statement	85,166	6,022
Decrease in provisions through income statement	(590)	(280)
Write-offs from the balance sheet	(3,425)	(7,809)
At 31 December	139,940	58,789

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The ageing structure of trade receivables which have not been impaired is given below:

	Not past due In thousands of HRK	0-90 days In thousands of HRK	90-180 days In thousands of HRK	180 – 270 days In thousands of HRK	Over 270 days In thousands of HRK	Total (restated) In thousands of HRK
2016	204,855	61,819	33,061	8,936	5,896	314,567
2015	216,192	77,694	40,694	7,217	11,743	353,540

The collection of the Group's outstanding receivables is sufficiently secured.

Receivables from member companies of the Agrokor Group are related to trade receivables:

	31 December 2016 In thousands of HRK	31 December 2015 In thousands of HRK (restated)
Parent:		
Agrokor d.d.	-	1
Subsidiaries of the parent:		
Atlas d.d.	3,354	-
Idea d.o.o.	96	-
Jamnica d.d	109	-
Jamnica d.o.o. Maribor	-	8
Konzum d.d.	66,717	78,316
Konzum d.o.o. Sarajevo	30,792	36,031
Mercator Grupa	35,512	25,067
M profil SPV d.o.o.	-	1
Nova sloga d.o.o.	-	4
Roto dinamic d.o.o.	-	74
Sarajevski kiseljak d.d.	3	4
Tisak d.d.	(202)	-
Velpro centar d.o.o.	(81)	-
Velpro d.o.o.	121	-
Žitnjak d.d.	59	-
Total	136,480	139,506

Overview of the currency structure of trade receivables:

	31 December 2016 In thousands of HRK	31 December 2015 In thousands of HRK (restated)
HRK	100,819	138,454
BAM	61,382	69,157
RSD	120,594	120,646
HUF	940	691
EUR	30,832	24,592
Total	314,567	353,540

20. Credit quality

An overview of assets based on the credit quality of counterparties as at 31 December 2016 is given below:

	Counterparties without credit rating				
Type of asset	New customers	Related parties	Customers paying within maturity period	Customers paying with some defaults	TOTAL
Non-current assets					
Investment securities	-	-	2,242	40,382	42,624
Loans given, deposits, etc.	-	2,199	58,300	418	60,917
Other receivables	-	-	-	368	368
Total	-	2,199	60,542	41,168	103,909
Current assets					
Trade receivables	540	136,480	72,361	105,186	314,567
Other receivables	-	-	421	3,866	4,287
Investment securities	-	-	-	210	210
Loans given, deposits, etc.	-	720,449	11,355	-	731,804
Total	540	856,929	84,137	109,262	1,050,868

An overview of assets based on the credit quality of counterparties as at 31 December 2015 is given below:

	Counterparties without credit rating				
Type of asset (restated)	New customers	Related parties	Customers paying within maturity period	Customers paying with some defaults	TOTAL
Non-current assets					
Investment securities	-	-	2,270	39,076	41,346
Loans given, deposits, etc.	-	5,592	53,374	405	59,371
Total	-	5,592	55,644	39,481	100,717
Current assets					
Trade receivables	851	139,506	93,315	119,868	353,540
Other receivables	-	-	2,046	4,319	6,365
Investment securities	-	-	-	1,055	1,055
Loans given, deposits, etc.	-	978,762	6,358	25	985,145
Total	851	1,118,268	101,719	125,267	1,346,105

21. Cash at bank and on hand

Cash at bank and on hand consists of the following:

	31 December 2016 In thousands of HRK	31 December 2015 In thousands of HRK
Cash at bank	17,998	15,281
Deposits up to 3 months	-	10,634
Total	17,998	25,915

Short-term deposits bear an annual interest of up to 1%- 4%.

	31 December 2016 In thousands of HRK	31 December 2015 In thousands of HRK
BBB+ (S&P)	2	1
BBB (S&P)	35	41
BBB- (S&P)	71	127
BB+ (S&P)	2,605	-
BB (S&P)	913	1,950
Without rating	14,372	23,796
Total	17,998	25,915

22. Capital and reserves

Capital includes own long-term assets intended for business. It covers fundamental equity together with the statutory reserves, revaluation reserves, retained earnings and profit for the year. Subscribed capital (shareholders' equity) in the court registry amounts to HRK 119,290 thousand and is fully paid. The total number of shares is 313,920 shares. The nominal value per share is HRK 380.00.

The ownership structure as at 31 December 2016 is as follows:

	Number of shares	Nominal 1 share In HRK	Total Nominal value In thousands of HRK	Participation in share capital (%)
Agrokor d.d.	153,551	380	58,350	48.91%
Small shareholders	11,566	380	4,395	3.68%
Pension funds	83,200	380	31,616	26.50%
Others	65,603	380	24,929	20.90%
Total number of shares	313,920		119,290	100.00%

Retained earnings include legal reserves and reserves from foreign currency translations. Legal reserves amounting to HRK 26,878 thousand are not distributable.

23. Provisions

Provisions for termination benefits
All employees are included in the state pension fund. Provisions for termination benefits are established for benefits paid on retirement, jubilee awards (length of service) and scholarships for children of workers who died in a work-related accident. The amount of termination benefit depends on whether the employee has met the required conditions for retirement, and the amount of the jubilee award depends on the number of years of service at the Company. The amount of compensation is determined on the basis of the employee's monthly remuneration.

Movements of liabilities for employee benefits stated in the balance sheet are as follows:

	2016 In thousands of HRK	2015 In thousands of HRK
Net liability at the beginning of the year	4,740	4,288
Net change during the year	2,353	2,891
Payments during the year	(2,150)	(2,439)
Net liability at the end of the year	4,943	4,740

The principal actuarial assumptions used to determine liabilities as at 31 December are as follows:

	2016	2015
Discount rate (annual)	4.00%	4.00%-4.50%
Wage and salary increases (annual)	0.50%	0.50%-4.00%

Other long-term employee benefits are determined using the projected unit credit method per employee. Gains and losses arising from changes in actuarial assumptions are recognised as income/expense in the period in which they are incurred.

24. Lease liabilities

Finance lease
Assets included in the financial lease consists of property and means of transport.

	2016 In thousands of HRK	2015 In thousands of HRK
From 4 to 5 years	231	315
From 3 to 4 years	707	729
From 2 to 3 years	1,116	730
From 1 to 2 years	1,116	730
Within 1 year	1,116	575
Impairment for future interest	(470)	(246)
Amount of liability included in Note 25	3,816	2,833
Less: current portion	(914)	(575)
Total non-current liabilities	2,903	2,258

Operating lease liabilities
Operating lease liabilities include the lease of equipment and vehicles.

Maturity	31 December 2016 In thousands of HRK	31 December 2015 In thousands of HRK
Over 5 years	353	1,620
From 2 to 5 years	19,339	11,343
From 1 to 2 years	13,416	21,681
Within 1 year	32,704	26,625
Total	65,812	61,269

Capital commitments
The contractual capital commitments at the balance sheet date amounted to HRK 13,698 thousand, which is entirely related to non-current tangible assets, while on the same day of the previous year they amounted to HRK 10,731 thousand.

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25. Bank borrowings and loans

The structure of borrowings and loans is as follows:

	31 December 2016 In thousands of HRK	31 December 2015 In thousands of HRK
Long-term borrowings		
Bank borrowings	-	52,138
Loans from Agrokor Group	34	34
Finance leases (Note 24)	3,816	2,833
Total long-term borrowings and loans	3,850	55,005
Current portion of long-term borrowings		
Bank borrowings	-	(52,138)
Finance leases	(914)	(575)
Total current portion of long-term borrowings	(914)	(52,713)
Long-term borrowings and loans	2,936	2,292
Short-term borrowings and loans		
Bank borrowings	400,075	368,532
Short-term loans – Agrokor Group	45,235	52,795
Total short-term borrowings and loans	445,310	421,327
Total borrowings and loans	449,160	476,332

The long-term loan received from a member of the Agrokor Group refers to a loan received from the company Nova sloga d.o.o.
All interest expenses are recognised in profit or loss using the effective interest method. Most loans have been agreed with fixed interest rates.
The maturity of non-current liabilities is given in the note on Finance leases.

An overview of short-term loans received from companies within the Agrokor Group is as follows:

	31 December 2016 In thousands of HRK	31 December 2015 In thousands of HRK
Parent's subsidiaries:		
Agrokor trgovina d.o.o.	304	-
Agrokor Zagreb d.o.o.	23,770	24,944
Dijamant a.d.	18,869	27,845
Kor broker d.o.o.	2,292	-
Tisak d.d.	-	6
Total	45,235	52,795

26. Taxes

The tax liability is presented below:

	31 December 2016 In thousands of HRK	31 December 2015 In thousands of HRK
Domestic income tax	38,224	31,281
Foreign income tax	20,689	18,759
Total	58,913	50,040

The income tax paid in 2016 amounted to HRK 52,929 thousand (2015: HRK 36,883 thousand).

	2016	2015 (restated)
(Loss)/Profit before tax	(210,929)	311,686
Income tax calculated using the average weighted tax rate on profits of companies earned in the respective countries	(56,587)	62,032
Tax effects:		
Non-deductible items, net	128,096	4,885
Effect of non-taxable income	12,949	10,625
Utilised tax losses carried forward	41	349
Tax relief	-	896
Unrecognised deferred tax assets	(25,586)	(28,747)
Income tax expense	58,913	50,040

The Croatian Income Tax Act is subject to varying interpretations and changes in respect of expenses which decrease the tax base. The Management Board's interpretation of such legislation as applied to the transactions and activities of the Company may be challenged by the relevant authorities. The Tax Administration may be taking a different position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged. The Tax Administration may start performing an inspection within three years following the year in which the tax liability is reported for a specific financial period.

The deferred tax liability refers to the deferred tax liability for land revaluation. The underlying deferred tax liability as at 31 December 2016 amounted to HRK 12,430 thousand, while on the same day last year it was HRK 13,954 thousand.

Movements in the deferred tax liability are as follows:

	2016 In thousands of HRK	2015 In thousands of HRK
Deferred tax liability at 1 January	13,954	16,091
Deferred tax resulting from revaluation of land and valuation of available-for-sale investments through other comprehensive income	(1,524)	(2,137)
Deferred tax liability at 31 December	12,430	13,954

The deferred tax liability for revalued land arose from the fact that under the currently applicable tax laws revaluation surplus is taxable in the year of implementation, and not in the year of revaluation.

27. Bills of exchange payable and liabilities on the basis of recourese rights

	31 December 2016 In thousands of HRK	31 December 2015 In thousands of HRK (restated)
Discounted bills of exchange	2,324	-
Liabilities and receivables on the basis of bills of exchange with recourse rights	17,500	32,285
Total	19,824	32,285

Bills of exchange payable relate to recourse bills of exchange issued by the Group as a means of paying trade payables for received goods and products.
The Group also accepts bills of exchange as a means of payment from customers and thus closes its receivables towards customers for the sale of goods and products. Received bills of exchange have recourse rights and provide a guarantee to the Group in case the factoring companies fail to collect outstanding amounts from the customer. In case the recourse is activated, the obligation of collecting bills of exchange is transferred to the Group, and then the Group exercises the right to the receivable for uncollected bills of exchange towards the initial issuer of the bills of exchange. As at 31 December 2016, the Group recorded a liability and receivable on the basis of bills of exchange with recourse rights, discounted by factoring companies, in the total amount of HRK 19,824 thousand (31 December 2015: HRK 32,285 thousand).
Up to the date of this report, recorded liabilities arising from rights of recourse for bills of exchange have been duly settled on maturity. Both in this and in previous periods, there was no activation of recourse based on received bills of exchange.

28. Trade payables

Trade payables relate to the following:	31 December 2016 In thousands of HRK	31 December 2015 In thousands of HRK
Domestic trade payables	105,593	106,670
Foreign trade payables	86,256	109,814
Suppliers – Agrokor Group	22,631	14,231
Uninvoiced goods payable	530	(1)
Total	215,010	230,714

Trade payables to companies within Agrokor Group are as follows:

	31 December 2016 In thousands of HRK	31 December 2015 In thousands of HRK
Parent company:		
Agrokor d.d.	2,928	-
Subsidiaries of the Parent company:		
Agrokor Ag	5,730	-
Atlas d.d.	29	-
Agrokor Zagreb d.o.o.	14	-
Adriatica.net d.o.o.	6	-
Dijamant a.d. Serbia	2,360	2,672
Idea d.o.o. Serbia	-	3
Jamnica d.d.	120	4
MG Mivela d.o.o. Serbia	5	6
Jamnica d.o.o. Slovenia	-	1
Kikindski mlin a.d.	717	1,026
Kron d.o.o. Serbia	-	46
360 marketing d.o.o.	714	-
Mercator Grupa	4,207	3,475
mStart d.o.o.	2,059	4,135
Multiplus card d.o.o.	-	25
Nova sloga d.o.o.	1,570	-
PIK Vinkovci d.d.	-	408
Tisak d.d.	352	1,045
TPDC Sarajevo d.d.	499	434
Velpro – centar d.o.o.	1,320	-
Zvijezda d.d.	1	951
Total:	22,631	14,231

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29. Other current liabilities

Other current liabilities consist of:

	31 December 2016 In thousands of HRK	31 December 2015 In thousands of HRK (restated)
Due to employees	14,736	13,969
Taxes and contributions (other than income tax)	22,925	9,203
Advances payable	3,649	6,548
Liabilities for distribution of profit	364	367
Other current liabilities	813	1,722
Liabilities for unused vacation	4,256	4,378
Deferred income	6,158	3,237
Total	52,901	39,424

30. Related party transactions

Transactions realised with members of the Agrokor Group are listed below, recorded in thousands of HRK:

	Income		Expenses	
	2016	2015	2016	2015
Parent:				
Agrokor d.d.	471	384	(18,245)	(58,063)
Subsidiaries of the parent:				
Agrokor Zagreb d.o.o. Bosnia and Herzegovina	-	3	(1,429)	(1,965)
Belje d.d.	90	94	(4,259)	(4,286)
Dijamant a.d. Serbia	248	1,392	(8,469)	(8,732)
Idea d.o.o. Serbia	21,659	22,674	(1,192)	-
MG Mivela d.o.o. Serbia	1,866	480	(36)	(56)
Kikindski mlin a.d. Serbia	1,165	1,518	(2,749)	(3,655)
Konzum d.d.	269,018	289,527	(52,441)	(71,094)
Konzum d.o.o. Bosnia and Herzegovina	43,700	45,051	(4,334)	(4,817)
Kron d.o.o.	1,417	1,142	(54)	(38)
360 Marketing d.o.o.	-	-	(2,587)	-
Mercator Grupa	124,142	125,084	(27,245)	(22,000)
mStart d.o.o.	21	6	(12,076)	(12,585)
M-profil d.o.o. Serbia	43	15	(2,439)	(2,459)
Nova sloga d.o.o.	926	1,366	(8,374)	(5,538)
PIK Vinkovci d.d.	1,094	2,420	-	(23,125)
PIK Vrbovec d.d.	3,582	2,992	(9,238)	(5,653)
Tisak d.d.	11,917	11,738	(2,911)	(4,367)
TPDC Sarajevo d.o.o.	956	929	(1,833)	(1,791)
Velpro centar d.o.o.	33,392	-	(16,700)	-
Zvijezda d.d.	712	421	(4,666)	(4,939)
Zvijezda d.o.o. Bosnia and Herzegovina	1,747	1,890	-	-
Other subsidiaries	1,228	505	(1,646)	(1,658)
Total	519,394	509,631	(182,923)	(236,821)

a) Income from related party transactions:

The Group sold its goods to related companies and provided services under arm’s length conditions, the largest customer of the Group being Konzum d.d.

b) Expenses from related party transactions:

During the year, the parent company Agrokor d.d. provided corporate governance services for which the Group was charged in the amount of HRK 17,892 thousand (2015: HRK 55,042 thousand).

During the year, the company Konzum d.d. (the largest supplier of the Group) invoiced the delivered goods/services under arm's length conditions.

In the year ending 31 December 2016, total compensation paid to key personnel in the Group Management Board amounted to HRK 5,979 thousand (2015: HRK 4,668 thousand).

	2016 In thousands of HRK	2015 In thousands of HRK
Net salaries including bonuses	3,156	2,830
Contributions from and on salaries	2,636	1,233
Taxes and surtaxes on salaries	187	605
Total	5,979	4,668

31. Contingent liabilities

The Group's contingent liabilities comprise guarantees on issued bonds, borrowings and revolving bank guarantees in which the original debtor is Agrokor d.d. and the related members of the Agrokor Group.

All guarantees relate to funds used to finance the entire Parent company, resulting in the growth and development of the Parent company. Through synergic effects, there were benefits for all business segments, including the Ledo Group. The financing of Agrokor d.d. was a centralised function and common for many years, so that legal affairs were contracted and monitored centrally by Agrokor d.d., whereby the Ledo Group does not have complete insight into all contracted legal affairs.

Pursuant to the Act on the Extraordinary Administration Procedure in Companies of Systemic Importance for the Republic of Croatia, receivables are being reconciled with creditors in the extraordinary administration procedure and after determining the receivables of creditors and the principal debtor, the final receivable amount of individual creditors will be determined. As at 31 December 2016, total contingent liabilities of the Ledo Group arising from guarantees and co-debtor relations amounted to HRK 19,834,625 thousand and as at 31 December 2015 amounted to HRK 18,950,627 thousand.

The Group is involved in commercial disputes relating to the collection of outstanding trade receivables in the amount of HRK 58,915 thousand. In addition, legal disputes are in progress relating to other current receivables in the amount of HRK 3,011 thousand and other current liabilities of HRK 25,196 thousand.

32. Fair value measurement

Based on calculations of their fair value, financial instruments are grouped into three levels:

- Level 1: financial instruments quoted in an active market
- Level 2: assets or liabilities that are not included in Level 1, whose value is determined directly or indirectly on the basis of comparable market data
- Level 3: assets or liabilities whose value is not based on active market data.

The fair value measurement hierarchy for assets as at 31 December 2016:

(in thousands of HRK)

	Level 1	Level 2	Level 3	Total
Available-for-sale securities	-	40,692	1,932	42,624
Land	-	-	85,607	85,607

The fair value measurement hierarchy for assets as at 31 December 2015:

(in thousands of HRK)

	Level 1	Level 2	Level 3	Total
Available-for-sale securities	-	38,329	3,017	41,346
Land	-	-	97,603	97,603

33. Transactions with associates

The volume of transactions with associates (Kikindski mlin a.d.), balance at the end of the year and corresponding income were as follows:

	31 December 2016 In thousands of HRK	31 December 2015 In thousands of HRK
Receivables		
Trade receivables	-	1,026
Other	27,559	-
Liabilities		
Trade payables	717	-
Other	-	15,954
Income		
Sales	-	3,376
Other income	1,165	279

34. Financial instruments and risk management

(a) Financial instruments

The Group has no derivative financial instruments or any financial instruments that could potentially subject the Group to concentrations of credit risk. The Group's policy is to enter into financial instruments with a diversity of creditworthy counterparties. Consequently, the Group does not expect to be exposed to material credit losses on financial instruments.

Fair value of financial assets and liabilities

Fair value represents the amount at which an asset could be exchanged or a liability settled on an arm’s length basis. As it is not possible to reach the reference market prices of a significant part of the assets and liabilities, fair values are based on Management estimates with respect to the type of assets and liabilities. Management believes that the fair values of assets and liabilities (except if otherwise stated in this note) are not significantly different from their carrying values.

The Group used the following methods and assumptions in estimating the fair value of financial instruments:

Receivables and bank deposits

For assets that mature within 3 months, the carrying value approximates their fair value due to the short maturities of these instruments. For longer-term assets, the interest rate does not deviate significantly from the current market rates and, consequently, the fair value approximates the carrying value.

Loans given

Since almost all loans are short-term, the Management Board is of opinion that their fair value is not materially different from their carrying value.

Investment securities

Securities are recorded in the balance sheet at their fair value. Securities whose fair value cannot be reliably measured, as they are not traded on an active market, are recorded at cost. The Management Board believes that their fair value is not materially different from their carrying value.

Borrowings
The fair value of current liabilities approximates their carrying value due to the short maturities of these instruments. For the remainder of long-term borrowings, the average contracted rate does not differ significantly from the market rate at the balance sheet date, and consequently, the fair values are not significantly different from their carrying values.

(b) Objectives and risk management policies
The main risks arising from the Group's financial instruments are credit risk, foreign currency risk and interest rate risk. Management reviews and agrees policies for managing each of these risks which are listed below. The Group is exposed to international markets. As a result, the Group may be affected by changes in foreign exchange rates. The Group also extends credit terms to its customers and is exposed to a risk of default. The significant risks, together with the methods used to manage these risks, are described below. The Group does not use derivative instruments either to manage risk or for speculative purposes.

	2016	2015 (restated)
Total borrowings (Note 25)	449,160	476,332
Less: Short-term deposits given and cash and cash equivalents (Note 21)	(17,998)	(25,915)
Net borrowings	431,162	450,417
Capital and reserves	1,313,698	1,733,499
Gearing ratio	32.8%	25.9%

Credit risk
The Group is exposed to credit risk, which is the risk that the debtor will not be able to meet the maturity obligations. The Group manages the level of risk by establishing credit risk exposure limits to one debtor or group of debtors. As there is no significant concentration of credit exposure, the Group does not consider to be significantly exposed to this risk.
The Group considers that its maximum exposure is reflected in the amount of receivables net of provisions for impairment recognised at the balance sheet date.

Liquidity risk
Liquidity risk, also referred to as funding risk, is the risk that the Group will encounter difficulty in raising funds to meet commitments associated with financial instruments. The Group closely monitors its cash flows, and plans short-term inflows and outflows of cash. The remaining amount of funds received is placed by the Group as short-term deposits and available-for-sale assets.
Long-term bank borrowings by maturity are presented in Note 25.
Most of the borrowings and loans are short-term and the contracted undiscounted cash flows do not significantly differ from discounted cash flows, therefore the Group does not disclose the maturity structure of these payments.

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The following overview shows the maturity structure of trade payables and other liabilities of the Group as of 31 December 2016 and 2015 expressed in thousands of HRK:

	< 90 days	90 – 180 days	180 – 270 days	> 270 days	Total
	In thousands of HRK	In thousands of HRK	In thousands of HRK	In thousands of HRK	In thousands of HRK
Trade payables					
At 31 December 2016	211,190	2,287	1,494	39	215,010
At 31 December 2015	228,174	1,010	1,530	-	230,714
Other liabilities					
At 31 December 2016	52,901	-	-	-	52,901
At 31 December 2015	48,684	166	166	408	39,424

Interest rate risk
Most of the interest-bearing assets and liabilities of the Group represent borrowings. Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates relative to the interest rates which apply to the financial instrument. Interest rate risk related to cash flow is the risk that the financial instrument interest expense will fluctuate over time.
The following table shows the sensitivity of profit before tax of the Group on a possible change in interest rates, with other variables held constant (through the impact on variable rate on borrowings):

	Increase/decrease in basis points	Effect on profit before tax in thousands of HRK
2016		
EUR	+/- 50	1,049
RSD	+/- 50	-
HRK	+/- 50	90
2015		
EUR	+/- 50	1,524
RSD	+/- 50	413
HRK	+/- 50	-

Foreign currency risk
Most of the Group's assets are denominated in HRK. A significant portion of the Group's loan liabilities is denominated in foreign currencies (primarily EUR). Consequently, the Group is exposed to the risk of exchange rate fluctuations. Given the long-term policy of the Republic of Croatia related to maintaining the EUR exchange rate, the Group does not consider it to be significantly exposed to further negative impact of this exposure.
The following table shows the sensitivity of the Group's profit before tax on a reasonably possible change in exchange rates, with other variables held constant, and due to a change in the fair value of monetary assets and liabilities:

	Increase/decrease in exchange rate	Effect on profit before tax in thousands of HRK
2016		
EUR	+/- 5%	17,021
USD	+/- 5%	(2,540)
2015		
EUR	+/- 5%	19,125
USD	+/- 5%	(2,674)
CHF	+/- 5%	(1)

Capital management

The primary objective of the Group's capital management is to support the business and maximise shareholder value. The capital structure of the Group is applicable to share capital comprising subscribed capital, reserves and retained earnings.

The Group manages its capital structure and makes adjustments in the light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2016, and on 31 December 2015.

35. Events after the balance sheet date

Pursuant to the Act on Extraordinary Administration Procedure in Companies of Systemic Importance for the Republic of Croatia ("the Act"), on 7 April 2017, the Management Board of Agrokor d.d., Zagreb ("Agrokor") filed a request for initiating the Extraordinary Administration procedure to the Commercial Court in Zagreb.

The purpose of this Act is to protect the sustainability of business operations of companies of systemic importance for the Republic of Croatia while conducting business, financial and ownership restructuring, all with the aim of preventing negative consequences on the overall economic, social and financial stability in the Republic of Croatia that may arise from a sudden discontinuity in the operations of such companies.

On 10 April 2017 (amended on 21 April 2017), the Commercial Court in Zagreb issued a Decision on Initiating the Extraordinary Administration Procedure (St-1138/17) over Agrokor and its related companies and subsidiaries in the Republic of Croatia including the company Ledo d.d. On the basis of the aforementioned Decision, on 10 April 2017 the Extraordinary Commissioner took over the management of Agrokor d.d. as well as control over the Agrokor companies covered by the Extraordinary Administration.

As defined in Article 7 of the Act, during the Extraordinary Administration procedure it is not permitted to initiate debtor liquidation proceedings. Also, as defined in Article 41 of the Act, from the day of initiating the Extraordinary Administration procedure until its completion, it is not allowed to initiate civil, enforcement, administrative and insurance proceedings as well as out-of-court collection proceedings against Agrokor and its subsidiaries and related companies subject to the Extraordinary Administration.

Within 12 months from initiating the Extraordinary Administration procedure, with the possibility of extension for 3 months, the Extraordinary Commissioner may, with the consent of the council of creditors, propose a settlement to the creditors. The settlement process is defined by the Act, while its outcome cannot reasonably be estimated up to the date of this report.

In accordance with the Act, the Extraordinary Administration measure is implemented only when there is a reasonable probability of establishing a balance and continued operations on a more permanent basis. Otherwise, at any time during the course of the Extraordinary Administration procedure, the court may, at the request of the Extraordinary Commissioner and upon obtaining the consent of the council of creditors, decide to terminate the Extraordinary Administration procedure and to initiate bankruptcy proceedings if circumstances have arisen due to which there is no longer a reasonable probability of establishing economic balance and continued operations on a more permanent basis. To the best of our knowledge, such circumstances have not arisen so far and according to the information available until the date of this report, the Company's Management expects a successful conclusion of the Settlement. Accordingly, the financial statements have been prepared based on the going concern basis.

On 21 February 2017, a EUR 100 million loan agreement was concluded between Sberbank Russia as the loan provider and Agrokor d.d. as the loan recipient, with the guarantee of certain related companies including Ledo d.d. The agreement confirmed two tranches, one in the amount of EUR 60 million for meeting current operating requirements and another in the amount of EUR 40 million for refinancing purposes

On 13 April 2017, following the consideration of the key provisions (amount, interest rate, maturity, co-debtor rights and obligations), the company signed the loan agreement as a co-debtor for the loan of the related company Agrokor d.d. A contract was signed between Agrokor d.d. as the loan recipient and Zagrebačka banka d.d., Privredna banka Zagreb d.d., ERSTE Steiermaerkische d.d. and Raiffeisen Bank Austria d.d. as the loan provider in the amount of EUR 80,000,000. The loan is repaid one-off at the expiration of 12 months from the date of initiating the Extraordinary Administration procedure or 15 months, if the Extraordinary Administration procedure is extended.

On 8 June 2017, the company signed, as a guarantor, an Loan Agreement with a priority right when settling concluded by Agrokor d.d., together with its related companies (Agrokor-trgovina d.o.o., Belje d.d. Darda, Jamnica d.d., Konzum d.d., Ledo d.d., Pik-Vinkovci d.d., Sarajevski Kiseljak d.d., Vupik d.d.,Zvijezda d.d., PIK Vrbovec d.d., Velpro d.o.o. and others). This is a Loan Agreement with different international and domestic inventors up to EUR 1,060,000,000 the highest, divided in two tranches: first one up to EUR 960,000,000 and the second one up to EUR 100,000,000 (offered to existing suppliers to participate in financing the Agrokor group as investors). Loan Agreement matures at each day preceeding 10 July 2018 or the day of judicial validation of the Settlement or the day of starting the bankruptcy proceedings. The loan amount was used also for the early repayment of loan amounting to EUR 80 million granted as of 13 April. Loan was granted under the condition of refinancing (settlement) of part of old debt existing before the initiation of Extraordinary Administration procedure in the ratio of cash remaining at company's disposal and cash used for refinancing (settlement) of part of old debt 1:1. As a security, the loan agreement defines a pledge over non-current tangible and intangible assets of all guarantors.

In 2017, the amount of loan liabilities to banks in Frikom d.o.o. was decreased compared to the balance as of 31 December 2016 by EUR 9.5 million. For the extension of existing loans that became due in 2017, a pledge over Frikom's assets was recorded: a building in Čačak, a part of the facility in Niš and a facility in Gornji Milanovac, in the amount of EUR 13 million. The funds secured by extending the existing loans enabled a steady continuation of operations.

Encumbrance of Group' assets

On 1 September 2017, Agrokor d.d., its related companies, including Ledo d.d., all as Opponents of the collateral on the one hand, and Madison Pacific Trust Limited as the Proponent of the collateral on the other, signed an Agreement on creating a lien against properties. This Agreement was concluded for the purpose of establishing and perfecting the collateral in favour of the Proponent of the collateral in order to secure the present and future claims that each Debtor owes to the Secured Parties, all as defined in and in accordance with the Agreement on the super-priority loan as of 8 June 2017 and with all the changes and amendments (13.06.2017, 18.06.2017, 28.06.2017, 04.07.2017, 10.07.2017 and 30.08.2017). Due to extending a matured loan from Komercijalna banka, Ledo d.o.o. Čitluk registered a pledge over the warehouse and production hall in Čitluk. Ledo Podgorica has a Decision on the Pledge Realisation over facilities in Podgorica and Kovačko polje on the basis of a loan concluded in 2015 between Hipotekarna banka and Agrokor d.d. amounting to EUR 6.8 million. The Decision has not been activated to date.

Significant legal disputes against the Group

On 7 June 2017, The Commercial Court in Belgrade issued a decision on a provisional measure prohibiting the Company from disposing and using the 100% share of the company Ledo d.d. in the company Frikom d.o.o. as security for receivables of Sberbank d.d. in the amount of EUR 100,000,000 (principal amount) and EUR 1,323,493 (accrued interest on 25 May 2017) arising from a guarantee on the basis of a loan agreement signed on 21 February 2017.

The lien was created against properties of the company Ledo d.d., which comprise the following business facilities: administrative building, business buildings, commercial buildings (ice cream factory) and courtyard in Zagreb, M. Čavića 9, total area 23129 m2; two buildings, a shed and an industrial yard in Osijek, Ulica vukovarska 314, with a total area of 5051 m2; a building and yard in Slavonski Brod, Ljudevita Posavskog bb, total area of 5563 m2; the factory yard in Zagreb, Čavićeva 9, with a total area of 235 ftm2 or 845 m2.

Pledge over the company's (issuer) Mark (brand)

On 15.9.2017. the Agreement on the Establishment of a Pledged Right to Certain Marks (brands) of issuers between Agrokor d.d., its related companies including the issuer, all as insurance opposites on one side, and Madison Pacific Limited as the Proponent of Insurance on the other, for the purpose of establishing and perfecting insurance in the benefit of the Proponent of Insurance to secure the current and future claims that each borrower owes to the secured parties, as defined in accordance with the oldest loan agreement of 8 June 2017.