



AGRI EUROPE



20
ANNUAL REPORT
16



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AEC ORGANIZATION

Diversified business activities are under governance of several business divisions tied up together as Agri business and Banking Consolidation Segments.

Core business activities	Business Division	Consolidation Segments	Group
Crop farming	Farming	Agri Business	AEC
Vegetable Processing			
Apple orchard & cold storage			
Trading	Trading and Logistics		
Logistics			
Mill processing			
Animal Feed Production	Meat		
Sugar Industry	Sugar		
Hotels	Hotels		
Banking	Banking		
Brokerage House			

The process of corporate restructuring is ongoing, both in terms of merging companies within Farming and Trading business divisions as well as separation of Hotels from Agri Segment with final aim to have three segments within scope of consolidation: Agri business, Hotels and Banking.



AGRI EUROPE CYPRUS AT A GLANCE

Agri Europe Cyprus (AEC) is one of the largest privately-owned companies in the SEE region dealing in the following business activities:

- **Agriculture and Trading**
- **Food processing (FMCG)**
- **Banking**
- **Tourism and Real Estate**

30
Years

AEC is a holding company with 30 years of proven record of accomplishment. At the beginning, the predominant activity of the Group was trading in agricultural products and machinery and afterwards the activities expanded to the production of agricultural products and sugar. Over the years, the Group has evolved into a business system with dozens of affiliated companies, eventually including banking and tourism.

40
Companies

Currently the Group is the largest vertically integrated agricultural company in the SEE region, the leading domestically owned hotel management company in Serbia and one of the major players in banking business in Serbia, managing operations of more than 40 companies while employing 6,000 employees.

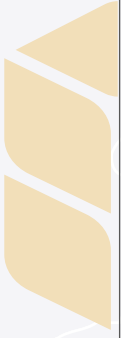
Through its related companies, the Group is also active in Renewable energy production, Real Estate and IT.

Over the years, the Group has displayed impressive overall development and growth with a strong appetite for M&A activities and strategic cooperation.

6,000
Employees

Long-term partnership with EBRD (European Bank for Reconstruction and Development), DEG (Deutsche Investitions und Entwicklungsgesellschaft), FMO (Dutch Development Bank), OeEB (Development Bank of Austria) and IFC (International Finance Corporation) represents a proof of our creditworthiness and solid corporate governance.

Team spirit, effectiveness, sustainable growth, innovativeness and social responsibility represent the core values bringing together all the companies of the system.



-  Trading Division
-  Farming Division
-  Banking Division
-  Meat Division
-  Hotels Division
-  Sugar Division
-  Other Division

Agroglobe Agrar d.o.o.

Vrbas
Carnex d.o.o.

Žito Bačka d.o.o.

Sunoko d.o.o.

Fabrika Stočne Hrane a.d.

Nikšićki mlin a.d.

↑ Agro Invest Ukraine

PD Vojvodina d.o.o.

Silos Miloševo d.o.o.

PIK Bečej a.d.

MK Commerce d.o.o.

Agroglobe d.o.o.

Agroradićević d.o.o.

Banat Seme d.o.o.

Agrounija d.o.o.

Kovačica

Elan d.o.o.

Kuća Vina Krčedin d.o.o.

Granexport d.o.o.

Agrium d.o.o.

Pećinci

MK Group d.o.o.

AIK Banka a.d.

MV Investments a.d.

FSH Maxiprotein d.o.o.

MK Mountain Resort d.o.o.



AEC'S KEY FINANCIAL INDICATORS

The consolidation package for 2016 includes the business operations of the Group divided into two business segments – Agri Business and Banking. The data given in the table are compiled in accordance with IFRS and the same undergone an audit process.

AEC's KEY FINANCIAL INDICATORS									
INCOME STATEMENT FIGURES	Agri-business			Banking			Consolidated		
in 000 €	2016	2015	Change	2016	2015	Change	2016	2015	Change
			%			%			%
Sales	637,135	528,788	20%	60,609	45,312	34%	697,179	573,998	21%
EBITDA	116,352	63,352	84%	20,604	8,780	135%	136,956	72,132	90%
Profit before tax	79,552	39,808	100%	38,371	21,053	82%	117,780	254,120	-54%
Net profit	66,951	35,979	86%	35,108	21,512	63%	101,916	250,750	-59%
BALANCE SHEET FIGURES	Agri-business			Banking			Consolidated		
in 000 €	2016	2015	Change	2016	2015	Change	2016	2015	Change
			%			%			%
Total Non-current assets	490,183	398,324	23%	882,198	957,295	-8%	1,341,049	1,346,804	0%
Inventories	203,959	170,900	19%	10,569	12,671	-17%	214,528	183,571	17%
Trade and other receivables	163,841	90,664	81%	288,958	252,313	15%	402,831	328,043	23%
Cash and cash equivalents	134,691	101,512	33%	235,621	205,272	15%	286,072	215,686	33%
Other current assets	105,345	195,812	-46%	74,277	56,366	32%	152,217	149,498	2%
Total assets	1,098,019	957,212	15%	1,491,623	1,483,917	1%	2,396,697	2,223,602	8%
Total Equity	523,453	457,156	15%	367,558	438,100	-16%	859,702	784,390	10%
Total non-Current liabilities	359,870	150,367	139%	355,503	397,154	-10%	715,349	547,521	31%
Trade payables and other liabilities	114,502	59,141	94%	654,530	615,594	6%	672,086	583,039	15%
Other current liabilities	100,194	290,548	-66%	114,032	33,069	245%	149,560	308,652	-52%
Total Equity and Liabilities	1,098,019	957,212	15%	1,491,623	1,483,917	1%	2,396,697	2,223,602	8%

Note: Consolidated Net Profit in 2015 includes Gain of bargain purchase arising from the acquisition of AIK bank
Banking results for 2015 are referring to period April - December 2015, since the Group has gained control of the bank in March 26th.

AEC's KEY FINANCIAL INDICATORS									
KEY RATIOS	Agri-business			Banking			Consolidated		
	2016	2015	Change	2016	2015	Change	2016	2015	Change
			% / pp			% / pp			% / pp
EBITDA margin ¹	18%	12%	6 pp	34%	19%	15 pp	20%	13%	7 pp
ROA ²	6%	4%	2 pp	2%	1%	1 pp	4%	11%	-7 pp
ROE ³	13%	8%	5 pp	10%	5%	5 pp	12%	32%	-20 pp
Debt ⁴	411,397	393,267	5%	396,556	402,372	-1%	793,534	780,716	2%
Net debt ⁵	264,534	292,259	-9%	160,935	197,100	-18%	507,462	565,030	-10%
Net debt/EBITDA	2.3	4.6	-51%	7.81	22.45	-65%	3.7	7.8	-53%

¹ EBITDA/Sales

² Net Profit/Total Assets

³ Net Profit/Total Equity

⁴ Current and non-current borrowings

⁵ Debt – Cash and cash equivalents

⁶ Ratio of Net Debt to Total Equity



WORDS OF CHAIRMAN

I am pleased to express that our primary objectives for 2016 were met – stable cash position and high level of efficiency. We achieved a strong EBITDA margin amounting 20% while at the same time Financial Leverage has been improved with NET DEBT/EBITDA ratio and significantly reduced compare to 2015. We stayed focused on improving our cost base, strengthening balance sheet and growing revenue. Consolidation of our existing business was a long-term task that we have accomplished in 2016. In Agri business segment, we have reached our sales objectives with revenues growth of 20% and EBITDA improvement by 84% compare to 2015. Overall EBITDA in Agri segment is 116 million euros and Net profit reached is 67 million euros. In the Banking segment, Net profit of 35 million euros has been realized.

Having a look at our business activities I can proudly state that we've achieved impressive results in all segments of our operations: Agriculture, Banking and Hotel industry, where specially sugar and farming divisions exceed our benchmarks.

Sugar division hit record high EBITDA, almost doubled in comparison to 2015. Moreover, we've managed to triple EBITDA in Farming division compared to 2015.

The acquisition of one of the leading regional agricultural companies PIK Bečej enabled creating value by obtaining additional 9,000 hectares of the first-class land but also entering the new business areas such as vegetable processing, cattle breeding and fish ponds. Moreover, further integration with our existing presence in the meat industry was gained thanks to acquiring PIK farms. Stronger investments were also made in apple orchard, which have much higher EBITDA per hectare than average, with full benefits expected in the following years after reaching full production.



Miodrag Kostić
Chairman


Integral approach toward customers and strategic orientation of building long-term partnerships, coupled with the best silo and storage infrastructure in country, enabled MK Commerce, member of group's trading division to be no. 1 exporter in Serbia in grains for few consecutive years in the row, which we proudly highlight.

In the Meat industry, we have strengthened organization and improved sales model, which is expected to bring higher results in future period.

2016 represents a milestone in the development of Hotel division and Kopaonik as destination for both summer and congress tourism and not only for winter tourism we are well-known for until now. This approach enabled us to reach the best results in AEC history of our tourism management.

Finally, award winning banking sector performed exceptional results with net profit increased by 63% comparing to the previous year.

We look forward to expanding our access to new markets in terms of acquisitions and further strengthening of our core business and digitalization of majority of process in AEC. Also, the most valuable link and what represents the core of our success are the people of the Group. They are excellent ambassadors and the best representatives of our business. Our teamwork enabled our company to be recognized as a world-class



company. I would also like to express my gratitude to all our cooperators and their employees' network which have put the greatest effort into reaching all our common objectives. The Group strongly believes that supporting the communities and protection of our environment is the right goal both for our business and SEE regional development. During the year, we also focused our efforts on cooperation with different kind of community representatives in order to provide stable environment for youth and the new generations to come.

Looking forward, our objective is very clear: higher efficiency and margin revenue, further investments in tourism and new investments in agrarian segment. **Overall purpose of AEC is not only growth and achievement of financial results but also transmitting our growth to growth of all interested parties, regional development and progress of future generations.**

OUR GROWTH STORY

1990

MK Commerce was established as the first private company in the region of Vojvodina. The company has grown into a leading trading company for agricultural products, primarily dealing in sugar, commercial and seed trade.

2002

Four sugar plants became part of the group - Pećinci, Bač, Vrbas, Kovačica, with its own history dating back to 1913.

2006

The Group invested in agriculture in Ukraine by acquiring 6 agricultural companies located in 3 Ukrainian regions, managing up to 30,000 ha.

1983

Miodrag Kostić, presently President of MK Group, starts his own business as one of the first entrepreneurs in a socialist economic system.

1995

Founding of the brokerage company M&V Investments that afterwards became the best brokerage company in the country, according to Belgrade Stock Exchange.

2005

Serbian leading sugar-industry company Sunoko was founded as a joint venture with NordZucker, the third largest sugar producer in Europe. The agricultural companies Panonija, Agrounija, Labudnjača, Đuro Strugar, Elan, Selekcija were acquired. Their high-quality soil was reinforced with our investments in irrigation systems, enabling them to become key pillars of company's Agri Division.

2007

Mill processing and trading companies Granexport and Žito Bačka became part of our holding.

2008

MK Commerce was transformed into MK Group. The change was performed since the company has grown beyond its former limits and become holding company.

2010

MK Group repurchased 51% shares of Sunoko and became 100% owner.

2013

Agrolobe became a part of our Trading Division and enhanced our presence in the market of fertilizers and machinery.

EBRD subscribes for 72 shares (6.14% of shares) into Agri Europe Cyprus, a parent company of the entire holding.

2015

Acquisition of PIK Bečej, as one of the largest agricultural companies in Serbia. MK Group obtained 9,000 ha of land and confirmed its status of one of the biggest landowners in Serbia. Luxurious hotel Kempinski Palace Portorož in Slovenia was acquired by the Group related company.

2009

MK Group became the owner of Hotel Grand and Konaci Sunčani Vrhovi – the most popular winter and ski resort located at the highest mountain in Serbia - Kopaonik.

2011

MK Group expanded its activities by acquiring a well-known regional meat industry – Carnex, a leading company on the market since its beginnings in 1958.

2014

Acquiring of majority of AIK Bank shares and thus marking out our presence in banking market. Sunoko invested in a new plant for extraction of sugar from molasses and a machine for drying sugar beet pulp in the sugar factory Pećinci, thus enabling Sunoko to become one of the most efficient sugar producers in Europe.

2016

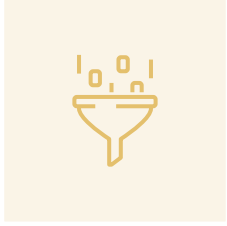
Sunoko acquires the sugar factory TE-TO Sentā, thus enabling it to win over 70% share of Serbian sugar market. AIK Bank acquired 13.9% of Gorenjska Bank in Slovenia. The Group expanded agriculture business in apple orchard and become an exclusive producer of the club apple Crimson Snow. Investment in PIK Bečej Flora cold storage was made thus improving the vegetables processing performance.

AGRI BUSINESS PER DIVISIONS

STRATEGY



INPUTS



LAND PREPARATION, PLANTING



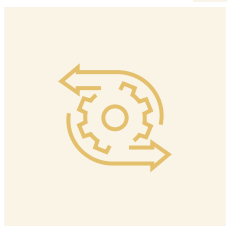
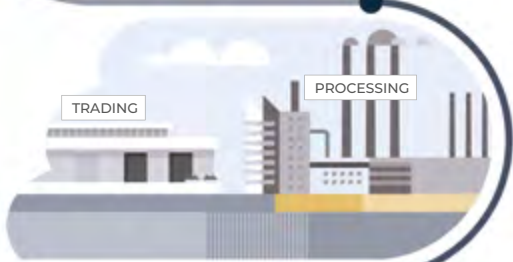
HARVESTING



INFRASTRUCTURE AND TRADING



PROCESSING



Excluding hotels, agri business segment embrace companies associated in the largest vertically integrated agricultural chain in SEE. Mission of the Group is to add value throughout the whole chain.

- Long tradition and presence in the industry
- Professional and dedicated management
- Modern IT and management tools
- Data analysis and risk management
- Internally developed ZAGA module within SAP ERP software for monitoring agricultural production
- KPIs based on profitability metrics (EBIT per ha) therefore taking into consideration all aspects of agricultural production

- Trading companies within the Group are exclusive distributors of high quality seeds from the world's best manufacturers such as Syngenta and Monsanto
- Chemicals procured mainly from well-known brand Bayer
- Procurement in massive quantities (for our agricultural and trading department) allows achieving huge discounts and favorable supply terms

- 30,000 ha of land cultivating in Serbia
- 11,000 ha under irrigation in Serbia
- Exclusive distribution of New Holland machinery
- Pioneers in 24x7 seeding model in Serbia
- Partners with more than 20,000 farmers, local small companies and agricultural associations

- One of the largest crop producers in the region
- Most modern irrigation systems significantly reduce uncertainty in terms of achieved yields
- Over 700,000 t commodity production with outperforming yields

- 670,000 t of silo storage capacities
- 100,000 m² of other storage facilities
- There are 70 buy-out sites on every 14 km in Vojvodina region
- Trading companies within Group are main grain traders in Serbia with achieved turnover volume of approximately 1,7m tons per marketing year
- Silo and port facilities well located, on a strategic logistics places all around Vojvodina
- Long term partnership is achieved with renowned companies like Cargill, ADM, Granit Negoce, Louis Dreyfus, Cofco ITL, Glencore, Ameropa, Noble, Soufflet, Dimitriaki and many more

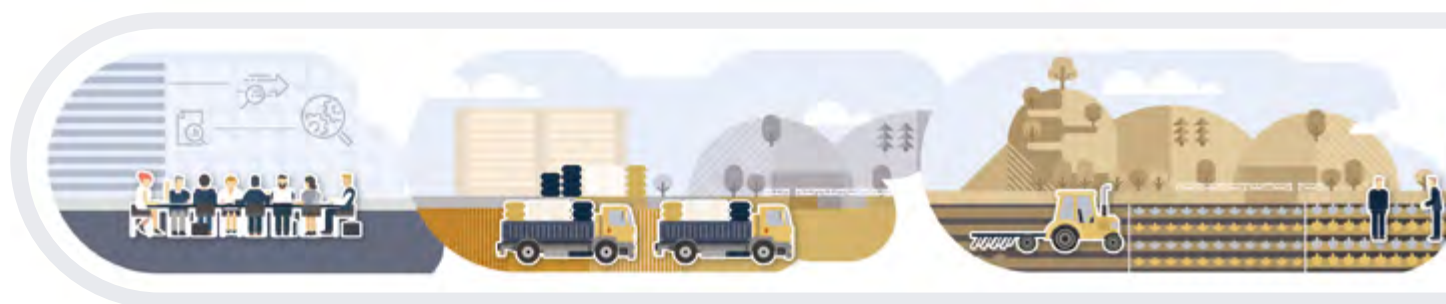
- Our agricultural products are further processed into branded products
- We are transforming volatile commodity business into a stable branded-products business
- All the sugar beet is sold to Sunoko, our member company which has produced over 390,000t of sugar in 2016
- Long-term cooperation and contracts on sale and purchase of seeds with LG, Syngenta and Monsanto
- Vegetables from our fields are processed in Flora factory, and then sold in the domestic and international markets
- Part of our corn, soybeans and sunflower are used for animal feed production on Carnex pig farms. Afterwards pigs are sold to Carnex meat industry (our meat brand in Serbia)
- Wheat from our fields is processed in our Žito Bačka mill with 100 years long tradition in Topola and Belgrade mills, while corn is processed in Nikšićki mill and Granexport

Distribution of AEC Income statement positions by divisions for two consecutive years is presented in the following table:

INCOME STATEMENT FIGURES PER DIVISION FOR FY 2016								
in 000 €	Farming Serbia	Farming Ukraine	Trading and Logistics	Meat	Sugar	Hotel	Other	Consolidated
Sales	64,086	22,181	362,730	58,024	219,860	7,553	-97,299	637,135
EBITDA	22,506	6,559	14,702	7,034	68,981	2,983	-6,413	116,352
Net profit	17,052	858	2,169	3,732	54,465	1,779	-13,104	66,951
EBITDA margin	35%	30%	4%	12%	31%	39%	7%	18%

INCOME STATEMENT FIGURES PER DIVISION FOR FY 2015								
in 000 €	Farming Serbia	Farming Ukraine	Trading and Logistics	Meat	Sugar	Hotel	Other	Consolidated
Sales	25,417	18,767	375,755	42,303	121,125	6,544	-61,124	528,788
EBITDA	7,364	5,995	14,018	7,016	29,080	2,184	-2,305	63,352
Net profit	5,638	-5,192	3,840	2,723	36,400	2,106	-9,535	35,979
EBITDA margin	29%	32%	4%	17%	24%	33%	4%	12%

GROWTH FY 2016 vs FY 2015								
in 000 €	Farming Serbia	Farming Ukraine	Trading and Logistics	Meat	Sugar	Hotel	Other	Consolidated
Sales	152%	18%	-3%	37%	82%	15%	59%	20%
EBITDA	206%	9%	5%	0%	137%	37%	178%	84%
Net profit	202%	-117%	-44%	37%	50%	-16%	37%	86%
EBITDA margin	6 pp	-2 pp	0 pp	-4 pp	7 pp	6 pp	3 pp	6 pp





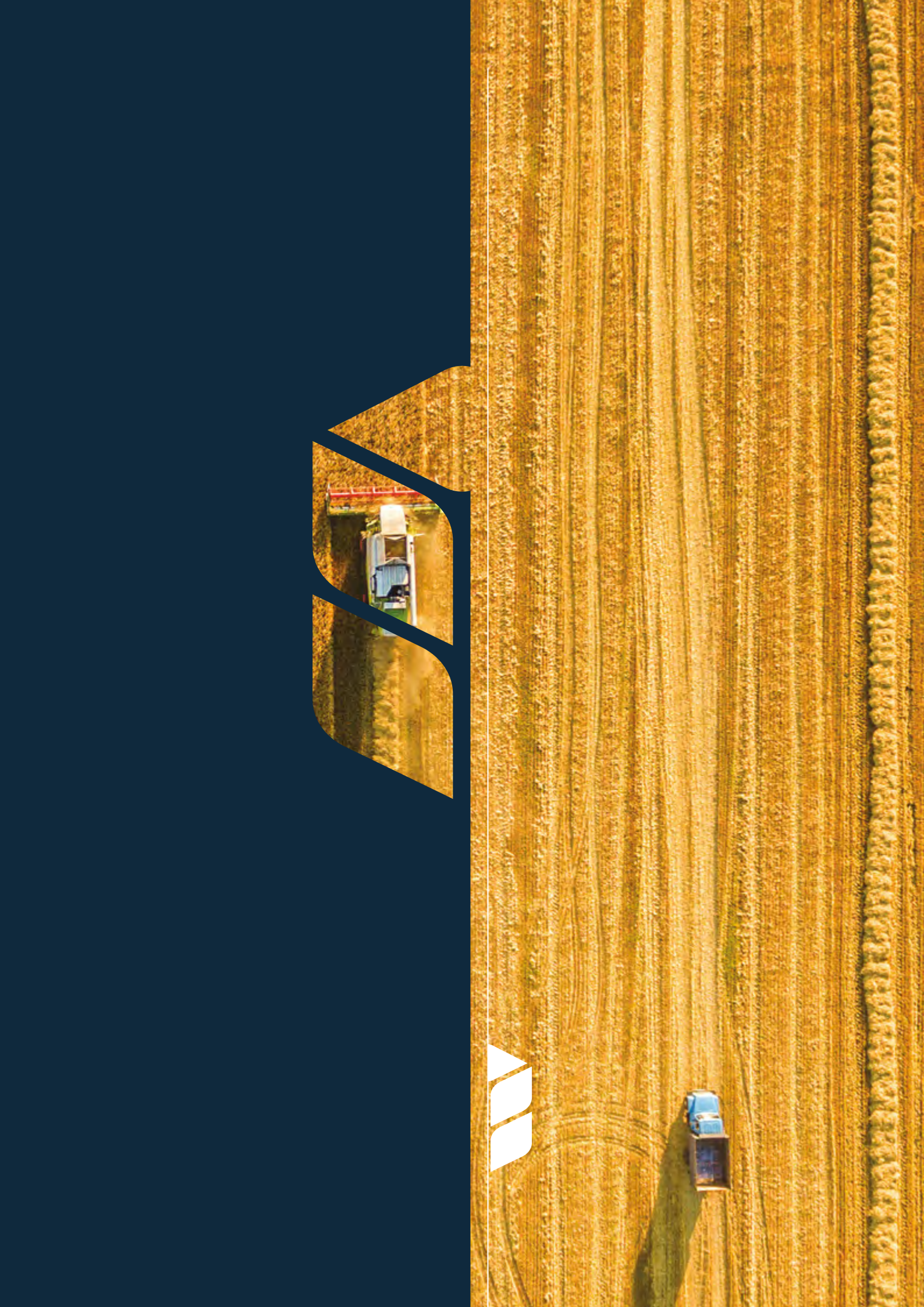


WE GROW VALUE

Agriculture was the starting point. But its symbolic soon defined the core of our business – growing value. Every success brought new advantages and possibilities, fresh ideas and better solutions. To add value throughout the whole chain became the mission of our Group. We believe we can always give more. We can always perform better.

Therefore, we are now an agriculture leader in South-East Europe.

And we always remain dedicated to development and new opportunities, because – as words of our chairman indicate – focus to constant growth leads to success.



FARMING DIVISION

KEY FIGURES

	Head office: Novi Sad (Serbia)	Hectares Under Operation: > 30,000
	Number of employees: > 1,000	Hectars Irrigated: > 11,000
	Sales income: > EUR 63m	EBITDA per ha: > EUR 700
	EBITDA: > EUR 22m	Crop Production: > 700,000 tons

DIVISION HIGHLIGHTS

Trophy land in one of the most fertile regions in EU

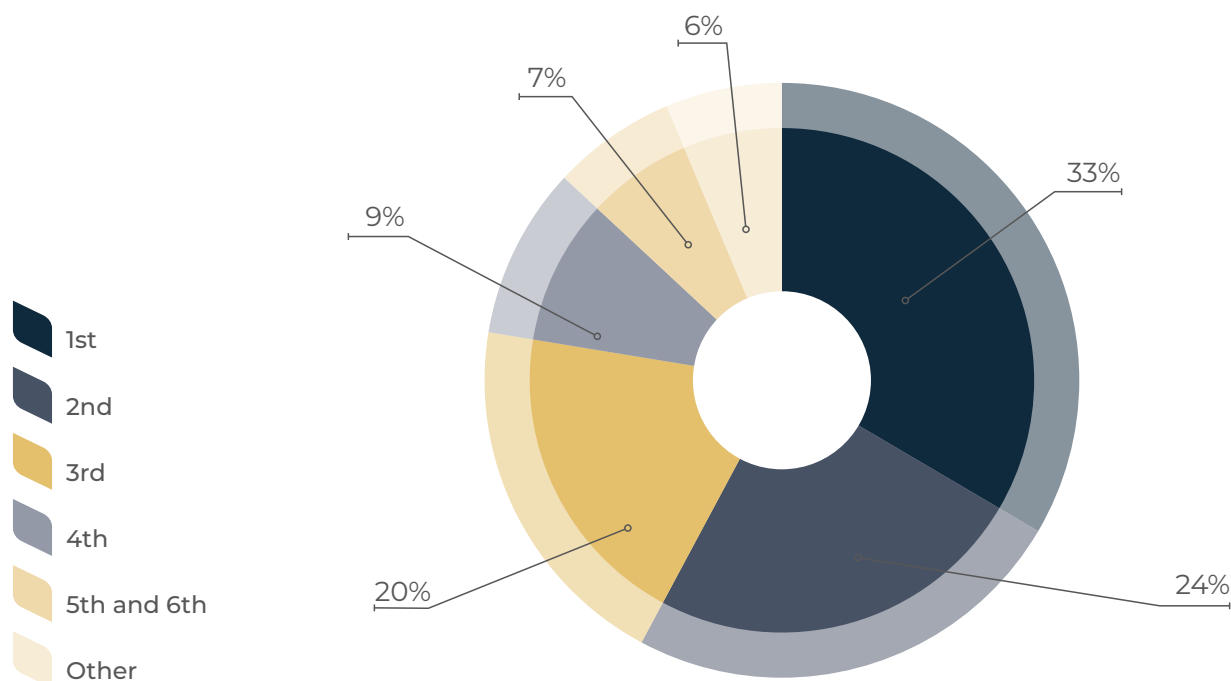
30,000
ha of land
in Serbia

Members of the Farming Division, all together cultivate more than 30,000 ha of land in Serbia, positioning the Group as one of the largest commodity producers in the region. Top quality land, accompanied with extensive knowledge and modern agrotechnical standards ensures maximum yields in each acreage.

Distribution of land under the management of Farming Division:

Companies under management of Farming segment	Owning	Under lease	Total land (Hectare)	Under irrigation system
Carnex Agrar	3,404	1,300	4,704	2,723
Agrounija	3,395	0	3,395	551
PIK Bečej	2,911	6,300	9,211	4,739
Vojvodina	10,321	1,253	11,574	2,794
Agroglobe	521	631	1,152	232
TOTAL	20,552	9,484	30,035	11,039

More than half of the land is classified as 1st class and 2nd class. Land classification is in accordance with Serbian regulation which apart from land quality accounts also total land acreage, land contamination, proximity to roads.



PIK Bečej became a part of AEC Group as of February 2016. The company is in the heart of Vojvodina on the plots of the highest quality land in the country. With its natural, human resources and its organization, PIK Bečej represents one of the two largest agricultural conglomerates in the country. It is organized in several profit centers: Farming, Pig farming, Cattle breeding, Food Processing - Flora, Pond, Silos and feed mixer, Seed Production Center and Fantast Castle. Due to the similarity of activities with AEC's Meat Division, the profit center of Pig farming is under the management of Carnex and their financial results are presented in this division.

Leveraging on economy of scale, knowledge and modern agrotechnical measures, the Group also achieves the lowest cost per sowing unit, and maximum yields even on the land which is not top class.

MARKET POSITION

Higher yields and EBIT per hectare compare to the market

By constant streaming towards excellence, the Group determined to strongly invest in irrigation systems, quality of seeds and knowledge.

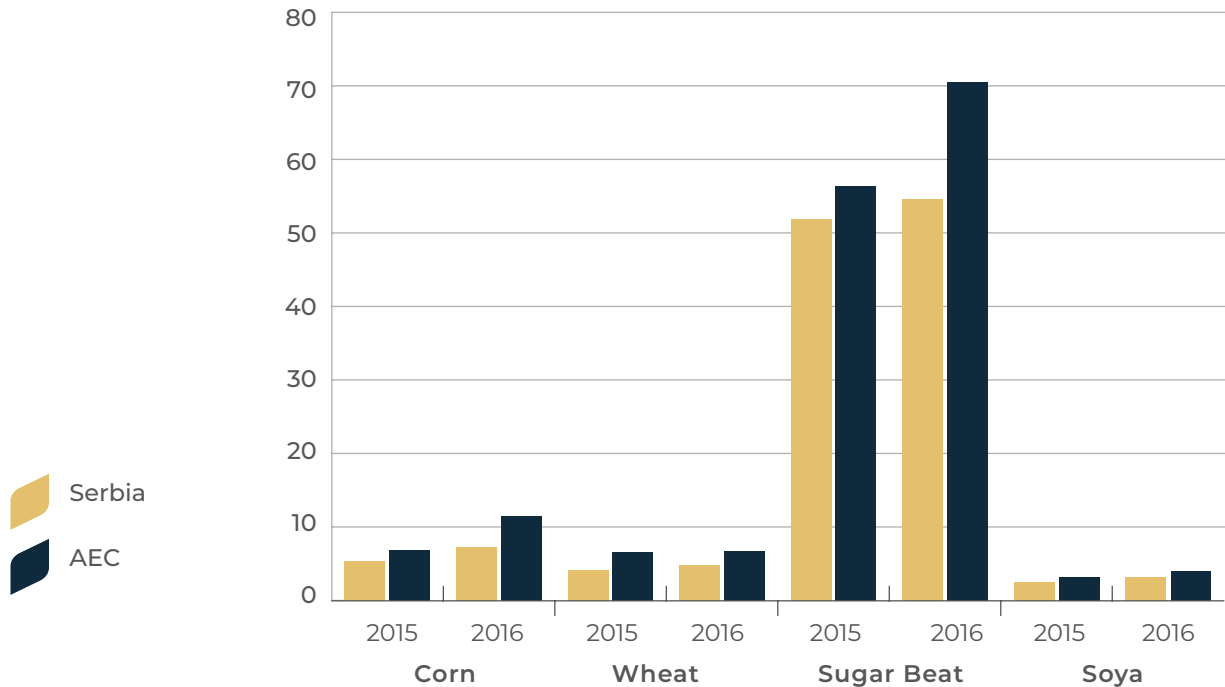
At present Group has more than 11,000 hectares under irrigation or 36%, which is highly above Serbian average where only 2% of cultivated land is under irrigation systems.



Our partnership with Monsanto in corn and with LG and Syngenta in wheat has shown remarkable success.

As a benefit of investing together with having the most fertile land, the Group managed to exceed the average Serbian yields by 10-50% every year for the past 10 years.

Comparison between average crops yields in Serbia and the Group are presented in the graph:



On the Group's land, over 15 types of crops are sown every year, while most of the land is occupied with production of sugar beet, corn, soya and wheat respectively.

BUSINESS PERFORMANCE

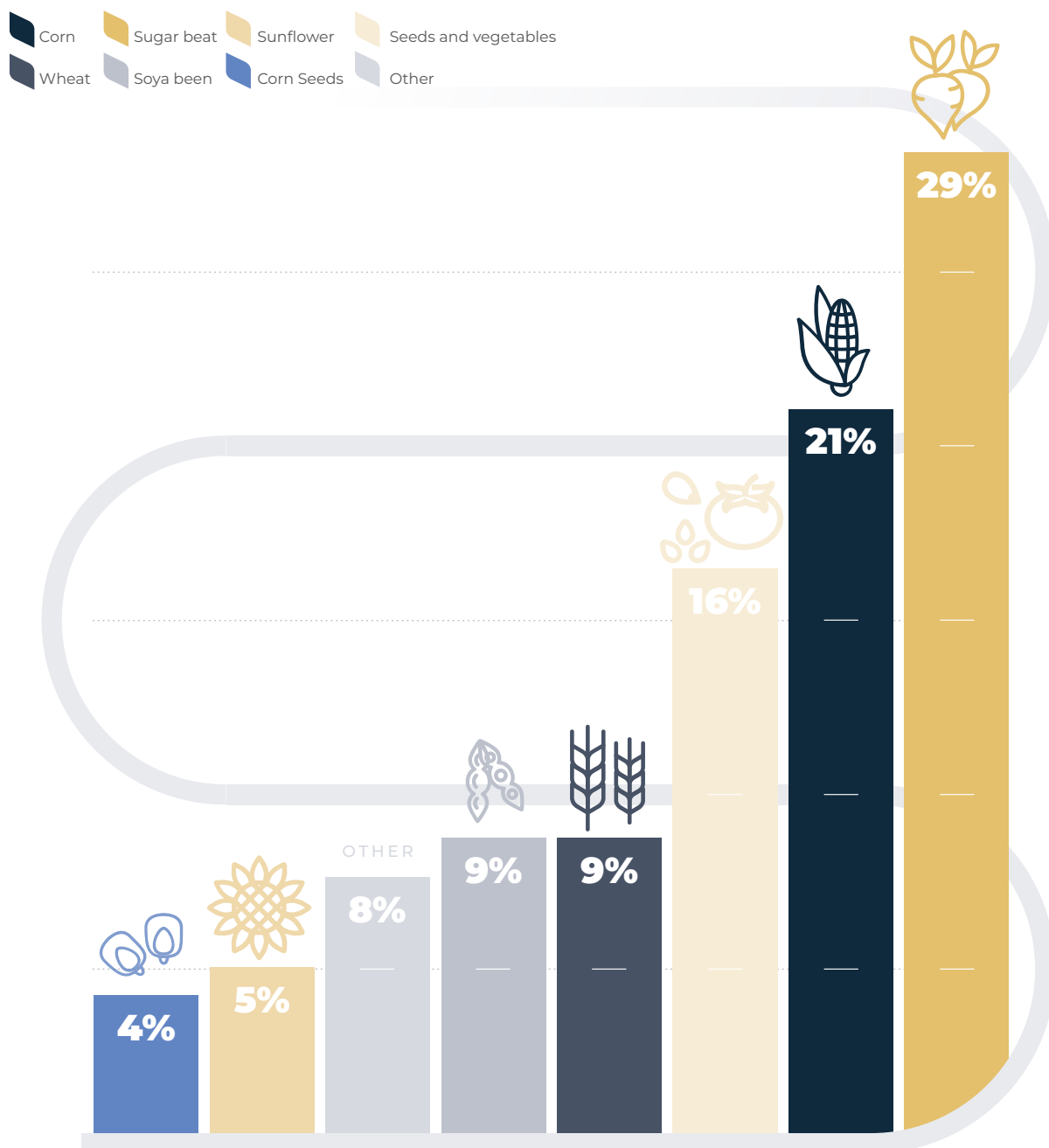
Right crops rotation to maximize returns

CROP PRODUCTION

Sugar beet and corn are two strategic crop cultures that are planted on almost 50% of the land since they provide synergy with the animal feed production and sugar factories within the Group. The Group synergies are also achieved in vegetable production which is further processed in member company Flora, as well as wheat processing in Group's mills.

Group has started investing in products generating higher Revenue and EBITDA per hectare i.e. apple orchard and corn seed (partnership with Monsanto), which have much higher EBITDA per hectare than average. Excluding our apple orchard and some of the higher profitable crops (seed corn or vegetables) we have managed to achieve average EBITDA EUR 700 per hectare.

Sowing structure



FRUIT PRODUCTION

AEC Group expanded its successful business to fruit growing, specifically the production of club varieties of apples that can be produced only by those who have shown exceptional results and commitment to safety and product quality. The Group has become the exclusive producer of the Crimson Snow variety and together with its strategic partner it owns 130 ha of apple seedlings. AEC Group itself is the owner of 82 ha. The orchard has the most up-to-date equipment: a drop-by-drop irrigation system, an anti-hail protection net and an anti-freeze system. By the end of 2016, over EUR 5 million were invested in seedlings and equipment. Apple planting started in 2015 and will last until 2017. Expected financial effects in the years of full production are EBITDA/ha of EUR 17,000.

OTHER BUSINESSES

Apart from crop and fruit production, Farming division accompanies profit centers FMCG Flora, Cattle breeding and Fish pond, all belonging to the newly-acquired company PIK Bečej.

FMCG Flora is dealing with **HOT AND COLD PROCESSING OF VEGETABLES**. The factory is located on the very edge of the land plots with vegetables. Use of modern technologies, continuous process control and good organization of work enable Flora to create high quality products. In 2016, over 8,000 tons of frozen and canned vegetables were produced and processed in total. In 2016, Flora started the process of changing the sales model and production assortment, providing better response to the needs of the market.

CATTLE BREEDING owns 1,600 high-yielding dairy cows of Holstein-Friesian breed with an average annual production of cc 8,000 liters of milk per cow. The total annual milk production is about 12 million liters, out of which 70% is extra class milk.

FISH POND extends over an area of 655 hectares. It deals with the production of alevin and consuming fish, mainly for the domestic market. In 2016, 232 tons of consumed fish were delivered.

FINANCIAL PERFORMANCE

Record-high financial results in 2016

The financial indicators for 2016 were improved due to the purchase of the agricultural combine PIK Bečej from bankruptcy and the increase in arable land by 9,000 ha in the ownership of and leased by this combine.

Record production of agricultural products had an additional positive effect on the result. Cultures' yields were above average, thanks to favorable weather conditions and adequate agrotechnical measures.

Part of the profit also comes from the savings made on production costs. Primarily, the costs of diesel fuel were lower due to accomplished lower prices as well as the costs of pesticides due to pre-season purchases and advance purchases.

Financial indicators of Farming Division					
in 000 EUR	2015	2016			Growth%
	Agrar	Agrar	Newly acquired PIK	Agrar +PIK	
Sales	25,417	43,788	20,298	64,086	152%
EBITDA	7,364	14,899	7,608	22,506	206%
Net Profit	5,638	11,359	5,693	17,052	202%
EBITDA margin	29%	34%	37%	35%	

KEY PROJECTS AND INVESTMENTS

Apple orchard and Cold storage are key investment projects

During 2016, Group has continued **INVESTING IN APPLE ORCHARD** with plan to further expand it also to **COLD STORAGE UNIT**. Satisfactory results of the pilot project in 2016, confirmed validity of the investment and already achieved additional income of the highly profitable variety of apples Crimson Snow, thereby encouraging additional investments to increase orchards and build a specialized cold storage. The apple orchard will be extended by another 120 ha in the next years. The cold storage will be built in stages and will have a total of 15,300 tons of storage capacity, and the area under the fruit will also increase. It is planned that after the first phase of the construction of the refrigerator in 2017, storage capacities of 2,600 tons will be put into operation. The total value of the investment in the land, orchard and cold storage is estimated at EUR 20 million.

To support strategic initiative to cultivate and process more vegetables, investment in the **FMCG FLORA'S COLD STORAGE** is planned for 2017 year. During 2016, investment plan was made, describing the construction of the cold storage for 6,300 tons. Along with the existing capacities, Flora will be able to store 9,500 tons of vegetables in 2017. The total value in the cold storage and supporting production capacities is estimated at EUR 3 m.

During 2016, investments were also made in **RESTORATION OF THE EXISTING MECHANIZATION**, as well in enhancement of **CAR FLEET MANAGEMENT**.





STRATEGY FOR THE FUTURE

The Group strategy for agriculture business is to ensure sustainable growth leveraging on further economy of scale and modern technologies.

This will be achieved through:

FURTHER INCREASE OF THE ARABLE LAND AREA - As additional arable land allows optimal crop rotation structures and therefore have a positive impact on EBITDA, one of the strategic directions will always be the acquisition of more arable land through purchase or leasing. Action that will lead us to the goal are: consolidation and enlargement of existing land plots (smart sales and purchases, swaps etc.), acquisition of strategically located land plots from distressed competitors and privatizations of large agricultural conglomerates.

SYNERGETIC EFFECTS – Farming division will continue to strengthen cooperation with related companies within the system by: increasing sugar beet surface areas and therefore lowering the risk of reduced sugar production and optimizing costs per unit, which directly affect Sunoko's profits; regarding the meat industry Carnex by providing animal feed; provide raw materials for the functioning of the milling industry as well as vegetables for FMCG Flora processing.

INVESTING IN IRRIGATION SYSTEMS - More frequent droughts, affected lower crop yields and lower profits per hectare, so one of the decisions made is investing in irrigation systems for an additional 5,000 hectares in the following years.

PRECISION AGRICULTURE - Precision agriculture is the concept of agriculture management that provides optimal quality and quantity inputs during sowing with the help of satellite imagery, satellite image analysis software, soil testing equipment and autopilot navigation system for machinery. This concept enables increase of yield but at the same time it controls and enables cost savings. By recognizing the benefits of such a concept, the Group will work on the introduction of this concept over the next few years, which will provide additional profits per unit of investment in the long run.

NEW PRODUCTS - Organic production and export of organic products are one of the ways to achieve the long-term growth and development strategy of the company in the forthcoming period. The production of new cultures is also planned. In addition, the emphasis will be on new vegetable and fruit cultivation that carry higher EBITDA per hectare. The FMCG Flora is expected to further open the new markets for Key Account and the countries of the former Soviet Union, and adopt the products and packaging to the new demand.

AGRI SEGMENT UKRAINE

Group divested itself from Ukraine agricultural business in 2017.

In addition to the land in Serbia, AEC was also the founder and owner of the management company Agri Invest Ukraine (AIU) which has governed agricultural production in Ukraine at the surface area of almost 30,000 ha. In mid-2017, the Group has signed an agreement on sale of Agro Invest Ukraine with all its subsidiaries.

The project of investing in agrarian business in Ukraine was one of the Group's largest investment projects and one of the largest projects outside the country's borders. The Group has been present on the Ukrainian market since 2006. The AIU processed 30,000 hectares in the region of Kiev, Vinnitsa, Chercasy and invested a total of EUR 50 million in the purchase of agricultural enterprises, modern agricultural machinery and accompanying equipment and working capital. Investments also include investments in the largest and most modern silo in Ukraine with a storage capacity of close to 113,000 tons, supported by a loan from the European Bank for Reconstruction and Development (EBRD). Also, a new silo of 60,000 tons was built in the Vinica region.

Sowing mix mostly comprise corn, sunflower and winter wheat.

Financial indicators of Agro Invest Ukraine			
	AIU		
In 000 EUR	2015	2016	%
Sales	18,767	22,181	18%
EBITDA	5,995	6,559	9%
Net Profit	-5,192	858	-117%
EBITDA margin	32%	30%	

**Negative Net profit in 2015 is coming mostly from negative effects of foreign exchange differences i.e. Ukrainian hryvnia has significantly depreciated against EUR in 2015*



GOING FURTHER

The most important step on every journey is – the next one.

First step gets us going. But every next step determines whether we stop or go further.

To continue our firm business chain, each link has to be strong and efficient as the first one.

That means seeds, compost, help, advices and solutions for our cooperants on the fields. That means strong logistics, large storage capacities, fast infrastructure, wide network that can support our great agriculture capacities. That means securing the stable markets to export and better terms for trade.

That means – a reliable partner, which covers each and every step on the way.





TRADING AND LOGISTICS DIVISION

KEY FIGURES

	Head office: Novi Sad (Serbia)	Annual Trade Volumes: 1,7 million tons
	Number of employees: > 600	Storage capacity: 670,000 tons
	Sales income: > EUR 360m	No. 1 Exporter in Serbia in grains
	EBITDA: > EUR 14m	Wheat mill capacity: 150,000 tons
		Corn mill capacity: 35,000 tons

DIVISION HIGHLIGHTS

The leading company for trade with grain crops and agricultural products in Serbia

Trading division consists of several companies out of which the biggest are MK Commerce, Agroglobe, Granexport and Žito Bačka.

670,000
tons silos
storage
capacity

In AEC value chain, **THE TRADING DIVISION PROVIDES INPUTS FOR AGRICULTURE PRODUCTION**, ensures storage capacities and continues the chain with trading commodities. It also acts as provider of information to other Group's divisions about market demand with final aim to produce optimal mix and maximize returns.

Apart from that, the Trading division is **RELIABLE PARTNER** of more than 15,000 agricultural producers and 6,000 other companies in Serbia with the widest buy out sites' network in the country at 70 places at the most fertile land in Vojvodina region.

70
buy-out
sites

THE UNIQUE INTEGRAL APPROACH TO CUSTOMERS - cooperation is designed to secure links with primary production including consulting service customized for each field, row materials supply, mechanization service, irrigation equipment and finally logistics, silo storage and buy out. Afterwards, crops are either processed within Group companies or further exported. After that, the whole cycle starts all over again.

The Group largely invested in **SILO STORAGE CAPACITY** and currently it has 670,000 tons and 100,000 m² of warehouse capacity.

Considering all above, the Trading division represents the **MAIN GRAIN TRADER IN SERBIA**, with achieved volume of approximately 1,7 million tons per marketing year. The main products traded are grains, oilseeds, milling products, fertilizers and sugar beet.

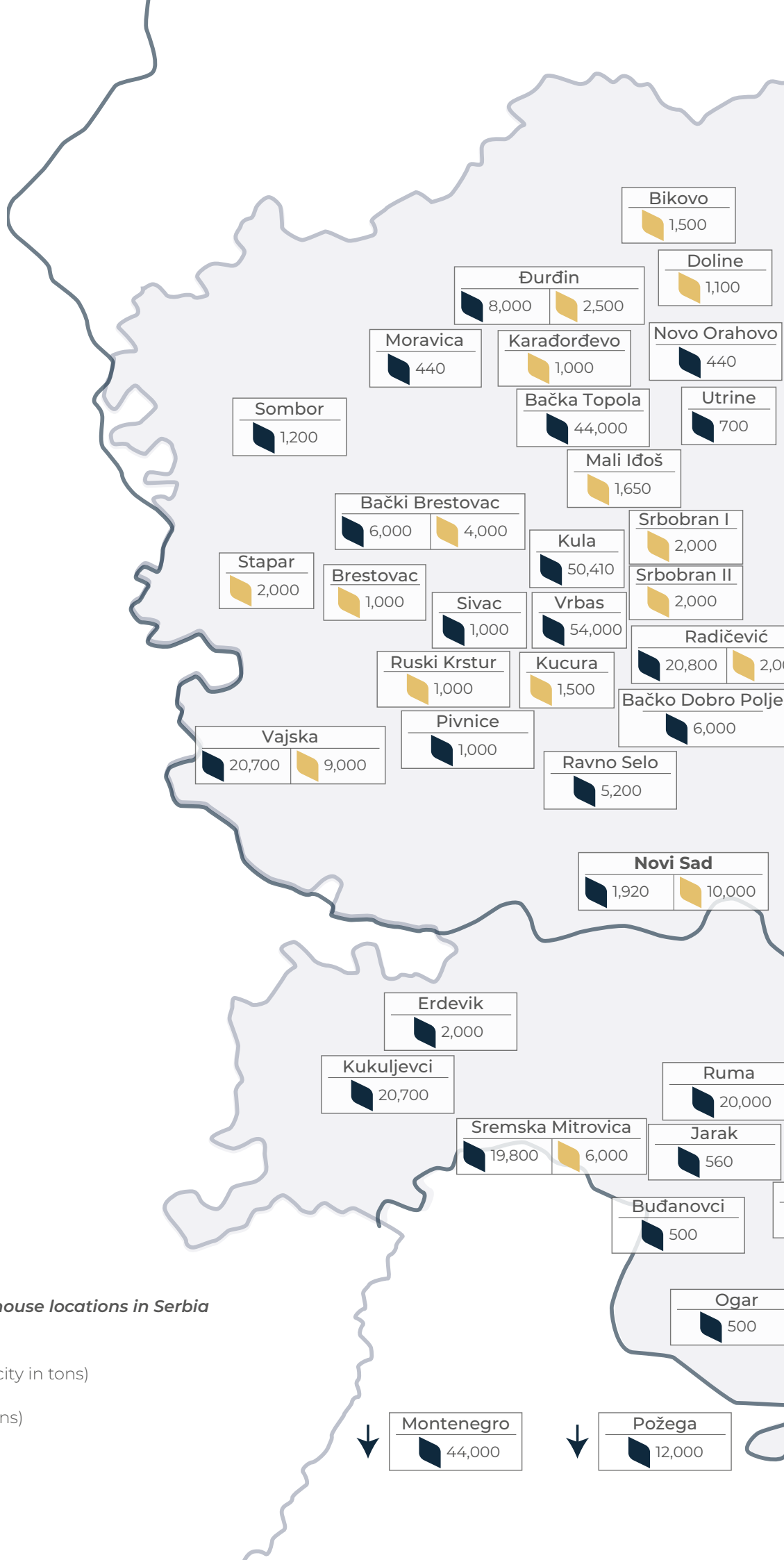
The **LONG-TERM PARTNERSHIP HAS BEEN ESTABLISHED WITH RENOWNED COMPANIES** like Cargill, ADM, Granit Negoce, Louis Dreyfus, Cofco ITL, Glencore, Ameropa, Noble, Soufflet, Dimitriaki and many more.

The Division is **EXCLUSIVE IMPORTER AND DISTRIBUTOR OF NEW HOLLAND MACHINERY**.



Moreover, it is **DISTRIBUTOR OF HIGH QUALITY SEEDS** from the world's best manufacturers such as Syngenta and Monsanto. Most of the chemicals procured are from well-known brand Bayer.

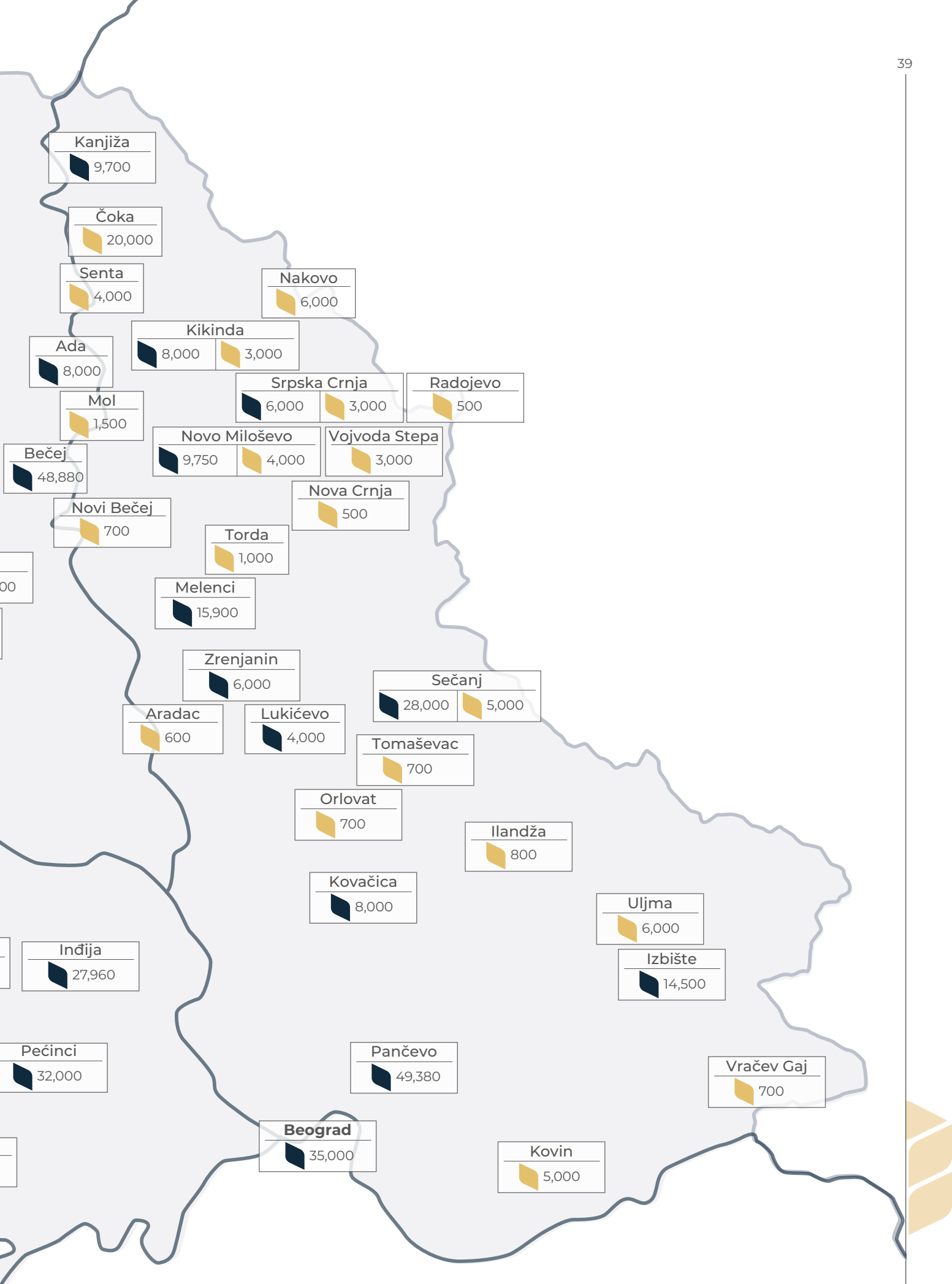


SILOS AND WAREHOUSE LOCATIONS IN SERBIA



Map: Silos and warehouse locations in Serbia

 Warehouse (capacity in tons)
 Silo (capacity in tons)

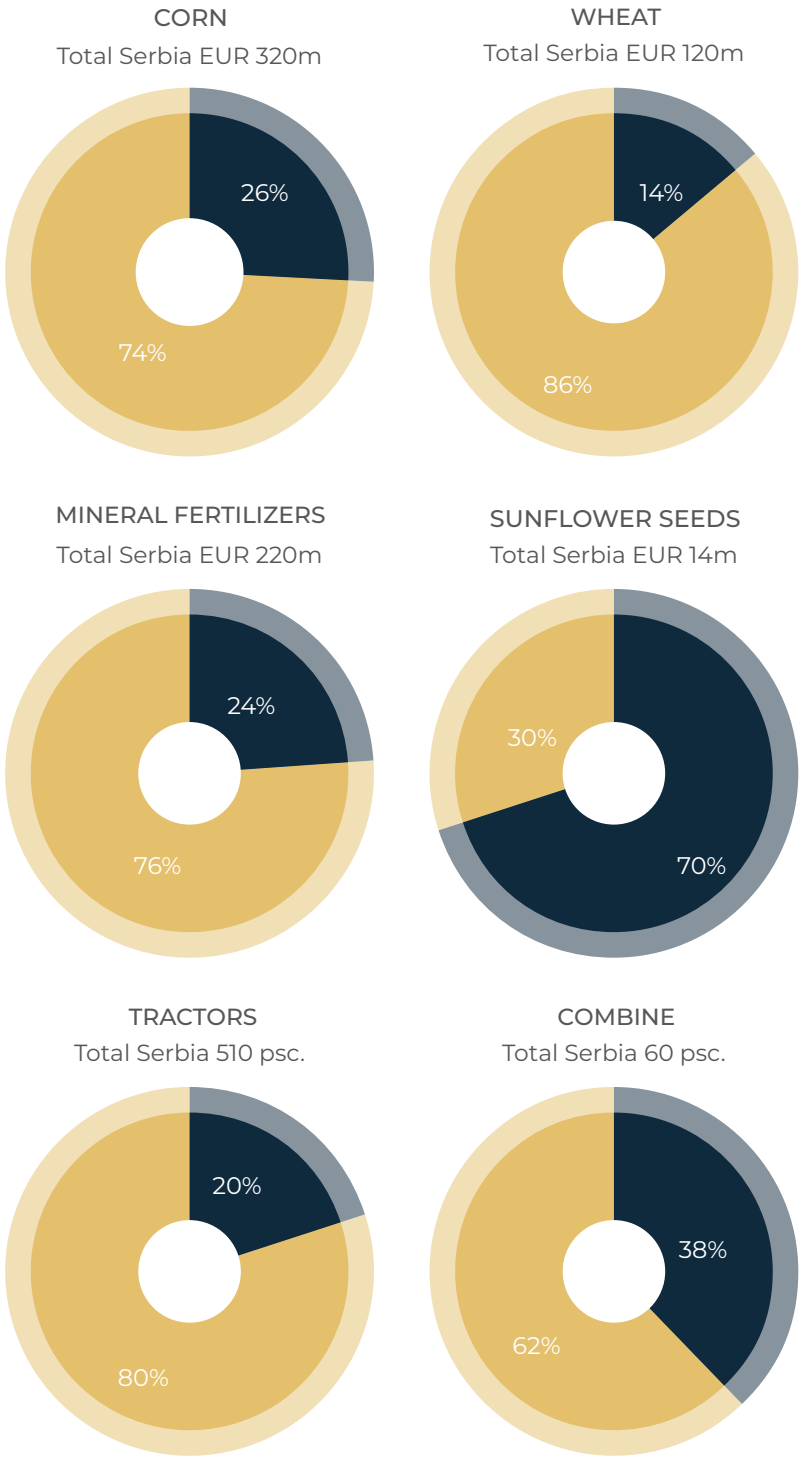


MARKET POSITION

No. 1 Exporter in Serbia with over 20% in commodities export

Trading companies MK Commerce and Agroglobe are the leading trading companies in Serbia.

Market share in different areas in 2016.



 AEC
 Other

*Source: Statistical office and internal data.

The company strives to be present in every segment of the agricultural business by making contacts with direct producers and through the expanded network of silo and buy out sites.

Key competitive advantage is widespread network of storage capacities and silos. The Group has largest storage and buy out sites network in the country with 670,000t of silo storage capacities and 100,000 m² of other storage facilities. One of the biggest warehouses is located in Pančevo – Granexport, with capacity 50,000 tons directly linked to river Danube (flows in Black Sea) with infrastructure to export and deliver goods by road, railway or river.

Largest Silos under Group Management	
Name of Silo	Silo capacity (tons)
Granexport	50,000
MKC Žitar Vrbas	54,000
ŽTB Kula	50,000
ŽTB Bačka Topola	44,000
ŽTB Beograd	35,000
Agrium Pećinci	32,000
PIK Bečej	44,000
Agroglobe Sečanj	28,000
Montenegro	44,000
Other	290,000
Total	671,000



MORE THAN 70 BUY-OUT SITES, disbursed on every **14 KM** provide direct access to farmers without any intermediaries and enable the division aimed for buying goods at the lowest possible prices.

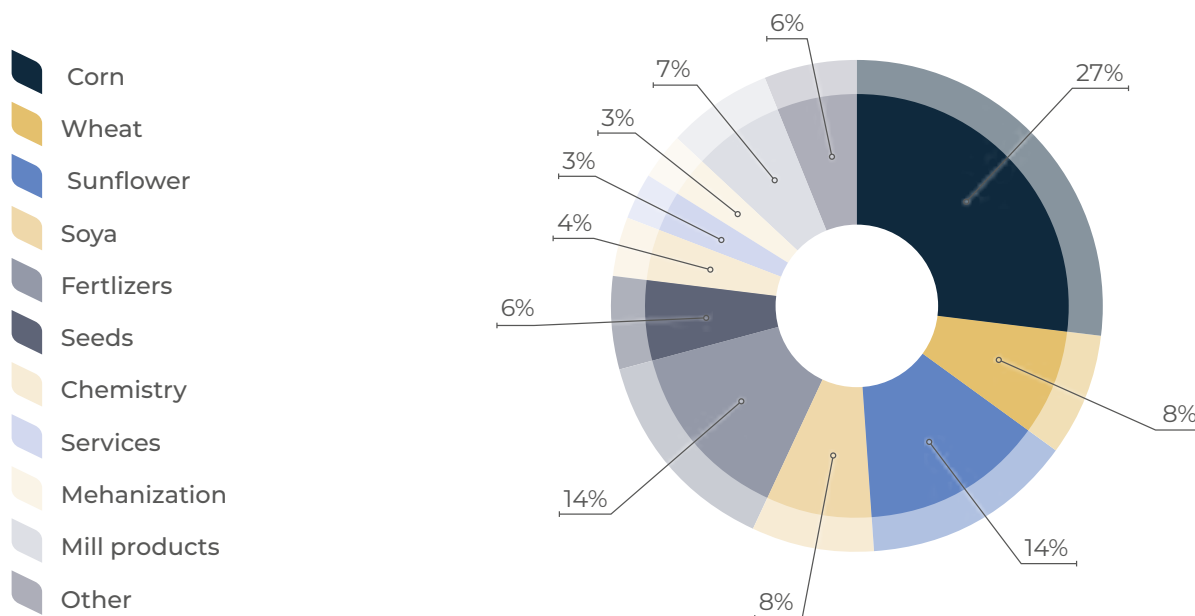
In addition to trading in agricultural products the company is also dealing in the milling industry.

Three wheat mills and one corn mill are processing grains producing flour for domestic and foreign markets. The annual production of wheat flour is 150,000 tons, while the corn flour is 36,000 tons. The milling company obtains the certificate on quality standards (HACCP, ISO 22000). The Company exports significant quantities of products to the regional markets and Lybia.

BUSINESS PERFORMANCE

Commodities trading accounts for more than half of total sales income

Composition of sales income illustrates core business activities through 2016:



- The most **TRADED COMMODITIES** in 2016 were corn and sunflower, followed with soya and wheat, with both quantities and income exceeding previous year level.
- Moreover, high revenues are coming from **STORAGE SERVICES**. Record high yields in 2016 and rainy weather have contributed to satisfactory performance in storage, manipulation and drying services.
- **MECHANIZATION SEGMENT** has also recorded favorable results with record high sales: In 2016, total number of 92 tractors have been sold through Agroglobe sales network as well as 19 combines, making the Group the leader in Serbia in this business.
- On contrary, income from **FERTILIZERS** is lower comparing to the previous year both based on lower quantities sold and unfavorable prices due to lower demand in first half of 2016. This is further negatively affected by decreasing prices of oil and gas which further downgraded prices of nitro fertilizers both on world market and locally.

FINANCIAL PERFORMANCE

Solid Financial Performance in 2016

Financial indicators of Trading and Logistics Division				
in 000 EUR	2015	2016	Change	
Sales	375,755	362,730	-3%	
EBITDA	14,018	14,702	5%	
Net Profit	3,840	2,169	-44%	
EBITDA margin	4%	4%		

Non-consolidated figures, corrections and intercompany eliminations are presented on AEC Group level

Sales income has decreased in 2016 vs. 2015 mostly based on decreasing revenues from fertilizers (Sales income in 2016: EUR 69 m vs. 2015: EUR 53 m), partially compensated with higher income on commodities trading, services and mechanization.

EBITDA in 2016 vs. 2015 is reflecting same changes: overperformance in trading and storage income and lower results in fertilizers.

Net profit is further negatively affected by impairment of equity investment in Silo Corp.

KEY PROJECTS AND INVESTMENTS



During past few years Group had high investments both in new storage spaces, buy up sites and equipment in amount more than EUR 40 million.

In line with the new technologies in 2016, an eCommerce application was launched through which the agricultural holdings can receive information on the purchase price of raw materials or the selling price of goods. The application serves as a support for accelerating and modernizing business. The proof of its success is reflected through continuously increasing number of partners of the Company using this application.

STRATEGY FOR THE FUTURE

Group strategy in Trading business is to secure further sustainable growth and explore new revenue pools through:

- **High standard of service and customer approach** with primary crop producers focusing on long term partnerships and full exploitation possibilities of cross selling (including consulting service, mechanization, seeds, fertilizers, irrigation, logistics, storage, buy out).
- Invest in Production of our **own brand of sunflower and corn seed hybrids**.
- Fully investigate possibilities of **final destination trading** especially with developing countries („Third World“) i.e. participation in direct tenders in Egypt and leveraging on easy access to Black Sea ports through river Danube.
- **Strategic partnership for joint storage capacities** with some of the key commodity traders directly on Constanza port.
- **Investing in few new buy-out sites** to fully cover Vojvodina region, with target to have buy up place on each 10 kilometers.
- **In mill industry focus will be on higher margin products:** special types of flower and smaller packages.
- **Restructuring of Trading division** by further merging individual companies within division which will bring synergy effects and cost savings.



CRYSTAL ENERGY

It is known that sugar gives energy. We believe that the same goes for the whole inspiring sugar industry. That energy is contagious and passionate, it must result with success. And success fuels more energy for new goals.

High quality, optimal terms of production, taking care of environment and consumer needs – that is how you become a market leader.

But focus, passion, dedication, brave ideas and fast actions – that is how your results break records.

Now, we are the most efficient and record breaking sugar producer in our region. New success continues the circle, it gave us more courage to aim for the new frontiers.





SUGAR DIVISION

KEY FIGURES

	Head office: Novi Sad (Serbia)	Sugar Production: 390,000 tons
	Number of employees: > 750	Sugar Beet Processed: 2,7 million tons
	Sales income: > EUR 220m	Investment Amount in past years: > EUR 110 m
	EBITDA: > EUR 69m	Competitive advantage: Chromatography and Steam Dryer
		Market share: 70%
		The most efficient sugar producer in SEE

DIVISION HIGHLIGHTS

The leading company in sugar business in the region

One of the key members of the Group is the company Sunoko, whose main activity is the production and sale of sugar, as well as foreign trading within related business. Guided by a vision to be a leader in sugar production and supply of sugar in the region and among the leading sugar producers in Europe, the company is continuously growing in all business segments. Following the corporate mission, Sunoko is producing the highest quality sugar in the most optimal conditions of production, while at the same time taking care of the needs of consumers and the environment.

The sugar as a basic product is obtained by sugar beet processing while molasses and sugar beet pulp are by-products. The activity of sugar production is carried out at the production centers in Pećinci, Vrbas and Kovačica and the production center Bač is used as a storage facility.

As a responsible entity in the domestic sugar production market, Sunoko is constantly striving to provide a stable and sustainable supply of related industries and widest consumers. It supplies a large part of the domestic and foreign food and confectionery industry, retail chains and households.

MARKET POSITION

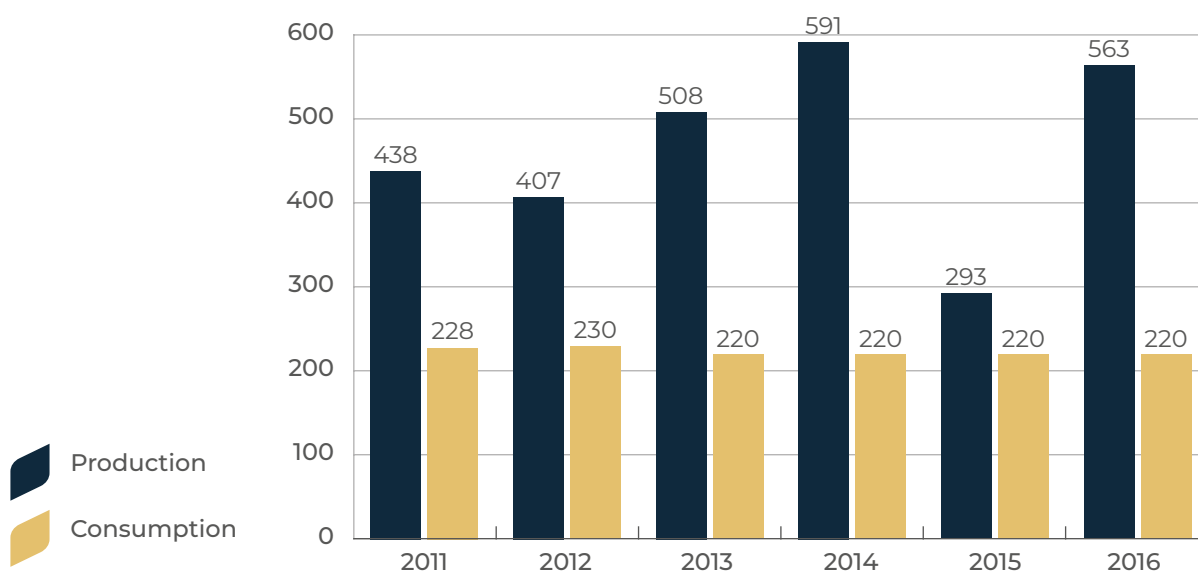
Sunoko`s market share spans beyond 70% of total sale of sugar on Serbian market

Serbia produces annually up to 600,000 tons of sugar, fully satisfying its domestic sugar consumption (~230,000 tons per year, excl. Kosovo) and allowing it to export the remainder to the EU and neighboring countries. The EU sugar export quota for Serbia amounts to 181,000 tons per year (no subsidy) while its exports to CEFTA countries are tax-free.

Most countries in the SEE region do not have sugar beet processing capacities meaning that they either import raw sugar and refine it in their domestic sugar refineries or import the final product.

In Serbia, the campaign 2015/2016 brought the lowest production in the previous 11 years, amounting to 293,000 tons of sugar. Small amount of sugar on the market led to a recovery in prices in 2016 compared to 2015. Until the last quarter of 2016, the price of sugar has been steadily increasing. In the new 2016/2017 campaign, the production in Serbia is 563,000 tons of sugar.

Serbia Sugar Market in 000 tons



There are two companies for sugar producers in the Serbian market, Sunoko and Hellenic. Sunoko has produced 390,000 tons or 69% of the value of the market. The sugar is produced in five factories, three of which belong to Sunoko (Kovačica, Pećinci and Vrbas) and two to Hellenic (Crvenka and Žabalj). Current capacity of sugar beet cutting amounts: PC Kovačica 7,000 t/day, PC Pećinci 8,000t/day and PC Vrbas 7,500 t/day.

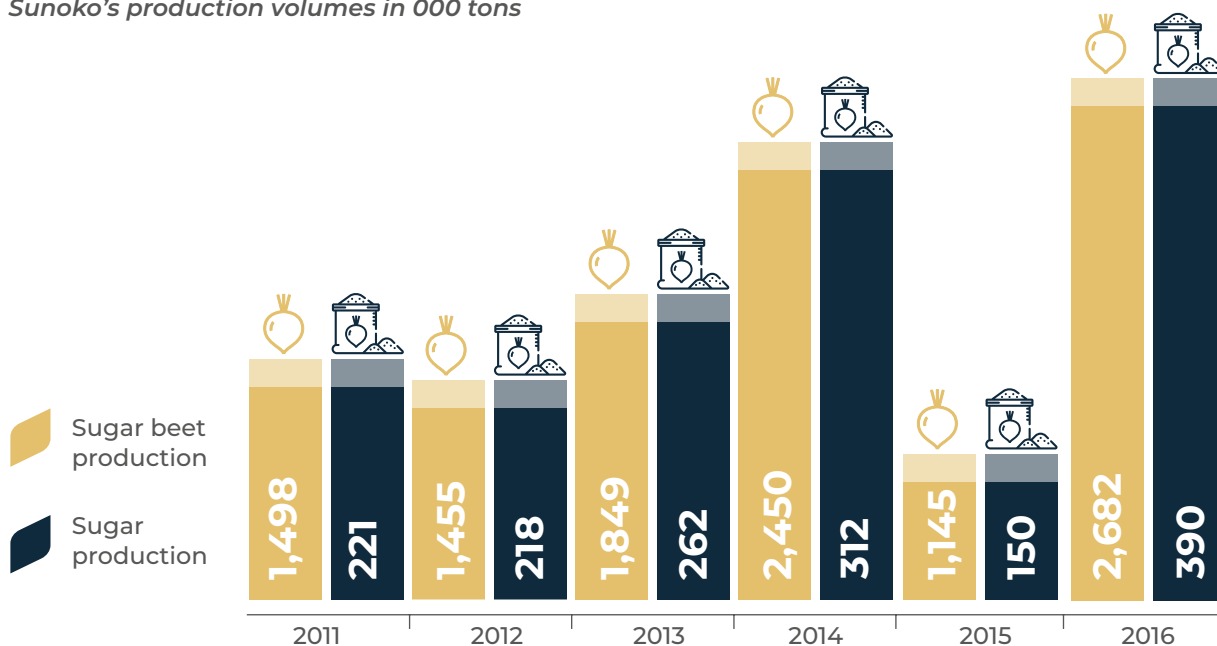
Long term relationship with farmers was confirmed with the fact that Sunoko bought nearly 70% of total sugar beet production in Serbia, including one part from AEC integrated companies.

BUSINESS PERFORMANCE

Historically highest production of Sugar was achieved in 2016

In 2016 campaign, Sunoko processed 2,7 million tons of sugar beet and produced a total of 390 thousand tons of sugar, which is 2.6 times more than in 2015 campaign.

Sunoko's production volumes in 000 tons



Apart from Serbia, main market for Sunoko's sugar are EU and CEFTA (Albania, BIH, Macedonia, Moldova, Montenegro, Serbia and Kosovo). Export to the EU market is conditioned by export quotas.

The export quota for Serbia amounts to a total of 180,000 tons, of which the largest part (about 176,000 tons) is allocated to the export of sugar and the smaller part (about 4,000 tons) to other sugar products (glucose, fructose, sugar syrups). The quota is distributed to sugar producers according to their share in production in the previous two years. Quotes valid from 01/10/ of the current year until 30/09/ of the next year. Sunoko had contracted the sale for the whole quota before the start of the campaign 2016/2017.

Sunoko is selling sugar to the three main markets: domestic, EU, CEFTA. Sunoko primarily sells sugar in Serbian market, where the annual consumption is cca 230,000 tons and in which it has a market share of around 70%. Serbian producers export sugar in EU and have quota for duty free export from Serbia which is cca 181,000 tones. Quota in Serbia is distributed proportionally to production of sugar. Sunoko is producing 70% of total sugar production in Serbia, so we export to the EU market about 120,000 tons per campaign. Any remaining sugar is exported to CEFTA market.

FINANCIAL PERFORMANCE

Record high financial results in 2016

The year 2016 was very successful for Sunoko. Sales revenues in 2016 in the amount of EUR 220 million were almost doubled in comparison to the previous year (2015: EUR 121 million), both based on higher quantities sold and higher prices.

EBITDA of EUR 69 million was achieved by increased sales, better achieved average selling price and cost savings, which is EUR 40 million more than in 2015, or an increase of 137%.

The net profit of EUR 54 million in 2016 represents an increase of 50% compare to the results from 2015.

Financial indicators of Sugar Division			
in 000 EUR	2015	2016	Growth
Sales	121,125	219,860	82%
EBITDA	29,080	68,981	137%
Net profit	36,400	54,465	50%
EBITDA margin	24%	31%	

KEY PROJECTS AND INVESTMENTS

Heavily investing have brought Sunoko to be the most efficient sugar company in SEE.

In the last 10 years, the Group invested more than EUR 110 million in Sugar division, enabling Sunoko to be one of the most efficient sugar factories in Europe.

About EUR 23 million were invested in the new plant for sugar **EXTRACTION FROM MOLASSES – CHROMATOGRAPHY** which raised the total utilization in the sugar production. A certain technological procedure is applied to obtain the finished products from the molasses and organic fertilizer from the molasses, as well as semi-product thick juice that is further used to produce sugar. This technological process achieves greater utilization in the production of sugar from sugar beet, and is one of the unique in EU.

Investing in a **STEAM DRYER** in the production center Pećinci of EUR 8 million has had a major impact on raising energy efficiency. The dryer works on steam instead of oil, which reduces carbon dioxide emissions into the atmosphere and additional EUR 4 million is invested in the boiler plant. This has a positive effect on the environment, as well as on the costs of production.

Also, major investments include the **RECONSTRUCTION OF THE POWER PLANT** in the production center Vrbas, as well as the purchase of a steam turbine for which about EUR 3 million have been allocated.

About EUR 5 million were invested in the **INCREASE OF STORAGE CAPACITIES**, while about EUR 1 million was invested in the modernization of the packaging. There are two silos with a capacity of 40,000 tons of sugar in each production center, as well as an additional silos of the same capacity in Bač. This allows the storage of a total of 280,000 tons of sugar. By investing in storage capacities, the sales pressure in the campaign itself has been reduced.

STRATEGY FOR THE FUTURE

Sunoko's plans are to further strengthen its sustainable growth, with focus on efficiency and cost of production.

Strategic partnership with some of the leading sugar producers in EU would enable the Group to increase production and enter into new markets.

Strong market potential is illustrated by the map representing the immediate markets surrounding Serbia which have 137+ million consumers. All countries are net importers of sugar. Sunoko's key advantage is geographic position with lowest transportation cost to neighboring countries.







PROCESSING INNOVATIONS

First, we breed and grow. Then we create.

That is what food processing is to us.

It is an adventurous journey from the field and farm to the finest final products.

Recipe?

Take tradition and experience with respect, and mix it with innovations. Then add highest standards and modern production. Form a large portfolio of delicious products with superb quality. Result is the leading meat producer and well-known regional brand, which is now entering new promising markets.





MEAT DIVISION

KEY FIGURES

	Head office: Novi Sad (Serbia)	Feed meal production: 100,000 tons
	Number of employees: > 1,100	Total Meat Sales: > 17,000 tons
	Sales income: > EUR 57m	Animal Production Capacity: 200,000 fatteners per year
	EBITDA: > EUR 7m	Over 150 products in 5 categories
		Market leader in ready meals and pates

DIVISION HIGHLIGHTS

Well Known Regional Meat Industry

55
years

45,000
tons of
processed
meat

>150
total range
of products

The company Carnex is a leading Serbian meat producer and a famous regional brand with 55 years of tradition supplemented with the highest standards in its production process. The production cycle is fully vertically integrated - from field to fork. The production of farms reaches the annual amount of around 170,000 pigs with a capacity of almost 45,000 tons of processed meat products. Total range of products is over 150.

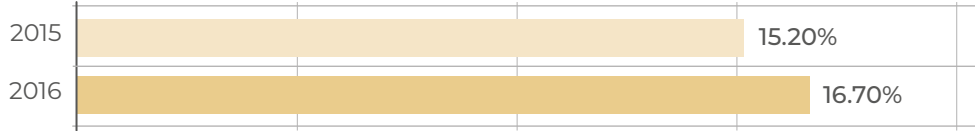
The company Carnex consists of Meat Industry and Animal production segments including Animal Feed Factory, Carnex Farms and Meat Industry. Starting from 2016, after the Group has acquired a large agroindustry complex PIK Bečej, Meat and Animal production divisions have also established a profit center PIK Farms.

Meat industry is the market leader in production of ready canned meals with 52% of market share, as well as in production of pate with 41% of market share.

MARKET POSITION

The Leading Company in Meat Industry and Continually Progressing

Market share in Meat Industry's sale value



Source: Nielsen

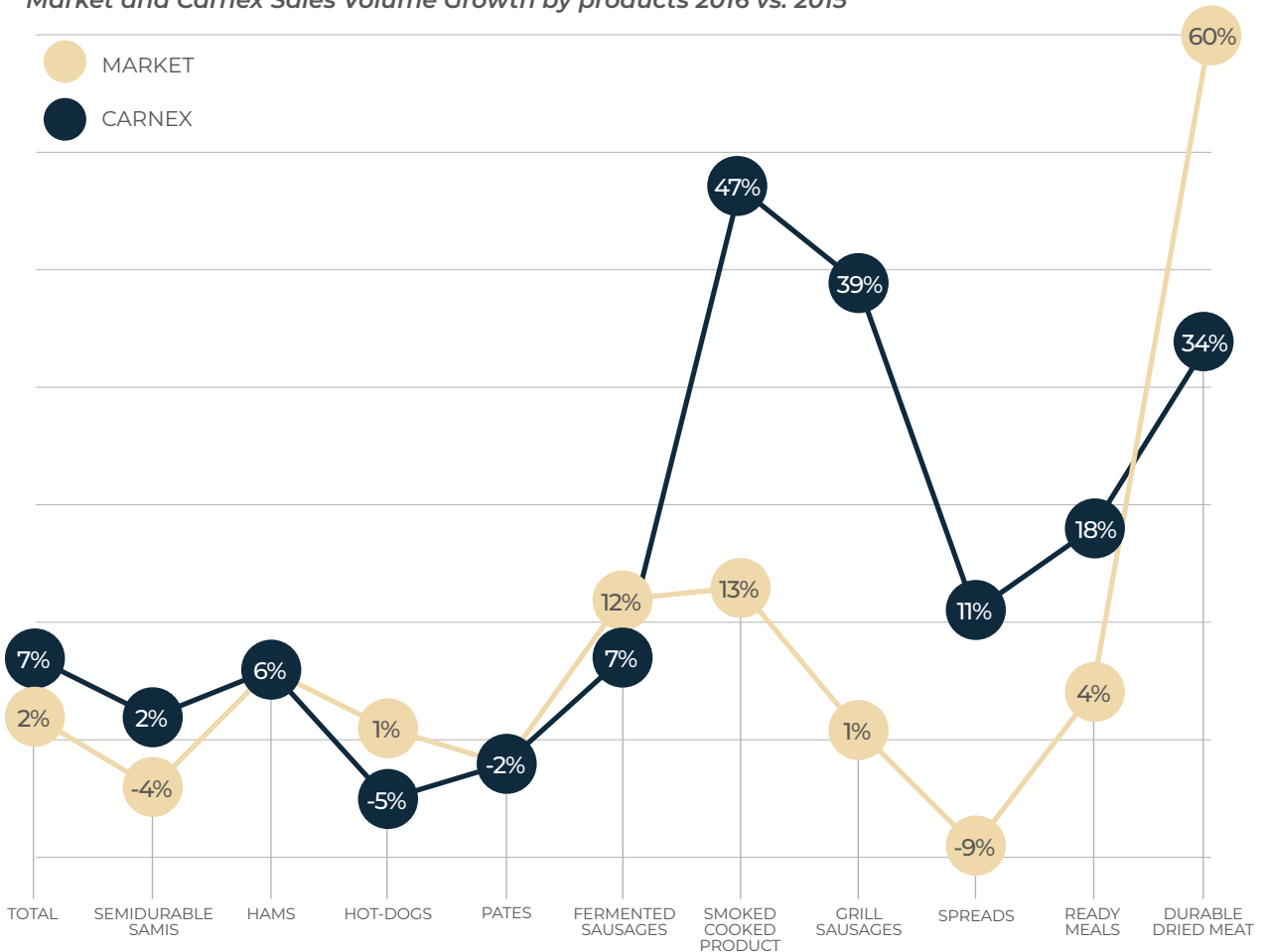
Although positioned as a leader in the competitive market of Serbia for many years, Carnex has managed to improve its position in the meat industry in 2016.

Upgraded sales strategy resulted in increase in the market share of Meat Industry's sale value, including further optimization of product portfolio, more investments in traditional trade sales channels as well as improved relationship with key accounts.

The aforesaid is shown in the following graph presenting Carnex sales increase in 2016 in comparison to the previous year i.e. Carnex has recorded sales growth of meat products by 7% contrary to total market growth of 2%.

Moreover, Carnex is opened to new markets, exploring market potential in the region both for fresh meat and meat products.

Market and Carnex Sales Volume Growth by products 2016 vs. 2015





carnex



Processed meat

Pates/Ready meals

Source: Nielsen

BUSINESS PERFORMANCE

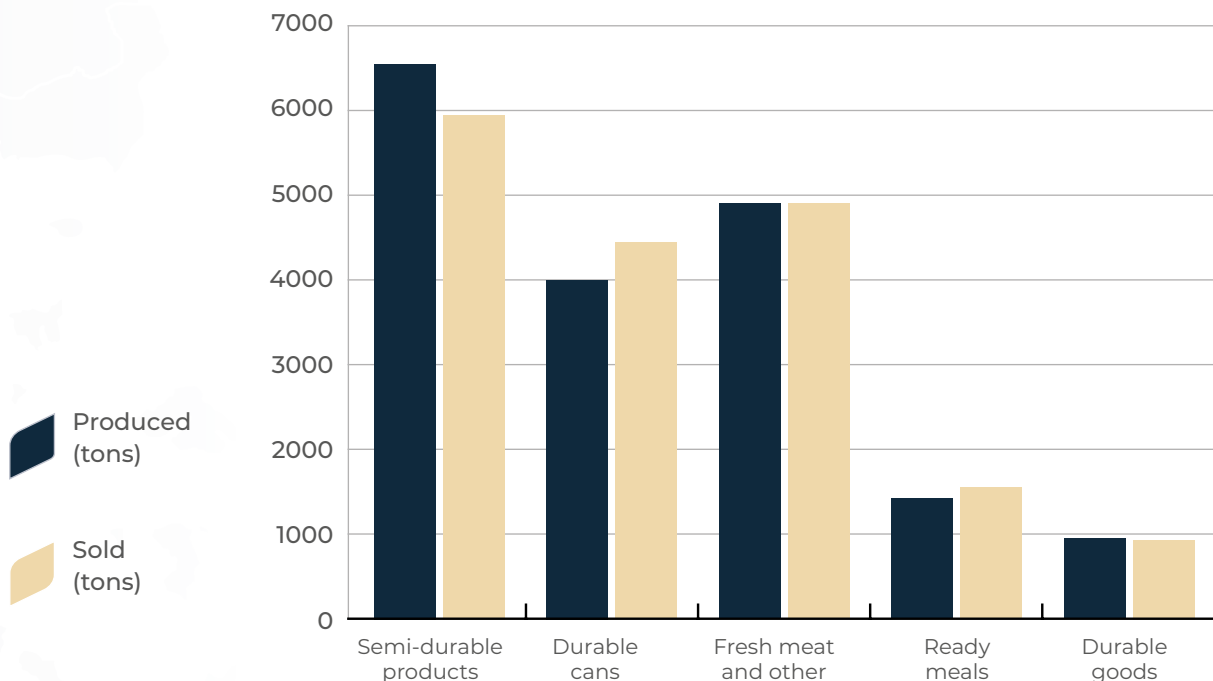
Significant results marked the year 2016

ANIMAL FEED FACTORY has a production capacity of 100,000 tons and silos for storing the raw materials and components for production of about 10,000 tons. There is complete control over the origin of raw materials, the appropriate recipe and strict control of the production process with a fully automated production line. After the acquisition of PIK Bečej in 2016, the first synergetic effects were seen on the Animal Feed Factory. The production has doubled to meet the needs of an additional seven PIK farms.

ANIMAL FARMING business was also capitalized with acquisition of PIK Bečej farms. Currently, livestock production is taking place in 10 farms in Vrbas and Bečej. The production capacities are up to 200,000 fatteners per year and nearly 170,000 of high-quality fatteners were delivered in 2016. During 2016, automatic feeders were installed at the farms in Bečej, as well as the new technology of liquid nutrition at one of the farms, in order to reduce the conversion and cost of fatteners.

MEAT INDUSTRY production continued its growth trend in 2016. The focus was on optimizing business processes, introducing norms in the primary production to raise productivity and lower costs per kilogram of products.

Structure of Production and Sales in 2016 Meat processing Carnex



In 2016, a significant step forward was made in the sales strategy i.e. Carnex has started the placement of fresh meat in domestic retail chains in Serbia and Montenegro. Organizational changes along with the same number of merchandizers resulted in increased sales through more profitable traditional trade (TT channels). Proven results include increased TT distribution units for nearly 20%, from 3,568 in 2015 to 4,212 in 2016 and average daily turnover per TT unit has been almost doubled from EUR 5,400 in 2015 to EUR 9,900.

FINANCIAL RESULTS

Strong commercial activities as well as acquisition of PIK Farms, will positively affect financial results on mid-long term

Financial indicators in Meat Industry					
	2015	2016 Newly acquired PIK farms	2016 Carnex	Carnex Total 2016	%
Sales	42,303	5,152	52,872	58,024	37%
EBITDA	7,016	1,089	5,945	7,034	0%
Net Profit	2,723	1,622	2,110	3,732	37%
EBITDA margin	17%	21%	11%	12%	

Note: Sales income in 2016 is consolidated between PIK farms and Carnex

Sales revenues in 2015 amounted to EUR 42 million. In 2016, significantly better results were achieved, mainly due to the acquisition of PIK Farms. Total business revenues in 2016 amount to EUR 58 million.

The increase in EBITDA, besides the announced acquisition, was achieved through increasing sales, launching of the new production lines, better production planning, better management of raw material costs, introduction of norms in primary production, increased sales through TT channels.

KEY PROJECTS AND INVESTMENTS

After being taken over by AEC Group in 2011, Carnex has improved its business and underlying effects and the results are the following: cost optimization; increasing energy efficiency through significant investments; investment in automation; introduction of norms in primary production; opening the new markets for Russia and the EU; development of own sales networks that covers both Key Accounts and Traditional Trade channel.

Over EUR 30 million was invested from the moment of entry of Carnex into the Group. The most important investments that have contributed to automation of the process, increase of productivity, energy efficiency, environmental protection are: automation of the line of cans, central warehouse of finished products, waste water treatment plant (BAT), new plant for durable products, wastewater processing plant, steam line from Sunoko factory to Carnex, installation of heat pumps, replacement of autoclaves.

The new organization established in Q4 in 2016 supports the company's key objectives: to improve efficiency and increase profits. The changes are implemented in all organizational units, with the expectation that the reorganization will improve the company's performance and reduce total costs (the focus is on the Operational Department). It is also planned to expand the product portfolio with new product lines.

STRATEGY FOR THE FUTURE

Optimization of production with further sales expansion

Main generators of performance growth in the future period will be:

OPTIMIZATION OF PRODUCTION which represents a continual process including organizational and technological improvements, digitalization of production lines, innovations and further energy savings. These measures will lead to increase of productivity and cost savings.

BOOSTING SALES PERFORMANCE by further strengthening our position in key products like pates, ready meals, durable dried meat and sales growth of salami and hot dog product range. The focus will be on the high value products and gradual increase of prices, by relying on the consumer's perception of the high quality. Moreover, the sales of fresh meat which has been initiated in 2016 has an immense potential, especially in terms of export. The main sales channel will be traditional trade. However, there is also a good opportunity in regard with Key accounts, both the existing and the new comers on the market such as the big EU retailer Lidl. Sales force will further exploit export possibilities for regional and worldwide expansion with target markets EU, Russia, CEFTA countries as well as China market.

The third pillar of strategic growth is to **MAXIMIZE POTENTIALS OF FARMS**. Currently, Carnex is managing 10 farms. Regarding the cost-effectiveness, the great results could be accomplished by further optimization of the farm structure, investments in improvement of living conditions of pigs, as well as by improvement of pigs genetics such as: increasing the number of live-born fatteners, decreasing conversion rate (ratio presented in kg of the food quantity the pigs need to consume in order to improve weight for 1 kilo), increasing the meatiness, decreasing the number of days for pigs to achieve optimal weight.





EXPERIENCE THE JOY OF LIFE

We live to explore, always aiming for new destinations.

We don't see obstacles, we see challenges and potentials.

We enjoy our work, we enjoy life. And we are always discovering new roads.

Tourism segment of our Group is a great challenge for us. It gives us opportunities to set new standards, satisfy our adventurous spirit and create superb service for our customers.

We are not only offering the premium service and luxury. We want to provide the best experience and unique memories to our customers, new level of comfort and joy of life.

Because we believe in simple rule that makes the difference:

Don't be a tourist, be a traveler.



HOTELS

KEY FIGURES



DIVISION HIGHLIGHTS

The largest Resort on Kopaonik

223

**Rooms
Grand Hotel
& Spa**

MK Mountain Resort is the largest hotel complex in National Park Kopaonik, one of the most popular mountain tourist destinations. Located at 1,770m a.s.l. in the tourist center near the ski slopes and ski lifts, Resort consists of:

Grand Hotel & Spa 4* (223 rooms),

Family Hotel Angella& Residence 4* (126 rooms).

126

**Rooms
Family Hotel
Angella
& Residence**

Apartments Konaci deluxe * (115 rooms and apartments)

The rich accompanying amenities include a modern congress center, restaurants, bars, luxurious Spa & Wellness Center of 1,800 m², indoor pool with relaxation area, outdoor pool, children's playground, bowling alley, squash courts and modern fitness center.

115

**Rooms
Apartments
Konaci**

In 2008, AEC Group acquired this hotel complex and since 2016 MK Mountain Resort has been a part of its business reporting. The whole accommodation capacity together with the accompanying facilities has been renovated and equipped in accordance with the highest hotel standards. Nearly EUR 25million of investments in the complex were made in the previous period, which brought numerous awards and recognitions to the company in the tourism industry.

MARKET POSITION

MK Mountain Resort is internationally recognized destination

MK Mountain Resort holds the leading position in ski center of Kopaonik, primary **winter** destination, when all of its capacities are used.

MK Mountain Resort built a brand and reputation recognized by top quality and high standards. It is the most important economic entity on Kopaonik, with the best accommodation offer on the mountain. The dynamics of modern life brings new trends and the need for an active break in nature and Kopaonik has exciting potential for further development as a summer destination that could be equated with winter tourism, on the long run. As the most active participant MK

Resort organized outdoor programs such as mountain biking, safari tour, adrenaline activities, school in nature, hiking tours, which all contribute to a better visit during the **summer** season. Year 2016 represented a milestone in the development of this type of tourism and offer, and this trend is expected to grow in the future.

In addition to winter tourism, Kopaonik has been top destination for MICE tourism for years. MK Resort's new congress capacities, high-end equipment and innovative approach to the event organization enabled hosting some of the most important congresses, domestic conferences, international symposiums and sports camps.

BUSINESS PERFORMANCE

Primary location coupled with best in class in service

Number of overnight stays and ADR 2015 and 2016			
	2015	2016	Growth
No. of overnight stays	51,595	56,371	9%
ADR	87	91	5%

year, the skiers from Romania, Hungary, Greece and Macedonia increasingly chose Kopaonik as their winter holiday destination. Also, people from more distant countries (e.g. Russia, Turkey, Israel) are coming, and in 2016 the charter flights from Russia doubled.

Number of overnight stays in MICE tourism			
	2015	2016	Increase
No. of overnight stays MICE	11,234	13,005	15.80%

THE WINTER SEASON 2015/16 was the most successful since the results of the ski center's operations have started to be measured; all records regarding the capacity and number of skiers have been broken. MK Mountain Resort has constant increase of domestic and foreign guests as the best indicator of its achievements. Giving quality and varied offer of accommodation, Resort is choice of tourists from local customer base. Alongside the domestic guests and guests from Montenegro as regular visitors, every

Regarding MICE tourism, more than 200 events took place in 2016. Organizations of team buildings of numerous companies became a recognizable product of MK Resort.

The operational system of highly educated staff works to optimize the financial performance of all properties and seeking out new growth opportunities. Management team is recognized as one of the leading hospitality organizations in the Balkan region, with experience and expertise serves in the areas of finance, procurement, property acquisition, market repositioning, Hotels and Resort Operations, Marketing Plan development, Management Planning and Guest satisfaction.

FINANCIAL RESULTS

Season 2015/2016 scored highest results

Financial indicators MK Mountain Resort			
	2015*	2016	Growth
Sales Income	6,544	7,553	15%
EBITDA	2,184	2,983	37%
Net Profit	2,106	1,779	-13%
EBITDA Margin	33%	39%	

* In 2015 MK MR was not consolidated within AEC

The strategic investments of MK Mountain Resort in projects and activities to improve services and amenities offered throughout the year by further developing the offer during the summer months, proved to be justified and they are materialized through the results achieved in 2016.

MK Mountain Resort generated EUR 7,5 million in sales revenue in 2016, which represents an increase of 15% compared to 2015. In addition to excellent results in the winter months, achieved growth is based on increasing capacity utilization during the summer months and significant results in the congress and group tourism.

EBITDA achieved in 2016 is EUR 3 million, which is the best result in the history of Resort so far.

KEY PROJECTS AND INVESTMENTS

Enjoyment in luxury

At the beginning of the year, a new wing, "block A", was opened at the Grand Hotel & Spa with 70 luxury rooms and suites and a convention center for 600 participants which is one of the most modern in the country. An investment worth EUR 4,5 million has brought a completely new look and amenities to the hotel, thus consolidating the leadership position at the destination.

Supporting sustainable growth and development, MK Resort has invested in ecological projects of the National Park Kopaonik over EUR 150,000. A system of heat pumps for heating water in swimming pools is installed, which uses geothermal energy as a heat source. The second system collects waste water and as a free source of heat is used to operate the system for heating the objects. Since the beginning of the realization in 2016, the consumption of primary energy has been reduced, and consequently the emission of harmful gases into the air.

STRATEGY FOR THE FUTURE

Regional hotel management company

AEC Group has strategically opted for tourism investments with a clear vision of a strong management company which, in addition to Kopaonik, will manage all acquisitions in the region. The Group is expanding its business to the hotel market of the region, with an emphasis on Istria and the Montenegrin coast.

The Group's is interested in further development of Kopaonik as a destination, the completion of capacities during the summer months and the strong development of congress tourism.

Thanks to the investment in the congress amenities, besides the winter and summer season, a season of organizing gatherings became also important for MK Resort and the sales will be further focused on completing the capacities through MICE tourism.

HOTELS OWNED BY AEC'S AFFILIATED COMPANIES

In addition to the hotel complex on Kopaonik, the following complex are owned by affiliated companies of AEC Group:



Kempinski Palace
Portorož
ISTRIA SLOVENIA



At the end of 2015, the famous **HOTEL KEMPINSKI PALACE** became a part of Group related company. The luxurious hotel is located on the Adriatic coast in the heart of Portorož, Slovenia and operates under the management agreement of the international chain Kempinski. Even the first year after the acquisition resulted in achieving better results in terms of cost reduction, increase in traffic, number of overnight stays and other indicators.

Only 5 star superior hotel in Slovenia and one of the very few true luxury hotels located between Venice and Dubrovnik. It is located in Portorož, a coastal town in the Slovenian part of the Istrian peninsula which is the main tourist centre in Slovenia.



Since April 2016, the Group has a share of 15% owned by the hotel group **BUDVANSKA RIVIJERA, MONTENEGRO**, which is the largest hotel company in Montenegro having the accommodation capacity of 3,800 units. Its long and rich history of providing hospitality services makes the image of HGBR become recognized in the tourism market of Europe. In addition to supreme service, the exquisite location of these hotels in the immediate vicinity of sandy beaches makes the hotels especially attractive.

Hotel Group Budvanska Rivijera JSC now manages and operates 6 hotels: the Palas Hotel (4*), Petrovac, 163 accommodation units; Slovenska Plaza (3+* and 4*) Budva, 1,016 accommodation units; Aleksandar Hotel (3*), Budva, 158 accommodation units, Castellastva Hotel (4*), Petrovac, 185 accommodation units and Hotel Mogren (3*) Budva 49 accommodations units and Hotel Piva.

Apart from the above, the hotel group also owns Sveti Stefan Hotel and Miločer Hotel, subject to thirty-year lease by the Adriatic Properties company and the globally renowned brand of Aman Resorts.





TRUST AND STABILITY

We believe that responsibility and strength are the foundations for growth.

Ideas blossom in the stable and trustful environment.

When you have support incredible things happen. Dreams are fulfilled. Visions are reached.

Therefore we are proud that banks within our group are not only commercially successful, but also innovative, supportive, efficient, open for new ideas. We offer our clients all services they need, and more than that – we give them stability.

The approach that we encourage is: be the change, wake your entrepreneurial spirit and set new limits. Determine your own future. Because, we are the partner you can trust and rely on.



BANKING

KEY FIGURES



DIVISION HIGHLIGHTS

AIK bank has been awarded as the best commercial and innovative bank in Serbia

4th
place by
Net profit

Banking segment of AEC comprise AIK Bank and M&V Investment.

Among 30 active banks in Serbia, AIK Bank is ranked 6th by Net assets, with clear strategy of further expansion and at same time holds 4th place by Net profit.

AIK Bank owns 19.34% of the shares of Gorenjska Banka dd, Slovenia.

M&V Investments is a leading brokerage company for many years offering a wide range of services for the capital market to a variety of clients, corporations, financial institutions, foreign investment funds and individuals. Founded in 1995, it is one of the oldest brokerage companies in Serbia.

AIK Bank is a reliable and stabile domestic financial institution dedicated to providing universal high-quality banking services. A key factor in the development of AIK Bank is innovation that involves not only the introduction of new technologies, products and services on the market, but also the offer of existing products and services in an innovative way, which focuses on the needs of clients and adequate risk management.

With the results achieved in the previous year high level of capital adequacy, as well as the volume of net balance sum of EUR 1,488 million, the Bank confirms that it is one of the carriers of banking activities on the Serbian financial market.

Strategic orientation of AIK Bank is further strengthening its market position on both domestic and regional markets, which commence with the purchase of 19.34% shares of the Slovenian Gorenjska Bank a.d. Kranj. Such activities of the Bank will not only lead towards the broadening of business activities and cooperation between the local and the EU markets in the field of banking operations, but also towards establishment of preconditions aimed at widening of cooperation in various other fields of economy, thus empowering the economic competitiveness of the entire region.

The prestigious British economic magazine Banker International awarded the Bank in 2016 Banking Awards for the best commercial and innovative bank in Serbia and the best bank in providing services to clients in Eastern Europe.

MARKET POSITION

6th

rank of total deposits

Serbian banking Sector comprise 30 banks, with AIK Bank highly positioned in each segment. PEER banks are mostly subsidiaries of internationally recognized banks such as Unicredit, Banca Intesa Beograd (Group Intesa Sanpaolo), Societe Generale Bank, Raiffeisen bank, Erste bank.

Net assets – at the end of 2016 top 10 banks accounted for 77.4% of the total balance sheet assets of Serbia's entire banking sector. Compared to the end of 2015, the Bank's assets increased by EUR 15,7 million and retained rank 6 with a 5.7% market share.

Total deposits recorded an increase in comparison to 2015. With 5.1% market share, the Bank retained rank 6 in size of total deposits.

Net loans and receivables – with EUR 723 million of net loans the Bank was ranked 8th with a 5.1% market share.

Equity – the Bank's equity share in the banking market was relatively high compared to other market share indicators. The Bank was ranked 5th with equity of EUR 429 million and achieved a market share of 8.4%.

Equity / net assets – with a 28.8% share of equity within the net assets, the Bank retained a higher capitalization level than the banking sector and the peer group.

ROA and ROE – the Bank achieved considerably higher levels than the banking sector and the peer group.

Cost-to-income ratio (CIR) of 44.6% the Bank retained a rather low level of operating expenses related to operating income in comparison to both the peer group and the banking sector.



AIK BANKA market share

Ranking by	2016			2015		
	Rank	Share	EUR thsd	Rank	Share	EUR thsd
Net Assets	6	5.7%	1,488,075	6	5.9%	1,472,371
Net Loans	8	5.1%	723,455	7	5.2%	713,461
Total Deposits*	6	5.1%	1,046,774	6	5.4%	1,029,976
Equity	5	8.4%	428,727	5	8.5%	430,702
Profit Before Tax	4	22.3%	38,400	4	34.7%	27,771

Source: Central Bank web page

Peers: AIK banka, Banca Intesa, Komercijalna banka, Raiffeisen banka, Unicredit bank, Eurobank, Societe Generale banka, Addiko bank, Erste bank, Sberbank

* Total Deposits: Transaction Deposits, Other Deposits, Loans and Placements from Financial Institutions

Note: EUR amounts of PBT were calculated by using end of period exchange rate

AIK BANKA market share

Profitability & Efficiency Ratios	2016			2015		
	AIK	Peers	Sector	AIK	Peers	Sector
Profit Before Tax / Average Equity (ROE)	8.8%	5.4%	3.4%	6.2%	3.2%	1.6%
Profit Before Tax / Average Assets (ROA)	2.6%	1.2%	0.7%	1.9%	0.7%	0.3%
Operating Expense / Operating Income (CIR)	44.6%	56.7%	64.8%	45.1%	55.2%	62.2%

Source: Central Bank web page

Peers: AIK banka, Banca Intesa, Komercijalna banka, Raiffeisen banka, Unicredit bank, Eurobank, Societe Generale banka, Addiko bank, Erste bank, Sberbank

BUSINESS PERFORMANCE

Total gross loans extended by the Bank in 2016 decreased by EUR 62,8 million or 6.2% in comparison to 2015, whereas net loans decreased by EUR 7 million or 0.9%. On the other side, impairment allowances were lower by the total of EUR 55,8 million year on year, resulting from the activities the Bank undertook in the previous year. Viewed per segment, the sharpest drop in net loans was recorded by the public segment (by -EUR 42,1 million), while the corporate segment had the most significant increase (by EUR 37,7 million).

Breakdown of loans per segment						
Segment	2016			2015		
	Gross loans	Impairment	Net loans	Gross loans	Impairment	Net loans
Corporate	558,970	113,289	445,681	559,950	151,949	408,002
Public	136,043	28,107	107,936	192,594	42,532	150,063
SME	53,755	3,271	50,484	42,465	4,409	38,056
Retail	128,157	8,804	119,353	128,449	11,109	117,340
Financial institutions	78,390	817	77,574	94,643	76	94,567
Total loans	955,315	154,287	801,028	1,018,102	210,074	808,028

If we compare Bank impairment allowances and provisions for non-performing loans and receivables (according to Central Bank methodology) with banking sector, the following may be deduced:

- Gross NPL coverage with impairment allowances (made in accordance with IFRS) across the banking sector in Serbia equaled 72.94%, while the Bank's NPL coverage rate was 78.15%;
- The provisions for estimated losses per balance sheet assets covered 118.9% of the total gross NPLs at the entire banking sector level, whereas the Bank's gross NPL coverage with the calculate gross provisions for estimated losses was 135.74%. This means that the Bank, both with the impairment and provisions for estimated losses, substantially covers its non-performing loans and receivables.

In 2016, growth within liabilities of EUR 16,8 million was exhibited by total deposits, resulting in the balance of deposits of EUR 1,047 million at year-end. Viewed per segment, corporate and public increased the most, by the amount of EUR 68,3 million in the aggregate, while the segment of financial institutions recorded the most severe drop of EUR 37,7 million.

Breakdown of deposits per segment				
				EUR thsd
Currency	2016	2015	Change in current year in absolute amounts and %	
Corporate	205,941	153,560	52,382	34.11%
Public	162,898	146,957	15,942	10.85%
SME	63,905	61,997	1,907	3.08%
Retail	607,148	622,909	-15,762	-2.53%
Financial institutions	6,882	44,554	-37,672	-84.55%
Total deposits	1,046,774	1,029,976	16,797	1.63%

FINANCIAL RESULTS

In 2016 AIK Bank achieved a profit before tax in the amount of EUR 38,5 million, which represent an increase of 37.7% compared to the previous year.

Financial indicators Banking Segment				
Description of income statement position	2016	2015	Change in current year in absolute amounts and %	
Interest income	73,798	82,808	-9,010	-10.9%
Interest expense	-15,661	-23,722	8,061	-34.0%
Net interest income	58,137	59,086	-949	-1.6%
Fee income	9,200	8,885	315	3.5%
Fee expense	-1,919	-1,608	-311	19.3%
Net fee income	7,281	7,277	4	0.1%
Net income from foreign exchange differences	1,201	1,945	-744	-38.2%
Other operating income	6,778	10,895	-4,117	-37.8%
Total operating revenues	73,397	79,202	-5,806	-7.3%
Operating expenses	-32,770	-35,721	2,950	-8.3%
Operating result	40,626	43,482	-2,855	-6.6%
Cost of provisions and impairment	-2,111	-15,508	13,397	-86.4%
Result before tax	38,516	27,974	10,542	37.7%

Data are referring to whole year 2015, while AEC Group has gained control in April 2015

SHARES

Takeover of shares through takeover bid in 2016

On January 25, 2016, the Bank's majority owner M&V Investments a.d. Beograd announced the intent to take over the Bank's shares. From February 18, 2016 to March 9, 2016, in cooperation with entities acting together as the Bidder, via takeover bid, M&V Investments increased its ownership of the Bank's ordinary (voting), priority cumulative and priority convertible shares to 91.96%, 87.14% and 44.78% of the total number of shares outstanding, respectively.

After fulfillment of criteria for the procedure of a squeeze out at the proposal of the majority shareholders of AIK BANKA AD BEOGRAD, on July 1, 2016 the Central Securities Depository and Clearing House conducted the sell out of minority shareholders' shares. The breakdown of direct ownership of M&V Investments a.d. and related entities as of July 6, 2016 was on the share of 99.20%. Breakdown of direct ownership as of 31.12.2016. is presented in table.

Squeeze out procedure of minority shareholders in 2016

Shareholder	% shares
1. M&V INVESTMENTS AD BEOGRAD, Bulevar Mihajla Pupina 115e, Beograd	99.15%
2. AGROGLOBE DOO NOVI SAD, Narodnog fronta 23, Novi Sad	0.10%
Total	99.25%

Breakdown of direct ownership (ordinary shares) and M&V Investments a.d. and entities acting together with the majority owner in AIK BANKA AD BEOGRAD, as of December 31, 2016

CAPITAL ADEQUACY

Central Bank Decision on the Capital Adequacy stipulates the Bank's obligation to perform its operations in such a manner that its risk-weighted assets are at all times covered with own funds up to no less than 12%.

The Bank maintains its own funds at the adequate level to comply with all regulatory requirements, to maintain the trust of its shareholders and depositors in stability of its operations, to realize its business and financial plans, support the expected growth of loans, investments, future sources of funds, their deployment, and implementation of the Bank's dividend policy.

The Bank's capital adequacy ratio was significantly above regulatory requirements throughout 2016. As of December 31, 2016, the Bank's CAR is on the level of 33.29%.

In accordance with Central Bank Decision on Capital Adequacy, the Bank calculates capital requirements for the following risks:

- credit risk – using the standardized approach;
- market risk (foreign exchange risk) – using the standardized approach;
- operational risk – using basic indicator approach (BIA)

STRATEGY FOR THE FUTURE

The main strategic goal of the Bank in the upcoming period is to achieve sustainable profitability with additional improving of the market position on the Serbian banking market as well as regional market. The Bank is planning to achieve this goal through organic growth of the portfolio and processes of acquisitions of equity share in legal entities in the financial sector. Due to the fact that the consolidation and further concentration will continue in the banking market, the Bank sees opportunities for growth through acquisitions on the domestic banking market as well as the market of the Region. It is expected that investments in medium-sized banks with recognized good development potential will enable diversification of business, create new opportunities, ensure presence on selected foreign markets, and ultimately increase the value for shareholders.





RISK MANAGEMENT

AEC Group is firmly committed to risk management that represents an important pillar for achieving overall sustainability. The risk management framework of the Group is designed to support strategic priorities while protecting future financial security and flexibility.

The Risk management process aims to follow risk identification, measurement, monitoring, minimizing and control through setting of the risk limits as well as reporting on risks in accordance with the Group's internal limits and the regulator's decisions.

The Risk management is everyone's responsibility, from the executive team to each employee individually. Both are expected to understand the risks that fall within the limits of their accountabilities and are expected to manage those risks within the approved risk tolerances.

Capital risk management considers optimal financing structure at the Group level and maintains adequate level of Net Debt/Equity Ratio.

For Agri business Segment debt tolerance is observed internally but also through provision of covenants that has been agreed with the commercial banks at the level of the Group. The contracted covenants relate to Net financial debt (Loans - Cash)/ EBITDA ratio and a maximum allowed level is 5, while internal limit is maximum 4. However, internal target is to keep the mentioned ratio as low as possible, and at the end of 2016 it stood at 2,3 (2,0 excluding Agri Invest Ukraine), halved compare to 2015 when it was 4,6. The Adjusted Net debt ratio for inventories is also important indicator, since most of our inventories are commodity goods (sugar, crops) that can be shortly converted into cash. Adjusted Net financial debt (Loans - Cash - Inventories)/EBITDA is defined to be maximum 2,5 in contracts with commercial banks, while our internal maximum level of this covenant is 2,0. At the end of 2016 this ratio was at the level of 0,3 indicating extremely low debt level.

In the banking business, the Bank's strategic goal was to maintain capital adequacy ratio above prescribed minimum not below 14.5%, (regulatory limit is 12%) enabling the increase of operating activities from own sources and ensuring funds for absorbing potential risks. Excessive capital can be distributed to shareholders.

Key risks that identified at the Group level are Market risk, Credit risk and Liquidity risk


MARKET RISK. Regarding the agriculture business operations, the Group is exposed to risk deriving from fluctuations of foreign currencies and interest rates. Moreover, the Group business activities are exposed to market price risk activities from production and purchases of commodities and its sales.

In agribusiness segment, foreign currency risk is carefully monitored through positions in assets and liabilities that are linked with EUR or other foreign currencies – cash, inventories and debt. On asset side, Group has majority of cash in EUR, following internal limit that only 20% of cash can be hold in dinars. FX is deriving from strong inflows from export trading (over 40% of sale income is coming from export), while on contrary import at the entire system is relatively small. Part of domestic sales is although denominated in local currency also actually priced in EUR, with payment at middle exchange rate RSD/EUR at the day of settle. Moreover, most of the inventories are stock exchange goods, also tied to EUR currency. On liability side, the entire amount of loan debt is linked to foreign currency. Altogether, open FX position in Agri segment is relatively small comparing to the level of Total assets.

Market price risk is also carefully observed with defined internal limits for open position in trading. Most of transactions is done on back-to-back basis.

Within banking business, Market risks include foreign exchange risks for all banking operations, equity price risk per items in the trading book and commodity risk. In the broader sense, market risk also includes the risk of changes in interest rates within the banking book. In 2016 the Bank's foreign exchange risk ratio was within the internally and legally prescribed limits. The Group manages the following types of interest rate risks: Repricing risk of temporal mismatch between maturity and repricing; Yield curve risk; Basis risk — to which the Group is exposed due to different reference interest rates for interest rate sensitive items with similar maturity or repricing characteristics; and Optionality risk — to which the Group is exposed due to contractually agreed optional terms — loans with an option of early repayment, deposits with an option of early withdrawal, etc.





CREDIT RISK refers to the risk that counterparty will default on its contractual obligations resulting in economic loss to the Group. The Group has adopted a policy of dealing only with creditworthy counterparties and obtaining sufficient collateral, where appropriate. The Group's exposure and the credit ratings of its counterparties are continuously monitored on consolidated level. Credit exposure is controlled by counterparty limits that are reviewed and approved by the management annually.

The Bank manages credit risk on an individual loan level, individual borrower level and the entire loan portfolio level in line with internal procedures and Central bank regulation and respectfully calculates related impairments.

Bank is also defining Maximum Credit Risk Exposure without reference to collaterals or other means that improve securities' credit rating. The exposure is based on the carrying amounts from the statement of financial position (balance sheet).

Managing Trade Payables: Group duly settles trade payables in accordance with financial risk management policies.

LIQUIDITY RISK is observed at Group level, as well as on the level of Group's companies. **Stable cash position is one of the key strategic pillars.**

In Agri business segment, consolidated and divisional monthly cash flows are observed, providing overview of liquidity movements in the next 12 months. These insights enable proactive actions and ensure realization of liquidity plans at the consolidated level. Prudent liquidity management is confirmed with elevated level of cash.

In the banking business, liquidity risk refers to Bank's difficulty or inability to settle its matured liabilities due to: drawdown of the existing sources of financing, i.e., the Bank's inability to obtain new sources of financing (liquidity risk of asset sources), or difficult conversion of assets into liquid funds because of market disruptions (market liquidity risk). Liquidity risk manifest as a daily mismatch of the inflows and outflows, maturity mismatch of assets and liabilities, mismatch of local and foreign currency inflows and outflows and is monitored on daily basis.

Investment risk in the banking segment is regulated by Central bank whereas it is prescribed that investment in a single non-FSI entity may not exceed 10% of its own assets in banking segment; and the sum of the total investments in non-FSI entities and capital expenditures may not exceed 60% of the Bank's equity. This restriction however does not apply to acquisition of shares for further sale within 6 months from the acquisition date - in banking segment.

Exposure (Concentration) risk, is dominantly managed in banking business where it is also strictly regulated by Central Bank stating that: The Bank's exposure to a single entity or a group of related entities of over 10% of its equity cannot exceed 25% of the Bank's equity; The aggregate amount of the Bank's large exposures cannot exceed 400% of the Bank's equity.

The Bank controls the exposure risk by means of defined exposure limits that enable the loan portfolio diversification and use of tangible and intangible collaterals. In 2016 the Bank's exposures to a single party or a group of related parties, as well as exposure to the Bank's own related parties, were within the prescribed limits.

Country risk relates to: the risk of the country of origin of the entity with which the Group has entered or is to enter into the business relationship; or risk of negative effects on the Group's financial result and equity due to inability to collect receivables from abroad and is caused by political, economic and social conditions in the borrower's country of origin. Limits to the Group's country risk exposure are determined individually per borrower country of origin. In risk assessment and measurement, the Group uses internationally defined and recognized standards for county risk assessment.

CORPORATE AND SOCIAL RESPONSIBILITY



AEC Group is a socially responsible company that closely follows the needs of all 70 local communities in which it operates and at the same time represents their partner in finding solutions to the current problems. Over the past five years, AEC Group, together with its member companies, has donated significant amounts in 460 socially responsible actions. The care for socially endangered categories is one of the basic goals of the Group's strategy and special attention is given to young people and their education.

Each of the AEC's projects represents a significant victory in the struggle for a better future and the right to equal living conditions for all. In every success, the Group is proud to participate in the joy of those who receive support and assistance. The total value of all CSR activities in the past three years exceeded 3 million euros. Some of the most important socially responsible projects were:



DONATION OF THE YOUTH HOUSE AT THE SOS CHILDREN'S VILLAGE IN KRALJEVO

The member company of AEC has donated EUR 300 thousand for the construction of house of 340 square meters at the SOS Children's Village in Kraljevo, providing accommodation for 15 teenagers with completed elementary school. By supporting the fact that all the children have the same right to basic needs, the Group has provided the opportunity of residing in the house, in support of making their life as much carefree as possible, thus enabling easier achievement of their future goals.

ESTABLISHMENT OF PARENTS' HOUSE FOR ACCOMMODATION OF THE CHILDREN SUFFERING FROM CANCER

AEC has founded Parents' House for Children suffering from cancer who have been receiving the treatment at the Institute for Health Care of Children and Youth of Vojvodina with the aim of more human and better treatment for them. The Parents' House, which extends to 1,400 square meters, is intended for the children who are coming from the inland, accompanied by one parent, allowing them to stay together during the treatment process they receive. This type of accommodation is one of the forms of psycho-social support that plays an important role in the process of healing and rehabilitation.

„MAGNET FOR LOVE“ CAMPAIGN

The member company of AEC has launched a humanitarian campaign "Magnet for Love" with the Institute for Health Protection of Children and Youth of Vojvodina from Novi Sad in order to collect funds for the acquisition of magnetic resonance imaging (MRI), supporting equipment and the first special incubator for MRI diagnosis of premature babies, newborns, children and youth. Also, numerous donors have been involved in the donation.

SUPPORT TO THE BASKETBALL FEDERATION OF SERBIA

In order to promote healthy life style AEC for the 4th year in a row, gave the support to the Basketball Federation of Serbia. During the two-week stay on Kopaonik, from July 23 to August 6, the basketball players had the opportunity to use all sports facilities, including basketball courts in a closed hall, a fitness center, as well as a spa & wellness center.

ACTIVE SUPPORT FOR LOCAL COMMUNITIES

All member companies of AEC are ready to help countries in which they operate in case of the natural disaster. In 2014, a member company of AEC made donation to the citizens of Serbia most affected by flooding.

"It is not difficult to be human, especially if you know that the help goes for the right cause - for our children's rights to a better life and a better future."
Miodrag Kostić

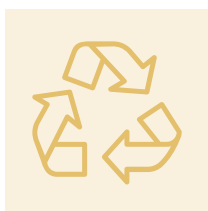
EDUCATION



Moreover, AEC Group has developed relationships with all relevant higher education institutions. It supports the process of transformation and modernization of the education system in which the company is one of the most active partners. There is a successful long-term cooperation with the faculties of the University of Belgrade and Novi Sad. They are welcoming the expert guest lecturers from the companies dealing in different fields of business. In 2016, they shared their entrepreneurship experience with students from the American Chamber of Commerce AmChamps - Young Leaders of Change. Also, the Group grants scholarships to the best students and demonstrates the ways of cooperation and involvement of students in practical work in member companies.

The Human Resources Department of the Group is making the students familiar with the future process of employment and their beginning of the business career through lectures and workshops for young people. By recognizing the importance of education and training of young people, the Group continuously supports this type of program. One of the most successful is PRAKSAM, a project implemented with the support of the Ministry of Youth and Sports of the RS, after which a certain number of participants were employed. Also, the company members are having their local practice and employment fairs.

ECOLOGY




AEC Group pays a great deal of attention to the environmental protection. Conscious of its potential impact on the working and living environment, all the companies within the Group are constantly investing enormous effort to harmonize all their operations with the environment, as well as their compliance with legal regulations.

Measures to be implemented in all member companies of the Group are:

- saving resources and energy,
- monitoring of all environmental media (water, air, land),
- sustainable waste management through the reduction of waste generation at the very beginning of the production process,
- controlled use of the type and quantity of hazardous chemicals,
- fulfillment of the national goal of recycling packaging waste from own products,
- reporting to the competent authorities about the measures taken in order to improve the environment,
- publications and active participation in conferences and professional ecological meetings,
- training, education, awareness and raising awareness among all employees about the importance of protecting the environment and preventing its pollution,



- 
- informing business partners about their own commitment to protecting the environment.

Some of the activities that proves Group's track record in Environmental protection projects are:

Carnex, EUR 3 million investments were made for construction and commissioning of plants for the complete treatment of wastewater generated in the meat industry. investment is EUR 2,7 million.

Sunoko had more investments in the production plant in Pećinci in order to reduce environmental pollution. Thus, over the past 5 years, about 15 million euros have been invested, out of which the largest investment in the construction of steam dryers is worth 10 million euros, which reduced the emission of harmful gases by getting the mazut out of use. In addition, it has resulted in minimizing the consumption of electricity and removing unpleasant odors in the environment.

Aware of the importance of sustainable development, MK Mountain Resort has separated the water heating system in the open and indoor swimming pool of Grand Hotel and it uses geothermal energy as a heat source. This company has invested in ecological projects of the National Park Kopaonik. During the upgrade of Grand Hotel on Kopaonik, MK Mountain Resort has adopted a project, which separates the waste water from showers from the sewage system and collects it and then uses it as a free heat source for the heating system of the building.

The company Žito Bačka has invested in several of its locations in projects for improving environmental protection. An investment for filters with a fan in a silo in Kula has yielded favorable results by reducing the emission of dust particles into the atmosphere and reducing noise in the environment. At the site in Bačka Topola, a rationalization of the technological production and drying process was carried out, which resulted in a reduction in the consumption of natural resources in 2016 compared to the previous year. More precisely, reducing the consumption of natural gas by 25% in the mill and the plant, ie by 30% of natural gas and 60% of electricity in the new dryer.

Since 2016, a large number of members of AEC Group are using cars powered by TNG, which significantly reduced emissions of pollutants into the atmosphere. An additional positive effect is the monthly savings of about 50% of the fuel cost per vehicle.

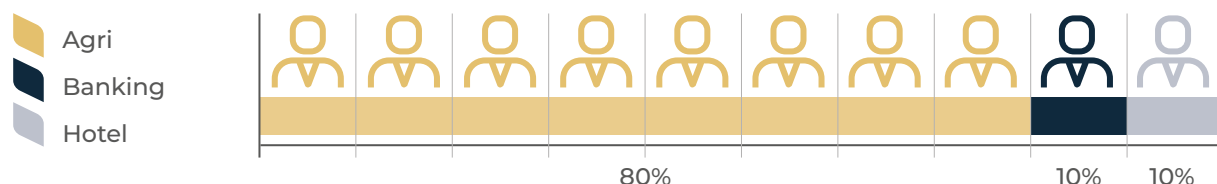
AEC, as one of the leading companies in SEE Region believes to have a responsibility to "give back" to society. As stated, with dozens of CSR projects we believe that we will succeed to improve the lives of individuals in all our communities.

The socially responsible and environmentally conscious behavior of AEC Group creates a healthy business and living environment. Co-ordinated projects with the aim of improving the conditions in the communities in which they operate, thus building a solid foundation for future generations for faster progress.

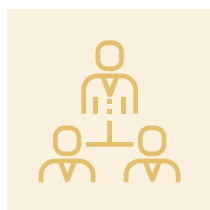
HUMAN CAPITAL

Headcount in 2016 was in favor of Agri business.

Headcount in 2016



STRUCTURE OF EMPLOYEES BY BUSINESS AREAS



AEC Human capital strategy is “The right person on the right position” as one part and Structure and system as the other. We are supporting this strategy in different areas of human capital through the numerous actions.

AEC has the strong partnership with most relevant Universities in Serbia such as the Faculty of Economics in Belgrade, the Faculty of Agriculture in Novi Sad and Belgrade and other universities in SEE region. AEC works on constant development of our relationship through workshops for students and trainee programs.


Development of employees and their potentials were constant during the entire 2016. The management of AEC was working on their leadership by using different tools and coaching sessions. In addition, a part of leadership training was “Corporate governance” conducted by PwC. Communication as crucial part of any business was a primary topic for us and our employees were participants of “Communication Style Assessment”. As the team spirit is one of our values, AEC regularly carries out team building activities in all divisions with a clear aim to have constant improvement of communication and shared experience.

As an employer AEC supports families, work – life balance and health. That is why we organize events for children like “Child Day” when we invite children of employees to business premises, as well as New Year’s gathering with performance and presents. We want our employees to be successful in all aspects of their lives, not only at work.

We support healthy life style so employees are encouraged to take participation in competition in sport between the companies. Furthermore, there is a constant education of employees through different actions on health and well-being. That is why AEC have individual arrangements with local sports & health care organizations.

Key activities planned for the next period include:

- Keep up the highest performance level including flexible response to change in priorities; quality decisioning; setting high goals; using resources in a smart way and following trends brought by the new technologies. One of the main elements that will help us to achieve these goals is Performance management. Setting up Key Performance Indicators for each business



division is planned for 2017, while implementation of this important HR process is expected in 2018. This will also help us to further strengthen our corporate culture.

- Further optimization of organization structure, ensuring clear roles and responsibilities on the level of holding, division and within each division.
- Continuous development of knowledge and skills to support the company's strategy and enable sustainable growth
- Transformation of human resources function is also planned for 2017. Improvement of recruitment and selection process with introduction of assessment centers and competency based interviews in order to recruit and select the right candidates

OCCUPATIONAL HEALTH AND SAFETY

Agri Europe pays special attention to the field of Occupational Safety and Health. Women, young people and people with disabilities are provided with special rights of occupational health and safety and special working conditions in accordance with the Labor Law.

Accordingly, AEC regularly conducts training of employees. The total number of employees that went through the training process exceeds 2500 participants.

Every new employee is introduced to the hazards and risks at his workplace, as well as practical trainings with work equipment. Also, the trainings are carried out if the employees move from one job position to another during the significant technological changes, by introducing the new work equipment and at the latest 4 years after the last training. Regarding the high-risk job positions, the employees are trained for at least once a year.

The number of work injuries in 2016 has been reduced in comparison to the previous year and is as follows:

2015: 18 hard injuries, 117 minor injuries

2016: 13 hard injuries, 73 minor injuries

In order to reduce the number of injuries at work and thus lost hours and net value, the most important is to take preventive measures, i.e. to assess the risk at the workplace that can not be avoided, eliminate the risk at its source, apply modern technical solutions, adjust the work and workplace to an employee, especially with regard to the selection of equipment for work and methods of work, as well as the choice of technological procedure in order to avoid monotony in work and to reduce its impact on the health of an employee.

The reduction of the number of injuries at work was significantly influenced by the implementation of the OHSAS 18001 system related to Occupational Safety and Health, especially in the companies Carnex DOO Vrbas, Sunoko DOONovi Sad (in all business units Kovačica, Pećinci, Vrbas), Žito Bačka DOO Kula and Granexport DOO Pancevo.

We are particularly proud of the fact that the member companies have been awarded 2 times in a row with the Best Employer Award in the field of Safety at work.

INTERNAL COMMUNICATION



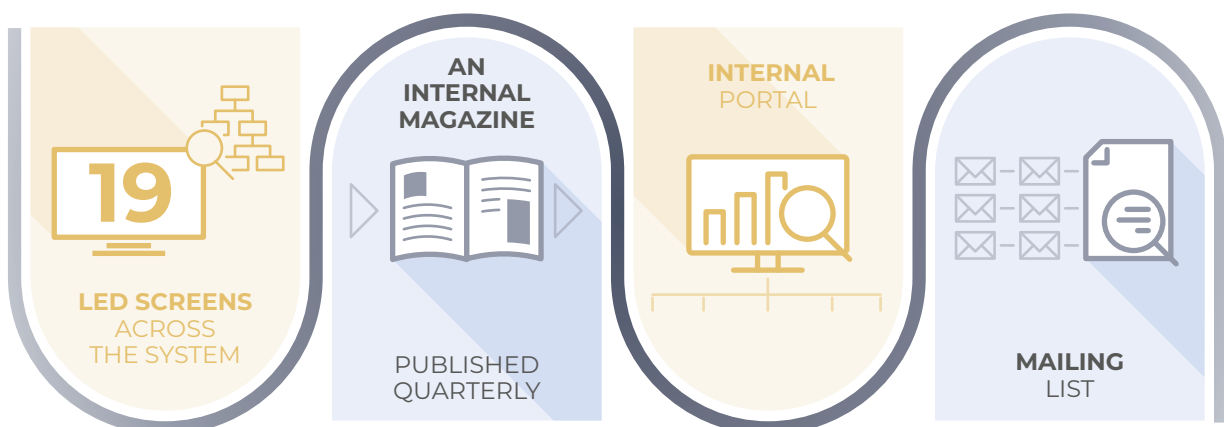
The research on internal communications, the level of employee satisfaction and cooperation within the company carried out in 2016 included 1150 employees. It was realized through electronic and printed media, as well as through interviews with employees at all levels (including top management and average employees). The survey included 11 member companies.

The results of the research have shown that internal communication within the company of our scope and size is necessary.

Based on the results of the research, an internal communication strategy was developed in 2016.

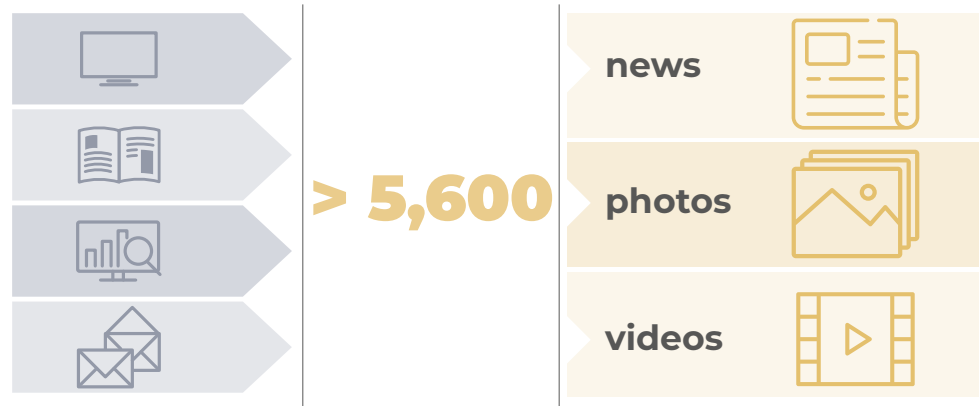
Bearing in mind the complexity of the structure of employees, the diversification of the industries in which we operate, all in order to provide as better information as possible, we have created an **editorial team** comprised of colleagues from all member companies. The editorial team consists of **32 members** who participate in all internal campaigns at the level of AEC and at the same time forward all relevant information to the Internal Communications Sector on significant company facts and business results. The objective of internal communications of AEC does not only mean the transmission of information but it is also based on the development of awareness of the importance of communication for the economic performance of the business, precise and comprehensible definition of our mission, vision and strategy, as well as the continuous improvement of motivational factors of employees. In AEC and its member companies, all employees contribute to business improvement, strengthening competitiveness and creating a more successful joint future.

Thanks to internal communications, we provide a good flow of information that contributes to a better understanding of company goals. As a part of the Corporate Communications Sector's function, the Internal Communications Sector uses four main channels of employee information:





On the interactive portal, employees can read current news in all member companies and they have all the support in segments for current documentation, business policies, reports and policies, updated address book for all employees, the ability to be informed about internal competitions, different benefits, upcoming internal and external events and many other activities.



Since 2016, more than 5,600 news, photos and videos have been published through the internal communications channel.

AEC AWARDED RESULTS



AEC members have been awarded many times with the most prestigious awards in Serbia and the region. Only in 2016, we have received 70 awards and recognitions. However, throughout the years in total, AEC and its chairman have received hundreds of awards and recognitions. The most important ones include the following:

- “Best in Agribusiness” Award of the Novi Sad Fair to the company for the best company in the field of agriculture (2013)
- “Planet Business” Award to the Chairman of AEC, Miodrag Kostić, for years of successful management of the company (2013)
- Award of the Novi Sad Fair for the “Best in Agribusiness” to the company for the best company in the field of agriculture (2012)
- “Gold Dinar of Emperor Dušan” Award of the Club of Economic Journalists for the company of the decade in Serbia (2012)
- Miodrag Kostić – Award for the “Best Manager of Southeastern and Central Europe” from the European Association of Managers (2011)

AGRICULTURE



- World Food Moscow, Gold Medal “SELECTION-Chicken and “SELECTION-Beef” - International Food Industry Fair in Moscow “World Food Moscow 2016”, two gold medals for Selection chicken pâté and Selection beef pâté (Carnex 2016)
- World Food Moscow – Gold Medal for Best Quality - International Food Industry Fair in Moscow „World Food Moscow 2016”, awarded for the product of the year (Carnex 2016)



- Absolute Quality Champion - Novi Sad, Agricultural Fair – Absolute champion of quality – International Agricultural Fair in Novi Sad (Carnex 2016)
- Golden Medal “Best product” in Moscow “ПРОДЭКСПО” Fair – Gold medal awarded at a specialized exhibition of the Food Industry Fair in Russia and Eastern Europe - „Prodexpo” (Carnex 2016)
- Silver Medal for “Best product” in Moscow, “ПРОДЭКСПО” Fair – Silver medal awarded at a specialized exhibition of the Food Industry Fair in Russia and Eastern Europe - „Prodexpo” (Carnex 2016)
- The best corporate brand in food segment “The Best of Serbia” Award for 2014 – Awarded for the Best Corporate Brand of Daily Food Consumption in the Food Segment within the project “Best of Serbia” (Carnex 2015)
- The absolute quality champion at the Novi Sad Agricultural Fair – Absolute champion of quality – International Agricultural Fair in Novi Sad (Carnex 2015)
- Thirty gold medals and big gold medals for outstanding quality at International Agricultural Fair in Novi Sad (Carnex 2015)
- The absolute champion of quality at International Agricultural Fair in Novi Sad (Carnex 2014)
- Super Brands Award in food category selected by SUPERBRANDS OF SERBIA (Carnex 2013)
- “The Best of Serbia” Award for the liver pâté (Carnex 2013)
- The absolute champion of quality at the Novi Sad Fair – Absolute champion of quality – International Agricultural Fair in Novi Sad (Carnex 2012)
- The Best of Serbia” Award - the Best Corporate Brand Award in FMCG group segment (Carnex 2012)
- The best corporate brand in the category of everyday consumer goods. “Best of Serbia” award presented by the Serbian Chamber of Commerce (Sunoko 2016)
- Captain Miša Anastasijević” Award - the plaque and gold coin with image of Captain Miša Anastasijević, the work of the academic sculptor Ljubiša Mančić, was also presented among others to Ljubiša Radenkovic, director of Sunoko (Sunoko 2014)
- Award for the largest exporter of crops according to the expert jury of the Novi Sad Fair of Agriculture (MK Commerce 2016, 2015, 2014)

BANKING



- Captain Miša Anastasijević” Award - the plaque and gold coin with image of Captain Miša Anastasijević, the work of the academic sculptor Ljubiša Mančić, was also presented among others, to the president of the Executive Board of AIK Bank, Jelena Galić, who was proclaimed the best manager in the financial sector in Serbia (AIK Banka 2016)

- The European Business Council, the renowned independent corporation for economic, social and humanitarian cooperation, awarded AIK Bank within its International Socrates Award Ceremony for the best regional company, while Jelena Galić, President of the Executive Board of AIK Bank, was proclaimed the manager of the year (2016/2015 AIK Banka)
- The Danube Business Forum, President of the Executive Board of AIK Bank, Jelena Galić was the moderator at the panel discussion the Danube Financial Dialogue and on that occasion she received the White Angel Award (AIK Banka 2016)

TOURISM



- Superbrand Award, for the best corporate brand in tourism segment for 2015-2016
- Brand Leader Award, 2015, regional Business Conference SEET 2015
- World Quality Commitment for 2013
- Business Destination Travel Award – Best Business Hotel Serbian 2012, awarded by Association of Corporate Travel Executives (ACTE)
- „Ambassador of Good Service“, for the most successful team of Housekeeping in 2012, awarded by the Serbian Commercial Chamber of Commerce
- Tourist Oscar „Gold Tourist Heart“ for 2011
- “Best Balkan Winter Resort”, awarded by alliance BAHA (Balkan Alliance of Hotel Associations)
- Touristic Prism Award for the new quality in tourism, in the category of mountain tourism, according to an international journalist jury for 2011

In addition to numerous awards for the most successful company, AEC is especially proud of winning the “My Choice” Award for the most socially responsible company in Serbia for the SOS Children’s Village project - Youth House. Miodrag Kostić, Chairman of AEC, has received an Award as the first Serb to receive the Badge of Honor awarded by the international organization SOS Children’s Village as a sign of appreciation for the long-term support and contribution to accomplishing the mission striving to achieve the goal of “providing a loving home for every child”.

Awards such as this represent a confirmation of the quality of products and services by the external public and they are motivation to our company to maintain high quality and professionalism in the forthcoming years, as well as to be socially responsible as a company, but also as individuals.



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Forward looking statement

Forward looking statements contained in this Annual report are based on assumptions and estimates made by the Management Board of Agri Europe Cyprus Ltd. Although these collected assumptions, plans and projections represent the Management Board's current intents and best knowledge, a number of internal and external factors may affect future developments and results to differ materially from assumptions and estimates provided in this Report. Some examples of such factors are, without limitation: negotiations concerning world trade agreements; changes in the overall economic environment, especially in macroeconomic variables, such as exchange rates, inflation and interest rates; EU sugar policy as well as consumer behavior. Agri Europe Cyprus Ltd does not guarantee in any way that the actual future developments and actual future results achieved, will match assumptions and estimates expressed or made in this annual report, and does not accept any liability in the event that assumptions and estimates prove to be unprecise and incorrect.

In the best intent to provide readability, this document may occasionally use language that is not gender neutral. Any gender-specific references should be interpreted as to include masculine, feminine and neuter as the context permits. As a result of standard round half-up convention used in rounding individual amounts and percentages, this report may include minor, immaterial rounding errors. No liability is assumed for misprints, typographical and similar errors.

This English translation of the Agri Europe Cyprus Ltd annual report is the only one considered valid in terms of interpretation and in the events of discrepancy and dispute shall prevail over other cases of interpretation.



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